EUROPEAN
COMMISSION

Brussels, 28.11.2014
COM(2014) 904 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Alert Mechanism Report 2015

(prepared in accordance with Articles 3 and 4 of Regulations (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances)

{SWD(2014) 346 final}

The Alert Mechanism Report (AMR) is the starting point of the annual cycle of the Macroeconomic Imbalance Procedure (MIP), which aims to identify and address imbalances that hinder the smooth functioning of the economies of Member States, the economy of the EU, and may jeopardise the proper functioning of the economic and monetary union.

The AMR uses a scoreboard of eleven indicators, plus a wider set of auxiliary indicators, to screen Member States for potential economic imbalances in need of policy action. Member States identified by the AMR are then given an In-Depth Review (IDR) by the Commission to assess how macroeconomic risks in the Member States are accumulating or winding down, and to conclude whether imbalances, or excessive imbalances exist.

The Commission will publish the IDRs in spring 2015 and the findings will feed into the country-specific recommendations under the 'European Semester' of economic policy coordination.

1. EXECUTIVE SUMMARY

Macroeconomic imbalances remain a serious concern and underline the need for decisive, comprehensive and coordinated policy action. EU economies continue to progress in correcting their external and internal imbalances. High and unsustainable current account deficits have been considerably reduced, eliminated, or turned into surpluses and the process of balance-sheet repair is progressing in all sectors in most countries. Furthermore, the recovery in competitiveness is encouraging, as result of endogenous corrections and market reforms, but sustaining competitiveness going forward remains a key concern in particular for Member States with large external imbalances. The high levels of private and public debt in most countries, and the high external liabilities in many, still constitute substantial vulnerabilities for growth, jobs and financial stability. Unemployment and other social indicators remain very worrying in several countries, and economic growth has been insufficient to lead to a marked improvement in labour and social data.

Slow growth and low inflation weigh on the reduction of imbalances and of macroeconomic risks. Data released during the summer and the latest economic forecasts[1] show that economic activity has lost momentum and disinflationary tendencies have strengthened in most of the EU. In 2014 and 2015, economic activity in the EU is expected to grow at 1¼ and 1½ per cent, after having posted zero growth in 2013. In the euro area, real GDP growth rates are –½, +¾ and just above 1 per cent in 2013, 2014 and 2015, respectively. The aggregate figures mask considerable differences across Member States. While some Member States, such as the Baltic countries, the Czech Republic, Luxembourg, Hungary, Poland, Slovakia and the United Kingdom, reported relatively robust output growth in the first three quarters of 2014, and Member States such as Spain and Slovenia succeeded in catching up after a severe economic adjustment, other economies, both big and small alike, have remained sluggish. These divergences reflect idiosyncratic features, such as distinct deleveraging pressures, and different needs and paces of fiscal consolidation, as well as different exposure to global developments, but also differences in adjustment capacity and resolve with the implementation of reforms.[2] The weakness of economic activity in the EU as a whole is also related to the very asymmetric nature of the rebalancing thus far, with weak domestic demand in creditor countries sustaining persistently large current account surpluses. Large negative output gaps in several countries, weak growth, considerable slack in labour

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1 'European Economic Forecast-Autumn 2014,' *European Economy*, 2014(7).

2 For synthetic indicators on compliance with policy recommendation, see Deroose, S. and J. Griesse, 'Implementing Economic Reforms–Are EU Member States Responding to European Semester Recommendations?' *ECFIN Economic Brief*, 2014(37).

markets, and strong disinflationary developments in the global economy imply that inflation has been very low and is expected to remain below the ECB's definition of price stability for a prolonged period. Very low inflation adds to the risks related to excessive indebtedness and increases the economic costs of rebalancing and deleveraging.

This Report initiates the fourth annual round of the MIP[3]. The procedure aims to identify imbalances that hinder the smooth functioning of the Member States' economies, of the euro area, or of the EU as a whole, and to spur the right policy responses. The implementation of the MIP is embedded in the 'European Semester' of economic policy coordination so as to ensure consistency with the analyses and recommendations made under other economic surveillance tools. The Annual Growth Survey (AGS), which is adopted at the same time as this report, takes stock of the economic and social situation in Europe and sets out broad policy priorities for the EU as a whole for the coming years.

This Report identifies Member States that may be affected by imbalances in need of policy action and for which further in-depth reviews should be undertaken. The AMR is thus a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. It is based on a scoreboard of indicators with indicative thresholds, plus a set of auxiliary indicators, at the beginning of the annual cycle of economic policy coordination. Since last year, the auxiliary indicators have also covered a number of relevant employment and social indicators. The introduction of these indicators in the Macroeconomic Imbalance Procedure should be fully used to gain a better understanding of the labour market and social developments and risks. The more detailed scoreboard of key employment and social indicators in the draft Joint Employment Report also allows a broader understanding of social developments. More detailed and encompassing analyses for Member States flagged by the AMR will be performed in in-depth reviews (IDRs). To prepare the IDRs, the Commission will base its analysis on a much richer set of data: all pertinent statistics, all relevant data, all material facts will be taken into account. As established by the Legislation[4], it will be on the basis of the IDRs that the Commission will conclude whether imbalances or excessive imbalances exist, and subsequently prepare the appropriate policy recommendations for each Member State.

Based on the economic reading of the MIP scoreboard, the Commission finds that IDRs are warranted to examine in further detail the accumulation and unwinding of imbalances and their related risks in 16 Member States. For several countries, the IDRs will elaborate on the findings of the previous surveillance cycle[5], while for others, it will be the first time the Commission will prepare an IDR. This is, in particular, the case for the Member States that have recently completed, or are on the point of completing, their economic adjustment programmes supported by financial assistance.

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[3] This Report is accompanied by a *Statistical Annex* which contains a wealth of statistics on the basis of which this report has been prepared. Compared to the last year's report, there has been no change in the definitions of the scoreboard variables and auxiliary indicators, nor on their indicative thresholds. However, the statistical standards have been upgraded with the changeover from ESA95 to ESA2010, and from the 5th to the 6th manual of the balance of payments and international investment position. See also footnote 311.

[4] Regulation (EU) No 1176/2011(OJ L 306, 23.11.2011, p. 25).

[5] In March 2014, the Commission identified imbalances in Belgium, Bulgaria, Germany, Ireland, Spain, France, Italy, Hungary, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom, among which Croatia, Italy and Slovenia were experiencing excessive imbalances ('Results of the In-depth Reviews,' COM(2014) 150 final, 5.3.2014 , and 'Macroeconomic Imbalances-2014,' *European Economy-Occasional Papers* 172-188. For the full set of country-specific recommendations, adopted by the Council, including those which are MIP-relevant, see OJ C247, 29.7.2014.

- For **Croatia**, **Italy** and **Slovenia**, IDRs will assess whether previously identified *excessive imbalances* are unwinding, persisting or aggravating, while paying due attention to the contribution of the policies implemented by these Member States to overcome these imbalances;
- For **Ireland**, **Spain**, **France**, and **Hungary**, Member States with *imbalances* in need of decisive policy action, IDRs will assess risks related to the persistence of imbalances;
- For the other Member States previously identified as experiencing *imbalances* (**Belgium**, **Bulgaria**, **Germany**, the **Netherlands**, **Finland**, **Sweden** and the **United Kingdom**), IDRs will assess in which Member States imbalances persist, and in which they have been overcome;[6]
- For the first time, IDRs will also be prepared for **Portugal** and **Romania.** After the completion of its economic adjustment programme in mid-2014, Portugal joins the standard surveillance procedures. For Romania, the surveillance of imbalances and monitoring of policies has taken place under the adjustment programme, which is supported by precautionary financial assistance. While this arrangement is still ongoing, the delays in completing the semi-annual reviews imply that Romania should be re-integrated in the MIP surveillance.

For the Member States that benefit from financial assistance, the surveillance of their imbalances and monitoring of corrective measures take place in the context of their programmes. This concerns **Greece** and **Cyprus**. However, the situation of **Greece,** in the context of the MIP, will be assessed at the end of the on-going financial assistance, depending on the arrangements to be eventually agreed.

For the other Member States, the Commission will not at this stage carry out further analyses in the context of the MIP. On the basis of the economic reading of the scoreboard, the Commission is of the view that the macroeconomic challenges of the **Czech Republic**, **Denmark**, **Estonia**, **Latvia**, **Lithuania**, **Luxembourg**, **Malta, Austria, Poland** and **Slovakia** do not represent imbalances in the sense of the MIP. However, careful surveillance and policy coordination are necessary on a continuous basis for all Member States to identify emerging risks and put forward the policies that contribute to growth and jobs.

In the context of multilateral surveillance, and in line with Article 3(5) of Regulation (EU) No 1176/2011, the Commission invites the Council and the Euro group to discuss this report. The Commission is also looking forward to feedback from the European Parliament.

Taking into account those discussions with the Parliament, and within the Council and the Eurogroup, the Commission will prepare IDRs for the relevant Member States. These are expected to be published in spring 2015, ahead of the 'European Semester' package of country-specific recommendations.

[6] The Commission takes the view that, since imbalances are identified after the detailed analyses in the previous IDRs, the conclusion that an imbalance has been overcome should also take place after duly considering all relevant factors in another in-depth review.

2. IMBALANCES AND RISKS: ISSUES OF A CROSS-COUNTRY NATURE

EU Member States have made progress towards correcting their imbalances, but the slow recovery has been an obstacle to the reduction of the imbalances and related macroeconomic risks. Over the past few months, economic news have been gradually worsening. Growth fell short of expectations and either contracted or stagnated in Germany, Italy, and France. Credit growth remains low in the EU, despite accommodative monetary policies, as demand is subdued and the private sector is still deleveraging. A protracted period of very low inflation, reflecting a large negative output gap in several countries and prices reacting more to the economic slack than previously[7], has also been an obstacle to a smooth deleveraging. Geopolitical tensions could also weigh on economic activity and generate macroeconomic risks, particularly in the countries with deeper trade links and financial exposures to the Eastern neighbourhood. Moreover, the low level of economic activity keeps unemployment, as well as other social indicators, at unacceptable levels; this may in itself damage medium-term growth prospects.

The policy responses in each Member State should be adapted to their individual situation but need also to consider the wider (EU and euro area) dimension and the potential for spillovers. Macroeconomic imbalances in their different guises raise macroeconomic risks and challenges; these are first and foremost of a national nature. The imbalances related to external sustainability, competitiveness, excessive indebtedness in the private sector and deleveraging pressure, fiscal sustainability, asset prices, financial stability concern mainly the capacity of each economy to generate strong and sustained growth and to create jobs. However, given the interconnection among EU economies, there are several channels, including trade, financial and monetary linkages, structural reforms, confidence and uncertainty, through which imbalances can spillover from one country to another and where efficiency losses in one Member State may imply foregone welfare in another. The weakness of domestic demand, in particular of investment, and disinflationary pressures appear to be prime examples of how macroeconomic challenges in the Member States can affect the whole Union[8].

Promotion of efficient investment to restore potential growth is a key priority. Over the last seven to eight years, since the start of the crisis, there has been a substantial reduction in the EU's growth potential.[9] According to the latest estimates, the annual growth in potential output of the EU fell from slightly above 2 per cent ten years ago to below 1 per cent currently.[10] Besides the long-term demographic developments,[11] the medium-term slowdown in the activity can be attributed to weak productivity gains and the slow accumulation of

7 'Analysing Euro Area Inflation Using the Phillips Curve,' *Quarterly Report on the Euro Area*, 2014(2):21-6.

8 On cross-border spillovers, with particular emphasis on the euro area, see: 'Cross-Border Spillovers within the Euro Area,' *Quarterly Report on the Euro Area*, 2014(4): forthcoming.

9 'The Euro Area's Growth Prospects over the Coming Decade,' *Quarterly Report on the Euro Area*, 2013(4):7-16. See also 'The Growth Impact of Structural Reforms,' Quarterly Report on the Euro Area, 2013(4):17-27, and 'Growth Differences between Euro Area Member States since the Crisis,' *Quarterly Report on the Euro Area*, 2014(2):7-20.

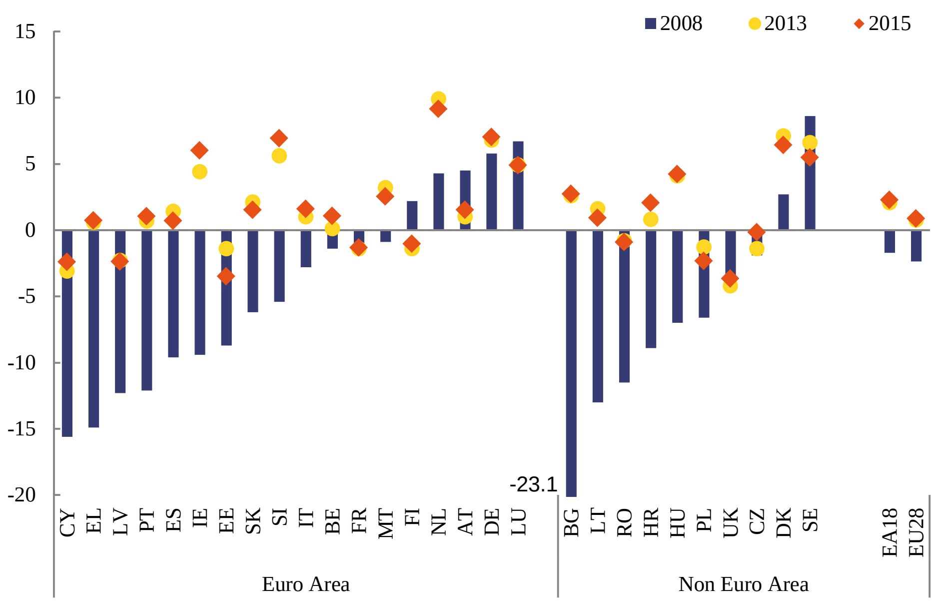
10 For a detailed description of the current version of the ECOFIN Council-approved methodology which is used for assessing potential output and output gaps, see Havik, K. *et al.*, 'The Production Function Methodology for Calculating Potential Growth Rates and Output Gaps,' *European Economy-Economic Papers*, 535.

11 See the recently published '2014 Ageing Report-Underlying Assumptions and Projection Methodologies,' *European Economy*, 2014(8).

capital.[12] The role of capital formation (including R&D) as a driver of growth has been limited in recent years, as the investment ratio remains substantially lower than a few years ago in almost all EU countries.[13]

Current account rebalancing remains asymmetrical reflecting weak demand in both debtor and creditor countries. (*Graph 1*) The necessary correction in current accounts has continued in a number of countries, notably Ireland, Cyprus, Greece, Spain, Portugal, Romania and Slovenia. Their large deficits of a few years ago have morphed in small deficits to large surpluses and help in reducing risks related to external liabilities. Italy also posts a mild surplus whereas France has kept on running a moderately negative current account balance. However, in many cases, much of the adjustment has been driven by a contraction in demand, particularly investment *(Graph 2)*, which could have negative implications for medium-term potential if uncorrected. Higher exports also played an important role in 2013, particularly in Bulgaria, Greece, Slovenia, Lithuania, Romania and Portugal, but also to a lesser extent in Spain and Ireland. In terms of sectoral adjustment, the vulnerable countries continue to adjust at different paces. Spain and Portugal started to adjust from non-tradable to tradable sectors early on in the crisis and the share of tradables in both employment and gross value added has been rising since 2010.[14] This process of adjustment has yet to start for Italy. Much of the rebalancing in these countries is of a non-cyclical nature, *i.e.* it has been larger than the output gaps of the Member States concerned and its partners would suggest.[15]

Graph 1: **Current Accounts Deficits (-) and Surpluses (+)**
2008, 2013 and 2015 (forecast)
(% of GDP)



Note: Break in series in 2013 (CY, EL, ES, NL, SI, SK, BG, PL). SK figures according to BPM5/ESA95 standards. Please refer to the statistical annex for more details.
Source: Eurostat, Commission services.

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12 'The Drivers of Total Factor Productivity in Catching-up Economies,' *Quarterly Report on the Euro Area*, 2014(3):7-19.

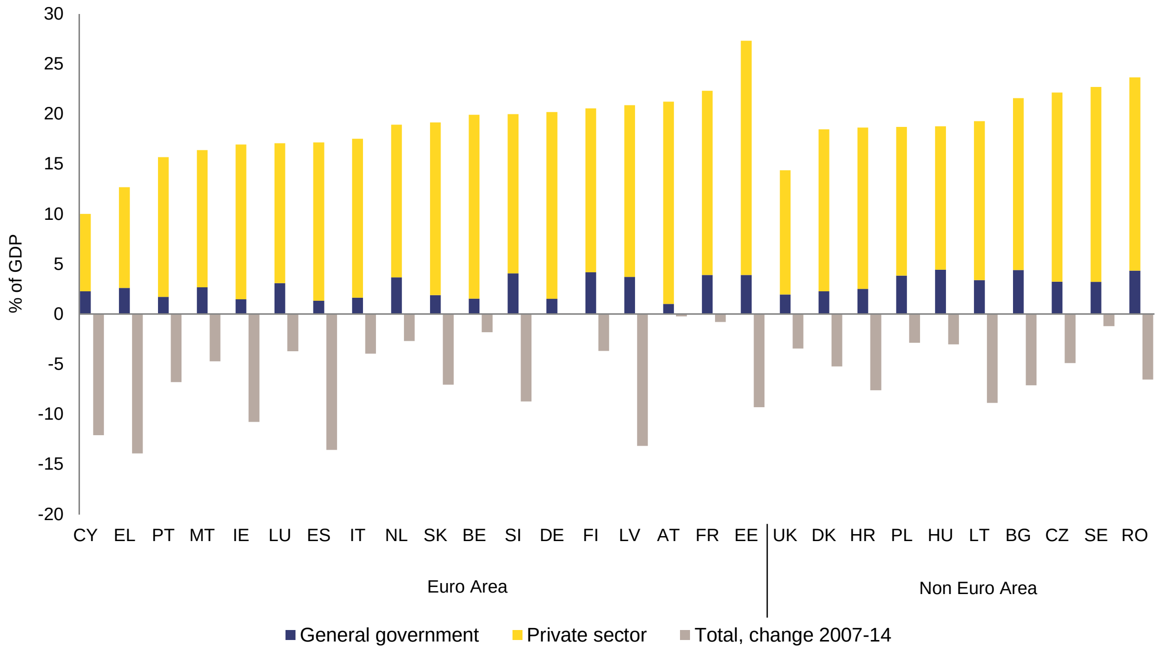
13 'Drivers and Implications of the Weakness of Investment in the EU,' box I.1 in 'European Economic Forecast-Autumn 2014,' *European Economy*, 2014(7):40-3.

14 'Market Reforms at Work,' *European Economy*, 2014(5).

15 See Table I.4 in 'European Economic Forecast-Autumn 2014,' *op.cit.*:29.

The euro area as a whole is expected to maintain a relatively large external surplus. The three-percentage point increase in the euro area's surplus between 2008-14 reflects the fact that surpluses in some Member States have not sufficiently declined in reaction to the large rebalancing efforts of the economies that used to register large current account deficits. Germany and the Netherlands have continued to post very high surpluses, above what economic fundamentals would imply, and well above the scoreboard's indicative threshold. In the case of Germany, when allowing for the position in the business cycle, the cyclically-adjusted surplus may even be higher than the headline figure. Given the reduction in current account deficits, the geographic composition of the surpluses in creditor economies, particularly Germany, has changed. The balance vis-à-vis the rest of the world has increased, while the balance vis-à-vis the euro area has declined. The latter has been driven mainly by a reduction in exports to the rest of the euro area, rather than an increase in imports by Germany. Although current account surpluses do not pose the same challenges as unsustainable deficits and are partially justified, large and protracted surpluses may reflect economic inefficiencies with low domestic investment and demand, which in the medium run leads to wasted potential output domestically. An increase in domestic demand through an acceleration of investment, would boost potential growth, and could contribute to the recovery and to the ongoing adjustment in the euro area.[16]

Graph 2: **Share of investment in GDP**
(gross fixed capital formation; 2014 data and change in 2007-2014)

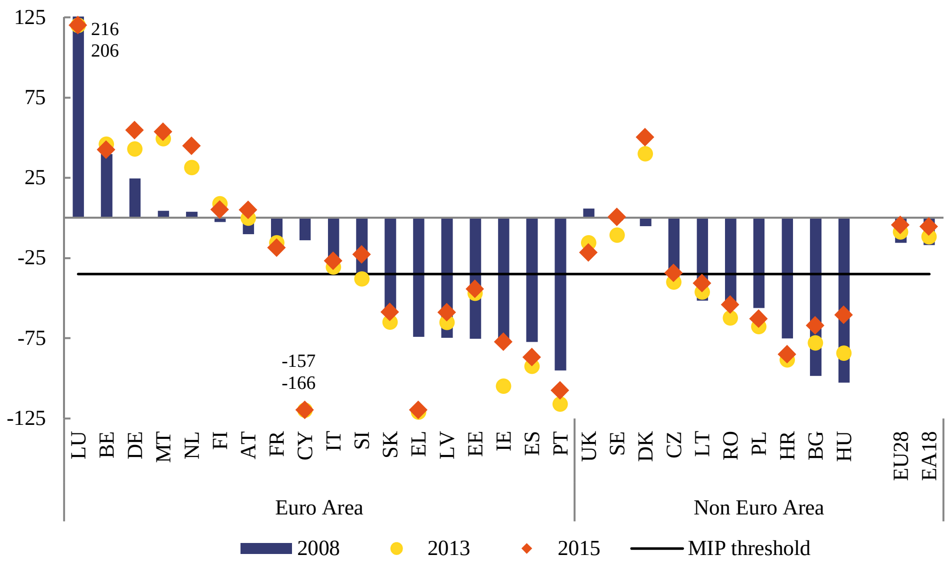


Source: Commission services.

16 Cf. Recital 17 of Regulation 1176/2011: "When assessing macroeconomic imbalances, account should be taken of their severity and their potential negative economic and financial spill-over effects which aggravate the vulnerability of the Union economy and are a threat to the smooth functioning of the economic and monetary union. Actions to address macroeconomic imbalances and divergences in competitiveness are required in all Member States, particularly in the euro area. However, the nature, importance and urgency of the policy challenges may differ significantly depending on the Member States concerned. Given vulnerabilities and the magnitude of the adjustment required, the need for policy action is particularly pressing in Member States showing persistently large current-account deficits and competitiveness losses. Furthermore, in Member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential."

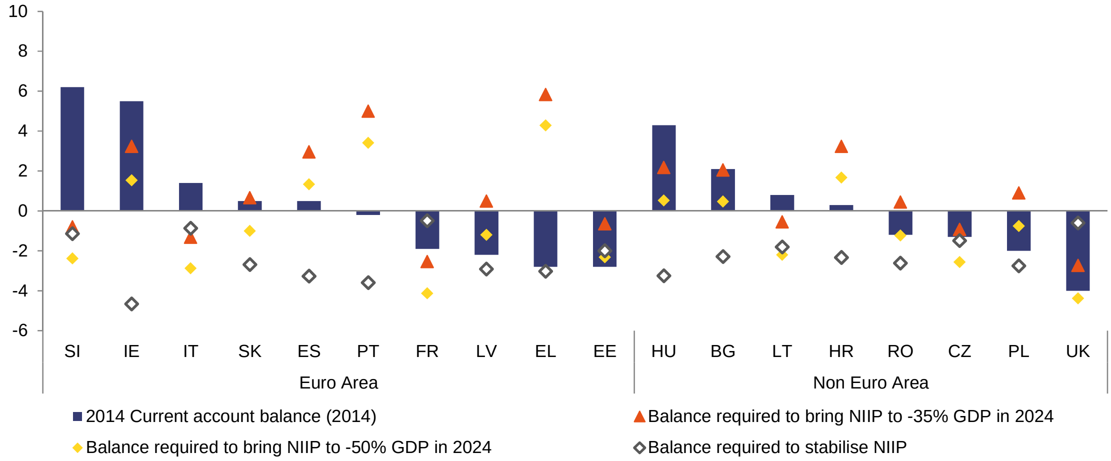
The range of external liabilities in the EU is very wide and the risks to sustainability remain high. (*Graphs 3*) As the reduction in large deficits and the shift to external surpluses is only a recent development in debtor countries, external liabilities in these countries have not yet improved substantially, and in some cases may even have deteriorated. For the economies with the largest negative international investment positions (NIIP), current account balances are already sufficient to stabilise and slowly reduce their net external indebtedness over the medium term *(Graph 4)*. This is notably the case for Ireland, Spain, Latvia, Romania and Portugal; but not yet Greece or Cyprus. But stabilising external indebtedness would not be a prudent objective, in particular for countries where the large NIIPs essentially reflect debt. To reduce the NIIP to safer levels over the next decade, moderate to relatively large surpluses are necessary in all these countries. Moreover, there are important risks that arise from what an environment of low inflation may imply for competitiveness and indebtedness. Low price and wage inflation helps countries regain competitiveness. However, the competitiveness adjustment is made difficult when low inflation also concerns the main trade partners of each economy. Coupled with the adverse effects arising from a less positive outlook for growth, external sustainability remains an issue for those countries. The data for France and the United Kingdom suggest a continuous increase in their net external liabilities, though their external indebtedness remains quite moderate.

Graph 3: **Net International Investment Positions**
2008, 2013 and 2015 (projection)
(% of GDP)



Note: 2015 projections assume no valuation gains/losses. BE, IE, SK, DK, BG, HR, EA18 and EU28 figures according to BPM5/ESA95 standards. CY, DE, ES, NL and PL: break in series in 2013. Please refer to the statistical annex for more details.
Source: Eurostat, Commission services.

Graph 4: **Current Account Balances Necessary to Stabilise or Reduce External Liabilities (NIIP)**
2014 (forecast), selected Member States (% of GDP)



Note: This chart does not show data for Belgium, Denmark, Germany, Luxembourg, Malta, the Netherlands, Austria, Finland and Sweden, the NIIP of which is positive in 2013 or forecast to be positive in 2015. Cyprus is also excluded due to data limitations. The current account balance required to stabilise or reduce net external liabilities rests on the following assumptions: GDP projections stem from the latest Commission forecasts (up to two years ahead); the medium-term forecasting framework (between two and five years) and from the latest fiscal sustainability long-run projections (beyond five years); valuation effects are conventionally assumed to be zero in the forecast period, which corresponds to an unbiased forecast for asset prices; and net capital transfers are conventionally projected to be zero.
Source: Commission services.

Competitiveness has improved in several economies. When the three-year average is considered, the real effective exchange rate (REER) has depreciated in most EU countries, but has remained within the indicative thresholds in each of them. This was the case in Ireland and Greece, but also in France, the Czech Republic, Denmark, Croatia, Hungary, Latvia and Poland. It was also the case in other Member States such as Spain, Portugal, Cyprus or Finland, but for each of these, the real depreciation was much less than in Germany. In 2013, however, movements in the euro's exchange rate[17] and the national inflation rates meant that the HICP-based REER appreciated in several countries including Germany, the Netherlands and Austria. This development could contribute to a more symmetric rebalancing in the euro area. However, a number of countries that still need to recover competitiveness, including Spain, Italy, Cyprus, France and Portugal, also saw their real exchange rates rise. Unit labour costs decreased in 2013 in some of the euro area's periphery countries, particularly Greece, Cyprus, Spain and Ireland, as wages fell. These decreases were widely spread across sectors (*e.g.* manufacturing, market services, construction)[18] in Spain and Greece. The other EU economies experienced small increases in their ULCs driven by wage increases above productivity gains, which were marginal in France and Italy. This pattern in ULCs is observed across main industrial sectors as well as market services in these two economies[19]. Increasing

17 'Member State Vulnerability to Changes in the Euro Exchange Rate,' *Quarterly Report on the Euro Area*, 2014(3):27-33.

18 Fiscal consolidation may also have had an impact on wages. See 'The Relationship between Government and Export Sector Wages and Implications for Competitiveness,' *Quarterly Report on the Euro Area*, 2014(1):27-34.

19 For sectorial analysis of competitiveness, see 'A Competitiveness Measure Based on Sector Unit Labour Costs,' *Quarterly Report on the Euro Area*, 2014(2):34-40. For estimates of the potential impact of a selection of market reforms in selected economies, see 'Market Reforms at Work,' *op.cit*. For more detailed assessments of sectorial reforms see Turrini A. *et al.* 'A Decade of Labour Market Reforms in the EU,'

ULCs caused by wage developments exceeding labour productivity are also found in the Netherlands and Germany. Some of the Eastern EU economies showed a relatively large increase in their ULC in 2013 despite favourable productivity developments. This is particularly the case of Bulgaria, Estonia, Latvia, Hungary and Romania. Concerning non-cost competitiveness, data on the geographic destination of exports is evidence of gains; however, analyses on the quality of exports have been less conclusive.[20]

The decline in export market shares for most European countries has eased. But it has not yet been reversed. Globally, most Member States have lost significant market shares over the last few years with Greece, Croatia, Cyprus and Finland showing the most significant losses. Only some Eastern EU economies (Bulgaria, the three Baltic nations and Romania), which together do not represent more than 2½ per cent of the EU's exports) have increased their global market shares. In 2013, however, most Members States gained some market share, particularly in services, thus moderating this trend. Part of the loss in market share over the medium term may not be recovered as it is a result of the rise of emerging economies. However, over the last five years, most Members States have also lost ground to other advanced economies, as illustrated by the auxiliary indicator of export performance vis-à-vis the OECD. The losses in export market shares, which include intra-EU trade, need to be seen in the context of weak domestic demand in the EU. In fact, in the post-crisis period, there has been a decline in the relative relevance of intra-EU trade, while exports outside the EU have generally been more dynamic.

The private sector may still have a significant amount of deleveraging left to do *(Graph 5).* Private sector debt (both households and non-financial corporates) remains high and above the indicative threshold of the scoreboard in a majority of Member States. This has been in spite of notable reductions in the debt-to-GDP ratio over 2012-13, especially in Denmark, Estonia and Ireland. In addition, the overall reduction in private indebtedness in the vast majority of the EU Member States is dwarfed by the magnitude of increases before the crisis, leaving sizeable further adjustment needs ahead. Moreover, the pace of deleveraging has been much slower than in the United States.[21] Only in Germany, where private indebtedness was not a key concern before the crisis, has private debt fallen below the levels of a decade ago. Member States have been facing different challenges depending on whether excessive debt concerns the household sector (as in the Netherlands and Denmark), the corporate sector (*e.g.* Bulgaria and Slovenia), or both (Ireland, Spain and Cyprus). Negative credit flows to the private sector, signalling *active* debt repayment, were the main driver of the reduction in household debt over the last few years, with an acceleration in 2013 in Spain, Portugal and Ireland, and in corporate debt in Malta, Slovenia, UK and Spain. In some other cases, the reduction in private debt-to-GDP ratios has been more *passive* and compatible with positive net credit flows for both households and corporations, notably in Estonia and the United

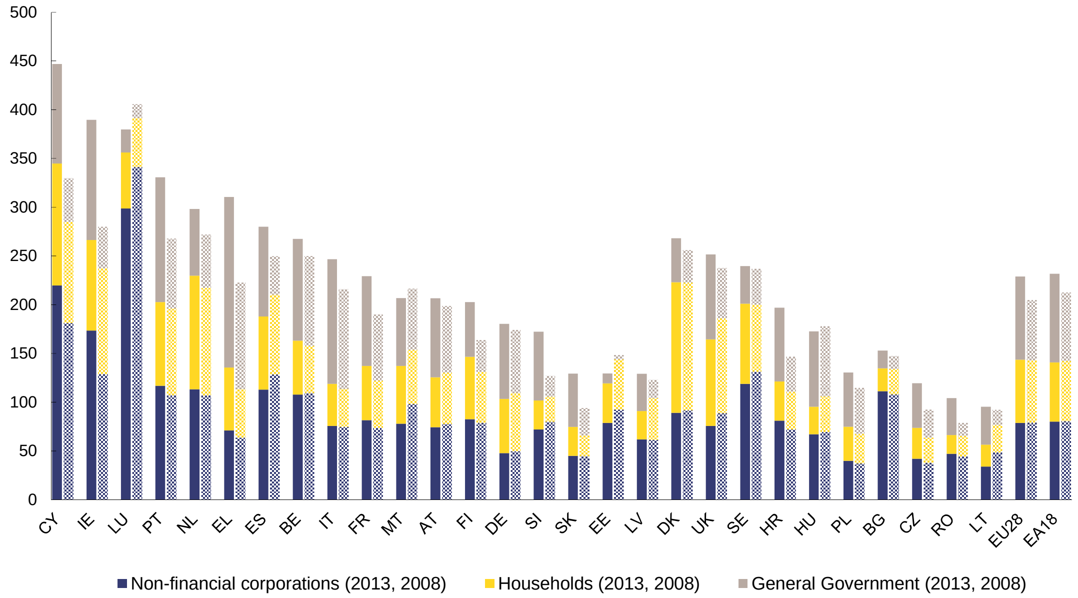
European Economy-Economic Papers, 522; Lorenzani, D. and J. Varga, 'The Economic Impact of Digital Structural Reforms,' *European Economy-Economic Papers*, 529; Lorenzani, D and F. Lucidi, 'The Economic Impact of Civil Justice Reforms,' *European Economy-Economic Papers*, 530; Connell, W. 'Economic Impact of Late Payments,' *European Economy-Economic Papers*, 531; Ciriaci, D. 'Business Dynamics and Red Tape Barriers,' *European Economy-Economic Papers*, 532, and Canton E. *et al.*, 'The Economic Impact of Professional Services Liberalisation,' *European Economy-Economic Papers*, 533.

20 Vandenbussche, H. 'Quality in Exports,' *European Economy-Economic Papers*, 528.

21 'Corporate Balance Sheet Adjustment in the Euro Area and the United States,' *Quarterly Report on the Euro Area*, 2014(3):40-6

Kingdom. Despite negative credit flows, Greece has failed to significantly reduce its debt-to-GDP ratios (especially of households').[22] *(Graphs 6a and 6b)*.

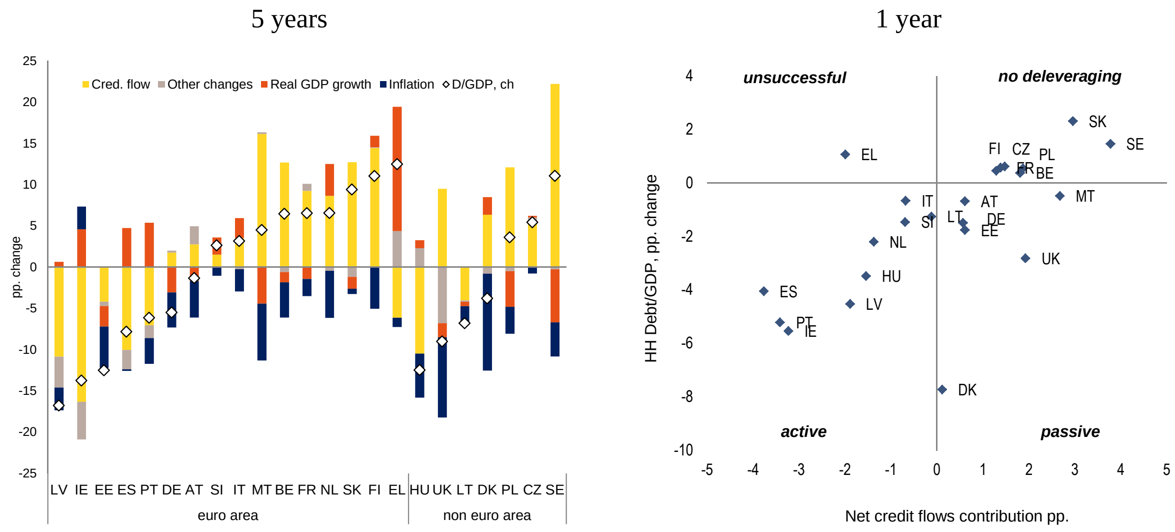
Graph 5: **Non-Financial Corporate, Household and General Government Debt**
2013 compared with 2008 (shaded)
(% of GDP)



Note: MT, EE, PL (general government): break in series in 2013. EA18 and EU28 data are still under ESA95 standards. Please refer to the statistical annex for more details.
Source: Eurostat.

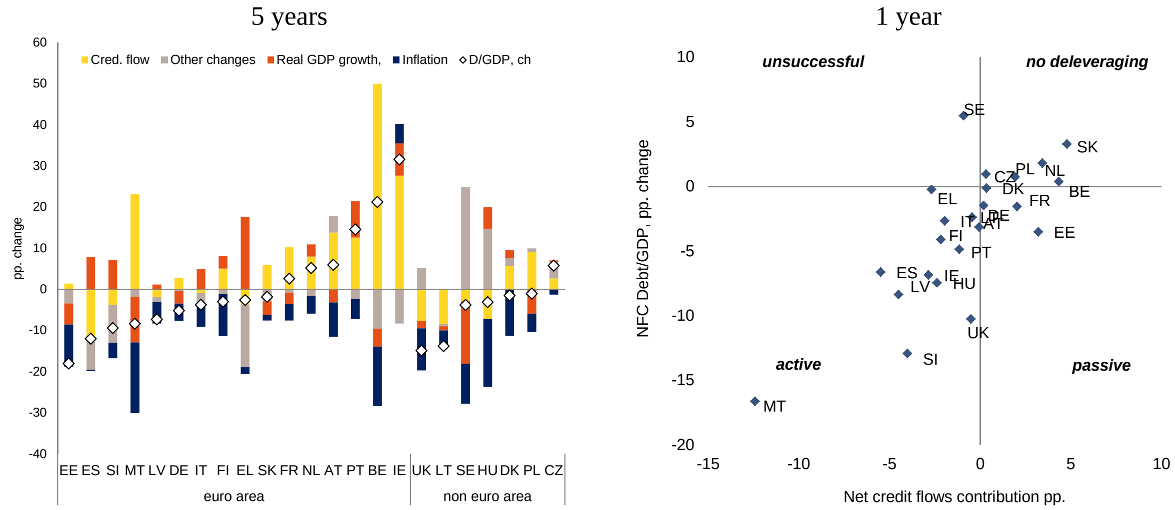
[22] For a detailed analysis of the ongoing deleveraging, including on the deleveraging modes (active, passive and unsuccessful) and drivers, and lingering deleveraging needs in the euro area's households and corporates, see 'Private Sector Deleveraging: Where Do We Stand?' *Quarterly Report on the Euro Area*, 2014(3):7-19, and 'Private Sector Deleveraging: Outlook and Implication for the Forecast,' box 1.2, in 'European Economic Forecast-Autumn 2014,' *op.cit.*:44-8.

Graph 6a: **Drivers of the cumulative change in household debt, 2014Q1**



Note: Data for IE and NL refer to the period up to 2013Q4.
Source: Eurostat, Commission services calculations.

Graph 6b: **Drivers of the cumulative change in corporate debt, 2014Q1**



Note: (1) Non-consolidated data. Cumulative change of the debt ratio decomposed into the contributions of i. net credit flows, ii. other changes in outstanding debt (*e.g.*, valuation effects or write-offs), iii. real GDP growth, and iv. inflation. (2) The x-axis on the right-hand panel represents the contribution of net credit flows to the decrease of the ratio over the period.
Data for IE, HU and NL refer to the period up to 2013Q4.
ESA95 data. Please refer to the statistical annex for more details
Source: Eurostat, Commission services calculations.

Thanks to the fiscal consolidation efforts of recent years, the pace of fiscal adjustment is set to ease. Member States in the euro area and the EU as a whole plan to continuing reducing their deficits. However, compared to the stability and convergence programmes of spring

2014, there is a slowdown in the planned deficit reduction. This reflects a downward revision in economic activity, but also a reduction in fiscal effort,[23] which comes to a halt in 2014 and is not planned to resume in 2015. At the aggregate level, this appears an acceptable balance between sustainability requirements and cyclical conditions. Therefore, the drag on activity in several Member States and the resultant spillovers in the euro area (and the EU) should be further reduced. However, in a number of cases, significant challenges remain for the most indebted governments (*e.g.* Greece, Portugal, Italy, Ireland, Cyprus and Belgium), or where the increase in the debt-to-GDP ratio has been fastest (*e.g.* Spain, Croatia and Slovenia). The challenges in these countries are magnified by high private sector debts *(Graph 5)* and economic and demographic prospects.[24]

Risks to financial stability have subsided in the euro area. Spurred by the perspective of the comprehensive assessment, banks' equity capital ratios improved further during 2013 and the first three quarters of 2014. Central bank measures and benign market conditions helped to ease liquidity shortages and kept banks' funding costs low in the euro area and beyond. Likewise, fragmentation on the sovereign bond market has eased, as cross-border trades in bonds from financially stressed sovereigns resumed. In particular, in most of the countries of the euro area periphery, balance sheets shrinking because of private sector deleveraging, rising non-performing loans and the return to market funding, have led banks to decrease their reliance on central bank funding. Banks focused on improving their equity ratios; given the results of the asset quality review (AQR) and stress tests announced on 26 October 2014, balance sheet repair for a vast majority of institutions is now largely complete. Credit flows remain negative in the stressed countries, and relatively low in most other euro area economies, although early signs of improvement have been noticeable in recent quarters. Overall, for each Member State, the financial sector’s total liabilities decreased, or rose at a pace that was lower than the scoreboard’s threshold.

Subdued credit reflects weak credit supply and demand. Banks face pressure to deleverage in view of impaired assets on their balance sheets. Provisioning for bad loans is still ongoing and progress in tackling them is uneven, though notable improvements in adequate loan-loss recognition and provisioning have taken place following the completion of numerous national exercises in vulnerable countries, and thorough the AQR and stress tests of the ECB and the European Banking Authority. Loan write-downs, early redemptions, and pre-payments, have started to make an impact on private debt in several countries, such as Latvia, the United Kingdom and Spain, but have not advanced far in most EU economies. Throughout 2013, non-performing loans continued to increase in several Member States including Spain, Italy, Portugal, Ireland, Greece, Cyprus, and France (albeit from relatively low levels), or stabilised at a relatively high level (such as in Hungary). Nevertheless, greater certainty about banks' balance sheets over the course of 2013, and in particular after the unprecedented scrutiny they underwent during the comprehensive assessment, has helped to abate financial stability risks in most economies. Recent events in Bulgaria and Portugal, however, illustrate that financial risks from specific banks may remain. Fragmentation

[23] On the methodology to estimate the fiscal efforts through the cyclically-adjusted budget balance, see Mourre, G., *et al.*, 'Adjusting the Budget Balance for the Business Cycle: The EU Methodology,' *European Economy-Economic Papers*, 536.

[24] 'Assessing Public Debt Sustainability in EU Member States: A Guide,' *European Economy-Occasional Papers*, 200 and 'Identifying Fiscal Sustainability Challenges in the Areas of Pension, Healthcare and Long-term Care,' *European Economy-Occasional Papers*, 201. See also 'The Impact of Unanticipated Disinflation on Debt,' box I.3, in 'European Economic Forecast-Autumn 2014,' *op.cit.*:49-50.

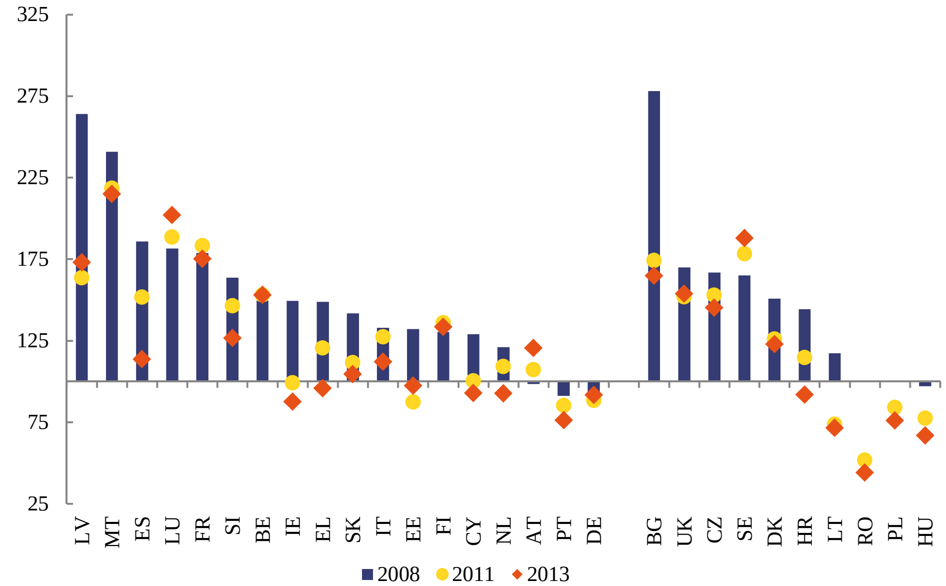
continues on the retail banking market, with the euro area banks reducing their activities in Central and South Eastern Europe. While some residual risks remain for credit provision in those economies, asset wind-downs have mostly proceeded in an orderly fashion in 2013 and 2014.[25] The outlook for credit is subdued, as credit demand remains low, reflecting investment and consumption levels dampened by uncertainty, high indebtedness and low prospects for income and growth.

In 2013, housing markets became more heterogeneous across the EU. The annual change in inflation-adjusted house prices in 2013 varies from double-digit falls in Croatia and Spain to surges above the indicative threshold of 6 per cent in Latvia and Estonia. This widening of the distribution reflects the fact that the market in most Member States has already bottomed out while others are expected to do so only in the coming years. House prices continued to correct at a rapid pace in vulnerable countries such as Greece, Cyprus and Slovenia, where house prices had already fallen significantly from their peaks. Ireland, where house prices have begun rising again after a deep correction during the crisis, is a notable exception. While about one-third of EU housing markets were bottoming out, others have picked up more clearly despite relatively high prices (*e.g.* Sweden and the United Kingdom). Elsewhere, (*e.g.* Denmark and Germany) recovery from past falls and/or low prices has driven increases. Residential investment remains at subdued levels, particularly in Member States where corrections are still running their course. While in some cases this reflects the overinvestment of a few years ago (*e.g.* Spain), in others, it is related to general economic uncertainty, impaired credit supply and demand, and regulatory bottlenecks. Continued reforms to institutional arrangements affecting housing markets, such as changes to the tax system to remove home-ownership incentives, are expected to help stabilise these markets in the medium term.[26]

[25] On the impact that tight credit supply conditions could have on underinvestment, see 'Firms' investment decisions in vulnerable Member States,' *Quarterly Report on the Euro Area*, 2013(4):29-35.

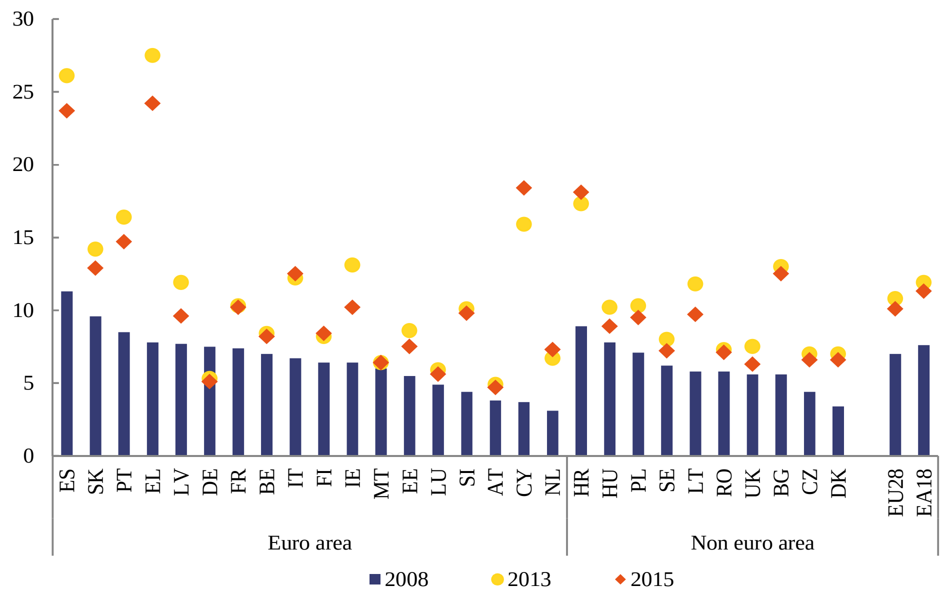
[26] 'Institutional Features and Regulation of Housing and Mortgage Markets,' *Quarterly Report on the Euro Area*, 2014(3):27-33. See also 'Tax Reforms in EU Member States 2014,' *European Economy*, 2014(6), which discusses notably the debt bias in the tax systems and the taxation of immovable propriety.

Graph 6: **House prices (deflated)**
2008, 2011 and 2013
(index 2000=100, *u.o.i.*)



Note: Base years = 2001 (BG), 2002 (CY), 2002 (SI), 2005 (EE), 2006 (SK, LT), 2007 (HU), 2008 (RO, PL), because of missing data.
Source: Eurostat.

Graph 7: **Unemployment rate**
2008, 2013 and 2015(forecast)



Source: Commission services.

Box: **The labour market and social situation remains very serious**

Employment and unemployment developments.

Since mid-2013 unemployment has stabilised at historically high levels in both EU-28 (10.7% 2014) and EA-18 (12.0% 2014), although the situation varied significantly across the EU (*Graph 7*). With slower and weaker growth now anticipated, high unemployment is expected to persist for longer with wide-ranging differences across Member States. Long-term unemployment is still rising due to the protracted nature of the crisis.

Over the last year, long-term unemployment as a percentage of total unemployment increased from 45.3% to 48.7% in EU-28 (47.5% and 51.5% in EA-18). However, in some countries employment in the tradable sector has stopped declining but continued in the non-tradable sector (Spain, Portugal), reflecting ongoing structural changes. The reduction in unemployment is mainly linked to a slowdown in job destruction, while, albeit slightly improving, job finding rates remain depressed. At the same time, employment started growing very moderately against a backdrop of an uncertain outlook and protracted resilience in activity rates and subdued dynamics in hours worked.

The at-risk-of-poverty and social exclusion rate increased by 8.7 million since the crisis, with differences between Member States still growing. Since 2011, household disposable incomes have been declining in real terms on average in EU-28 and EA-18. The stabilising effect of social spending on household income lessened after 2010, with distributional impacts of fiscal consolidation varying substantially across countries.

Peaking at 23.6% in the first quarter of 2013 before receding to 23.1% at the end of the year, youth unemployment affected 5.6 million young people in 2013. In almost two thirds of Member States, youth unemployment rates in July 2014 were still close to their historic highs – with youth unemployment rates still close to or above 40% in those hardest hit (Greece, Spain, Croatia, Italy, Cyprus and Portugal). There are, however, some cautiously positive developments, with averages declining both in EU-28 (decline of 1.2 pp) and EA-18 (0.5 pp). The EU-28 and EA-18 NEETS rate (young people not in employment, education-and training) averages decreased only very slightly, leaving large divergences among Member States. That said, the share of young people not in education, employment or training increased significantly in nearly half of Member States over 2013. The current state of play thus underpins an urgency for all Member States to deliver on the Youth Guarantee.

Household incomes continued to stagnate in real terms or decline strongly after 2011 in countries most impacted by a further deterioration of economic conditions. Household incomes have primarily been affected by the reduction of market incomes and the weakening impact of social transfers over time. Income inequality (S80/S20) is growing across and within Member States, particularly in those Member States that suffered the largest increases in unemployment. The working age population (18-64 years) is seeing its risk of poverty rise in many Member States. In most of the affected countries, the extended period of negative or close to zero growth, rising long-term unemployment and the weakening over time of the impact of social transfers are giving rise to poverty risks.

Long, drawn-out negative employment and social developments can have a negative impact on potential GDP growth in a variety of ways and risk compounding macroeconomic imbalances.

Labour mobility.

Intra-EU labour mobility increased in 2013, although it remained below the flows recorded before 2008. Flows from East to West, from new Member States with lower GDP per capita to old Member States with higher GDP per capita continued to account for the bulk of movements, although flows from other peripheral countries severely affected by the crisis continued to increase rapidly. Reflecting the improved economic situation, the net outflow declined in Estonia, Latvia and Ireland, while net outflows increased in Greece and Spain and most Cyprus, where the impact was most pronounced. The impact of these movements on potential growth will require careful monitoring. Countries with more stable economies, such as Germany, Austria, Sweden and Denmark saw some further increases in net immigration from other EU Member States. Mobile EU citizens continue to have higher employment rates on average than the populations of their host countries[27] and on average do not use welfare benefits more intensively than nationals of their host countries do.[28] The over-qualification rate among mobile workers remains high, with many highly educated workers taking low- or medium-skilled jobs[29].

For more details on the labour market and social trends and the related challenges, see the draft Joint Employment Report (JER), and its more detailed *scoreboard of key employment and social indicators*. The reading of the *JER scoreboard* is supplemented by the additional information derived from the Employment Performance Monitor (EPM) and the Social Protection Performance Monitor (SPPM) and the assessment of policy measures undertaken by the Member States. The *JER scoreboard* succeeded in highlighting key employment and social challenges in the context of the 'European Semester' of economic policy coordination and feeding into debates on the institutional level.

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27 See, *e.g.*, Arpaia, A., A. Kiss, and B. Palvolgyi (2014), 'Labour Mobility and Labour Market Adjustment in the EU,' *European Economy-Economic Papers*, forthcoming.

28 See Juravle, C. *et al.* (2013): 'A Fact-Finding Analysis on the Impact on the Member States' Social Security Systems of the Entitlements of Non-Active Intra-EU Migrants to Special Non-Contributory Cash Benefits and Healthcare Granted on the Basis of Residence,' Report by ICF GHK for DG Employment, Social Affairs, and Inclusion.

29 According to Eurostat Labour Force Statistics, in 2013, the over-qualification rate was 20 per cent for people born in the same country, 31 per cent for people born in another EU country, 36 per cent for people born outside the EU.

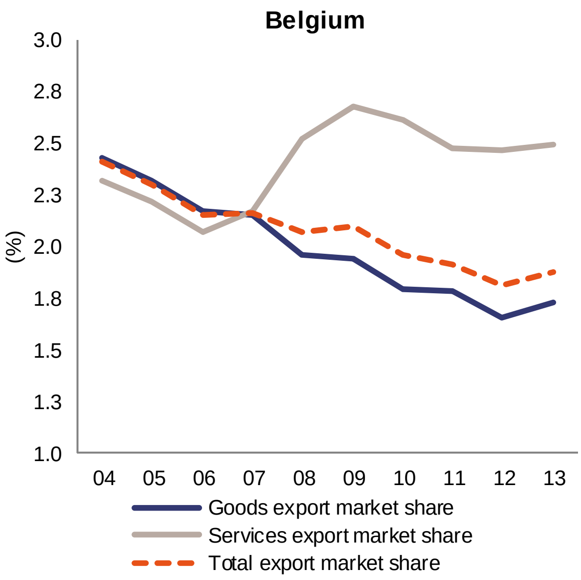
3. IMBALANCES AND RISKS: COUNTRY-SPECIFIC COMMENTARIES

This section provides a succinct economic reading of the scoreboard and auxiliary variables in each Member State. Together with the discussion of cross-country issues, it helps to identify the Member States for which in-depth reviews (IDRs) should be prepared. As explained above, it will be on the basis of the IDRs that the Commission will conclude whether imbalances or excessive imbalances exist.

The MIP does not apply to Member States benefiting from financial assistance in support of their macroeconomic adjustment programmes,[30] currently Greece, Cyprus and Romania. However, the commentaries below also concern Greece and Romania. The situation of Greece in the context of the MIP, including the preparation of an in-depth review, will be considered at the end of the current financial assistance. The situation of Romania under the MIP requires a re-assessment, as the review of its precautionary arrangement has been delayed for several months.

Please refer to the Statistical Annex for the full set of statistics on the basis of which this economic reading and the full report has been prepared.[31]

Graph A1: ***Export market shares***



Source: Eurostat.
Note: 2004-2007 data based on BPM5 standard. Please refer to the statistical annex for more details.

Belgium: In March 2014, the Commission concluded that Belgium was experiencing macroeconomic imbalances in need of monitoring and policy action, particularly with regard to the external competitiveness of goods. In the updated scoreboard, some indicators are beyond the indicative thresholds, namely export market shares (despite an improvement

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[30] This approach which avoids duplication of procedures and reporting obligations has been established in Regulation (EU) No 472/2013 (OJ L 140, 27.5.2013, p. 1). It is also in line with the Commission proposal on a facility for providing financial assistance for Member States outside the euro area (COM(2012)336, 22.6.2012). For detailed discussions of the economic situation and progress in the unwinding of imbalances and macroeconomic risks in those Member States, see the latest compliance reports: in *European Economy-Occasional Papers*, 192 (Greece), 197 (Cyprus) and 156 (Romania).

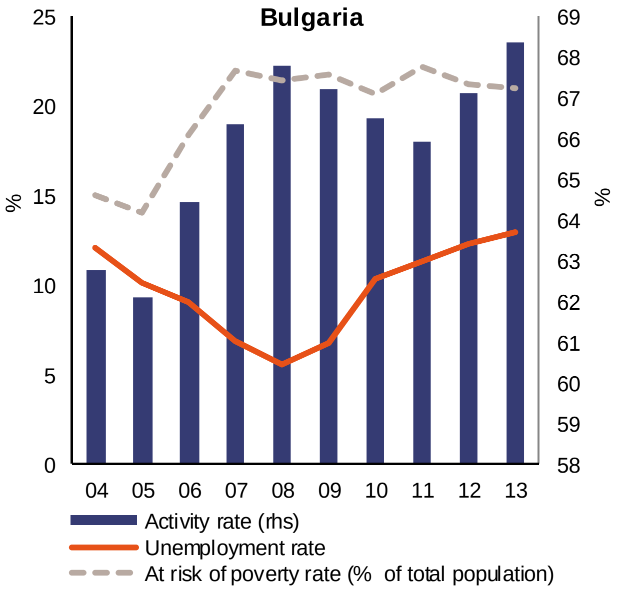
[31] The changeovers from ESA95 to ESA2010, and from the 5th to the 6th manual of the balance of payments and international investment position have been integrated in the scoreboard. As explained in more detail in the statistical annex, when data based on the new statistical standards have not yet been available at the cut-off date (1 November 2014) data under the old standards have been used. The resulting breaks in the series have been appropriately flagged. For most Member States, for most variables, the changes in the data that result from the changeover to the new statistical systems are not macroeconomically significant; it is only in a few cases that the statistical changeover has led variables to be revised from below to above (or from above to below) the indicative thresholds. The changeover from ESA95 to ESA2010, and from the 5th to the 6th manual of the balance of payments constitutes an improvement in the quality of data and is therefore positive for the economic analysis, despite the temporary breaks in the series.

compared to last years' figures), private and public sector debt.

The three-year current account indicator recorded a relatively small deficit in 2013, which is expected to improve slightly. The net international investment position remains strongly positive. In 2013, for the first time since 2009, Belgium's exports gained market share, leading to a marked improvement in the export market share indicator (five-year average), although it still registers a loss beyond the threshold. Regarding cost competitiveness, the three-year average unit labour cost (ULC) indicator increased but remained within the threshold on the back of ULC growth in 2011-12. However, there has been a deceleration since 2013, which is projected to continue over the medium term. Private sector debt increased somewhat compared to 2012 and remains above the threshold value, mainly reflecting the high level of corporate debt. Public debt, above 100 per cent of GDP, remains broadly stable. Financial sector liabilities decreased in 2013 while financial sector leverage fell to its lowest level in five years. Inflation-adjusted house prices were stable in 2013 following a relatively flat trend in recent years. *Overall, the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding.*

Bulgaria: In March 2014, the Commission concluded that Bulgaria was experiencing macroeconomic imbalances in need of monitoring and policy action, in particular concerning the protracted adjustment of the labour market, while the correction of the external position and corporate deleveraging were progressing well. In the updated scoreboard, some indicators are beyond the indicative thresholds, namely the net international investment position (NIIP), unit labour costs, private sector debt and the unemployment rate.

Graph A2: ***Labour market and social indicators***



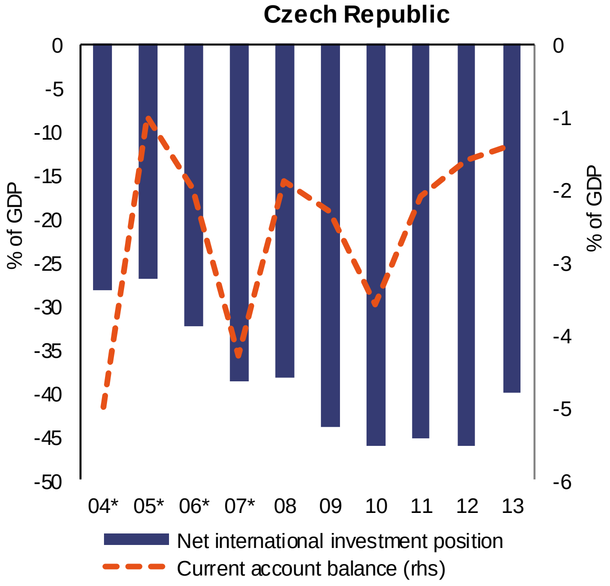
Source: Eurostat

The NIIP remains strongly negative despite the further improvement observed in 2013 on the back of a current account surplus. A positive export performance has resulted in market shares gains despite growing unit labour costs. Private sector debt remains close to, but just above the scoreboard threshold and is concentrated in the corporate sector. Over the first half of 2014, Bulgaria's unemployment rate declined for the first time since 2009, but remains high, at over 12 per cent in 2013. In addition, youth unemployment has continued to grow, and long-term unemployment remains high. Combined with still declining employment, this adds to the significant social challenges that the country is already facing, as reflected in very high rates of poverty and social exclusion. In June 2014, Bulgaria's banking sector experienced severe turbulence when rumours of weaknesses sparked a bank run on some domestically-owned banks. As a result, one bank was placed under special administration, while another received liquidity support from the government. The problems in the financial sector may have significant implications for macroeconomic stability by weighing on economic growth, prolonging deflation and aggravating fiscal challenges. *Overall, the Commission finds it useful, also taking into account the identification of* *imbalance in March 2014, to examine further the persistence of imbalances or their unwinding.*

Czech Republic: In the previous rounds of the MIP, imbalances were not identified in the Czech Republic. In the updated scoreboard, two indicators are beyond the indicative thresholds, namely the NIIP and, for the first time, losses in the market share of exports.

The current account deficit has narrowed in recent years, a trend that is expected to continue. The NIIP remains well above the threshold but broadly stable. Risks related to the external position remain limited as much of the foreign liabilities are accounted for by foreign direct investment and, consequently, net external debt is very low. However, the primary income flows associated with this position require sustained trade surpluses in order to ensure external sustainability, underlying the necessity of maintaining competitiveness. The indicator on losses in the market share of exports has moved beyond the threshold, although losses in 2013 decelerated compared to 2012 and are expected to be contained over the coming years. At the same time, there have been favourable developments in competitiveness indicators, such as REER and ULC. Private sector debt levels have increased but remain relatively low and well below the threshold. At the same time, credit growth is weak. Despite a substantial increase in recent years, public debt remains stable and below the threshold. The largely foreign-owned banking sector remains stable, although total financial sector liabilities increased quite substantially in 2013. Unemployment has been stable throughout the crisis and has recently started to decline. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Graph A3: ***NIIP and CA balance***

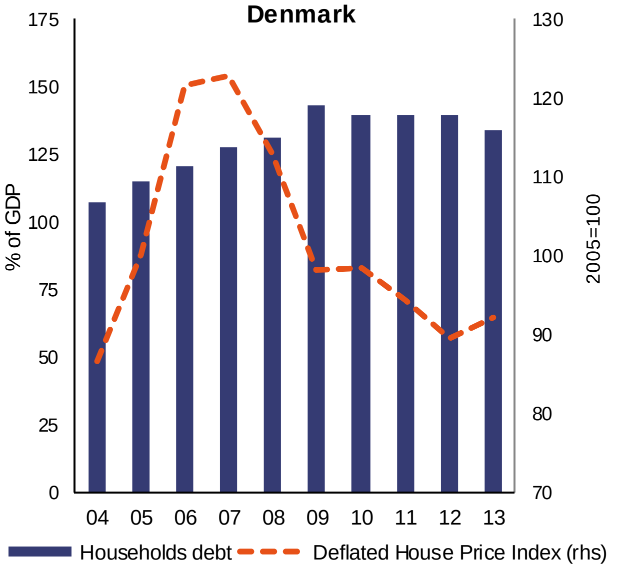


Source: Eurostat
*Note: * indicates BPM5 and ESA95 - break in series in 2008. Please refer to the statistical annex for more details.*

Denmark: In March 2014, the Commission concluded that the macroeconomic challenges in Denmark did not constitute substantial macroeconomic risks that would qualify as imbalances in the sense of the MIP. In the updated scoreboard, some indicators are beyond the indicative threshold, namely the current account surplus, losses in export market shares, and private sector debt.

The current account surplus has been on an increasing trend for a number of years, and has exceeded the threshold of the scoreboard. To some degree, this reflects the weakness of domestic demand growth in Denmark compared to the country's main trading partners. The current account surplus is expected to decrease as the recovery gains a firmer grip. Exports gained market share in 2013, cushioning the decline of previous years. Cost competitiveness indicators do not point to further losses. Private sector debt remains high and beyond the scoreboard threshold, although it has been on a declining path since 2009. High household debt is a specific feature of the Danish economy, related to its mortgage credit system. As a result, household debt is matched by a high level of assets, such as real estate and very high pension savings. Furthermore, households have been able to withstand the house price adjustments that took place until 2012 without significant increases in arrears. Hence, risks vis-à-vis the real economy and financial stability appear contained. Furthermore, the financial sector has been strengthened by regulatory and supervisory measures. *Overall, the Commission at this stage will not carry out further in-depth analysis in the context of the MIP.*

Graph A4: ***Households' debt and House Price Index***

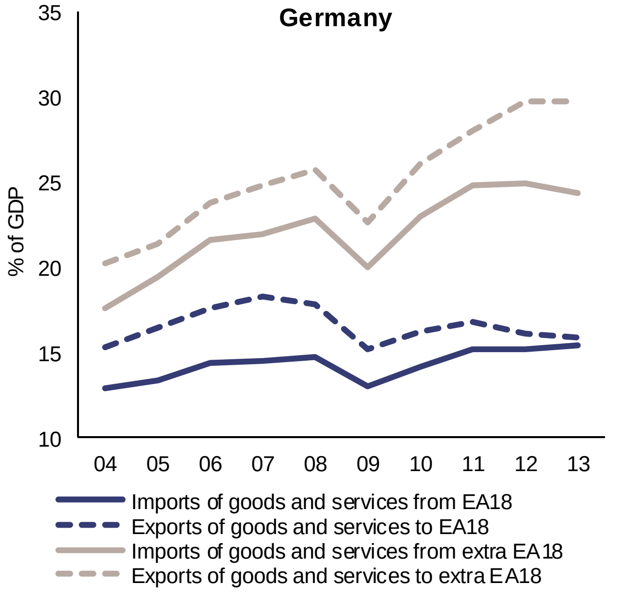


Source: Eurostat

Germany: In March 2014, the Commission concluded that Germany was experiencing macroeconomic imbalances in need of monitoring and policy action. These imbalances concern large and persistent current account surpluses that are the result of low domestic demand, including investment, as well as strong competitiveness. The need to address the weakness of demand and investment, which is holding back Germany's economic growth, is particularly important given the prominent role of the German economy and its potential spillovers onto the EU and euro area. In the updated scoreboard, some indicators remain beyond the indicative threshold, namely the current account surplus, the losses in export market shares and public sector debt.

The three-year-average indicator for Germany's current account surplus has increased further and the annual surplus, which accounts for most of the euro area's current account surplus, is expected to remain high in the years to come. Germany's balance vis-à-vis the euro area has declined, driven mainly by a reduction in exports, while its balance vis-à-vis the rest of the world has increased. The positive net international investment position continues to strengthen. The indicator for export market share losses over a five-year horizon is beyond the threshold, although there were small market share gains in 2013. Losses are more contained than in most of the euro area and broadly in line with other advanced economies. Cost competitiveness indicators show some recent deterioration, although large accumulated gains over the previous decade remain. The HICP-based REER appreciated more than the euro area average in 2013, partially compensating for depreciations in previous years. ULC further increased in 2013, reflecting relatively robust wage increases. Investment contributed negatively to growth in the years 2012 and 2013. Private investment declined in the second quarter this year, interrupting a recovery that had started in 2013. Despite recent policy initiatives, the backlog in public investment persists. Private sector deleveraging has continued while credit growth remains subdued, reflecting low credit demand and a high share of financing through internal funds. House price dynamics and housing market developments in certain segments and regions may warrant close monitoring. The public debt ratio decreased in 2013 and is projected to continue falling. The labour market remains robust and unemployment has been on a declining path. *Overall, the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding.*

Graph A5: ***Trade - Euro Area vs Rest of the World***

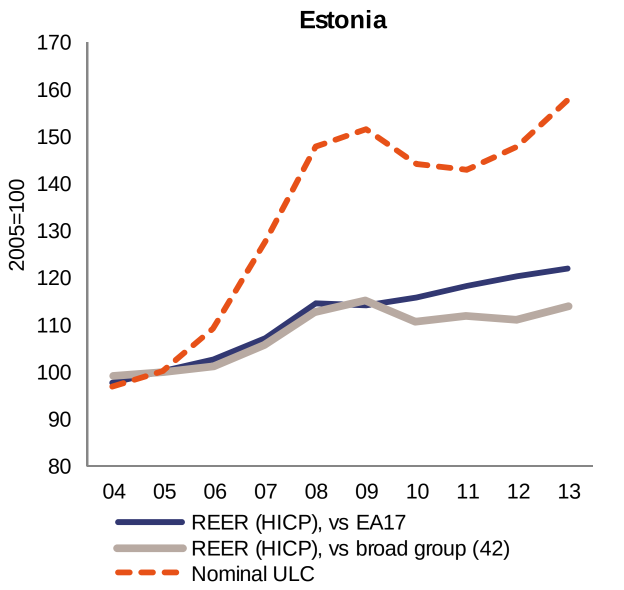


Source: Eurostat

Estonia: In the previous rounds of the MIP, no imbalances were identified in Estonia. In the updated scoreboard, a few indicators are beyond the indicative thresholds, namely the negative NIIP, nominal unit labour costs, inflation-adjusted house prices and unemployment.

The negative NIIP remains beyond the threshold, although it is declining. However, since half of the external liabilities consist of FDI, external financing risks remain limited. Estonia's current account is now in deficit and this is set to widen. The rise in nominal unit labour costs reflects domestic demand-led economic growth and constrained labour supply. Private sector debt in Estonia is below the threshold but still relatively high compared to peers. The private sector, is however, deleveraging, supported by relatively robust nominal GDP growth. House prices, which are rising relatively rapidly, reflect a quality effect and a housing supply that has only recently started to adjust to recovering demand. Government debt is the lowest in the EU. Unemployment is on a declining trend and it can be expected that next year the indicator will be below the threshold. Nevertheless, the long-term unemployment rate of low-skilled workers and other indicators related to poverty and social exclusion, remain relatively high. Estonia's exposure to geopolitical risks, in particular the conflict between Russia and Ukraine,

Graph A6: ***Real effective exchange rate and ULC***

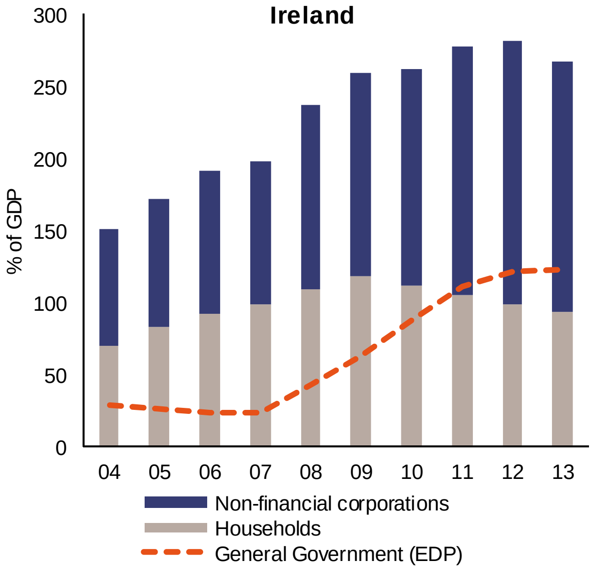


Source: Eurostat, Commission services

worsens the country's growth potential and requires close monitoring. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of MIP.*

Ireland: In March 2014, the Commission concluded that Ireland was experiencing macroeconomic imbalances in need of specific monitoring and decisive policy action, in particular involving financial sector developments, private and public sector indebtedness, high gross and net external liabilities and the labour market. As announced in March 2014 and in line with the Recommendation for the euro area, the Commission has put in motion a specific monitoring of policy implementation for Ireland.[32] In the updated scoreboard, some indicators are beyond the indicative threshold, namely the NIIP, private and public sector debt, and the unemployment rate.

Graph A7: ***Debt***



Source: Eurostat

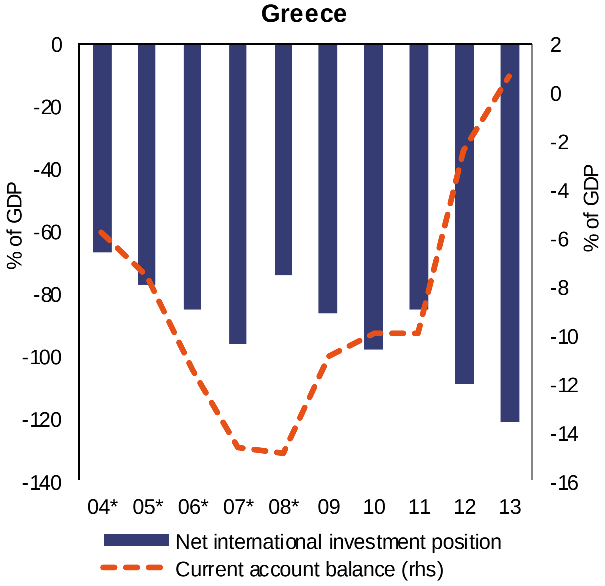
The NIIP remained strongly negative in 2013 but has been declining since 2011 because of on-going deleveraging by the private sector and the emergence of very large current account surpluses. The indicator on losses in the market share of exports is now below the threshold and in 2013 there were some gains as exports of services continued to grow rapidly. Following a significant restoration of competitiveness in recent years, cost competitiveness indicators are now broadly stable. Private sector debt has declined but remains very high, indicating the need for further significant deleveraging especially by households. Concerning the corporate sector, debt levels are boosted by the presence of large multinationals with high levels of foreign-funded investment that are based in Ireland but which operate mainly on global markets. The public sector's high debt burden increased further as a percentage of GDP in 2013, but it is projected to fall from 2014 onwards. The housing market has bottomed out and prices are now rising again, especially in Dublin. The unemployment rate remains above the indicative threshold and more than half of those unemployed had been without a job for at least twelve months in mid-2014. Still, unemployment has been declining since early 2013, driven by sustained job creation, although unemployment (overall, long-term and youth unemployment) remains very high. *Overall, the Commission finds it useful, also taking into account the identification in March 2014 of imbalances requiring decisive action, to examine further the risks involved in the persistence of imbalances or their unwinding.*

Greece: Since May 2010, Greece has benefitted from financial assistance in support of macroeconomic adjustment. The surveillance of imbalances and the monitoring of corrective measures has taken place in that context and not under the MIP. Under its programme, Greece

[32] See COM(2014)150, 5.3.2014 and the Recommendation for the euro area (2014/C 247/27, OJ 247, 29.7.2014, p. 141). This specific monitoring for Ireland relies on post-programme surveillance. The latest report on post-programme surveillance for Ireland is available at *European Economy-Occasional Papers*, 195.

has made substantial progress towards correcting its imbalances and reducing macroeconomic risks. Nevertheless, in the updated scoreboard, several indicators remain beyond the indicative thresholds: NIIP, losses in the market share of exports; private and public debts and unemployment.

Graph A8: ***NIIP and CA balance***



Source: Eurostat

*Note: * indicates BPM5 and ESA95 - break in series in 2008 (NIIP) and 2009 (CA). Please refer to the statistical annex for more details.*

In 2013, Greece's current account balance continued to adjust, mostly driven by the contraction of imports, some import substitution, and higher revenue from tourism. The performance of exports other than tourism remains weak. Accumulated losses in export market shares over the last five years are well beyond the threshold. Greece is, however, regaining cost competitiveness, as reflected in the steep reduction of unit labour costs supported by wide-ranging structural reforms under the programme. The HICP-based REER has fallen substantially. The negative NIIP-to-GDP ratio increased further from already high levels, reflecting the impact of the long recession on the nominal GDP, and the lagged effects of current account deficits. House prices fell in 2013, reflecting the deep recession and the on-going adjustment in the real estate sector. Private sector debt has remained high, slightly above the threshold, and deleveraging efforts have failed to significantly dent the private debt ratio despite significantly negative credit flows. Government debt also remains very high, although it is expected to peak in 2014 and gradually decline afterwards. The unemployment rate is very high but is expected to start declining in 2014. Economic developments have had a large impact on other social indicators, like youth unemployment, long-term unemployment and poverty indicators. *Financial assistance and adjustment programmes have helped Greece to reduce its excessive macroeconomic imbalances and to manage the related risks. The situation of Greece in the context of the MIP will be assessed at the end of the current financial assistance programme and will depend on the post-programme arrangements to be eventually agreed.*

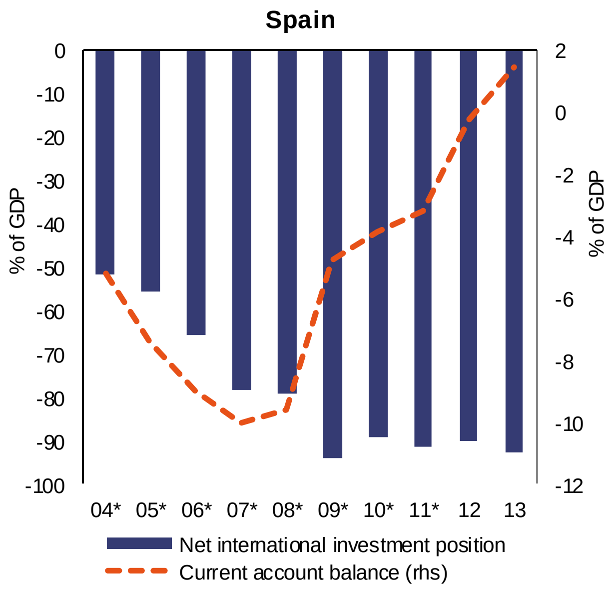
Spain: In March 2014, the Commission concluded that Spain was experiencing macroeconomic imbalances in need of specific monitoring and decisive policy action, in particular involving high domestic and external debt levels. As announced in March 2014 and in line with the Recommendation for the euro area, the Commission has put in motion a specific monitoring of policy implementation for Spain.[33] In the updated scoreboard, several indicators are above the indicative threshold, namely the net international investment position,

[33] See COM(2014)150, 5.3.2014 and the Recommendation for the euro area (2014/C 247/27, OJ 247, 29.7.2014, p. 141). This specific monitoring for Spain relies on post-programme surveillance. The latest report on post-programme surveillance for Spain is available at *European Economy-Occasional Papers*, 193.

export market shares, private sector debt, general government debt and the unemployment rate.

The current account indicator is now well below the threshold, as Spain reached a current account surplus in 2013, mostly because of the contraction in domestic demand. As domestic demand picks up, the durability of the external rebalancing is of prime importance, all the more, as the negative NIIP remains very high. However, the increase in 2013 is mostly a result of valuation effects, which reflect an improvement of investor confidence in the Spanish economy. The cumulated loss of export market shares, while still above the threshold, has been reduced considerably as a result of gains in 2013, and the gap relative to other advanced economies has been closed. The improvement in export performance is in part attributable to restored cost competitiveness, visible in ULC data. Private sector debt remains very high, while deleveraging continued in 2013, mostly on account of negative credit flows, though early improvements in lending to SMEs have also been observed. Bank restructuring has progressed, contributing to the gradual restoration of credit supply conditions. Government debt increased substantially, partially reflecting the financial sector balance sheet repair process but also the still high general government deficit. House prices and residential construction as a share of GDP fell further in 2013 but recent data suggest the housing market is stabilising. The very high unemployment rate in Spain rose further in 2013 but is now declining as GDP growth turns positive and recent labour market reforms are starting to bear fruit. Very high youth and long-term unemployment undermine future growth prospects and increase social inequality. *Overall, the Commission finds it useful, also taking into account the identification in March 2014 of imbalances requiring decisive action to examine further the risks involved in the persistence of imbalances or their unwinding.*

Graph A9: ***NIIP and CA balance***



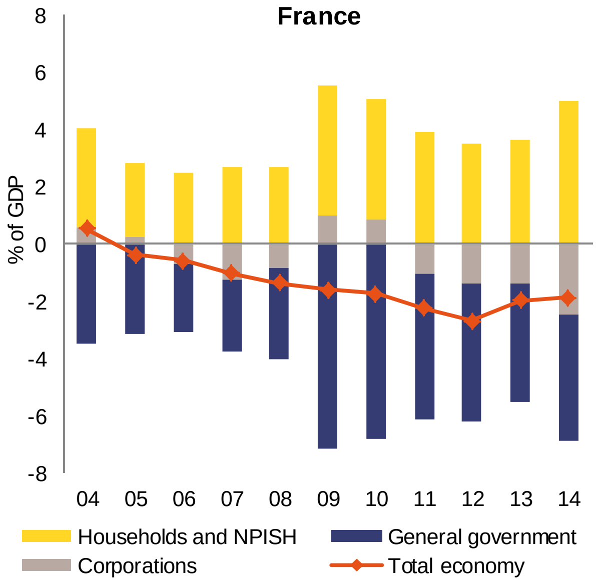
Source: Eurostat
*Note: * indicates BMP5 and ESA95 - break in series in 2010 (CA) and 2012 (NIIP). Please refer to the statistical annex for more details.*

France: In March 2014, the Commission concluded that France continued to experience macroeconomic imbalances in need of specific monitoring[34] and decisive policy action. The imbalances concerned the deterioration in the trade balance and in competitiveness, as well as the implications of public sector indebtedness. As announced in March 2014 and in line with the Recommendation for the euro area, the Commission has put in motion a specific monitoring of policy implementation for France. In the updated scoreboard, a number of indicators remain above their indicative thresholds, namely losses in the market share of exports, private debt and the general government sector debt.

[34] See COM(2014)150, 5.3.2014 and the Recommendation for the euro area (2014/C 247/27, OJ 247, 29.7.2014, p. 141). The reports of the specific monitoring will be made public.

The trade balance and trends in competitiveness have shown no signs of a reversal. The current account remains in a stable deficit position within the thresholds, while the NIIP is moderately negative. Export performance remains weak, with substantial accumulated losses in the market share of exports, although there were some limited gains in 2013. Unit labour cost growth is relatively contained but shows no improvement in cost competitiveness. The profitability of private companies remains low, limiting deleveraging prospects and investment capacity. Private debt is above the threshold and goes alongside the high and increasing government debt ratio, which is approaching 100 per cent of GDP. The labour market situation is worsening, with increases in unemployment to levels very close to the threshold. Youth unemployment is also high and increasing. In a context of low growth and inflation, it is particularly important to address France's macroeconomic imbalances because of the size of the French economy and its potential for spillovers that could affect the functioning of the euro area. *Overall, the Commission finds it useful, also taking into account the identification in March 2014 of imbalances requiring decisive action to examine further the risks involved in the persistence of imbalances or their unwinding.*

Graph A10: ***Net lending/borrowing by sector***



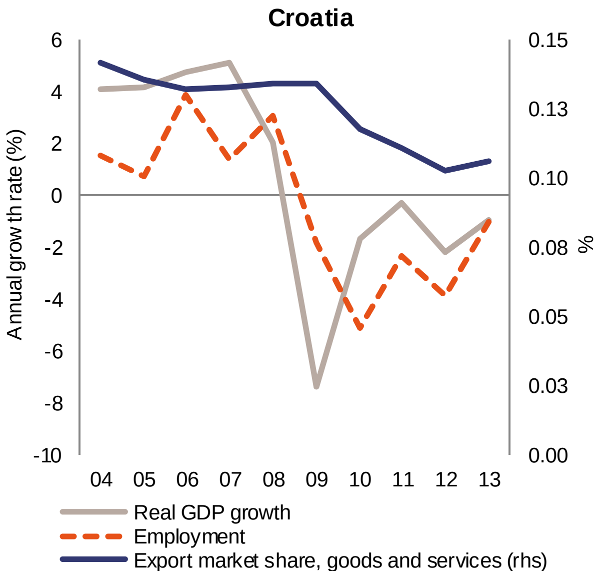
Source: Commission services

Croatia: In March 2014, the Commission concluded that Croatia was experiencing excessive macroeconomic imbalances in need of specific monitoring and strong policy action, relating to external liabilities, declining export performance, highly leveraged firms and fast-increasing general government debt in context of low growth and poor adjustment capacity. As announced in March 2014, the Commission has put in motion a specific monitoring of policy implementation for Croatia.[35] In the updated scoreboard, some indicators are beyond the indicative threshold, namely the NIIP, losses in the market share of exports, public sector debt and the unemployment rate.

[35] See COM(2014)150, 5.3.2014. The report of November 2014 is available at http://ec.europa.eu/economy_finance/economic_governance/documents/2014-11-07_croatia_mip_ specific_ monitoring_report_to_epc_en.pdf.

The large negative NIIP has narrowed slightly as the current account has turned to surplus. The current account adjustment has been driven by falling domestic demand and investment, with potential detrimental impacts on Croatia's growth potential. Export performance is weak and accumulated losses in the market share of exports remain very large, although there has been some deceleration and moderate progress of late. Competiveness gains, nevertheless, remain limited, with ULCs and REERs in 2013 even starting to rise again after having been in decline since 2010. Private sector debt, while below the threshold, is relatively high compared to peers and is not yet declining, despite negative credit growth. The debt overhang of SOEs add significant contingent liabilities for the government and signal weaknesses in their governance. The contracting economy and high budget deficits have put the public debt-to-GDP ratio on a rapidly increasing trend, where fiscal consolidation is difficult in a recessionary environment. Slow wage adjustment contributes to accelerating employment destruction and increasing and high unemployment. High youth and long-term unemployment, as well as low activity rates further damage growth prospects, enforce negative feedback loops, and strain the social fabric. *Overall, the Commission finds it useful, also taking into account the identification of excessive imbalances in March 2014, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.*

Graph A11: ***Export market shares, employment and GDP growth***



Source: Eurostat

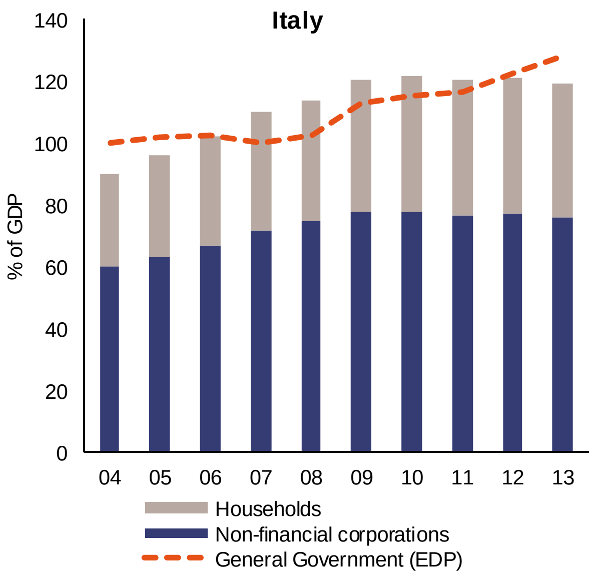
Note: Employment series based on ESA95 standard.

Italy: In March 2014, the Commission concluded that Italy was experiencing excessive macroeconomic imbalances in need of specific monitoring and strong policy action. The imbalances involve in particular the very high level of public debt and weak external competitiveness, both rooted in sluggish productivity growth. As announced in March 2014 and in line with the Recommendation for the euro area, the Commission has put in motion a specific monitoring of policy implementation for Italy.[36] In the updated scoreboard, some indicators are beyond the indicative threshold, namely, losses in the market share of exports, the public debt-to-GDP ratio and the unemployment rate.

[36] See COM(2014)150, 5.3.2014) and the Recommendation for the euro area (2014/C 247/27, OJ 247, 29.7.2014, p. 141). The report of November 2014 is available at http://ec.europa.eu/economy_finance/economic_governance/documents/2014-11-07_italy_mip_specific_monitoring_report_to_epc_en.pdf.

Although the external position has been adjusting and the current account surplus recorded in 2013 is expected to grow further, those developments are mainly driven by a weak internal demand and modest export growth. On a 5-year basis, accumulated losses in the market share of exports continue to be high and export performance also remains weak compared to other advanced economies. Cost competitiveness indicators are stable but do not show any gains. Nominal ULC growth slowed in 2013, thanks in part to a stabilisation of labour productivity after the large decline recorded in the previous year. Private sector debt is moderate, while the very high general government debt-to-GDP ratio continued to increase, driven by negative real growth and subdued inflation. Economic weakness is also reflected in the declining weight of fixed investment in GDP, which is driven by the uncertain economic outlook and the large contraction in private-sector credit in 2013. Unemployment in Italy increased further in 2013, but stabilised in the first half of 2014. Youth unemployment rose sharply to a very high level, while long-term unemployment remained very high. The activity rate is the lowest in the EU. Though poverty and social indicators were broadly stable in 2013, they remained worryingly high and may negatively impact medium-term growth prospects. In a context of low growth and inflation, the need to address Italy's excessive imbalances is particularly important given the size of the Italian economy and its potential for spillovers that could affect the functioning of the euro area. *Overall, the Commission finds it useful, also taking into account the identification of excessive imbalances in March 2014, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.*

Graph A12: ***Debt***

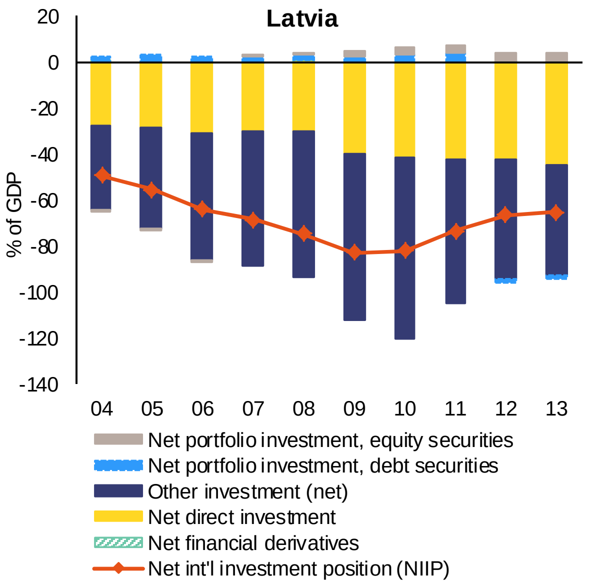


Source: Eurostat

Latvia: In the previous round of the MIP, no macroeconomic imbalances were identified in Latvia. In the updated scoreboard, some indicators are beyond the indicative threshold, namely NIIP, unemployment and the change in inflation-adjusted house prices.

The negative NIIP is significantly above the indicative threshold, although it has declined in recent years. More than two-thirds of the net liability reflects FDI stocks and net external debt is at a moderate level. Latvia's current account shows a small deficit.

Graph A13: ***Net International Investment Position***



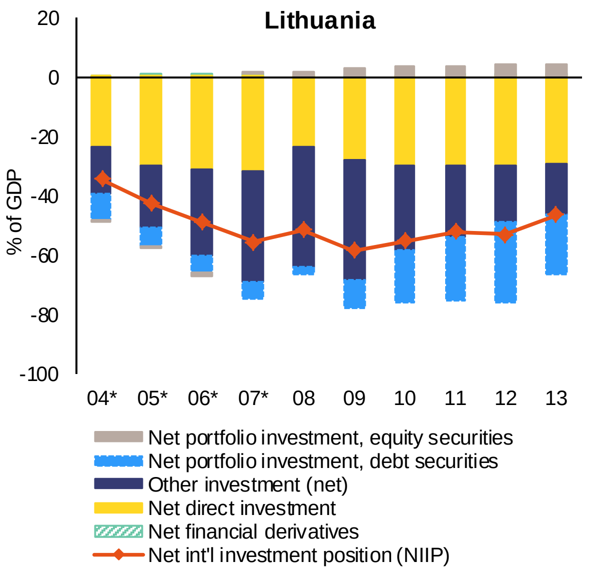
Source: Eurostat

Note: excludes reserve assets.

The market share gains of Latvia's exports are decelerating but are still substantial in accumulated terms. While unit labour costs are within the threshold, projections show risks of some overshooting in the near term, however, in the context of improving non-cost competitiveness and broadly in line with developments in major trading partners. Public and private debt ratios are significantly below the thresholds. The financial sector maintains high liquidity and capital adequacy ratios but credit growth is still negative in the context of ongoing deleveraging of the banking sector. In 2013, the growth in inflation-adjusted house prices is beyond but close to the threshold correcting a substantial dip in previous years. Latvia's exposure to geopolitical risks, in particular the conflict between Russia and Ukraine, worsens the country's growth potential. The unemployment indicator (three-year average) is moving closer to the threshold and is projected to subside further. Youth unemployment continues to decrease. Long-term unemployment, although still at a high level, has dropped substantially over the past year which is also mitigating existing high social risks. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Lithuania: In the previous rounds of the MIP, no macroeconomic imbalances were identified in Lithuania. In the updated scoreboard, a couple of indicators are beyond their indicative thresholds, namely the NIIP and unemployment.

Graph A14: ***Net International Investment Position***



Source: Eurostat

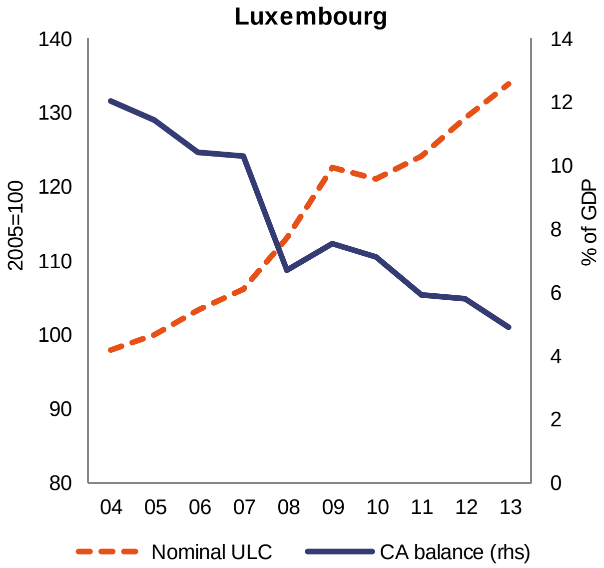
Note: * *indicates BMP5 and ESA95 - break in series in 2008. Please refer to the statistical annex for more details.*

Excludes reserve assets.

Lithuania's negative NIIP remains beyond the threshold but has improved significantly. In addition, net external debt is substantially lower, reflecting the stock of inward FDI. The current account had a small surplus in 2013 but this is forecast to turn into a small deficit in 2015 as domestic demand increases. Export performance appears strong, with substantial gains in the market share of exports. Cost competitiveness indicators are relatively stable even if ULCs have increased moderately because of a tightening labour market. Sanctions imposed by Russia are likely to dampen exports and GDP in the short term. More generally, Lithuania's exposure to geopolitical risks, in particular the conflict between Russia and Ukraine, worsens the country's growth potential. Both private sector and government debt ratios are relatively low. The private sector continues to deleverage and growth of new credit to non-financial corporates is sluggish. Real house prices have stabilised over recent years. Unemployment, youth unemployment and long-term unemployment have decreased significantly, and total unemployment is expected to fall close to threshold levels in the coming years. The better labour market situation is contributing to a reduction in poverty and social exclusion, which remain at very high levels. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Luxembourg: In March 2014, the Commission concluded that the macroeconomic challenges in Luxembourg did not constitute substantial macroeconomic risks that would qualify as imbalances in the sense of the MIP. In the updated scoreboard, a couple of indicators are beyond the indicative threshold, namely the unit labour costs, private sector credit growth and private sector debt.

Graph A15: ***ULC and current account balance***



Source: Eurostat, Commission services

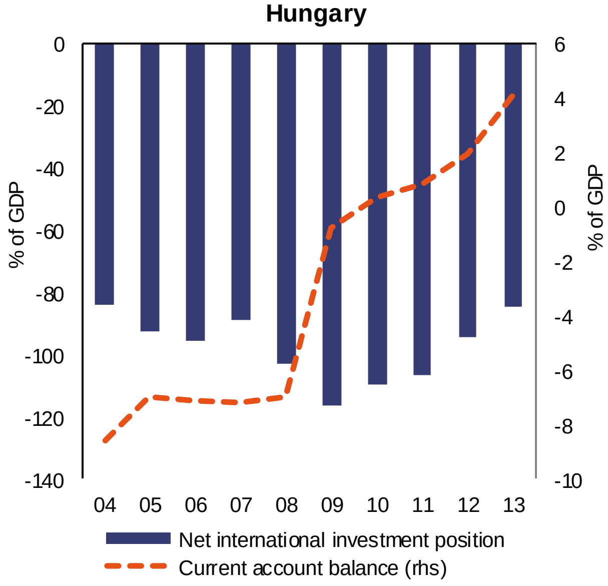
Luxembourg's substantial current account surplus fell further in 2013 on the back of buoyant imports but also falling investments, implying that the three-year indicator has now moved within the threshold. Accumulated losses in export market shares fell below the threshold after some substantial gains in 2013. Unit labour costs remain relatively dynamic even if there has been a moderation of unit labour cost growth in 2013. The high level of private indebtedness in Luxembourg, mainly of non-financial corporations, broadly reflects large cross-border intra company loans that are counterbalanced by sizable assets. While general government debt is currently in a favourable position, high sustainability risks exist in the longer term due to mounting age-related liabilities. Risks to domestic financial stability stemming from the country's large financial sector still exist, but they remain relatively contained as the sector is diversified and specialized at the same time. Domestic banks meanwhile, post sound capital and liquidity ratios. However, the dynamism of house prices represents a source of concern. Even if the risk of a sharp price correction appears low, there are supply side concerns and investment in residential construction is falling. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Hungary: In March 2014, the Commission concluded that Hungary was experiencing macroeconomic in need of monitoring and decisive policy action, in particular involving the continued adjustment of its very negative net international investment position (NIIP) and its relatively high public debt.[37] In the updated scoreboard, several indicators are beyond the indicative threshold, namely, the NIIP, losses in the market share of exports, government debt, and the unemployment rate.

[37] Other than the MIP and other standard surveillance procedures, economic development and policy implementation in Hungary have been closely monitored by the Commission under post-programme surveillance. The latest report is available at http://ec.europa.eu/economy_finance /assistance_eu_ms/documents/hu_efc_note_5th_pps_mission_en.pdf.

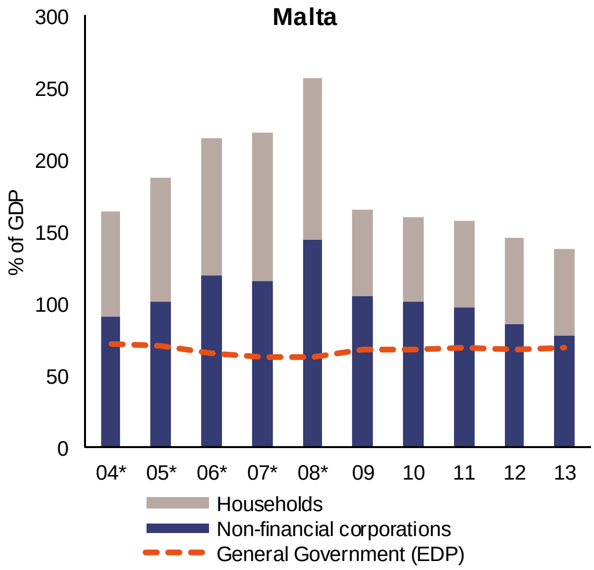
The increasing current and capital account surpluses since 2010 have ensured a sustained decrease in the NIIP, although it remains very high. This improvement in the current account has until recently been driven primarily by weak domestic demand and the performance of exports has generally been weak, resulting in large accumulated market share losses. At the same time, unit labour cost growth has been relatively dynamic although the REER has depreciated. Private sector deleveraging has continued in a difficult context with a high level of non-performing loans, an excessive burden on the financial sector, negative credit flows and a continuous decline in inflation-adjusted housing prices. Nonetheless, since mid-2013, the pace of deleveraging has slowed down due to subsidised lending schemes and a pick-up in growth. General government debt has continued to decline gradually, but the decreasing trajectory is not robust enough given the possibility of adverse shocks. Negative feedback loops between the constrained growth potential of the economy and the exposure to foreign exchange movements could aggravate the country's vulnerabilities. The unemployment indicator stands just above the threshold primarily because of the increased participation rate and is expected to improve further. While the situation of young people on the labour market has improved, long-term unemployment remains high. The activity rate has been on the rise but continues to be one of the lowest in the EU. However, all poverty indicators have continued to deteriorate substantially since the start of the crisis. *Overall, the Commission finds it useful, also taking into account the identification in March 2014 of imbalances requiring decisive action to examine further the risks involved in the persistence of imbalances or their unwinding.*

Graph A16: ***NIIP and CA balance***



Source: Eurostat

Graph A17: ***Debt***



Source: Eurostat

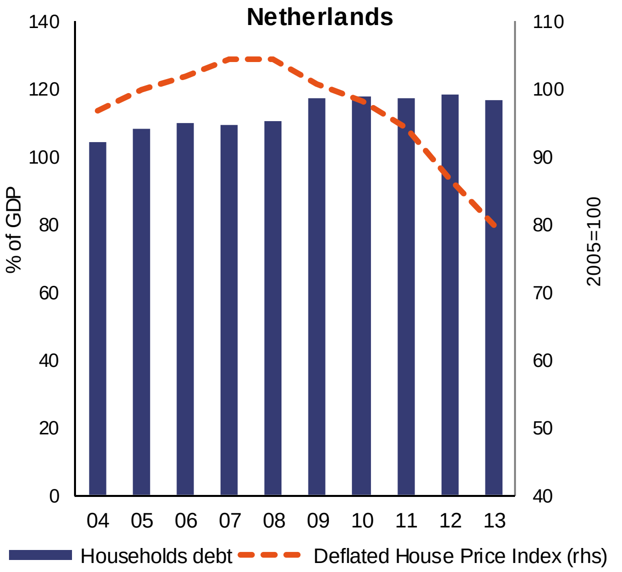
*Note: * indicates ESA95 - break in series in households and non-financial corporations' debt in 2009. Please refer to the statistical annex for more details.*

Malta: In March 2014, the Commission concluded that the macroeconomic challenges in Malta did not constitute substantial macroeconomic risks that would qualify as imbalances in the sense of the MIP. In the updated scoreboard, some indicators are beyond the indicative thresholds, namely the change in nominal unit labour costs, and public and private sector indebtedness.

The external rebalancing has progressed further and the current account balance recorded a surplus in 2013. Higher imports related to large-scale investment projects are expected to result in a temporary deterioration of the current account balance in 2014-15. Despite the improvement of the external balance in recent years, the market share of Malta's exports declined for the fifth consecutive year in 2013, although the accumulated change is still within the indicative threshold. Growth in nominal unit labour costs is just above the threshold level. These developments reflect the changing structure of the economy but may also indicate risks of competitiveness erosion if they persist. Meanwhile, the relatively high level of private debt, concentrated in non-financial corporations, remains on a downward path, partially due to sustained economic growth but also due to negative credit flow to the corporate sector as banks have tightened their lending standards particularly for the construction sector. The public debt-to-GDP ratio has continued to increase but is expected to stabilise and decrease from next year on. Although the large and mainly internationally-oriented banking sector is deleveraging, the impact on economic activity has been limited because the share of resident assets and liabilities on their balance sheets is small. Stable house price developments, robust employment growth, though along a relatively low activity rate, and a low unemployment rate reduce the risk that internal imbalances will emerge. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Netherlands: In March 2014, the Commission concluded that the Netherlands was experiencing macroeconomic imbalances, in particular involving the continuing adjustment in the housing market and the high level of indebtedness of the household sector. In the updated scoreboard, some indicators are beyond the indicative threshold, namely: the current account surplus; market share losses for exports; the private sector debt level and public sector debt.

Graph A18: ***Households' debt and House Price Index***



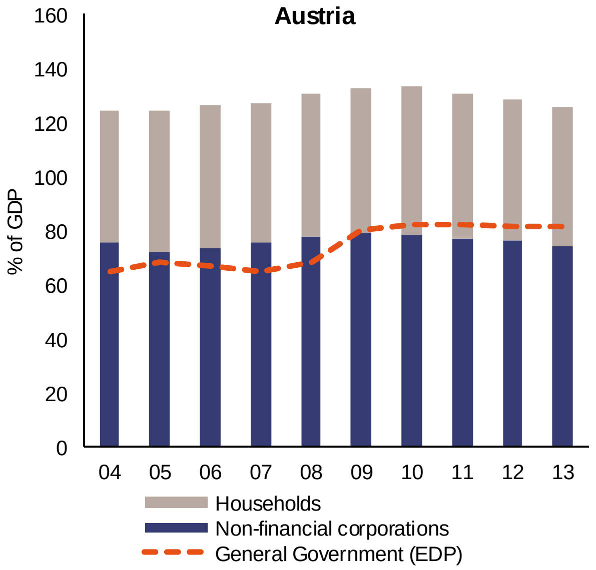
Source: Eurostat

The persistently large current account surplus of the Netherlands is the result of high savings and structurally weak domestic private investment, which fell further in 2013. However, a gradual recovery is expected to support investments in 2014 and onwards putting some limited downward pressure on the current account surplus. Accumulated losses in the market share of exports have narrowed somewhat after limited gains in 2013, partially due to the dynamism of re-exports. Unit labour cost growth has been positive and within the threshold. Private sector debt has been stable at a level well above the threshold despite some active deleveraging of households. Risks are reduced by the large stock of financial assets held by the private sector. Moreover, policy changes, such as the reduction of mortgage interest deductibility and loan to value ratios, will contribute to household deleveraging and a better-balanced financial sector. The housing market appears to be recovering with house prices picking up and the number of transactions and building permits increasing, paving the way for an increase in household investment. General government debt is stable above the threshold. *Overall, the Commission finds it useful, also taking into account the identification of imbalance in March 2014, to examine further the persistence of imbalances or their unwinding.*

Austria In the previous rounds of the MIP, no macroeconomic imbalances were identified in Austria. In the updated scoreboard, a couple of indicators remain beyond the indicative thresholds, namely losses in the market share of exports and general government sector debts.

The current account remains in a stable and moderate surplus, while the NIIP is close to zero. The considerable accumulated losses in the market share of exports has narrowed after some limited gains in 2013, as Austria's economy has benefitted from its supply chain integration with Germany and Central Europe. The more recent export performance is broadly in line with the performance of EU partners. Cost competitiveness concerns appear limited with unit labour cost growth moderate and below the threshold and REER developments are in line with euro area partners. Private sector debt is slightly below the threshold at a relatively stable level. Credit flows to the private sector remain moderately positive. General government debt continues to exceed the threshold due also to the crisis-related restructuring and recapitalisation of financial sector institutions, which is expected to increase public debt by about 6 percentage points of GDP in 2014. Although substantial risks remain, negative feedback loops between the general government and the financial sector have been reduced, thanks in part to the restructuring process of key financial institutions. Nevertheless, the close integration of the banking sector with Central-, Eastern- and South-Eastern European countries implies that Austria's banking system is exposed to geopolitical risks as well as to macro-financial developments in those markets. This exposure appears, however, to be somewhat lower overall than in the past and is accompanied by gradual deleveraging by Austrian banks, which shows in the decline in financial sector liabilities and a shift towards less risky countries and more stable local sources of funding. Regarding housing prices, there are indications,that the strong momentum in house prices observed in 2012 has eased considerably albeit at different rates across the country. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Graph A19: ***Debt***

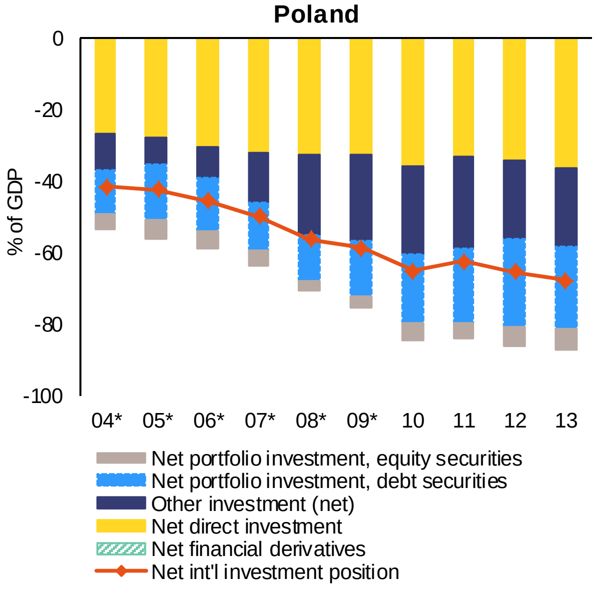


Source: Eurostat

Poland: In the previous rounds of the MIP, no macroeconomic imbalances were identified in Poland. In the updated scoreboard, some indicators are beyond the indicative thresholds, namely the NIIP and the unemployment rate.

The NIIP remains highly negative and continued to worsen moderately in 2013. However, net external debt is significantly lower than the NIIP as FDI accounts for a large part of foreign liabilities. Also, the current account deficit improved and is within the threshold for the first time since 2007, thanks to a surplus in the trade balance and a lower deficit in the income account. In accumulated terms, the market share of exports has been stable over the last five years, although losses in recent years were compensated by gains in 2013. Private sector debt as a percent of GDP remains amongst the lowest in the EU and has increased only marginally. Public debt has remained broadly stable at a level slightly below the threshold and is expected to decline in 2014 mainly because of recent changes to the second-pillar pension system. The banking sector is well capitalized, liquid and profitable; credit flow to the private sector remains low compared to the pre-2007 period but positive. Foreign currency mortgages still account for a high proportion of total mortgages, but are steadily decreasing. While the unemployment rate reached the threshold in the reference period, more recent data show a downward trend, which could be at risk in light of the possible economic fallout from the tensions between Russia and Ukraine, and weaker-than-previously-expected economic conditions in the EU. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Graph A20: ***Net International Investment Position***

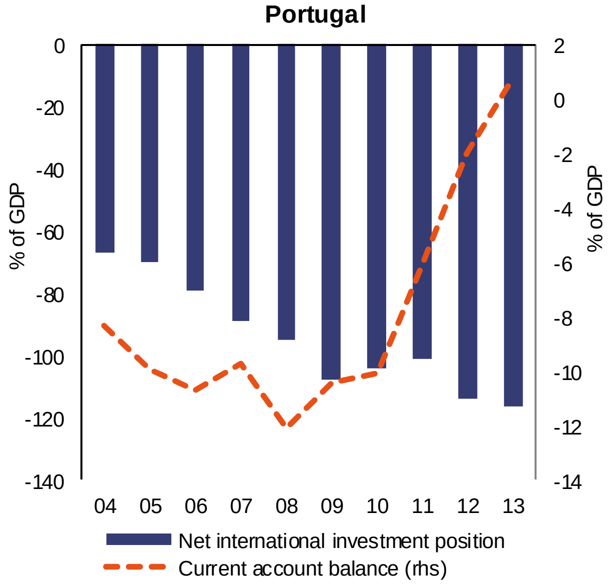


Source: Eurostat
*Note: * indicates BPM5 and ESA95 - break in series in 2010. Please refer to the statistical annex for more details.*
Excludes reserve assets.

Portugal: Between May 2011 and June 2014, Portugal benefited from financial assistance in support of a macroeconomic adjustment programme.[38] Accordingly, the surveillance of imbalances and monitoring of corrective measures took place in that context and not under the MIP. Under its programme, Portugal made considerable strides towards correcting its economic weaknesses and reducing macroeconomic risks. Nevertheless, in the updated scoreboard, several indicators remain beyond the indicative thresholds: NIIP, private debt, public debt and unemployment.

The negative NIIP is very high and has been on an increasing trend. However, the

Graph A21: ***NIIP and CA balance***



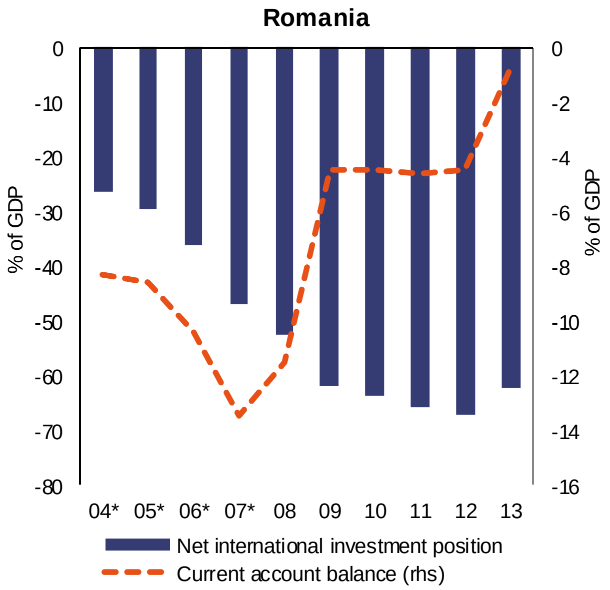
Source: Eurostat

38 See 'The Economic Adjustment Programme for Portugal, 2011-2014,' *European Economy-Occasional Papers*, 202 for an assessment of the overall implementation of the adjustment programme and the policy challenges for the Portuguese economy.

increase in the NIIP has slowed to a near halt as the current account rebalances, driven by export growth and import compression. Accumulated losses in the market shares of exports fell below the threshold due to gains in 2013. These recent gains are consistent with signs of cost competitiveness improvements reflected in gradually falling unit labour costs and a stable REER. Private debt is very high, and deleveraging efforts by households and corporates have only slightly reduced private debt ratios. Government debt also remains very high, although it is expected to have peaked in 2013 and gradually decline afterwards. In spite of the recent events concerning one specific bank, the Portuguese banking sector has been successfully stabilised, with bank capitalisation adequate and access to market-based liquidity continuing to improve. Nevertheless, high non-performing loan levels and the weak overall economic environment continue to leave banks vulnerable to macroeconomic shocks and restrains their ability to provide financing to the real economy. Unemployment remains very high, although after peaking in early 2013, it has continued to fall gradually. Youth unemployment and long-term unemployment are very high, and other social indicators remain of concern. *In the context of Portugal's integration into the normal EU surveillance cycle, the Commission finds it useful to further examine the risks involved in an in-depth analysis to assess whether imbalances exist.*

Romania: Romania has benefited from financial assistance, currently on a precautionary basis, in support of adjustment programmes since spring 2009, in the light of remaining risks to its balance of payments. The surveillance of imbalances and the monitoring of corrective measures have taken place in that context. However, since the agreement of the ongoing arrangement in autumn 2013, no review of the programme has been successfully completed and the programme is set to end by September 2015. In the updated scoreboard, the net international investment position (NIIP), is still well beyond the indicative threshold.

Graph A22: ***NIIP and CA balance***



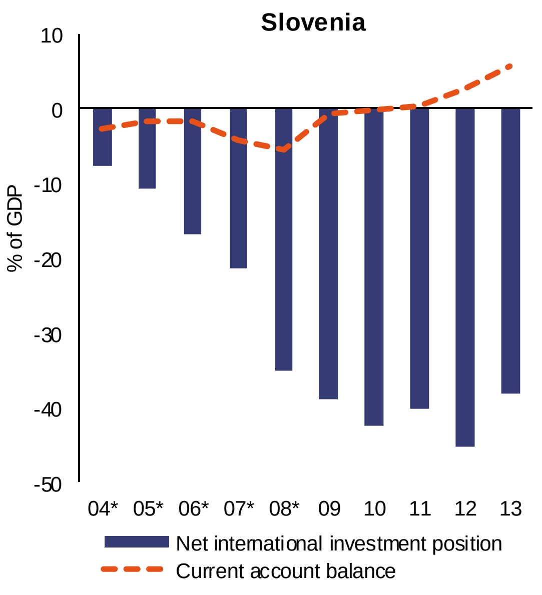
Source: Eurostat

*Note: * indicates BMP5 and ESA95 - break in series in 2005 (CA) and 2008 (NIIP). Please refer to the statistical annex for more details.*

Romania's high negative NIIP reflects the accumulation of current account deficits in the pre-crises period that to a large extent were financed by FDI. This implies that net external debt is somehow lower than its NIIP, although it remains high. The current account has been rebalancing, but in 2013 there was still a small deficit, which is expected to increase somewhat in the next years. FDI remains clearly below pre-crisis levels. The performance of exports has been strong and Romania gained market shares, particularly in 2013. Labour productivity has substantially recovered since 2012, but unit labour costs accelerated in 2013. Private sector debt is relatively low and is estimated to have strongly declined in 2013, helped by strong nominal growth. The financial sector is well capitalized and liquid, but intermediation remains low. Though a notable reduction has been observed in 2014, deleveraging pressures and high NPLs, are weighing on credit expansion to the private sector. In the housing market, the correction of inflation-adjusted house prices continues, albeit at a slower pace than in the previous years. The weak real estate market poses challenges to banks' loans portfolios, which are largely mortgage-backed. In the labour market, youth unemployment and the share of young people not in employment, education or training remains high, while the activity rate remains one of the lowest in the EU. Poverty and social exclusion are among the highest in the EU. *Successive programmes of financial assistance have helped reduce economic risks in Romania. Given the delays in completing the semi-annual reviews of the precautionary arrangement, which is set to end by September 2015, Romania should be re-integrated under MIP surveillance. This includes preparation of an in-depth review to examine further the persistence of imbalances and risks or their unwinding.*

Slovenia: In March 2014, the Commission concluded that Slovenia was experiencing excessive macroeconomic imbalances, in need of specific monitoring and continued strong policy action. In particular, decisive actions are required to address the risks stemming from an economic structure characterised by weak corporate governance, a high level of state involvement, a highly leveraged corporate sector, losses in cost competitiveness and an increasing level of government debt. As announced in March 2014 and in line with the Recommendation for the euro area, the Commission has put in motion a specific monitoring of policy implementation for Slovenia.[39] In the updated scoreboard, some indicators are beyond the indicative threshold, namely the net international investment position, the change in the market share of exports, and general government debt.

Graph A23: ***NIIP and CA balance***



Source: Eurostat
*Note: * indicates BPM5 and ESA95 - break in series in 2009 (CA). Please refer to the statistical annex for more details.*

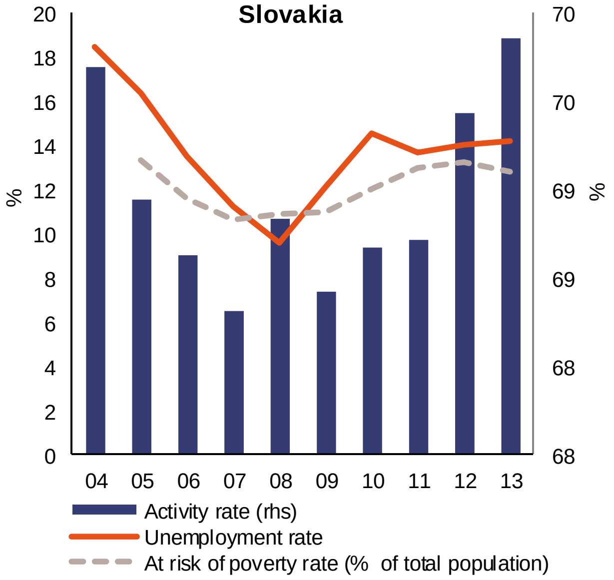
The current account continued its sharp correction to reach a sizeable surplus in 2013, as exports expanded and domestic demand contracted. As a consequence, Slovenia's net international investment position improved considerably, although it remains just above the threshold. After five years of decline, the market shares of Slovenia's exports increased in 2013. The restoration of price and cost competitiveness has been limited as unit labour costs have merely stabilised following the steep increases recorded in the initial crisis years. Private sector debt has decreased further, driven by declining corporate indebtedness. This was largely due to negative credit growth, rather than the restructuring of existing stocks. The on-going deleveraging of the financial sector accelerated significantly in 2013 because of the transfer of non-performing loans to the state-owned Bank Assets Management Company and bank recapitalisations by the government. Consequently, the government's total debt rose sharply and is now significantly above the threshold. The unemployment rate peaked in 2013, below the indicative threshold. However, in 2013, long-

[39] See COM(2014)150, 5.3.2014 and the Recommendation for the euro area (2014/C 247/27, OJ 247, 29.7.2014, p. 141). The reports of the specific monitoring will be made public.

term unemployment reached record levels. *Overall, the Commission finds it useful, also taking into account the identification of excessive imbalances in March 2014, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.*

Slovakia: In the previous rounds of the MIP, no macroeconomic imbalances were identified in Slovakia. In the updated scoreboard, a couple of indicators remain above the indicative thresholds, namely the NIIP and the unemployment rate.

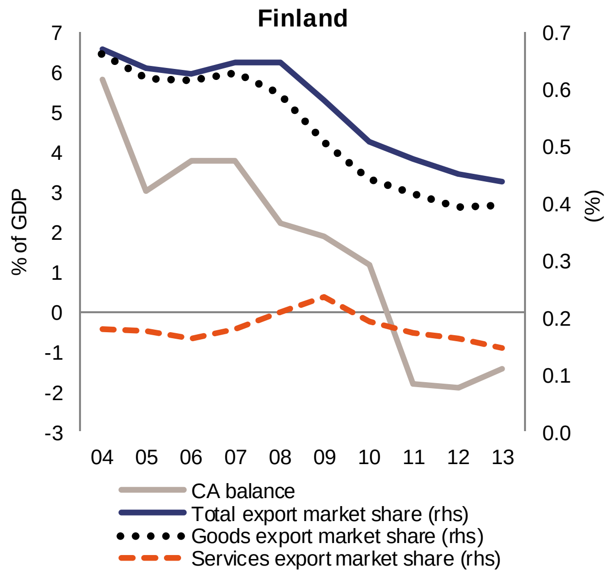
Graph A24: ***Labour market and social indicators***



Source: Eurostat

Slovakia's NIIP deteriorated slightly in 2013, but its external debt remains low and relatively stable given the high stock of FDI. The current account balance has improved, with small surpluses recorded in 2012 and 2013. The performance of exports appears stable, with only minor accumulated market share losses and some gains in 2013. Price and cost competitiveness developments do not represent a cause for concern with both REER and unit labour cost growth stable. Private sector debt has remained stable, on the back of moderately positive credit flows. The banking sector remains well-capitalised and total liabilities are estimated to have slightly declined in 2013. The general government debt ratio continued to increase in 2013 but remains below the threshold. After declining for four years in a row, house prices stabilized in 2013. The performance of the labour market reflects the persistence of major regional disparities in economic growth and employment. Unemployment remains the most pressing economic policy issue, given the social implications. Most unemployment is long-term, which suggests its nature is structural; youth unemployment is also a serious problem. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Graph A25: ***Export market shares and CA balance***



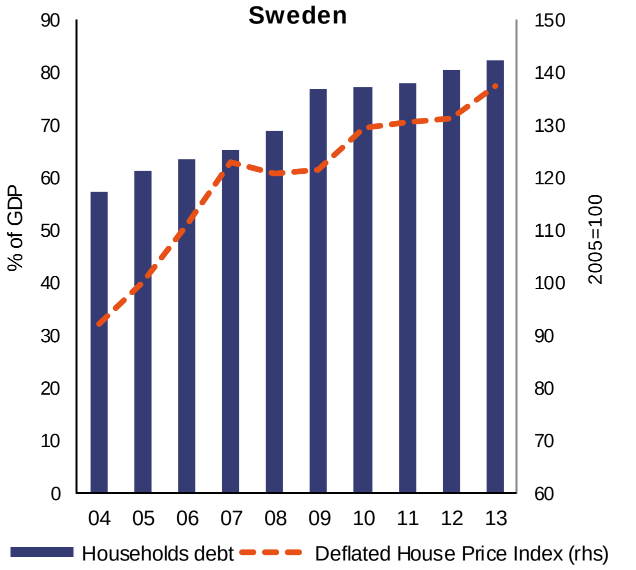
Source: Eurostat

Finland: In March 2014, the Commission concluded that Finland was experiencing macroeconomic imbalances, in particular involving developments related to competitiveness. In the updated scoreboard, three indicators are above the indicative thresholds, namely the change in the market shares of exports, the change in unit labour costs and the level of private sector debt.

The trend decline of the external position leading to moderate current account deficits stabilised in 2013, while Finland's positive NIIP weakened slightly. Finland's exports have lost market share faster than those of any other country in the EU. Although most losses took place in 2009-10, Finland failed to record the moderate export market share gains observed in most other EU countries. Unfavourable unit labour cost developments are also weighing on cost competitiveness. Although the restructuring of traditional industries is ongoing, potential structural weaknesses underlying the loss in competitiveness and limiting the adjustment capacity of both private and public sectors, merit attention. The private sector's debt-to-GDP ratio remains elevated, dominated by corporate debt. At the same time, the decreasing liabilities of the financial sector in 2013 indicate deleveraging. The slight decline in the real price of housing continued in 2013, limiting the risks from overheating in the housing market. Increasing regional differences, however, deserve close attention. Unemployment is increasing and the growth environment remains very weak. *Overall, the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding.*

Sweden: In March 2014, the Commission concluded that Sweden was experiencing macroeconomic imbalances, particularly regarding household debt and inefficiencies in the housing market. In the updated scoreboard, the current account surplus, the market share losses of exports, and private sector debt are above their indicative thresholds.

Graph A26: ***Households' debt and House Price Index***

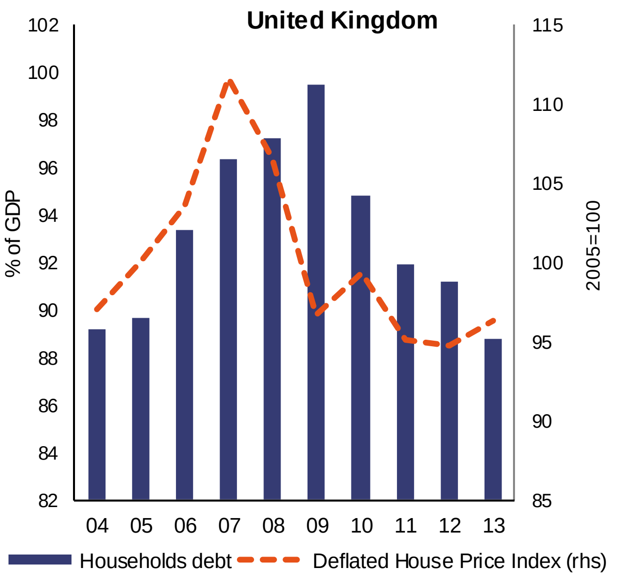


Source: Eurostat

The current account surplus remains stable, just above the threshold, reflecting relatively high savings both in the private and general government sectors as well as subdued investment in recent years, although this is expected to recover. Sweden's exports have lost a lot of market share over the years and although these losses slowed in 2013, the accumulated losses are above the threshold. However, cost competitiveness indicators do not point to problems, as unit labour cost growth is relatively low in 2013. The high level of private sector debt is stable but continues to deserve attention. Corporate indebtedness has been declining since 2009 but remains high and is expected to increase again as credit flows are picking up. Increases in household debt slowed down after mortgage reforms but household debt has been on the rise again since 2012. General government debt is relatively low. Inflation-adjusted house prices, which stabilised at high levels over 2011 and 2012, have started to grow again more dynamically since mid-2013 and the housing market is still prone to imbalanced development with serious supply constraints. Bank risks appear constrained, although high household debt levels leave banks more vulnerable to losses in confidence if house prices drop markedly. As they extensively rely on market financing, a confidence crisis could quickly increase banks' funding costs and render deleveraging pressures more acute. *Overall, the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding.*

United Kingdom: In March 2014, the Commission concluded that the United Kingdom was experiencing macroeconomic imbalances, in particular involving the areas of household debt, which is linked to the high levels of mortgage debt and structural characteristics of the housing market, and because of the declining market share of UK exports. In the updated scoreboard, three indicators exceed the indicative threshold, namely: losses in export market shares, private sector debt and general government debt.

Graph A27: ***Households' debt and House Price Index***



Source: Eurostat

The current account deficit continued to increase in 2013, although the three-year indicator remains just within the threshold value. At the same time, the UK's negative NIIP remains moderate. The accumulated deterioration in the market share of exports remains well above the indicative threshold although the rate of decline fell in 2013. Cost competitiveness indicators are relatively stable. The high level of private sector debt-to-GDP is gradually declining, helped by nominal growth, but remains significantly above the indicative threshold. House prices continue to increase again after a small correction phase. However, the regional variation in house price growth, together with continued high levels of indebtedness, suggest that the housing sector might be vulnerable to shocks in the medium term that could spillover to the wider economy. The high general government debt remains a concern, it has slowed recently but has yet to peak. Employment continues to grow at healthy rates and youth unemployment and the NEET rate have decreased. *Overall, the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding.*

Table A.1: MIP Scoreboard 2013

Year 2013	External Imbalances and Competitiveness									Internal Imbalances						
	Current Account Balance as % of GDP		Net International Investment Position as % of GDP	Real Effective Exchange Rate *(42 IC - HICP deflator)*		Export Market Shares		Nominal ULC		% y-o-y change in Deflated House Prices	Private Sector Credit Flow as % of GDP, consolidated	Private Sector Debt as % of GDP, consolidated	General Government Sector Debt as % of GDP	Unemployment Rate		% y-o-y Change in Total Financial Sector Liabilities
	3 year average	p.m.: level year		% change (3 years)	p.m.: % y-o-y change	% change (5 years)	p.m.: % y-o-y change	% change (3 years)	p.m.: % y-o-y change					3 year average	p.m.: level year	
Thresholds	-4/6%	-	-35%	±5% & ±11%	-	-6%	-	9% & 12%	-	6%	14%	133%	60%	10%	-	16.5%
BE	-1.6	0.1	*45.8*	-0.3	1.5	-9.1	3.6	8.6	2.0	0.0	1.1	163.0	104.5	7.7	8.4	-2.4
BG	*0.4*	2.6	*-76.2*	-1.0	0.1	*5.7*	*6.3*	14.8p	7.2p	-0.1	6.7	134.8	18.3	12.2	13.0	3.3
CZ	-1.7	-1.4	-40.1	-3.1	-2.3	-7.7	-0.8	3.7	0.5	-1.2	3.1p	73.7p	45.7	6.9	7.0	9.8p
DK	6.1	7.1	*39.7*	-2.6	1.0	-17.9	2.3	3.4	1.4	2.8	-1.4	222.6	45.0	7.4	7.0	-0.1
DE	6.7	6.8	42.9	-1.9	2.2	-10.7	2.4	6.4	2.4	1.8p	1.2p	103.5p	76.9	5.6	5.3	-6.3p
EE	-1.2	-1.4	-47.1	3.1	2.9	14.0	3.4	9.6	6.8	7.3	5.4	119.4	10.1	10.3	8.6	8.9
IE	1.1	4.4	*-104.9*	-3.9	1.6	-4.9	1.7	1.3	4.2	0.3	-5.7	266.3	123.3	14.2	13.1	1.0
EL	-3.9	0.6	-121.1	-4.4	-0.6	*-27.3*	2.9	-10.3p	-7.0p	-9.3e	-1.1p	135.6p	174.9	23.3	27.5	-16.3
ES	-0.7	1.4	-92.6	-0.4	1.9	*-7.1*	4.4	-4.6p	-0.6p	-9.9	-10.7p	172.2p	92.1	24.1	26.1	-10.2
FR	-1.3	-1.4	-15.6	-2.3	1.6	-13.0	2.4	3.9	1.1	-2.6	1.8e	137.3e	92.2	9.8	10.3	-0.6
HR	-0.1	0.8	*-88.7*	-4.0	1.2	-20.9	3.5	*0.9*	*1.4*	-18.1p	-0.2	121.4	75.7	15.8	17.3	3.4
IT	-0.9	1.0	-30.7	0.0	1.9	-18.4	1.3	4.1	1.3	-6.9p	-3.0	118.8	127.9	10.4	12.2	-0.7
CY	*-4.0*	-3.1	-156.8	-0.8	1.1	*-27.2*	*-3.9*	-5.9p	-5.9p	-5.5	-11.2p	344.8p	102.2	11.9	15.9	-19.5
LV	-2.8	-2.3	-65.1	-1.7	-0.9	8.4	3.1	10.5	7.3	6.6	0.8	90.9	38.2	14.4	11.9	5.2
LT	-1.2	1.6	-46.4	-0.6	0.9	22.1	8.9	6.0	3.0	0.2	-0.2	56.4	39.0	13.5	11.8	-1.8
LU	5.5	4.9	216.4	0.7	1.5	2.2	9.9	10.5	3.6	4.9	27.7	356.2	23.6	5.3	5.9	8.8
HU	2.2	4.1	-84.4	-4.0	-1.4	-19.2	4.1	5.9	0.8	-5.0	-1.0	95.5	77.3	10.7	10.2	-0.3
MT	4.0	3.2	49.2	-1.3	1.4	*-4.0*	-0.2	9.5	0.9	-2.1	0.4p	137.1	69.8	6.4	6.4	0.7
NL	*9.8*	9.9	31.3	0.4	2.7	*-9.2*	*2.1*	6.3p	1.6p	-7.8	2.1p	229.7p	68.6	5.5	6.7	-3.2
AT	1.4	1.0	-0.2	0.7	2.1	-17.0	1.8	6.4	2.6	2.5e	0.2	125.5	81.2	4.5	4.9	-3.6
PL	-3.3	-1.3	-68.0	-4.3	0.2	*-0.4*	6.6	3.9p	0.9p	-4.4e	2.9	74.9	55.7	10.0	10.3	7.6
PT	-2.5	0.7	-116.2	-0.6	0.3	-5.3	7.7	-3.0e	1.9e	-2.5	-2.4e	202.8e	128.0	15.0	16.4	-5.3
RO	-3.3	-0.8	-62.4	0.3	3.9	16.4	16.3	0.7p	4.2p	-4.6p	-1.5p	66.4p	37.9	7.0	7.1	3.1
SI	2.8	5.6	-38.2	-0.7	1.3	*-16.6*	3.3	1.3	1.4	-5.8	-4.0	101.9	70.4	9.1	10.1	-10.5
SK	*0.2*	*2.1*	*-65.1*	2.1	0.9	*-2.2*	*3.9*	2.5	0.3	-0.5	5.4	74.8	54.6	14.0i	14.2	-0.3
FI	-1.7	-1.4	8.8	0.1	2.9	-32.2	-2.8	9.5	1.7	-1.3	0.7	146.6	56.0	7.9	8.2	-11.8
SE	6.1	6.6	-10.8	5.1	1.7	-15.0	0.1	8.1	1.1	4.7	3.7	201.1	38.6	7.9	8.0	9.1
UK	-3.2	-4.2	-15.6	3.4	-1.5	-11.7	-1.7	3.8	1.5	1.6	3.4p	164.5p	87.2	7.9	7.6	-7.4p

Flags: e: estimated. p: provisional.

Note: Figures highlighted are the ones falling outside the threshold established by AMR. For REER and ULC, the first threshold concerns EA and the second one non-EA. (1) Figures in italic are according to ESA95/BPM5 standards. (2) IE Current Account Balance has been revised downwards following methodological changes in the treatment of FDI investment income. (3) MT Current Account Balance has been revised upward following the incorporation of SPEs data extracted from administrative records and national account estimates. (4) CY International Investment Position has been revised downwards following the incorporation of ship-owning SPEs. (5) LU International Investment Position has been revised upwards following methodological changes in the treatment of intragroup loans of SPEs and information from a new collection survey in the financial sector. (6) MT International Investment Position has been revised upwards following the incorporation of SPEs data from administrative records and audited financial statements. (7) Total world export is based on BPM5. (8) Due to derogations for employment series according to ESA 2010, HR ULC is based on ESA 95. (9) House Price only: e = NSI estimates for PL; source NCB for EL, AT. (10) FR Unemployment Rate has been revised downwards. The revision is mainly due to metho

Source: European Commission, Eurostat and DG ECFIN (for the indicators on the REER)

Table A.2: Auxiliary indicators, 2013

Year 2013	% y-o-y Change in Real GDP	Gross Fixed Capital Formation as % of GDP	Gross Domestic Expenditure on R&D as % of GDP	Net Lending / Borrowing as % of GDP	Net External Debt as % of GDP	Inward FDI Flows as % of GDP	Inward FDI Stocks as % of GDP	Net Trade Balance of Energy Products as % of GDP	% Change (3 years) in REER vs. EA	% Change (5 years) in Export Performance vs. Advanced Economies	% Change (5 years) in Terms of Trade	% y-o-y Change in Export Market Share, in volume	% y-o-y Change in Labour Productivity	% Change (10 years) in Nominal ULC	% Change (10 years) in ULC Performance relative to EA	% Change (3 years) in Nominal House Prices	Residential Construction as % of GDP	Private sector Debt as % of GDP, non-consolidated	Financial Sector Leverage (debt to equity)
BE	0.3	22.3	na	0.1	*-86.8*	-11.1	*191.2*	-4.4	0.6	-2.6	0.5	-0.8	0.6	23.1	5.7	7.6	5.9	190.6	166.3
BG	1.1	21.3	na	3.7	*25.5*	3.3	*95.9*	-6.4	-0.4	*13.2*	4.5	9.2	1.5p	85.1p	57.4	-9.3	na	145.7	384.6
CZ	-0.7	24.9	na	-0.1	-3.8	3.9	77.9	-4.9	-2.4	-1.1	-1.0	-3.0	-1.1	16.0	0.1	-1.6	3.3	82.4p	536.8p
DK	-0.1	18.4	na	7.1	*9.8*	-0.2	*29.5*	0.1	-1.3	-12.1	1.9	1.0	-0.3	25.3	7.1	-0.6	3.8	222.7	193.2
DE	0.1	19.7	na	6.9	-12.2	1.4	40.2	-3.5	-0.7	-4.3	0.6	-2.2	-0.5	10.4	-8.4	10.4p	5.9	110.0p	422.3p
EE	1.6	27.3	na	1.4	*-6.4*	3.6	95.4	-2.4	5.5	22.1	-1.8	-0.6	0.4	71.5	45.1	28.8	3.3	126.9	288.3
IE	0.2	15.2	na	4.4	*-425.3*	16.0	*166.9*	-3.3	-3.1	1.9	-2.3	-2.0	-2.1	16.6	-0.3	-22.2	2.0	292.6	99.6
EL	-3.9p	11.2p	na	2.3	130.9	1.2	11.1	-3.4p	-3.4	*-22.1*	-0.7p	-0.6	-0.1p	14.1p	-2.9	-25.5e	2.2p	135.6p	792.7
ES	-1.2p	18.5p	na	2.1	91.2	3.0	54.8	-3.3p	0.4	*-0.4*	-1.2p	1.7	1.4p	15.4p	-0.5	-28.5	*4.4*	187.2p	544.9
FR	0.3	22.1	na	-1.3	32.4	0.2	40.8	-3.1	-1.3	-6.8	-0.3	-0.8	0.5	18.9	1.6	3.2	6.1	175.2	373.4
HR	-0.9	19.3	na	0.9	*60.3*	1.7	*55.1*	-5.0	-2.9	-15.3	1.5	0.7	*0.1*	*23.9*	4.4	-18.8p	na	130.2	425.5
IT	-1.9	17.8	na	1.0	59.2	0.9	23.8	-3.3	1.0	-12.6	-0.3	-3.0	0.0	23.6	7.6	-7.7p	4.8	120.8	951.7
CY	-5.4p	13.4p	na	-1.7	115.4	15.6	275.5	-6.3p	1.0	*-22.0*	-0.9p	-7.3	-0.1p	6.3p	-7.7	-11.0	3.9p	347.4p	253.1
LV	4.2	23.3	na	0.1	35.8	3.2	53.0	-5.4	0.3	16.1	1.1	-2.1	1.9	89.3	57.6	20.5	2.0	108.4	609.8
LT	3.3	18.2	na	4.6	28.4	1.5	37.7	-7.3	1.3	30.8	-5.3	6.4	1.9	*38.6*	15.0	7.7	2.2	60.5	576.8
LU	2.0	17.1	na	3.8	-2072.9	724.1	5206.0	-5.6	1.7	9.5	2.9	-0.6	0.0	38.6	18.3	13.6	3.1	421.8	63.2
HU	1.5	19.9	na	7.8	58.6	-3.2	215.9	-6.4	-3.2	-13.4	-0.2	2.1	0.7	30.6	12.5	-9.4	1.4	118.3	120.6
MT	2.5	17.5	na	4.9	*-115.5*	5.7	*132.4*	-9.6	0.1	*2.8*	1.0	-6.2	-1.3	29.1	11.8	1.9	2.9	182.4	15.5
NL	-0.7p	18.2p	na	8.6	41.5	37.1	537.7	-1.4p	1.4	*-2.7*	-1.6p	-1.4	0.6p	15.4p	0.5	-14.0	3.3p	246.3p	136.6p
AT	0.2	22.2	na	0.9	20.2	3.6	77.0	-3.5	1.6	-11.0	-1.7	-0.5	-0.5	20.7	1.9	22.6e	4.3	140.8	209.4
PL	1.7	18.8	na	1.0	35.7	0.0	49.0	-2.7	-3.3	*6.7*	0.3	1.4	1.7p	16.4p	-0.9	-6.7e	*2.5*	78.1	274.1
PT	-1.4e	15.1e	na	2.3	102.3	3.9	69.2	-3.6e	0.1	1.5	3.2	7.8	1.6e	6.5e	-8.7	-13.3	2.3e	218e	365.2
RO	3.5p	24.7p	na	1.3	*34.6*	2.0	42.8	-1.9p	0.7	24.8	2.2p	10.4	4.8p	86.5p	58.4	-19.9p	na	67.5p	470.7
SI	-1.0	19.7	na	5.9	34.9	0.2	29.2	-5.5	0.0	*-10.6*	-2.1	-0.5	0.5	28.3	9.6	-9.4	2.5	113.1	591.8
SK	1.4	20.4	na	*3.6*	*23.1*	*0.6*	*59.1*	-5.9	2.5	*4.8*	-4.7	1.3	2.2	22.3	5.5	-3.3	2.4	77.8	844.1
FI	-1.2	21.2	na	-1.3	*35.1*	-4.5	46.8	-2.6	1.9	-27.3	-3.4	-4.9	0.3	28.9	10.0	6.8	6.1	169.8	371.2
SE	1.5	22.1	na	6.4	-63.3	1.2	86.9	-1.5	6.0	-8.9	0.0	1.5	0.5	21.8	3.5	9.4	3.6	244.7	237.0
UK	1.7	16.4	na	-4.2	*26.0*	1.6	73.6	-0.9	4.3	-5.4	2.6	-2.6	0.4	27.7	8.7	4.3	3.4	169.4p	790.5p

Flags: e: estimated. p: provisional. na: not available.

Note: Figures in italic are according to ESA95/BPM5 standards. (1) Export performance vs. advanced economies (5 years % change) - total OECD export is based on the 5th edition of the Balance of Payments Manual (BPM5). (2) For House Price only: e = source National Central Bank for EL, AT; e = NSI estimates for PL. (3) Nominal ULC and Labour productivity data for HR are based on ESA 95 methodology, due to derogations for employment series according to ESA 2010. (4) R&D expenditure data were extracted on 1/11/2014 using ESA-2010 GDP as denominator, 2013 data will be released in the second half of November 2014.

Source: Eurostat, DG ECFIN (for the indicators on the REER vis-à-vis EA and Effective ULC vis-à-vis EA) and ECFIN calculation on IMF data, WEO (for the indicator on export market share in volume)

Table A.2 (continued): Auxiliary indicators, 2013

Year 2013	% y-o-y Change in Employment	**Activity Rate** *(15-64 years)*		**Long Term unemployment Rate** *(% of active population)*		**Youth Unemployment Rate** *(% of active population in the same age group)*		**Young People not in Employment, Education or Training** *(% of total population)*		**People at-risk of Poverty or Social Exclusion** *(% of total population)*		**At-risk Poverty Rate** *(% of total population)*		**Severe Material Deprivation Rate** *(% of total population)*		**Persons Living in Households with Very Low Work Intensity** *(% of population aged 0-59)*	
		level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)	level	% point change (3 years)
BE	-0.3	67.5	-0.2	3.9	-0.2	23.7	1.3	12.7	1.8	20.8	0.0	15.1	0.5	5.1	-0.8	14.0	1.3
BG	-0.4p	68.4	1.9	7.4	2.6	28.4	6.6	21.6	-0.2	48.0	-1.2	21.0	0.3	43.0	-2.7	13.0	5.0
CZ	0.4	72.9	2.7	3.0	0.0	18.9	0.6	9.1	0.3	14.6	0.2	8.6	-0.4	6.6	0.4	6.9	0.5
DK	0.1	78.1	-1.3	1.8	0.3	13.0	-0.9	6.0	0.0	18.9	0.6	12.3	-1.0	3.8	1.1	12.9	2.3
DE	0.6	77.5	0.9	2.4	-1.0	7.9	-2.0	6.3	-2.0	20.3	0.6	16.1	0.5	5.4	0.9	9.9	-1.3
EE	1.2	75.1	1.2	3.8	-3.8	18.7	-14.2	11.3	-2.7	23.5	1.8	18.6	2.8	7.6	-1.4	8.4	-0.6
IE	2.4	69.8	0.4	7.9	1.1	26.8	-0.8	16.1	-3.1	na	na	na	na	na	na	na	na
EL	-3.8p	67.5	-0.3	18.5	12.8	58.3	25.3	20.4	5.6	35.7	8.0	23.1	3.0	20.3	8.7	18.2	10.6
ES	-2.6p	74.3	0.8	13.0	5.7	55.5	14.0	18.6	0.8	27.3b	0.6b	20.4b	-1.0b	6.2	1.3	15.7	4.9
FR	-0.2	71.2b	0.7b	4.1	0.4	24.8	1.5	11.2b	-1.1b	18.1	-1.1	13.7	0.4	5.1	-0.7	7.9	-2.0
HR	*-1.0*	63.7b	2.3b	11.0	4.0	50.0	17.4	19.6b	4.7b	29.9	-1.2	19.5	-1.1	14.7	0.4	14.8	0.9
IT	-2.0	63.5	1.3	6.9	2.8	40.0	12.2	22.2	3.1	28.4	3.9	19.1	0.9	12.4	5.5	11.0	0.8
CY	-5.2	73.6	0.0	6.1	4.8	38.9	22.3	18.7	7.0	27.8	3.2	15.3	-0.3	16.1	4.9	7.9	3.0
LV	2.3	74.0	1.0	5.8	-3.0	23.2	-13.0	13.0	-4.8	35.1	-3.1	19.4	-1.5	24.0	-3.6	10.0	-2.6
LT	1.3	72.4	2.2	5.1	-2.3	21.9	-13.8	11.1	-2.1	30.8	-3.2	20.6	0.1	16.0	-3.9	11.0	1.5
LU	2.0	69.9	1.7	1.8	0.5	16.8	1.0	5.0	-0.1	19.0	1.9	15.9	1.4	1.8	1.3	6.6	1.1
HU	0.8	65.1	2.7	5.0	-0.5	27.2	0.6	15.4	3.0	33.5	3.6	14.3	2.0	26.8	5.2	12.6	0.7
MT	3.8	65.0	4.6	2.9	-0.2	13.0	-0.2	10.0	0.5	24.0	2.8	15.7	0.2	9.5	3.0	9.0	-0.2
NL	-1.3p	79.7b	1.5b	2.4	1.2	11.0	2.3	5.1	0.8	15.9	0.8	10.4	0.1	2.5	0.3	9.4	1.0
AT	0.7	76.1b	1.0b	1.2	0.1	9.2	0.4	7.1b	0.0b	18.8	-0.1	14.4	-0.3	4.2	-0.1	7.8	0.0
PL	-0.1p	67.0	1.7	4.4	1.4	27.3	3.6	12.2	1.4	25.8	-2.0	17.3	-0.3	11.9	-2.3	7.2	-0.1
PT	-2.9	73.0	-0.7	9.3	3.0	38.1	9.9	14.1	2.7	27.4	2.1	18.7	0.8	10.9	1.9	12.2	3.6
RO	-1.2p	64.6	1.0	3.3	0.9	23.7	1.6	17.2	0.8	40.4	-1.0	22.4	1.3	28.5	-2.5	6.4	-0.5
SI	-1.5	70.5	-1.0	5.2	2.0	21.6	6.9	9.2	2.1	20.4	2.1	14.5	1.8	6.7	0.8	8.0	1.0
SK	-0.8	69.9	1.2	10.0	0.7	33.7	-0.2	13.7	-0.4	19.8	-0.8	12.8	0.8	10.2	-1.2	7.6	-0.3
FI	-1.5	75.2	0.7	1.7	-0.3	19.9	-1.5	9.3	0.3	16.0	-0.9	11.8	-1.3	2.5	-0.3	9.0	-0.3
SE	1.0	81.1	2.0	1.5	-0.1	23.6	-1.2	7.5	-0.2	16.4	1.4	14.8	1.9	1.4	0.1	7.1	1.1
UK	1.3	76.6	1.1	2.7	0.2	20.7	0.9	13.3	-0.4	24.8	1.6	15.9	-1.2	8.3	3.5	13.2	0.0

Flags: b: break in time series. p: provisional. na: not available.

Note: Figures in italic are according to ESA 95 standard. (1) Employment series for HR are based on ESA 95 methodology, due to derogations according to ESA 2010. (2) Activity rate and Young people not in employment, education or training: break in time series for AT and HR due to the use of the Population Census 2011 results. (3) People at-risk of poverty or social exclusion data for IE na: the release date for 2013 data is 30/11/2014, while the data were extracted on 01/11/2014.

Source: European Commission, Eurostat