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Frick, Andres et al.

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# **AIECE General Report**

AIECE Spring General Meeting Madrid, 26–27 April 2012

Association d'Instituts Européens de Conjoncture Economique Association of European Conjuncture Institutes



Eidgenössische Technische Hochschule Zürich Swiss Federal Institute of Technology Zurich

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#### Editor

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#### Author

Association d'Instituts Européens de Conjoncture Economique Association of European Conjuncture Institutes

# KOF

ETH Zurich KOF Swiss Economic Institute WEH D 4 Weinbergstrasse 35 8092 Zurich Switzerland

Phone +41 44 632 42 39 Fax +41 44 632 12 18 www.kof.ethz.ch kof@kof.ethz.ch





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# ASSOCIATION D'INSTITUTS EUROPEENS DE CONJONCTURE ECONOMIQUE ASSOCIATION OF EUROPEAN CONJUNCTURE INSTITUTES

# **AIECE General Report**

AIECE Spring General Meeting Madrid, 26–27 April 2012

Part I

Closing date of the preliminary version of the report: 24 April 2012. Closing date of the finalized version of the report: 4 May 2012.

This report was prepared by Andres Frick, Jochen Hartwig, Andrea Lassmann, Heiner Mikosch, Stefan Neuwirth and Theo Süllow.

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KOF Swiss Economic Institute Weinbergstrasse 35 8092 Zurich Switzerland Phone: +41 44 632 42 38 Email: kof@kof.ethz.ch http://www.kof.ethz.ch

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# 1. Recent developments

Leading business cycle indicators are signalling that the world economy might be facing better times after the downswing of 2011. For instance, the OECD Composite Leading Indicator (trend restored) shows the third consecutive increase in January for the OECD area as a whole. The index for Europe and the Euro Area rose for the first time in January 2012 since December 2010 (see Figure 1.1).<sup>1</sup>



Progress has also been made in the resolution of the Euro crisis. In early March 2012, the heads of government of 25 member countries of the European Union consented to introduce debt brakes in order to regain fiscal credibility. Also in March, the Euro Area countries ratified a second bailout package for Greece, which includes a 130 billion Euro credit line and a 107 billion Euro debt cut. In return, Greece agreed to reduce minimum wages and pensions, as well as public spending and public employment. Finally, on March 30, the finance ministers of the Euro Area temporarily raised the firewall around troubled member states to 800 billion Euro by combining the ESM with previously agreed upon EFSF funds and with the first rescue package for Greece. The European Central Bank (ECB) also contributed to muting the crisis by offering unlimited liquidity. In two long-term refinancing operations (LTROs) in December 2011 and February 2012, the ECB loaned more than one trillion Euro to banks for a period of three years. This helped bringing down government bond yields for countries like Belgium, Ireland, Italy and Spain.

<sup>&</sup>lt;sup>1</sup> The figure reflects CLI data prior to the methodological change in the calculation of the indicator put in place in April 2012.

Even if there has been some good news recently, uncertainty due to the European sovereign debt crisis will remain elevated in the months to come, and austerity measures in many countries will weigh on the recovery. In the Euro Area, there is still a large heterogeneity between member countries. While, for instance, the German economy should be able to grow this year according to AIECE institutes, a number of other countries will slide into recession or have already done so. This divergence can also be read off the unemployment rates: While many countries record persistently high – and even rising – rates of unemployment, especially in the central European countries unemployment is going down.

The oil price could become a risk factor for the looming global upswing. In the wake of tensions around the Iranian nuclear program, but also because of the sanctions against Syria, a strike in Yemen and a pipeline interrupt in South Sudan, the oil price rose by nearly 15 per cent in February 2012 before stabilizing at around 125 USD per barrel (Brent).

### 1.1 GDP growth

The year 2011 was a downswing year for the Euro Area. Brisk growth of 3.1 per cent in the first quarter (quarter-on-quarter, annualised) gave way to growth around 0.5 per cent in the second and third quarter. In the last quarter of 2011, Euro Area GDP fell by 1.3 per cent in the aggregate. Even the year-on-year growth was slightly negative in the fourth quarter, falling steadily from almost 1.5 per cent at the beginning of the year 2011 (see Figure 1.2).



Slovenia, and Spain. Source: Eurostat. Contrary to the Euro Area, the non-Euro Area countries experienced an acceleration in quarter-on-quarter GDP growth from the second to the third quarter of the year 2011. In the final quarter of the year, however, GDP also edged lower by 0.4 per cent annualised. Year-on-year growth outside the Euro Area was more even, hovering between 0.8 and 1.4 per cent over the year (see Figure 1.3).

Figure 1.4 shows annualised quarterly growth for the fourth quarter of 2011 for the Euro Area countries (except Greece). Except for Finland, France, Luxembourg and Slovak Republic, all countries recorded negative growth. At least did a majority of countries do a bit better than the EU and Euro Area averages, including the two largest economies, Germany and France. Italy, however, underperformed, and Portugal recorded the largest contraction of all countries for which data were available by 5 per cent. National statistics indicate that the contraction in Greece was even larger.



Figure 1.5 shows annualised quarterly growth for the fourth quarter of 2011 for selected European countries outside the Euro Area. It is striking that all of these countries except Sweden performed better than the EU average. Most countries also performed better than the non-Euro Area average: that is the average of the 10 EU member countries outside the Euro Area. The recovery was particularly strong in Iceland, after a deep drop in the second quarter of 2011. Latvia, Lithuania and Poland also recorded strong growth above 4 per cent.

Figures 1.6 and 1.7 show how the demand-side components contributed to the downswing of 2011 in the Euro Area and in the EU countries outside the monetary union. The Euro Area had stable contributions to growth from net exports between 1.2 and 1.4 percentage points over the whole year. The positive contribution from gross fixed investment in the first

quarter faltered quickly, and also private consumption contributed negatively to growth in the second and fourth quarter. The inventory impulses were positive in the first half of the year and became negative in the second. Finally, the contribution to growth of public consumption was negligible.



The development in the Non-Euro Area country group is more volatile. In the first quarter, there was a strong positive contribution from net exports, but all other demand components contributed negatively to GDP growth. This basically reversed in the second quarter, although consumption stood weak. The fourth quarter is the only one in which private consumption contributed positively to growth. The second half of the year was also characterised by weak gross fixed investment and a large swing in the inventory impulse from being positive in the third quarter to negative in the fourth.

### 1.2 Inflation

Over the last five years, headline inflation was very volatile (see Figure 1.8). Its main driver was the oil price, which surged and then collapsed in 2008. Over the period 2009–2010, the oil price recovered from 40 USD to around 80 USD per barrel (Brent). In the winter 2010/11, it surged again to 125 USD and is now basically at the same level. For the rate of headline inflation this means that the oil price increases over the winter 2010/11 do no longer have an influence on the calculation of year-on-year price changes. So headline inflation should fall further, unless, of course, we sow a new surge in oil prices. Core inflation – that is, inflation excluding influences from energy, food, alcohol and tobacco – has been very stable over the past years and hardly ever exceeded 2 per cent.



Figures 1.9 and 1.10 show the headline and core inflation by country for the Euro Area and other European countries. In the Euro Area, Estonia, and Slovak Republic record headline inflation at or above 4 per cent and also core inflation rates close to 3 per cent. So in these two countries, some underlying inflationary pressures seem to exist. In the rest of the Euro Area, core inflation is generally below 2 per cent. At the bottom end, countries hit hard by the financial and debt crisis, such as Greece, Ireland and Spain have the lowest inflation rates, both in terms of headline and core inflation. Ireland's core inflation rate is even slightly negative.

Outside the Euro Area, inflation is relatively high in Hungary, Iceland and Poland. Curiously, in Norway and Romania core inflation is reported to be higher than headline inflation. At the bottom end we find Norway, Sweden and Switzerland. Switzerland even reports negative headline and core inflation. This is due to the strong appreciation of the Swiss Franc last year that has reduced import prices. The Swiss National Bank announced a lower bound for the exchange rate of the Franc against the Euro of 1.20 CHF/EUR in September 2011. This has ended the appreciation of the Franc. As soon as the appreciation will no longer have an influence on the calculation of year-on-year price changes, Swiss inflation rates will become positive again. Cyprus, the Czech Republic, France, Hungary, Ireland, Italy, Lithuania, and Portugal have raised value added tax (VAT) rates this year already or are considering to do so in the near future as a measure to consolidate their budgets. This will temporarily increase the rates of inflation. The Bulgarian finance minister suggested that Bulgaria would be in a position to reduce its VAT rate by 1 percentage point in 2013, which would temporarily lower price inflation.



### 1.3 Labour market

Labour markets in Europe have shown a very divergent development since the beginning of the crisis. In central Europe, employment has not only recovered from the recession but employment levels are even higher than before. Scandinavian countries also record an increase in employment or a decline that was moderate. Most Southern European countries and Ireland, however, and also the Baltic countries, Bulgaria and Slovenia have witnessed a sharp decline in employment (see Figures 1.11 and 1.12). Note that the data do not cover the fourth quarter of 2011 yet, which was a negative quarter for most Euro Area countries and a number of countries outside the Euro Area (see Figures 1.4 and 1.5). It can be expected that the overall employment situation has worsened towards the end of the year 2011.

The drop in employment has led to a rise in unemployment. Figures 1.13 and 1.14 show that the countries with the largest drops in employment have also witnessed large increases in unemployment. Only in Austria and Germany the rate of unemployment is lower than before the crisis. Euro Area countries that have seen a rise in the rate of unemployment despite growth in employment include Belgium, France, Luxembourg, and Malta. The same is true for Norway, Poland and Sweden outside the Euro Area. Both Cyprus and Denmark record a relatively strong increase in unemployment despite an only moderate drop in employment. Of course, it has to be noted that the unemployment in both the EU 27 and the Euro Area is above 10 per cent.









### 1.4 Public deficit and debt

At the time of preparing this section, there were no new data on government deficit and debt available from Eurostat compared to the last AIECE General Report. In particular, deficit and debt data for 2011 were not yet available. Therefore, we report the most recent forecasts for 2011 by the European Commission. These forecasts, which were made in autumn 2011, should give a relatively realistic picture for that year.

With respect to the budget balance of general governments, the situation looks a bit brighter for 2011 than for 2010. All Euro Area countries except Cyprus will record a lower budget deficit in 2011 than in 2010 according to the European Commission's forecast. Still, deficits are excessive in most countries and everywhere higher than in 2007. Only Finland, Germany, Luxembourg, and Malta had a deficit that was in accordance with the Maastricht criterion that deficits must not be higher than 3 per cent of GDP. As in the year before, Estonia had a small budget surplus (see Figure 1.15).

Except for the Poland and the United Kingdom, no Non-Euro Area country had a deficit above 5 per cent of GDP in 2011 (see Figure 1.16). In this group of countries also, the budget situation improved against 2010. Denmark is an exception: here the deficit rose from 2.6 to 4.0 per cent. Hungary and Sweden had a budget surplus. In the case of Hungary, this is a one-off effect coming from a transfer of funds from the private pensions system to the general government. The budget deficits in Hungary are still excessive, as the Council of the European Union has reaffirmed in early 2012.



The ratio of gross public debt to GDP has increased in every Euro Area country between 2007 and 2011; the increases in Greece and Ireland, but also in Portugal and Spain were substantial (see Figure 1.17). Four countries had a debt-to-GDP ratio above 100 per cent last year, and Ireland's and Portugal's ratios were higher than that of Belgium for the first time. Greece, of course, now has benefitted from the 107 billion Euro debt cut. Against 2010, the debt-to-GDP ratio declined in Germany and Estonia and rose in the other countries. Estonia, Finland, Luxembourg, Slovenia and Slovak Republic are the five Euro Area countries which still conform to the Maastricht criterion according to which the debt-to-GDP ratio should not exceed 60 per cent.

Outside the Euro Area, the situation looks a bit brighter. No country has a debt-to-GDP ratio above 100 per cent, and all countries except Hungary and the United Kingdom still conform to the Maastricht criterion. Nevertheless, the ratio has risen substantially in countries such as Latvia, Lithuania, Romania, and the UK. Sweden is the only country in the EU that has managed to bring down its debt-to-GDP ratio over the crisis. Bulgaria and Estonia managed to keep the ratio stable. For Hungary, the European Commission forecasted a ratio of 75.9 per cent in autumn 2011. In its letter of recommendation on how to bring down Hungary's excessive deficit from March 2012, however, the Council of the European Union mentions that the devaluation of the Forint has eaten up the primary surplus that was due to the transfer of funds from the private pensions system to the general government, so that the debt-to-GDP ratio declined only slightly to 80.3 per cent. This should remind us that the estimates shown for 2011 in Figures 1.17 and 1.18 have to be handled with care.



Figure 1.17: General government debt, EA 17Figure 1.18: General government debt, Non-<br/>EA 17 countries

# By Ulrich Bindseil (European Central Bank) and Juliusz Jabłecki (Warsaw University and Pekao S.A.)

#### 1. Introduction: an ambiguous relative debt situation

Why did the sovereign debt crisis erupt in the Euro Area and not elsewhere in the industrialised world? And why is the Euro Area currently considered to be the epicentre of global financial stability risks? Overall, before the outbreak of the financial crisis, total EU government debt-to-GDP ratio had been steady, and even declined somewhat from 68 per cent (2001) to 66 per cent (2007). Interestingly, the Euro Area was actually the only one to reduce its debt-to-GDP ratio in the years leading up to the crisis. As Table 1 also suggests, the crisis-related deterioration in fiscal standing was a broad based phenomenon across the industrialised world.

	Euro Area	Japan	United Kingdom	United States	
	Public debt-to-GDP ratio (per cent of GDP)				
2011	88	206	84	101	
2007	66	167	44	62	
2001	68	144	38	55	

Table 1: Selected fiscal indicators of industrialised countries

Source: IMF and European Commission data; \*) IMF projections.

The evidence presented suggests that, from a purely fiscal perspective, the situation in the Euro Area on aggregate was, if anything, slightly better than in other major currency areas. However, two caveats are in order. First, global levels of debt in industrialised countries are very high in historical standards. Second, Euro Area averages hide individual fragilities (not only with regard to debt-to-GDP ratios, but also with regard to foreign liabilities and private debt levels), which are confirmed by disaggregated fiscal and debt data. Also, growth and demographic perspectives may be relatively weak in the Euro Area. Overall, it still seems fair to conclude that the Euro Area debt levels alone are not clearly sufficient to explain the outbreak of a sovereign debt crisis only in the Euro Area.

#### 2. Perception of lack of optimum currency area properties, implying potential instability

Some observers refer to the so called optimum currency criteria originally formulated by Mundell (1961) who recognized that it is only optimal for a group of political entities to share a common currency if the following conditions are satisfied: (i) the countries have similar economies and their business cycles are well synchronised (i.e. booms and busts in each country tend to happen at the same time and are of similar severity); (ii) the most important factors of production (labour and capital) are perfectly mobile between the countries. Later on, the two conditions have been supplemented by a third stipulating that there is a federal fiscal authority which buffers out the regional asymmetric macroeconomic shocks. It is now generally recognized that the integration criteria are, to a large extent, endogenous or self-enforcing. In other words, a currency union, such as e.g. the Euro Area, can be expected to generate mechanisms which will enforce economic harmonisation, greater mobility of factors of production and financial integration, even if none had been in place at the outset. While the first 8 years of EMU witnessed relatively high growth in the periphery and low growth in Germany, since 2010 the opposite seems to have emerged. Some have concluded that there would have been absence of progress towards business cycle convergence in Euro Area economies. In turn, this could imply dissatisfaction from a national perspective, as common monetary policies cannot be strictly optimal from the perspective of all sub-areas of the monetary area (which of course applies in principle to any monetary area). This may suggest that more could be done to synchronise cycles over time, e.g. through structural and fiscal policies and a more active use of macro-prudential tools, or through a strengthening over time of certain fiscal union elements.

#### 3. Self-fulfilling capital flight mechanisms due to absence of fiscal union elements

The increase of TARGET<sub>2</sub> balances is a symptom of capital flight mechanisms in the Euro Area, away from the "periphery" towards the "core", in particular Germany and the other remaining AAA countries (see e.g. Bindseil and König 2011). The large capital flight reflects in particular deposit outflows from banks, failure of banks to roll over their debt in capital markets, freeze of interbank markets, and the willingness of the Euro system to provide central bank funding to cover for at least part of the resulting funding needs of banks in the periphery. The momentum of capital flight may have been supported by the fear that eventually, in the absence of fiscal union element, a scenario could materialize in which a country as a whole would become illiquid or insolvent, would not be helped by the union and would eventually be forced out (or decide to leave) the euro. If the Euro Area had stronger elements of a fiscal and political union, such possibly self-fulfilling negative prophecies could not gain sufficient momentum. A fiscal and political union could encompass: (1) A more effective monitoring and enforcement framework for fiscal soundness, including effective Governance, to prevent the building up of debt sustainability issues; (2) An effective and sufficient "fire-wall" for the temporary financing of sovereigns with problems accessing capital markets in the form of the EFSF / ESM; (3) If all necessary conditions are fulfilled, common debt issuance (e.g. Eurobonds), preventing that investors rush out of one sovereign debtor to another with a perceived most solid debt situation and that scenarios thereby become self-fulfilling; (4) A common bank rescue fund, preventing parts of the bank-sovereign diabolic loop, and, associated with that, a more integrated banking supervision and resolution framework. Point (1) The first point is a condition sine qua non to ensure that the subsequent three do not lead to moral hazard.

#### 4. The missing lender of last resort for governments in the Euro Area?

One of the most cited arguments as to why the financial markets and banking crisis of 2007–2009 turned, in 2011 in the Euro Area, into a sovereign debt crisis is that the Euro Area lacks a lender of last resort for Governments due to the prohibition of monetary financing in Article 123 of the EU Treaty. To simplify, in Germany the ECB has been attacked for supposedly not fully respecting this treaty article, while in the rest of the world, criticism mostly went into the opposite direction. Looking briefly at the facts, it is indeed striking how much sovereign debt the central banks of e.g. the US, UK and Japan bought relative to the Euro system (in per cent of GDP: 11 per cent, 13 per cent, 21 per cent, 2 per cent, respectively as of end 2011). While the purchases were never motivated with the lender of last resort function, but more generally as monetary policy measure, they in any case drove sovereign debt yields down, and thereby at least indirectly lowered the funding costs of the Government.

There is a broad consensus in the academic literature on the need for a lender of last resort for banks, and this function has been available in the Euro Area in the same way as in other large currency areas. Does the same conclusion also hold for sovereigns? Governments can increase taxes, and expropriate in theory their citizens (which could be based in a democracy on a social consensus). It is not easy to answer whether this is easier or more difficult compared to banks fire selling assets, while it is plausible that loss of central bank independence issues are more serious in case the central bank acts as lender of last resort for Governments. The argument could also be reformulated as follows: Banks and Governments can both be thought to have optimal leveraging levels, or optimal debt levels. These optimal debt levels will differ depending on whether or not a lender of last resort is available. Without a lender of last resort, the optimal debt level is lower, to take into account the vulnerability relating to sudden stops of investors' willingness to provide funds. In theory, these lower leveraging levels may be inferior. However, its appears more convincing that the current very high debt levels of many sovereigns worldwide are excessive, and can hardly be justified as optimal in view of aging societies and mediocre growth perspectives. In

this sense, the availability of an unconstrained central bank as lender of last resort may facilitate the delay of necessary adjustments, with even higher adjustment costs later on. Reinhart and Rogoff (2009) confirm the difference in debt sustainability depending on whether the Government debt is in the country's own currency or in a genuine foreign currency, and more generally note that the two types of debt are subject to very different economic laws. Their statistical evidence suggests that more than half of external defaults of emerging economies occur at a ratio of external debt to GDP of less than 60 per cent. This contrasts with the much higher domestic currency debt levels that apparently seem to be supportable when the central bank is unconstrained in its lender of last resort function for banks and sovereigns, as illustrated by the current debt to GDP ratios of e.g. the US, the UK, and Japan.

#### 5. Bank holdings of sovereign debt and the "diabolic loop"

Yet another potential explanation for the causes of the Euro Area crisis relates to the existence in Europe of a negative feedback loop between sovereign and bank solvency (Brunnermeier et al., 2011). According to this view, Euro Area banks have, over the years, built up excessive exposures to their domestic sovereigns. In the face of a marked fiscal deterioration, this debt load has encouraged speculation on banks' solvency, which required European governments to intervene and rescue banks, which in turn increased the riskiness of sovereign bonds, threatening banks even further (CGFS 2011 discusses additional channels establishing a correlation between the financial health of banks and sovereigns). While the exposures of Euro Area banks to the public sector had been on a declining trend throughout 1999–2007, they increased in the aftermath of the subprime crisis. Currently, they generally still remain below the levels experienced e.g. 10 years ago. In an international comparison, they appear to be above the levels in the US and UK, but below the level in Japan.

#### 6. PSI, the loss of a risk free sovereign bond as basis for the financial system

The Greek private sector involvement eventually validated the credit risk fears of investors with regard to Euro Area sovereign debt and led in July 2011 to a spreading of the crisis to Italy and Spain. The case for PSI (argued particularly forcefully by German Government officials and German professors of law and economics) rested on the argument that creditors of sovereigns should be part of the solution to an over-indebtedness problem, which would ensure that the costs are not only born by the tax payer of the virtuous countries but would also promote a natural disciplining mechanism for both private creditors and sovereign debtors. In contrast, the ECB has argued consistently against private sector involvement (PSI) stressing that: (i) making debt restructuring an easy and normal solution would invite a low propensity for efforts to consolidate once debt sustainability is in a grey area and would punish the patient investors who have not sold their bonds and are confident that the country can still get back on its feet once fiscal consolidation is implemented; (ii) given the role of the state as implicit guarantor of many financial and economic transactions, a government default would have a substantial impact on the real economy and wealth; (iii) PSI would delay any return to the market by a sovereign, and contribute to the loss of market access of other not so different Euro Area sovereigns, because no market participant would be willing to start reinvesting in countries knowing that it would be regarded as normal to not get paid back (Bini Smaqhi, 2011). Bindseil and Modery (2011) argue, furthermore, that the reclassification of Euro Area government bonds from "risk-free" to "default risk-laden" ("credit instruments") results in a shrinkage of the investor base. While securities classified as risk free are held potentially in large quantities, securities classified as credit risky are held by passive investors in diversified, granular form, i.e. in very small volumes. Against this background, the PSI implemented in March 2012 with NPV losses in the area of 75 per cent was detrimental to the investor appetite for Euro Area sovereign bonds.

#### 7. Solving the Euro Area sovereign debt crisis

It is important to acknowledge that the overall crisis trigger is more than the sum of its components. It is eventually a *combination* of the various factors mentioned that led to the Euro sovereign debt crisis. This is also why the solution to the Euro Area debt crisis has to address more than one single issue. We consider the following measures as conducive to a solution of the debt crisis. First, fiscal consolidation and structural reforms conducive to growth must remain the key priority, including the associated credible monitoring and governance mechanisms. Second, tools that can contribute to reduce the scope for capital flight mechanisms, such as, when all conditions are fulfilled, common debt issuance, more integrated banking supervision and a common bank rescue fund. An effective Euro Area governance to ensure fiscal discipline is a necessary condition for progressing in that direction. Third, tools to support the synchronization of business cycles in the Euro Area (including macro-prudential tools) should be studied and developed. Fourth, the ECB should continue to act as a lender of last resort for the banking system, and it should not change its cautious stance on purchases of Government bonds on secondary markets. Last but not least, further private sector involvement is to be avoided through a full commitment to the necessary fiscal and structural reforms, which must not be slowed down only because the crisis temporarily appears less acute.

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#### Notes

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# 2. Outlook for 2012 – 2013<sup>2</sup>

# 2.1 GDP growth

#### AIECE countries

Figures 2.1 and 2.2 show the country growth forecasts by the AIECE institutes for 2012 and 2013. As can be seen from Figure 2.1, the majority of institutes revised their forecast for 2012 downwards in April 2012 as compared to November 2011. For Belgium, Slovenia, Spain and the United Kingdom, the numbers even turned from positive into negative. Against the trend are only Denmark and Germany, where the April 2012 prospects are slightly more favourable than the November 2011 prospects. Figure 2.2 shows the forecasts for 2012 and 2013 as of April 2012. The outlook for 2013 ameliorates for all countries compared to 2012. Further, with the exception of Greece all countries are expected to return to positive growth numbers.



<sup>&</sup>lt;sup>2</sup> The deadline for the forecasts and statements by the AIECE Institutes presented in the following chapters was 16 March 2012. The actual forecast date may be earlier. Some institutes sent updates in April 2012. We refer to the forecast figures presented in the following as the forecasts of April 2012. The previous AIECE General Report was published in November 2011, hence, we refer to the forecast figures in the latter report as the forecasts of November 2011. Note further that – as regards the country forecasts – each institute projects only its home country. If there is more than one institute in a country, the forecast presented in the figures equals the arithmetic mean of the institutes' forecasts.

The AIECE institutes were asked to indicate the probability of GDP falling in their country in 2012 and 2013. A comparison between the November 2011 forecast and the April 2012 forecast in Figure 2.3 yields that, with the exception of France and Greece, all countries are expected to be more likely to experience negative growth in 2012. Figure 2.4 shows that for each country the likelihood of growth being negative is lower (or at least not higher) for 2013 as compared to 2012. Notably, there are substantial differences between the AIECE member countries for 2012: While the probability of negative growth reaches 60 per cent or more for some South or South-East European countries, it is only 16 per cent or less for some Middle, East or North European countries. Importantly, for 2013 the probability of growth being negative falls to 10 per cent or lower for all countries except Greece, Italy and Spain.



Figures 2.5 and 2.6 show the country growth forecasts for 2012 and 2013 together with the growth contributions of the different GDP components.<sup>3</sup> The growth contribution of investment is calculated as the difference between GDP growth and the growth contributions of the remaining GDP components. There are remarkable differences between the countries in 2012: As regards net exports, we can identify four groups. First, for Greece, Hungary, Italy, Spain and the United Kingdom, the growth forecast is negative, but

<sup>&</sup>lt;sup>3</sup> Source for the weights of the GDP components private consumption, public consumption and net exports: Eurostat (calculated as the ratio of the respective variable to GDP, both at market prices in 2011).

net exports are forecast to contribute positively. Second, for Austria, France, Ireland and Sweden the growth forecast is positive and net exports are forecast to contribute positively. Third, for Denmark, Finland, Germany, Norway and Serbia, the growth forecast is positive, but net exports are expected to contribute negatively. Fourth, for Belgium, the growth forecast is negative and net exports are forecast to contribute negatively. Investment is expected to contribute positively only in case of Denmark, Norway and Germany. Regarding public consumption, the forecasts for Austria, Greece, Hungary, Ireland, Italy and Spain are negative, whereas the forecast for the remaining countries are positive (zero in the case of the United Kingdom). The following countries stand out: The forecast for the contribution of public consumption is highly negative in case of Spain (-2.1 per cent, with GDP growth being -1.3 per cent). In Serbia, public consumption is expected to contribute positively to GDP growth (0.7 per cent, with GDP growth being 0.5 per cent). In Austria and Ireland, public consumption is expected to contribute negatively to (slightly positive) GDP growth. In contrast, public consumption in Belgium is expected to increase, as GDP is expected to fall slightly. As regards the growth contribution of private consumption, the forecasts for Belgium, Greece, Hungary, Ireland, Italy and Spain are negative, whereas the forecast for the remaining countries is positive. For 2013, the following results stand out: While Spanish GDP is expected to grow by 0.03 per cent only, net exports are expected to keep contributing strongly positively (1.47 per cent, with 1.52 per cent growth contribution of exports and -0.05 per cent growth contribution of imports) and public consumption is expected to keep contributing strongly negatively (-1.3 per cent). Growth in Hungary and Ireland is mainly driven by net export growth. The expected fall in GDP in Greece (-1.5 per cent) would be even more severe if the growth contribution of net exports would not be strongly positive (3.0 per cent, with a growth contribution of exports of 0.6 per cent and of imports of -2.4 per cent).



#### Euro Area

Figure 2.7 displays the yearly growth profile for the Euro Area. The AIECE institutes, on average, forecast Euro Area growth to be -0.3 per cent in 2012 and 1.1 per cent in 2013. For 2012, the minimum forecast is -0.5 per cent, whereas the maximum forecast is -0.2 per cent, hence, none of the institutes expects a positive growth number. For 2013, the minimum forecast is 0.7 per cent, whereas the maximum is forecast 1.3 per cent, hence, all institutes expect the Euro Area to return to positive growth. Figure 2.8 displays the quarterly growth profile. The AIECE institutes, on average, project that the Euro Area turns from negative to positive growth in the third quarter 2012 and that growth increases steadily thereafter. At the end of the forecast horizon (last quarter of 2013), the average growth forecast equals 0.4 per cent. Note that the average growth forecasts in Figures 2.7 and 2.8 result from calculating the *unweighted* arithmetic mean over the individual institute forecasts. Note further that the median forecasts are ommitted in the figures as they are never significantly different from the average forecasts.



The AIECE institutes have been asked to indicate the probability distributions for Euro Area GDP growth in 2012 and 2013. The combined probability distributions in Figures 2.9 and 2.10 result from calculating the unweighted arithmetic mean over the institutes' probability distributions. As can be seen from Figure 2.9, the institutes have become substantially more pessimistic about Euro Area growth in 2012. For instance, the April 2012 forecast records a likelihood of negative growth in 2012 of 62 per cent. In contrast, this likelihood was only 11 per cent in the November 2012 forecast. The probability distribution for 2013 is shifted to the right as compared to the distribution for 2012 (see Figure 2.10). For instance, the probability of negative growth is only 9 per cent for 2013 as compared to 62 per cent for 2012 and the likelihood of growth being higher than 2 per cent improves from virtually zero to 7 per cent.



Figure 2.10: Combined probability distribution for Euro Area GDP growth in 2012 and 2013



#### European Union

Figure 2.11 displays the yearly growth profile for the European Union (EU). The AIECE institutes, on average, forecast EU growth to be virtually zero (0.04 per cent) in 2012 and 1.4 per cent in 2013. With a minimum forecast of –0.1 per cent and a maximum forecast of 0.1 per cent, the institutes unanimously expect growth in 2012 to be close to zero. For 2013, the minimum forecast is 1 per cent, whereas the maximum forecast 1.6 per cent, hence, just as for the Euro Area all institutes expect the EU to return to positive growth figures. Figure 2.12 compares the EU quarterly growth profile to the Euro Area profile. The AIECE institutes, on average, project that the EU turns from negative to positive growth in the second quarter 2012, hence, one quarter earlier than the Euro Area. Further, the institutes, on average, expect the EU to grow stronger than the Euro Area in every single quarter of 2012 and 2013. Interestingly, the expected growth differentials between EU and Euro Area are higher than the growth differentials in the past. Note that the average growth forecasts in Figures 2.11 and 2.12 result from calculating the *unweighted* arithmetic mean over the individual institute forecasts.







Just as for the Euro Area, the AIECE institutes have been asked to indicate the probability distributions for EU GDP growth in 2012 and 2013. The combined probability distributions in Figures 2.13 and 2.14 result from calculating the unweighted arithmetic mean over the institutes' probability distributions. Figure 2.13 reveals that the institutes have become substantially more pessimistic about EU growth in 2012: In November 2011 the one-to-two per cent category and the two-or-more per cent category jointly covered 62 per cent of the probability mass, wheras 93 per cent of the probability mass was in the zero-or-less category or zero-to-one per cent category in April 2012. The probability distribution for 2013 is shifted to the right as compared to the distribution for 2012 (see Figure 2.14). For instance, in 2013 more than half of the probability mass lies in the one-to-two per cent category, whereas in 2012 more than half of the mass lies in the zero-to-one per cent category.







#### Box 2: How can the real economy imbalances of the Euro Area be resolved?

#### By Sebastian Barnes (Organisation for Economic Co-operation and Development)

1. Euro Area countries built up large economic, financial and fiscal imbalances during the upswing of the credit cycle. Viewed through the prism of the current account, deficits and surpluses were unusually large and persistent by post-war norms. The average absolute current account imbalance across Euro Area countries from 2002 to 2007 was over 5 per cent of GDP. This amounts to an imbalance of 3.5 per cent of Euro Area GDP. Imbalances of this size were unlikely to be sustainable over the long-term. Germany had accumulated net foreign assets of 40 per cent of its GDP by 2010, while Greece, Ireland, Portugal and Spain had net liabilities in excess of 80 per cent of national income.

2. The nature of these imbalances gives useful clues about how the imbalances will be resolved. For a large part, these movements of capital were excessive rather than an equilibrium phenomenon. Econometric analysis suggests that, while the sign of imbalances could be broadly explained by observable factors, there was an unusually large discrepancy over the past decade between these fundamentals and the actual size of current account imbalances (Barnes *et al*, 2010). The exact reason for imbalances differs across countries and combines structural, fiscal and financial factors. In particular, the experience of Germany over the past decades was an outlier within the monetary union with a recovery from a long construction boom, a concerted improvement in price competitiveness and major reforms that led to high national saving. A common mechanism in borrower countries was that "catch up" growth – in the absence of stabilising real interest rates – gave way to a credit and housing boom, leading to heavy bank borrowing from aboard and declining competitiveness.

3. Unwinding excessive levels of borrowing and debt is the key to resolving the imbalances in the Euro Area. While current account imbalances during the upswing built up slowly and persistently, adjustment has been more rapid since the crisis. Current account imbalances have narrowed substantially on both sides but remain large by pre-EMU norms. The narrowing of deficits has tended to be much larger as a share of national income in high debt countries, but reductions in surpluses have been similar in absolute size so that the Euro Area's current account position has not changed much.

4. The narrowing of current account deficits in high debt countries (Greece, Ireland, Portugal and Spain) has been the most severe, reflecting a sharp reduction in the availability of credit to banks and the government. The main economic channel has been a huge contraction in domestic absorption, the sum of private and public consumption and investment spending. This in turn reduced demand for imports, while export demand only increased modestly as shown in Figure 1.



5. These developments have changed, rather than resolved, the underlying imbalances. This can be analysed in terms of "external balance" (the gap between the actual and sustainable current account position) and "internal balance" (the gap between output and potential output). Figure 2 shows a simplified version of this analysis based on the actual current account position and the unemployment gap, based on OECD estimates of the NAIRU. The bottom line is that the Euro Area has shifted from overheating peripheral economies with very large current accounts deficits to having small borrowing but large output gaps. Changes in demand and current account positions have been much less in other economies.



Figure 2: Euro Area current account imbalances and the unemployment gap

Source: OECD Economic Outlook 90 Database.

6. A real rebalancing of the economy requires a shift towards exporting, both to narrow the current account balance and to boost domestic demand towards potential. There are two ways this could happen: a shift in relative prices that boosts the competitiveness of debtor countries relative to surplus economies, or a shift in demand across countries at given prices. The adjustment in relative wages and prices so far has been very limited within the Euro Area. The main exception is Ireland, where the underlying CPI index has fallen by around 4 per cent during the crisis despite increases VAT rates. In a monetary union and given low domestically generated inflation in the Euro Area as a whole, achieving the necessary reduction in wages and prices in some countries is very difficult given that it implies nominal reductions. This is compounded by rigid labour market institutions, ineffective wage bargaining mechanisms and strict employment protection legislation that reduces the willingness to accept lower wages. The scale of the forces acting on some economies, together with structural reforms, has led to some signs that a broader adjustment in prices is underway, notably in Greece. Overall, there have been some reductions in relative inflation rates in the Euro Area but these have been small.

7. A more encouraging picture is given by unit labour costs, where some countries that lost competitiveness during the upswing of the credit boom have managed to achieve more sizeable gains relative to other countries due to rapid gains in productivity. As Figure 3 shows, this picture can however be misleading because many of these gains are the reverse side of high unemployment: leaving a large share of the workforce idle tends to increase the average productivity of the remaining workers. This cyclical effect has been reinforced by the many job losses in Ireland and Spain in the low productivity construction sector.



Source: OECD Economic Outlook 90 Database.

8. The necessary shifting of demand towards exports in high debt countries needs to be matched by a real reallocation of resources and capacity between sectors. Table 1 shows that during the upswing, there was a large shift in the composition of activity from industry towards construction, services and public administration. Demand and price signals will help bring this about. However, there is an important role of public policy in making sure that the right conditions are in place of new businesses to develop and be competitive in world markets. New financing must be available. Unemployed workers must be kept close to the labour market and given the opportunity to retrain to work in the growth sectors.

Table 1: Reallocation of resources during the boom

#### Table 2.2. Reallocation of resources during the boom

	2002	2007
Industry	27.2	23.3
Construction	9.8	11.4
Services	31.6	33.8
Public administration	26.4	28.7

Average share of GDP (excluding financial services) in Greece, Ireland, Portugal and Spain

Source: Eurostat.

9. Some of the productive capacity of over-heating economies during the boom years, however, is likely to be lost forever. The crisis is likely to have permanent scarring effects on unemployment and human capital, as well as leading to a long period of lost investment. Perhaps more significantly, some of the apparent gains in output during the credit boom are likely to have been unsustainable. The high openness of some Euro Area economies in terms of factor mobility helped to push supply beyond its sustainable level but this capacity will fall back with lower demand. For example, inflows of migrant workers – that is assumed under standard methodologies to add to the stock of potential output – are being reversed in some countries.

10. The high levels of household, corporate and private debt complicate the adjustment process. While falls in prices would help to rebalance demand, it increases the real value of outstanding nominal debts. Euro-denominated debt is effectively like foreign currency debt. There is a risk that

this will lead to debt deflation dynamics and make it difficult for demand to cover. Even allowing for some loss of productive capacity, the output gap could remain very large for a long time in some countries. Managing the dilemma between internal devaluation and debt deflation will be a key factor for real rebalancing of Euro Area economies.

11. There are two missing elements to rebalance Euro Area economies. Both point to the need for all Euro Area countries to undertake ambitious reforms to make the economy work better (OECD, 2012).

12. *Firstly*, there needs to be an overall change in the allocation of demand within and between countries. While the Euro Area is not a closed economy, the strongest trade and financial linkages remain within the area. This requires lower national saving and stronger import from countries with excessive surpluses, and greater capacity to export from high debt countries. Such a shift in demand is likely to be self-reinforcing by contributing to the necessary shifts in relative prices. It would be wrong to try to use unsustainable fiscal expansions or artificially boost prices in surplus countries to achieve this. However, these outcomes could be achieved by tackling some of the structural causes of the existing imbalances.

13. Secondly, the debt burden and financing problems of high debt countries would be eased if growth prospects were brighter. This is no easy feat, but the potential of countries like Greece, Portugal and Spain to improve their economic performance by catching up with other EU countries in terms of productivity and labour utilisation is huge. Much of this potential has been held back by structural problems, like restrictive product market regulations that have hindered effective competition or high firing costs that discourage hiring or the necessary renewal of firms and risktaking.

#### List of references

Barnes, S., A. Radziwill and J. Lawson (2010a), "Current Account Imbalances in the Euro Area: A Comparative Perspective", *OECD Economics Department* Working *Papers*, No. 826, OECD, Paris. OECD (2012), *OECD Economic Surveys: Euro Area*, OECD, Paris.

### 2.2 Inflation

#### AIECE countries

Figures 2.15 and 2.16 show the inflation forecasts by the AIECE institutes for 2012 and 2013. Note that inflation in this chapter means the year-on-year change in the Harmonized Index of Consumer Prices (HICP) as defined by Eurostat. As can be seen from Figure 2.15, the overall majority of Euro Area institutes revised their forecasts for 2012 upwards in April 2012 as compared to November 2011 (exception Slovak Republic), whereas the picture for countries outside the Euro Area is rather mixed: there are upward revisions for Hungary, Norway and Serbia, but downward revisions for the Sweden, Switzerland and the United Kingdom. Figure 2.16 shows the forecasts for 2012 and 2013 as of April 2012. The majority of institutes expect lower or at least not higher domestic inflation in 2013 compared to 2012, exceptions being Norway, Sweden and Switzerland.



The AIECE institutes have been asked to indicate the probability of inflation being negative or being above 3 per cent in their country in 2012 and 2013. Only the United Kingdom assigns a probability of more than 5 per cent to domestic inflation being negative in 2012 or 2013: the probability of deflation amounts to 26 per cent in 2012 as well as in 2013 (see Figure 2.17). In contrast, the majority of institutes attaches a probability of 5 to 25 per cent to domestic inflation being above 3 per cent in 2012 or 2013 (see Figure 2.17). In contrast, the majority of institutes attaches a probability of 5 to 25 per cent to domestic inflation being above 3 per cent in 2012 or 2013 (see Figure 2.18, note the difference in scale between Figures 2.17 and 2.18). Remarkably, the probability of inflation being above 3 per cent in 2012 (2013) is as high as 50 (15) per cent for the Slovak Republic, 70 (47) per cent for Poland, 95 (80) per cent for Hungary and 100 (100) per cent for Serbia.



Figure 2.17: Probability of inflation being Figure 2.18: Probability of inflation being above 3 %



The AIECE institutes were asked what the level of inflation will be 5 years from now (long-term inflation expectations). As can be seen from Figure 2.19, the long-term inflation expectations for most Euro Area countries are between 1.8 and 2.2 per cent, hence not far from the 2 per cent target of the European Central Bank. Only Greece is below the aforementioned range (1.5 per cent), whereas Slovenia and Spain are above the range (3.2 per cent and 2.5 per cent). As for the non-Euro Area countries, the long term inflation expectation for Norway (Hungary) is 2.5 per cent (3.2 per cent) which is above the inflation expectation for 2012 of 1.3 per cent (5.4 per cent). In contrast, the long-term inflation expectation for Poland (Serbia) is 2.5 per cent (5.0 per cent) which is well below the inflation expectation for 2012 of 3.7 per cent (8.0 per cent).



#### Euro Area and European Union



#### 2.3 Unemployment

#### AIECE countries

The forecasts for the unemployment rate by the AIECE institutes for 2012 and 2013 are shown in Figure 2.21. Here, each institute projects only the unemployment rate in its home country. In case more than one institute of a country contributed a forecast, the arithmetic mean of the institutes' forecasts is presented. The unemployment rate in the AIECE countries is forecast to rise in 2012, with the exception of Finland, Germany and Ireland, where the unemployment rate is expected to decline and Hungary, where stabilisation is expected. In the next year, when the economic conditions improve, the unemployment rate is forecast to decline in seven countries. Still in a majority of the AIECE countries the unemployment rate will rise further or merely stabilise on a higher level on a yearly average. The increase in the unemployment rates in 2012 is reflected in Figure 2.22. The AIECE institute were asked if the unemployment rate in their home country would increase, stabilise or decrease in the coming quarters. Around 75 per cent of the institutes expect the unemployment rate to increase or stabilise in the next four quarters. The peak is reached in the third quarter 2012. During the course of 2013 the majority of the institutes forecast the unemployment rate to decrease.







#### Euro Area

The AIECE institutes were also asked for their assessment of the development of the unemployment rate in the Euro Area, which is shown in Figure 2.23. While there is heterogeneity between the member countries, the unemployment rate in the Euro Area as a whole is expected to increase from 10.2 per cent in 2011 to 10.9 per cent in 2012 and stay on this level in 2013. The forecasts of the AIECE institutes range from 10.5 to 11.3 for 2012. For the next year the span of the forecasts ranges from 10.0 to 11.5 per cent. All institutes forecast the unemployment rate to increase this year (see Figure 2.24). For 2013 only half of the institutes predict a further rising unemployment rate. The differences can also be seen in the forecast distributions in Figure 2.25 and 2.26. A clear majority of the institutes forecasts an unemployment rate between 10.8 and 10.9 per cent for 2012 with only a slight skew towards higher rates. For 2013 the distribution of the forecasts is more skewed towards a stabilization or further increase of the unemployment rate. On average the forecast of all AIECE institutes stays at 10.9 per cent for 2013.








#### By Julián Pérez (Instituto "L. R. Klein"- CEPREDE)

Looking at the Labour Force Statistics published by Eurostat, it is easy to see that the Spanish Economy shows the highest unemployment rate among the EU members. In fact, during the fourth quarter last year, the Spanish unemployment rate reached a level of 22.8 per cent of active population, whereas the EU 27 average was only 9.9 per cent.

Moreover, during the last quarters, the increase in the Spanish unemployment rate was also the largest in the Unión, having increased by more than 13 per cent between the first quarter of 2008 and the last quarter of 2011, while the averages for the EU 27, and the EA 17, were less than 3 per cent. This means that during the crisis have been about 2.5 millions of job losses and the unemployment level has been increased in more than 3 millions.

In order to find some explanation for this phenomenon, we must analyse the past evolution of both, supply and demand of labour.

Concerning the supply side, the Spanish labour market suffered two supply shocks since the beginning of the past decade which are causally linked and overlapping in time.

The first shock is related to the large amount of migratory inflows into the Spanish economy since the late nineties up to the beginning of the crisis. Between 2000 and 2011 total population in Spain has grown at a rate three times higher than the EU average, increasing population size by almost five millions. Only Cyprus, Ireland, Luxembourg and Malta show higher rates.

The second shock that affected the Spanish labour supply was a sharp increase in activity rates during the same period. Indeed, while in 2001–2002 the activity rate was three percentages points lower than the EA 17, in 2011 this activity rate in Spain was almost two percentage point higher than the average in the Euro Area.

In relative terms, the activity rate in Spain increased by almost seven percentage points in the last 10 years while the average for the Euro Area was around two.

Adding up the two shocks, active population has increased by more than 5 million persons since 2000.

Apart from the up-cited supply shocks, that prevented a further correction in the unemployment rates during the expansion cycle, it is import to note that the labour demand in Spain was hit harder during the crisis. In fact, the relationship (i.e. elasticity) between GDP and employment since the first quarter 2008 to the first one of 2010 was around 2, while the average for EA 17 was 0.6. This means that for each point drop in GDP the employment was declined by two percentage points.

This high elasticity could be explained both, by the production structure of the Spanish economy, with a high weight of construction activity highly labour intensive, and by the Spanish labour regulation.

Looking at the future, it is important to note that the large differences observed in Spanish unemployment rate compared to EU average should be partly attributed to differences in the distribution of working time in different economies.

As the share of part-time employment in Spain is one of the lowest in the monetary union (EA 17), the average number of hours worked by each employee is higher, which means that fewer employees are counted in Spain than in the European Union to do the same amount of hours worked. To illustrate this point we may say that if the average number of hours worked in Spain were similar to that of the Euro Area, the total number of employees would have increased by 740,000 people and the unemployment rate would have fallen by 3 percentage points.

Moreover, if we calculate an homogenised unemployment rate considering the full-time equivalent jobs<sup>1</sup>, the differences are narrowed significantly, and while the Spanish differential in the "official" unemployment rate reaches 12 percentage points, the distance to average in EA 17 is reduced to 7 percentage points if we look at the "homogenised" unemployment rate, which presents the absolute levels slightly lower than the Dutch.

In summary, to properly assess the comparative situation of the labour market among EU members it is necessary to take into account the different conditions of activity and occupation in each one of them.

In this sense, if we take as a reference the total number of full-time equivalent employees and the total working age population (15 years and over), occupancy rates do not show high differences among member countries, and in particular, the Spanish economy would have a rate slightly higher than the Greek and Italian ones, and just 2.6 percentage points below the Euro Area average.

On the other hand, total productivity of the Spanish economy in 2011, measured as total GDP per hour worked, is similar to the average in the EU 27 and just 10 per cent below the average for the EA 17; even though it is one of the lowest in the Euro Area, (just higher than Portugal and Greece).



Against this background, the Spanish labour market is not too different (see graphs below).

In any case, the Spanish economy faces an unemployment problem which can only be solved on the medium-term through the reduction of working time and the convergence to the Euro Area average standards.

Unfortunately the recent labour reform does not fit with this problem properly, since it is focused on labour costs, despite it is well known that the labour demand is fairly inelastic to price, and other aspects of working time distribution have not been thoroughly addressed.

#### Footnotes

1. The homogenised unemployment rate is computed from active population figures and full-time equivalent employees using the following expressions:

Homogenised unemployment rate = 1–(Full-Time equivalent employees/Active Population) Full-Time equivalent employees=Total Hours Worked/ (Weeks per year \* Average Number of Usual Weekly Hours Worked by Full-Time Employees).

Total Hours Worked=Total employment \* per cent part-time employment \* Average Number of Usual Weekly Hours Worked by Part-Time Employees \* Weeks per year + Total employment \* per cent Full-time employment \* Average Number of Usual Weekly Hours Worked by Full-Time Employees \* Weeks per year

### 2.4 Oil prices, interest rates and exchange rates

The institutes expect that the oil price will remain relatively stable over the forecast horizon between 110 and 120 USD per barrel (Brent), with a slight downward tendency. This means that the outlook since the last report has hardly changed. The upper and lower bounds for the oil price expected by the institutes are around 130 USD and 100 USD, respectively (see Figure 2.27).



For the Central Bank short term interest rates, the institutes expect no change over the forecast horizon. The median forecast for the Euro Area interest rate is 1 per cent for all quarters. For the US, a rate of 0.25 per cent is expected for the entire forecast period. For Great Britain and Japan, the respective values are 0.5 and 0.1 per cent.

Also for the exchange rates the institutes do not expect much change. The median forecast for the USD/Euro exchange rate is 1.31 USD per Euro for the first half of 2012 and 1.30 USD per Euro afterwards. The Pound is expected to cost 1.20 Euro over the entire forecast horizon. Only the Yen moves a bit: the institutes expect a slight devaluation against the USD beginning in the fourth quarter 2012. The median forecast is 78 Yen per USD over the first three quarters of 2012 and 82 Yen per USD at the end of 2013.

## 3. Monetary and fiscal policy

#### 3.1 Euro crisis

This section addresses some of the key topics with respect to the European sovereign debt crisis (ESDC). First, there is still major uncertainty as to the stability of the Euro Area, in particular regarding the probability of a third financial rescue package for Greece, a potential additional rescue package for Portugal and further worsening of the fiscal situation in Spain and Italy. Second, the European governments face the challenge of implementing the planned reform and austerity programs and to win back the confidence of investors. The European governments agreed upon several rules, especially the fiscal compact and the so called "six-pack". The fiscal compact that was signed by 25 EU countries has not yet been ratified by all the member states and the process my face political obstacles in some of them. The "six-pack" consists of measures to control and correct national fiscal policies and also includes the monitoring of macroeconomic imbalances. The so called "two-pack", consisting of two additional monitoring rules, is still under negotiation. In addition, many structural reforms that are vital for a resolution of the ESDC were already decided upon. However, their implementation is not yet concluded. Third, the banking crisis has not yet been entirely solved, and the banking sector in some countries might still be exposed to the threat of Euro member sovereign and private sector defaults.

#### Stability of the Euro Area

To address the possibility and consequences of member states' default, AIECE institutes were asked to estimate the probability of Greece leaving the Euro Area. From a political point of view, this scenario is unlikely, and would involve high associated costs for Greece and potential contagion effects on the Euro Area, but some voices stress the long-term benefit of such an option. Out of 29 institutes that answered the questionnaire, 22 institutes provided an answer to this question. Four of them indicated rough estimates instead of precise values.<sup>4</sup> Figure 3.1 illustrates that most institutes consider the probability of an exit to be rather low. Figure 3.2 plots the probabilities by country of the member institutes. The heterogeneity of estimates is high, ranging from o per cent to 80 per cent, but the mean (16.6 per cent) and median (10 per cent) probabilities are low. Almost all respondents assign a probability of less than or equal to 30 per cent. 16 members commented on the question. According to most of them, the reason for the probability of Greece leaving the Euro Area being rather low is that the cost of an exit would be too high for Greece. Four of them indicate that in addition the cost for the Euro Area as a whole would be very high. Of the members that indicate a rather high exit probability, one states that an improvement in the economic conditions of Portugal, Spain and Italy would increase the exit probability. Members outside the Euro Area assigned relatively high ( $\geq$  30 per cent) or rather low probabilities ( $\leq 5$  per cent).

<sup>&</sup>lt;sup>4</sup> 1 x less than 10 per cent, 2 x less than 5 per cent, 1 x about 0 per cent





Additionally, member institutes were asked to give probability estimates of a haircut for the sovereign debt of Portugal. 18 institutes provided an answer to this question. Overall, the respondents consider the risk of a haircut considerably higher than the risk of an exit of Greece. This is illustrated in Figure 3.3, which shows the density as well as the (unweighted) mean probability (34 per cent) and the median probability (40 per cent). The dispersion of the estimates is high, with probabilities ranging from o per cent to 90 per cent. Probabilities by country of member institute are shown in Figure 3.4. Eleven institutes commented on the question. The respondents that assigned a higher probability to a haircut stated that in

the current situation the combination of low growth prospects, the need for excessive austerity measures and the absence of monetary policy autonomy might lead to the need of such an action. Other comments include sufficient efforts despite possible contagion risks and possible further need of financial aid from the EFSF or its successor, the European Stability Mechanism (ESM). One institute said the restructuring of debt by decrease in interest payments (swap of treasury bonds) appeared more likely. The probabilities assigned by institutes outside the Euro Area did not differ from the Euro Area probabilities.



Figure 3.4: Probability of haircut for Portugal



#### Solutions to the European Sovereign Debt Crisis (ESDC)

The current fiscal compact may be seen as a first step towards increased fiscal federalism, but EU members do so far fail to agree on a common path with respect to the solution of the ESDC. To address this topic, AIECE institutes were asked to provide their view on the preferred scenario to the solution of the Euro debt crisis. 21 institutes provided an answer to this question. Figure 3.5 summarises the scenarios provided by the institutes (institutes can appear in several categories). Overall, the majority of the AIECE institutes prefer a stronger involvement of European institutions than EU member countries currently agreed on. There was no clear regional or national divergence with respect to the degree of involvement. Nine institutes favour the fiscal union; some of them stepwise, and eight institutes want the ECB to play a stronger role than it currently does, supported by the ESM if necessary. Two of them are in favour of the ECB as a lender of land resort, and one of them promotes stronger fiscal federalism including Eurobonds. Five institutes stated that the current fiscal compact was sufficient. One of them questioned member country commitment to the implementation of necessary measures. Four members stated the need for more flexible austerity programmes to foster economic growth conditional on the commitment to fiscal consolidation. Four members emphasize a role for national fiscal consolidation, however in combination with stronger ECB involvement or its long-term replacement by the fiscal union. The five respondents outside the Euro Area did not favour weaker measures: two of them preferred the current situation, while three were in favour of stronger involvement.



With member states lacking monetary autonomy, the ECB plays a crucial role. Therefore, the institutes were requested to assess ECB's commitment to engage in solving the ongoing crisis. Specifically, they were asked whether they considered the ECB's involvement too much, just right or too low. Figure 3.6 shows that only two members think the current action is too much, whereas eleven and ten members consider the current ECB action just right and too low, respectively. One of the institutes ticked all three options due to heterogeneous views within the institutes.



#### Banking sector vulnerability

For most banks hit by the first wave of the financial crisis the worst is over, and the ECB and national governments have taken comprehensive action to sustain solvency (including the 1 trillion Euro LTRO by the ECB and bank guarantees in Ireland). In contrast, banks in other countries are subject to the threat of private and public sector default (e.g. Eastern European countries, Greece, Italy, Portugal and Spain). Potential systemic risks are therefore still existent. We asked the institutes how robust the banking system in their country was to Euro member sovereign and banking sector defaults. 22 member institutes replied to this question. 16 respondents consider their country's banking sector to be robust (Denmark, Finland, France, Germany, Ireland, Italy, Norway, Serbia, Slovak Republic, Slovenia, Spain, Sweden), whereas three respondents state that the robustness of their country's banking sector defaults (Belgium, Greece, UK). The robustness of the banking sectors highly depends on the (relative) size of the banking sector and the degree of banks' external exposure to countries most at risk, i.e. Greece, Ireland, Italy, Portugal and Spain. Seven member institutes

indicated explicitly that the exposure of their country's banks was substantial (Belgium, Denmark, France, Germany, Hungary, Spain, UK), but most of them report that the exposure has been reduced during the past years. Eight members state that exposure of the banking sector in their country is limited (Greece, Ireland, Italy, Norway, Slovenia, Sweden). Five members say the banks in their country are largely foreign–owned (Hungary, Serbia, Slovak Republic, Slovenia). These banks are naturally sensitive to indirect effects of possible further defaults. Nine respondents indicate explicitly that indirect effects from sovereign debt and bank defaults or a severe recession would pose substantial threats to the robustness of the banking sector (Finland, France, Greece, Hungary, Slovak Republic, Sweden, UK). Another five institutes explicitly state that some banks in their country's banking sector still face considerable risks (Belgium, Germany, Greece, Hungary).

The second question asked respondents to estimate the per cent share of assets that are affected by potential Euro member sovereign and banking sector default. Eight members answered this question, and six of them gave quantitative information about the share in per cent, while one institute stated that the share was negligible and another institute indicated a volume figure. The spread is considerable, ranging from 1 per cent in case of Italy to 20 per cent in the case of Hungary as illustrated by Figure 3.7. The fact that a very limited number of institutes replied to this question reveals that it is difficult to provide precise estimates of the scope of potential sovereign and banking sector defaults.



#### Box 4: European fiscal policy: recent reforms and prospects

#### By Nicolas Carnot (European Commission)

The degeneration of the financial crisis of the late 2000s into a sovereign debt crisis shaking EMU cohesion has revived the debate over European fiscal policy.<sup>1</sup> Some twenty years ago the Maastricht Treaty laid out the macro-fiscal framework behind EMU. An independent European central bank was tasked with price stability, while fiscal policies remained a national responsibility, but one within the limits of agreed rules. Accordingly, the Treaty prohibited monetary or fiscal bailouts, set reference values for deficits and debts, and introduced a procedure for addressing excessive deficits. These provisions were further specified a few years later by the Stability and Growth Pact.

The recent crisis has brought a confirmation and a lesson. The confirmation is that unchecked public indebtedness poses a serious threat to European stability. The lesson is that the original architecture presented gaps in the prevention and resolution of fiscal strains.

In reaction, an important policy response has already been produced, both at national and EU-levels. The best-known aspect is the granting of financial assistance to distressed sovereigns, in the context of adjustment programs with strong conditionality. This has been doubled by ECB liquidity support to the financial system, and debt relief in Greece. But the recent changes in EU surveillance, if less advertised, have nonetheless also been substantial.

In particular, fiscal surveillance is being strengthened by a series of "packages" ("six-pack", "two-pack", "fiscal compact") that are either already in place or under adoption (see Table 1). The changes include:

- better designed rules, with more attention paid to debt (along with deficits) and to consolidation in "good times" (through sustainable expenditure rules);
- increased national ownership of the EU framework. The fiscal compact asks for adoption in national laws of binding adherence to (cyclically-adjusted) budget balance rules. Common minimum requirements over statistics, realism of forecasts, medium-term frameworks and fiscal watchdogs are also required by an EU directive;
- improved policy coordination. Ex ante coordination of budgets has been reinforced with the implementation of the European semester since 2011. The "two-pack" proposes to also examine draft budgets at EU level in the autumn, before they are adopted by national Parliaments;
- a broadening of traditional fiscal surveillance. Starting in 2012, continuous monitoring of economic imbalances, both internal and external, rests on a "scoreboard" of agreed indicators complemented by the necessary economic judgement. A dedicated procedure has been set up, spanning from early identification of imbalances based on indicative thresholds of the scoreboard, to in-depth reviews of countries, and then to enforceable policy recommendations. In parallel, a mandate of macro-prudential surveillance has been conferred to the European Systemic Risk Board.

The strands of reforms undoubtedly address some weak spots in the initial framework. It is fair to say that they increase the chances that agreed principles influence national policy-making and reduce the risks of a repetition of the same crisis. At the same time, it remains to be confirmed whether implementation of the new governance will prove a game changer. Fiscal surveillance not explicitly encroaching on budgetary sovereignty is being pushed to its limits. But imposing fiscal discipline or hard reforms on reluctant sovereign states will continue to face inherent limitations.

	Reform	Rationale	Timeline	Scope
European s	emester	Ex ante coordination	2011	EU
	Early and gradual sanctions	Better enforcement	Dec-11	Euro area
Six-pack (adopted Dec-11)	Operationalisation of the debt criterion	Focus on debt (not just deficits)	Dec-11	EU
	Expenditure benchmark	Focus on discretionary action	Dec-11	EU
	Macroeconomic imbalance procedure	Broaden surveillance	Dec-11	EU (sanctions: Euro area)
	Directive on national fiscal framework	Coordination and national ownership	2013	EU
	Common budgetary timeline and examination of draft budgets	Policy coordination, complements the European semester	Under adoption	Euro area
Two-pack	Enhanced monitoring	Better enforcement	Under adoption	Euro area
	National legislation of agreed fiscal rules	National ownership and political commitment	To be ratified	25 Contracting Parties
Fiscal compact	Reverse qualified majority in EDP decisions	Better enforcement	To be ratified	Euro area
	Ex ante coordination of economic reforms	Economic policy coordination	To be ratified	25 Contracting Parties

Source: Buti and Carnot (2012).

The demands for yet further fiscal integration will likely continue for several reasons. One suggestion is to complement Europe's financial integration with enhanced supranational supervision including central fiscal power for rescuing financial institutions with cross-border activities. Another common call is to improve fiscal policy coordination by paying more attention to the area-wide fiscal stance and country spill overs. The benefits of added coordination are controversial though, since the current rule-based "own-house-in-order" approach already offers implicit coordination by preventing unsound behaviours in normal times, while steps toward active coordination can be taken in severe circumstances (an example being the response to the recent crisis, with first an initial stimulus to dampen the acute phase of the downturn in 2009, followed by a commonly devised "exit strategy").

Ambitions for fiscal centralisation are set to remain within limits in the foreseeable future. In particular the size of the EU budget is small and likely to remain so. Sustaining EMU does not necessitate the creation of a European leviathan. With national fiscal policies constrained by rules, there may be a case for an interregional insurance mechanism against idiosyncratic shocks, but the practical pitfalls in building-up such system would be important (a recent exploration is von Hagen and Wyplosz, 2010). Fiscal solidarity to deal with temporary shocks runs the risk of evolving into the permanent subsidisation of depressed regions. For yet some time at least, a "transfer union" may remain a step too far, from both an economic and political viewpoint.

One area where the case for mutualisation has been strengthened with recent events concerns the financing of member states. The debt crisis has revealed the potential weakness of sovereigns emitting in a currency over which they have no direct control, and which are exposed to the fluctuating appetite of markets (De Grauwe, 2011). Joint issuance has been suggested to ensure that countries running sound policies have access to financing at affordable and smooth cost. The development of a shared debt instrument would help in re-establishing a safe asset across European financial markets, potentially also improving monetary policy transmission and raising the prospect of the Euro as a reserve currency (European Commission, 2011b).

Moving in this direction would nevertheless require the right conditions to be in place, in particular to address concerns of "moral hazard". The recently strengthened surveillance might be enough safeguard to underpin limited options of Eurobonds, but further steps towards a limited fiscal union could be needed before introducing joint issuance on a large scale. That may include increased own-resources supporting the mutually guaranteed debt, or some circumscribed but effective fiscal authority at the centre, backed by appropriate institutional arrangements.

The recent crisis has put EMU to the test. Fiscal governance has been significantly strengthened as part of a wider policy response, both at national and EU-level. The reinforced architecture will support the fiscal discipline needed to cope with the legacy of the crisis and the mounting pressures of ageing societies. But the discussions will continue over the optimal fiscal policy framework and the remaining possible steps toward a more genuine, if carefully calibrated, fiscal union.

#### Footnotes

1. The debate is ancient. Already in 1970, the *Werner Report* advocated centralised fiscal policy to underpin a shared currency. Recently, the debate over the EU fiscal framework has been fostered by academics and think tanks (e.g. Marzinotto *et al.*, 2011), policy-makers (in particular, Trichet, 2011), and EU institutions (European Commission, 2011a). The VoxEU website hosts many contributions, with references there to longer papers.

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#### Notes

The author has written this contribution in personal capacity, and the views expressed are not necessarily those of the European Commission.

#### 3.2 Consolidation and reforms

#### Public finances

Public finances are still strained in most European countries, although the institutes expect the deficit-to-GDP ratio to decline over the forecast period (see Figure 3.8). In 2013, most countries are expected to abide by the Maastricht criterion again according to which the deficit-to-GDP ratio should not exceed 3 per cent. Exceptions are for instance France, Ireland, the Netherlands, Spain and the UK. On the other hand Finland, Germany, Sweden and Switzerland will have very low deficits or even surpluses.



The still sizeable deficits contribute to an increase in the debt-to-GDP ratio this year in the Euro Area as a whole (see Figure 3.9). Next year, the institutes expect the ratio to stagnate on aggregate thanks to (slight) reductions in the share in Germany, Italy and Slovenia. In the remaining Euro Area countries as well as in the United Kingdom, the debt-to-GDP ratio is expected to rise further in 2013.

Figures 3.10 and 3.11 reveal the influence of the financial crisis on government spending and the fiscal balance. During the decade running up to the financial crisis, the ratio of government spending to GDP was stable or slightly decreasing in the countries shown, and the deficit-to-GDP ratio was below or close to 3 per cent. Arguably, the deficit-to-GDP ratio was nevertheless too high even then, given that the 3 per cent level is supposed to be an upper limit. Clearly, however, it was the financial crisis from 2008 onwards which severely destabilized public finances in a number of countries.







Figures 3.12 and 3.13 show the reactions of governments to the deterioration in public finances. Figure 3.12 shows that every country except Norway will take some fiscal consolidation measures this year or next.<sup>5</sup> For Belgium, Germany, Hungary and Italy there are two bars in Figure 3.12 because two institutes answered. According to one Italian institute, the fiscal consolidation packages in 2012 and 2013 add up to more than 10 per cent of GDP (4.4 per cent in 2012 and 6 per cent in 2013). According to the other Italian institute, the fiscal consolidation packages in both years add up to 7.6 per cent of GDP (3 per cent in 2012 and 4.6 per cent in 2013). Finland and Germany on the other hand adopted only small consolidation packages.



<sup>&</sup>lt;sup>5</sup> The institutes were also asked which measures the government took in their country. The answers are available upon request from the KOF Swiss Economic Institute.

One element of fiscal consolidation is the reduction in public consumption. Figure 3.13 shows that in Greece, Ireland and Spain public consumption contracted heavily last year already and is expected to contract further in 2012 and 2013. Institutes were also asked about public investment. Institutes in Spain and – to a lesser extent – in the United Kingdom expect notable reductions in public investment over the forecast horizon.



Finally, institutes were asked whether they expect that debt brakes (as agreed upon by the EU Summit in January 2012) will be more effective for reducing budget deficits than previous regulations (Maastricht Treaty, Dublin Stability Pact) for both, the EU and their own country. Figure 3.14 reports the results. 44 per cent of the institutes that answered the question (7 out of 16) thought that debt brakes would be more effective both in their own country and in the EU. Nineteen per cent, on the other hand, believed that they would work neither in their own country nor in the EU aggregate. 31 per cent answered that a debt brake would work in the EU, but not in their own country; and one institute believed that it would work in its home country, but not in the EU.

More institutes expect an effect for the EU than for their own country. This opinion stems from institutes in non-EA member countries. In Euro Area member countries, the proportion of institutes expecting an effect is about the same for the EU and for their own country. Institutes in France, Germany, Greece, Italy, Slovakia and Spain expect debt brakes to be successful in their own countries; institutes in Belgium, Denmark, Finland, Slovenia, and Sweden do not. For Hungary, the two institutes that answered disagreed.

	Effectiv	eness in EU	Effectiveness in own country				
	EA members Non-members		EA members	Non-members			
Effective	8	5	7	1			
Not effective	3	1	3	3			
	Effect in own country in:		No effect in own country in:				
	Effect in own country in:		No effect in own country in: Belgium* Slovenia*				
	Germany*	Slovakia*	Denmark	Sweden			
	Greece*	Spain*	Finland*				
	(Hungary)		(Hungary)				
	* EA member						
Source: AIECE institutes							

Imbalances and the crisis

Since the introduction of the common currency and the common monetary policy, the Euro Area member countries have shown a heterogeneous development. The mandate of the ECB states that it conducts its monetary policy for the aggregate and not for single countries. For this reason the interest rate cannot always be adequate for every country. While, for example, the interest has had been too high for Germany since the beginning of the monetary union, countries like Greece or Ireland would have needed an even higher interest rate, as they were in a catching-up process with higher inflation rates than the average of the Euro Area. Because of this, imbalances have developed between member countries since the introduction of the Euro. This is shown in Figure 3.15 which plots the differences between the GDP deflator of single countries and the average deflator of the Euro area for the period between 2000 and 2007. While Greece, Ireland, Portugal and Spain experienced higher inflation than the Euro Area, prices rose well below the average in Austria, Finland and Germany. Those countries were thus able to gain competitiveness against the other member states. At the same time the current account balances deviated from each other (see Figure 3.16). While countries like Austria, Germany and the Netherlands were able to build up huge current account surpluses, the countries that had higher inflation rates saw a widening of their current account deficits.





Since the beginning of the Great recession and the ESDC, the imbalances in the Euro Area have started to reduce. The current account balance has improved considerably, especially in Spain, Ireland and Italy and is forecasted to improve further (see Figure 3.17). The countries which were previously defined by high current account surpluses are forecasted to reduce or at least stabilize them to some degree. Although some part of the reduction in the current account deficits can be explained by a steady decrease of imports in an enviroment of rising unemployment and high uncertainty, the beginning of a convergence process is visible.



#### Labour market

During the recession and the following debt crisis unemployment rates have risen in most countries (see Chapter 2.3). This rise has been persistent in some countries, implying that the long-term unemployment rate, with an unemployment spell of more than 6 months, has also risen. For Greece, Slovenia and Spain the institutes forecast a further increase (see Figure 3.18). The share of long-term unemployment of the whole unemployment rate is also expected to be large. Figure 3.19 plots the average forecasted shares for 2012 and 201. Especially in Serbia the level is very high, but also in Hungary, Greece and Slovenia the share of long-term unemployment on a high level.

Apart from causing problems like social distress, high long-term unemployment rates pose a risk to the long-term development of countries. Due to the loss of human capital of the long-term unemployed workers, the potential GDP will be lower for years to come. Another risk for the potential GDP stems from the high rate of youth unemployment. In the EU, Spain reports the highest rate with 50.5% in February 2012. But also Portugal (35.4%), Slovakia (34.2%), Italy (31.9%), Ireland (31.6%), Hungary (27.8%), Poland (27.5%) and Serbia (23.5%) have above average youth unemployment rates compared to EU 27 (22.4%). The young unemployed also face the threat of losing human capital, but their situation is exacerbated by the fact that they do so at an early stage of their working life. It will be a challenge to employ them in the future, when vacancies would be available again, because a younger generation will then have entered the labour market. Besides lowering the potential GDP in the future, high youth unemployment also poses a risk for the social systems and hence fiscal consolidation, in case no steps are taken to re-employ them.



Figure 3.18: Long-term unemployment rate (unemployment spell > 6 months; in per cent of



#### Reform programmes

In reaction to the ESDC, the loss of competitiveness since the introduction of the Euro and rising unemployment rates, the countries that are by now under supervision of the Troika as well as Italy and Spain, which are under the pressure of financial markets, introduced several reform programs. Besides fiscal reforms and market deregulations, the focus lies on labour market reforms. Also other countries plan or already introduced labour market reforms or employment programmes. Figure 3.20 shows the answers of the AIECE institutes on the questions of whether their government has taken is planning or already took steps to reduce unemployment and if a significant change in labour market regulation has taken place or was planned. The figure is almost balanced between the two different measures. Nine institutes reported actions in both fields, while five institutes said there were no plans in their country. Figure 3.21 shows that most countries have a slightly higher preference for introducing labour market deregulations. This connection does not hold for employment programmes. The answers of the AIECE institutes are available on request.

		-	
	Employment	Labour market	Total
	programmes	regulation	
Total answers	21	23	
Positive action	12	16	
No action	9	7	
No action in either			5
field			
Action in one field	3	7	10
Action in both fields			9

Figure 2 20.	Fmnlo	vment	programmes	or market	deregulation
1 1901 0 3.20.	Emplo	ynnene	programmes	or market	acregolation



It will take some time until labour market reforms are implemented and show their effect on employment and wages. The forecasts of the AIECE institutes for the unit labour costs are shown in Figure 3.22. The institutes expect a further increase in the unit labour costs this year and the rates will still be positive in 2013, though at a slower pace. In Spain and the Netherlands a decrease in the unit labour costs is expected, while for Austria, Belgium, Finland, Germany and Sweden a strong increase in the costs is forecasted for 2012.



#### Box 5: Impact of fiscal tightening in the Euro Area in 2011–2013

#### By Catherine Mathieu (OFCE) and Henri Sterdyniak (OFCE)

In 2011, the output gap was significantly negative in all Euro Area countries. There is nevertheless, a strong uncertainty about its exact size. At the Euro Area level, the estimate currently varies from -2 per cent according to the EU Commission, to -2.6 per cent for the OECD and -9.2 per cent for OFCE. The Commission estimates that Euro Area potential GDP growth stood around 0.8 per cent per year since 2008. Such estimates imply that Europe has to resign to low growth and high unemployment. We assume that the crisis did not affect trend growth.

In 2011, the Euro Area public deficit reached 4 per cent of GDP, well below the ratios in Japan, the UK and the US (9–10 per cent of GDP). However, almost all Euro Area countries, except Germany, Finland, and Luxemburg breached the 3 per cent of GDP reference value of the Maastricht Treaty.

Under the pressure of financial markets, the European Commission (and the Troika as concerns Greece, Ireland, and Portugal), all Euro Area member states (MS) have implemented fiscal consolidation policies either starting from 2010 or 2011. Based on pre-crisis trend output and on the latest OECD Economic outlook, these policies will amount to around 2 per cent of GDP in 2011, 2012 and 2013 (see Table 1). From 2010 to 2013, the cumulated negative fiscal impulse will reach more than 24 per cent of GDP in Greece, 14 per cent of GDP in Portugal, 12 per cent in Spain, and Ireland.

	2010	2011	2012	2013	Total
Germany	0.8	-1.2	-0.9	-0.6	-1.9
France	-1,0	-2,3	-1,9	-2,3	-7,5
Italy	-0.8	-1.5	-3,2	-3,2	-8,7
Spain	-3,4	-1.9	-4.3	-3.7	-13.3
Netherlands	-0.8	-0.8	-1.7	-1,4	-4.7
Belgium	-1.4	-0.3	-1,9	-1,2	-4,8
Austria	0.4	-0,6	-1,3	-1,1	-2,6
Portugal	-0,8	-5,2	-6,0	-2,7	-14,7
Finland	0,0	-1.7	-1.5	-1,4	-4,6
Ireland	-3,7	-1,5	-4,2	-3,4	-12,8
Greece	-8,6	-7,2	-5,1	-3,7	-24,6
Euro Area	-0.9	-1.7	-2,3	-2,2	-7,1
UK	-1,5	-2,7	-1,8	-1,4	-7,4
US	-0,9	-1,8	-1,5	-1,9	-6,1
Japan	-0,2	0,3	-0.5	0,0	-0,5

Table 1: Fiscal impulses

Source: Authors' estimates based on the OECD *Economic Outlook*, November 2011. Fiscal impulses are calculated as announced changes in cyclically adjusted balances, based on pre–crisis trend GDP growth.

Table 2 shows the impacts of currently planned fiscal tightening, using a small model built at OFCE. The model embeds the fiscal plans as shown in table 1. It then accounts for the "direct impact" of these policies, on the basis of domestic multipliers (below or close to 1 for the larger economies and 0.6 for smaller economies). It also accounts for the impact through external demand of fiscal plans

announced in the Euro Area countries, the US and Japan. It assumes that interest rates will not be affected as these restrictive policies will not strongly improve the debt ratio.

In % of GDP			GDP			Public balance	Public debt
	2010	2011	2012	2013	Total	2013	2013
Germany	0.4	-1.3	-1.2	-0.9	-3,0	+0.4	+2.4
France	-1.2	-2,6	-2.4	-2.7	-8.9	+2.6	+1.4
Italy	-1.0	-1.8	-3.3	-4,0	-10.1	+3,6	+4,2
Spain	-3.4	-2,4	-5.0	-4.3	-15.1	+6.5	-3,5
Netherlands	-0.7	-0,8	-1.5	-1.2	-4.2	+2.6	-2.6
Belgium	-1.1	-0.5	-1.7	-1.2	-4.5	+2.6	-1.8
Austria	0.3	-0.8	-1.4	-1.2	-3.1	+1,1	+0.9
Portugal	-1.1	-5,1	-6,1	-3.1	-15.4	+7,8	-0,3
Finland	-0,1	-1.7	-1.5	-1.4	-4.7	+2,0	-1.3
Ireland	-2.8	-2,8	-3.3	-2.4	-11.3	+8.3	-5,6
Greece	-8.6	-7.4	-5.5	-4.1	-25.6	+14,3	+3,9
Euro Area	-1.1	-2.0	-2.6	-2.4	-8.1	+3.1	-0.1
UK	-1.5	-3,0	-2.3	-1.9	-8.7	+3.5	-1,5

Table 2: Fiscal impulse impacts on GDP, public deficit, and public debt 2011–2013

Source: Authors calculations.

The cumulated negative GDP impact would reach 8 percentage points for the Euro Area, but 15 percentage points in Spain, and Portugal, 25 percentage points in Greece. The *ex ante* favourable impact of restrictive fiscal policies on public balances would be strongly reduced by this depressive effect. The public debt-to-GDP ratio would not decrease in most countries, due to the output fall. So we cannot expect a strong negative impact on interest rates.

Countries having to implement very restrictive fiscal policies will suffer from large output falls and high unemployment. In such circumstances, government deficit targets will not be met which will call for additional restrictive measures. Such a policy would be unavoidable, according to the Commission, in order to reassure markets. But would a policy leading to a long depression period be reassuring?

In 2012, demand is clearly insufficient in the Euro Area. Some economists have highlighted expansionary fiscal contraction episodes in the past, where restrictive policies did not have any detrimental impact on output, but such policies where accompanied by elements which are not available today, like exchange rate depreciation, interest rates cuts, increase in private borrowing thanks to financial deregulation, or a strong rise in private demand due to economic shocks (such as joining the EU).

Some economists claim that such a restrictive policy would have limited impacts on output, since households could increase consumption through a Barro-Ricardian effect, but this is unlikely in the current context as austerity measures reduce households' incomes and imply that governments consider that potential output growth will be durably lower. There is no certainty that risk premia will decrease since public debt ratios will increase and since fiscal policy implemented makes the Euro Area fragile and worries markets.

Public debt sustainability depends on growth and interest rate prospects. If we consider OECD numbers, public debts seem unsustainable for most countries, even if countries concerned succeed to close the output gap. The gap between the Structural Primary Balance (SPB) and the Primary Balance needed to stabilise the debt ratio (debt stabilisation gap) amounts to 3.5 percentage points of GDP for the Netherlands and Italy; 5 percentage points for Ireland; 5.5 for Greece; 9 for Spain and Portugal (table 3). The point is that restrictive policies aiming at decreasing the structural deficit increase in fact the cyclical deficit, which does not allow the debt ratio to stabilise. Outside the Euro Area, the UK, the US and Japan also have unsustainable public finances.

If we assume that countries will be able to close the gap between the current GDP level and the level corresponding to the pre-crisis trend, and that interest rates will be kept in line with GDP growth, then the gap is positive for all member states (except for Spain). The Euro Area has to choose between two strategies: try to cut public deficits first or recover a satisfactory growth level first.

In % of GDP	Structural balance FC	SPB OECD	Public debt	Interest rate	GDP growth rate**	Debt Stabilisation Gan	SPB=Gap OFCE
	20					OECD-Data	
Germany	-1,0	0.7	82	2.0	2.4	1.0	2.7
France	-4,1	-1.2	85	3.0	1.8	-2.2	1.6
Italy	-2.6	1.6	121	5.1	0.8	-3.6	6.1
Spain	-7.2	-5.0	72	5.6	0.0	-9.0	-0.7
Netherlands	-4.0	-3.0	65	2.5	1.9	-3.4	0.4
Belgium	-3.6	-0.5	97	3.4	2.4	-1.5	1.8
Austria	-3.3	-0.3	72	3.0	2.7	-0.5	2.0
Portugal	-6.4	-3.9	102	3.5*	-1.5	-8.9	0.1
Finland	-0.1	0.4	49	2.4	3.3	0.8	4.2
Ireland	-9.1	-3.4	108	3.5*	1.5	-5.1	2.5
Greece	-5.7	3.8	165	3.5*	-2.2	-5.6	7.2
UK		-3.6	83	2.2	3.0	-4.3	0.9
Japan		-7.1	208	1.1	1.2	-6.9	-3.9
US		-5.7	101	2.0	3.7	-4.0	-3.0

#### Table 3: Public debt sustainability at the end of 2011

Source: authors calculations. \*With the EFSF support; \*\*Expected average nominal GDP growth for 2012–13.

#### A new fiscal pact

On 9<sup>th</sup> December 2011, the EU Council adopted a "fiscal compact". "Government budgets shall be balanced or in surplus", which is interpreted as "the structural deficit will have to be below 0.5 per cent of GDP". A correction mechanism shall be triggered automatically. Countries will have to introduce these rules in their constitution or in their national budgetary processes. The European Court of Justice will be entitled to verify the conformity of the rule. Countries running deficits will have to rapidly reduce them, according to a calendar proposed by the Commission. Countries with higher than 60 per cent of GDP debt ratios will have to reduce this gap by 5 per cent each year. Countries under an EDP will have to submit their budgets and structural reforms programmes to the Commission and the Council, for endorsement. The implementation of these programmes and

yearly budgetary plans will be monitored by the Commission and the Council. A qualified majority will be needed to oppose sanctions if a country does not fulfil the 3 per cent of GDP ceiling for deficits.

According to us this agreement is dangerous from an economic point of view. It imposes arbitrary numerical rules for public deficits. Is the 0.5 per cent limit consistent with macroeconomic equilibrium? It does not even allow public investment to be financed by borrowing. Is the 60 per cent of GDP limit for debts realistic, when Europe wishes to encourage the development of pension funds (which themselves need to own public assets)? Are the restrictive fiscal policies required to bring budgetary positions in balance and public debts below 60 per cent compatible with macroeconomic equilibrium? There is no evidence that member states will be able to meet these arbitrary rules.

The Pact used the concept of Structural Deficit which is difficult to define and to measure. For instance, the Euro Area structural deficit for 2007 was estimated by the DG-ECFIN to stand at 0.7 per cent of GDP in autumn 2007; then at 1.2 per cent in autumn 2008, and 1.9 per cent in autumn 2011. Should such a debatable concept be introduced in Constitutions?

	Public balance Primary balance	public Net debt	Real rate, correc	interest growth gap	stability
Germany	0.2	2.6	42.9	1.6	1.9
France	-2.7	-0.2	34.0	0.2	-0.3
Italy	-1.7	3.0	89.6	0.9	2.2
Spain	1.9	3.0	18.7	-3.2	3.6
Netherlands	0.2	1.8	28.0	0.3	1.7
Belgium	-0.2	3.5	73.4	-0.2	3.6
Austria	-0.7	1.3	30.7	-0.3	1.4
Greece	-6,7	-3,0	80,4	-2,9	-0,7
Portugal	-2.3	0.6	44.1	0.6	0.3
Finland	5.2	4.6	-71.1	-0.3	4.4
Ireland	0.2	0.9	-0.3	-3.4	o.8
United Kingdom	-2.7	-0.7	28.8	-0.3	–o.6
United States	-2.8	-0.8	47.2	-1.1	-0.3
Japan	-2.5	-1.9	80.4	0.7	-2.6

Table 4: Debt stability in 2007

The Pact is based on the view that before the crisis member states were responsible of fiscal indiscipline, but, from 1999 to 2007, inflation rates were low in the Euro Area the Euro Area external balance was in surplus. Globally, the real interest rate was equal to the growth rate. The wage share in GDP decreased at the Euro Area level by 2.3 points between 1999 and 2007. So there was no evidence that fiscal policies has been too expansive globally. Fiscal deficits were necessary to support activity: they were stabilisation deficits. They are not the effect of too lax fiscal policies (what we name disequilibrium deficits). In 2007, most member states ran a primary public balance (PPB) in surplus. They had no structural problems of public finances. If we compare the PPB level

with the level required to stabilise the debt-to-GDP ratio, we can observe that only France and Greece had problems.

The Treaty on Stability, Coordination and Governance (TSCG) imposes automatic policies; discretionary policies will be forbidden. On 26 October 2011, the European Council specified that all countries under an EDP will have to fulfil their commitments independently of cyclical developments. This means that they will not only have to refrain from implementing counter-cyclical policies but will also be requested to implement pro-cyclical policies, and will have to announce restrictive policies each time macroeconomic prospects are downgraded. This is particularly dangerous in 2012 where even the European Commission anticipates negative GDP growth for the Euro Area.

We therefore see a strengthening of fiscal rules which is inconsistent with economic governance. This is a failure of today's European construction: a better coordination of fiscal policies is necessary, but the control of numerical figures for government deficits is not economic policy coordination and goes in the wrong direction. Should Europe abandon the implementation of exit crisis strategies to recover the 9 percentage points of GDP lost because of the crisis?

#### Limited solidarity

EU countries have not been able to stop speculation developing and to ensure that the Euro Area can survive. They have let markets set unsustainable interest rates for government bonds they pretend to guarantee.

Northern member states and the ECB do not wish to halt speculation through announcing that the ECB will guarantee public debts, or that governments will be financed through Euro-bonds, collectively issues and guaranteed (and that current debt may be converted into Euro bonds upon owners' requests). They wish to put pressure on peer countries so as to make sure that they implement austerity measures and structural reforms. But this strategy is dangerous for the Euro Area.

Government debts in the Euro Area have become risky assets, which weakens the EU banks owning a large quantity of such assets. Government debt depreciation has entailed banks' losses. Banks need to be recapitalised, but how could they hold sufficient own assets to resist government failure? Financial markets consider that governments will have to rescue their domestic banking systems; this is an additional risk factor which weakens countries. Countries like France and Austria lost their AAA, which weakens the European Financial Stability Facility (EFSF). Under markets' pressure, the Euro Area has entered a vicious circle.

Table 5 ranks countries according to four criteria watched by markets: current account and government accounts, government debt, and GDP growth. The table shows that being a Euro Area member states is extremely costly in terms of interest rates: thus, Belgium, and Spain have to pay interest rates 1.6 or 3.0 percentage points higher than the UK, although this cannot be justified by larger imbalances. Italy faces a high risk premium, while it runs a structural primary budget surplus (even according to the OECD estimate).

A country like Italy already has to pay interest rates 3.6 percentage points higher than Germany, which amounts to around 4.3 per cent of GDP for Italy. If Italy follows the Commission's request (i.e. reduces by 5 per cent per year the gap between the debt ratio and the 60 per cent of GDP ratio) it will cost an additional 3 per cent of GDP. Is this credible?

Table 5: The situation of some large economies						
	Current account balance, 2011 % of GDP	Gov. Gov. balance, Gov. % of GDP, <u>% 0</u> 2011	debt, Av of GDP, rat 201	erage )P growth Gr :e, (n 11–12	rade b nax: 20) F	10—year government bonds, % February 2012
Germany	5.1	-1.0	82	1.7	18.7	1.9
Finland	0.0	-1.2	49	1.7	17.7	2.35
Austria	2.7	-3.4	72	1.75	16.8	2.95
Neth.	5.0	-5.0	65	0.1	15.8	2.35
Belgium	2.3	-4.0	97	1.9	15.7	3.7
France	-3.1	-5.2	85	0.95	12.3	2.95
UK	-2.3	-8.3	83	0.7	11.0	2.1
Italy	-3.6	-3.8	121	-0.5	10.8	5.5
Spain	-2.9	-8.5	72	-0.2	10.3	5.05
US	-3.3	-9.7	101	2.0	10.3	2.0
Ireland	0.7	-10.1	108	0.1	10.0	8.2
Japan	2.8	-9.3	208	0.85	8.7	1.0
Portugal	-7.6	-7.5	102	-2.4	7.0	12.8
Greece	-7.8	-9.3	165	-4.5	1.8	34.25

Source: OECD, Financial Press, authors' calculations.

The European Stability Mechanism (ESM), which will be settled in 2012, has several drawbacks: it obliges member states to sign the "fiscal compact", which is economically dangerous and will prevent stabilisation strategies; it obliges member states to introduce collective action clauses (CACs) in their bonds and to announce private sector participation, which means that public debts will be considered as risky assets, will have to pay higher interest rates, will be subject to financial markets speculation. Assistance remains subject to strong conditionality, to the monitoring by the ECB, the IMF and the Commission, which means that a country will try to avoid resorting to it until its situation has dramatically deteriorated.

We fear that the "fiscal compact" and the ESM will not allow to restore a satisfying functioning of the Euro Area, which would require that all member states could finance their public debt at the same, relatively low interest rate level, controlled by the ECB, until their economy recovers (as is the case for the US, the UK, and Japan).

The pre-crisis period, like the crisis period, have shown that the Euro Area suffers from major drawbacks. This paves the way for financial market speculation. It is difficult for countries with different cyclical positions, structural developments and economic strategies to share a single monetary policy, the same interest rate and the same exchange rate. Each country wishes to keep

its domestic fiscal autonomy. At the same time, government debts need to be guaranteed in order to prevent financial speculation. The Euro Area functioning was not adequately designed from the start, especially as concerns the trade-off between solidarity and autonomy. If government debts were fully guaranteed, this would create a moral hazard problem, since countries could increase their debts without any limit. The absence of guarantee opens the door to financial speculation.

The compromise should be that debts are totally guaranteed for countries agreeing to submit domestic fiscal policies to a coordination process. Such coordination should aim at reaching full employment. It should take in consideration all sources of imbalances such as competitiveness, and external imbalances but from a comprehensive point of view, which means that countries running surpluses shall be required to spend more or to invest in productive investment in countries running deficits. The coordination process should reach unanimity, which is difficult to implement. Coordination cannot consist in fulfilling automatic rules only, like in the SGP or the new "fiscal compact", it should operate through a bargaining process between countries. The Treaty should include a case where no agreement is reached, but such a case should never occur in practice. This is the only way to save the Euro Area.





Eidgenössische Technische Hochschule Zürich Swiss Federal Institute of Technology Zurich

## ASSOCIATION D'INSTITUTS EUROPEENS DE CONJONCTURE ECONOMIQUE ASSOCIATION OF EUROPEAN CONJUNCTURE INSTITUTES

## **AIECE General Report**

AIECE Spring General Meeting Madrid, 26–27 April 2012

Part II

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KOF Swiss Economic Institute Weinbergstrasse 35 8092 Zurich Switzerland Phone: +41 44 632 42 38 Email: kof@kof.ethz.ch http://www.kof.ethz.ch

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# Aggregate European Forecasts

## **GDP EU**

Country	2012	2013
Austria		
WIFO	0.1	1.6
Belgium		
FPB	n/a	n/a
IRES	n/a	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	-0.1	1.0
France		
INSEE	n/a	n/a
BIPE	0.2	1.3
COEREXECODE	0.1	1.4
OFCE	-0.1	0.6
Germany		
DIW	n/a	n/a
IFW	0.1	1.3
RWI	0.1	1.3
Greece		
KEPE	0.0	1.5
Hungary		
GKI	0.0	1.5
KOPINT	0.1	1.3
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	n/a	n/a
PROMETEIA	n/a	n/a
Norway		
SSB	n/a	n/a
Poland		
IBRKK	0.0	1.2
Serbia		
FTRI	n/a	n/a
Slovak Republic		
SAVBA	n/a	n/a
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	n/a	n/a
CEPREDE	n/a	n/a
Sweden		
CSE	n/a	n/a
NIER	n/a	n/a
Switzerland	1.70	174
KOF	0.0	12
United Kingdom	0.0	1.4
NIESR	0 050	1 576
MEON	0.009	1.570

Variable	2012	2013
Number	13	13
Average	0.0	1.3
Std. dev.	0.1	0.3
Max	0.2	1.6
Min	-0.1	0.6
Std. dev./Avg	2.0	0.2

#### **Frequency Distribution of the Answers**





## **GDP Euro Area**

Country	2012	2013
Austria		
WIFO	-0.2	1.3
Belgium		
FPB	-0.3	1.0
IRES	-0.2	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	-0.3	0.8
France		
INSEE	n/a	n/a
BIPE	-0.1	1.2
COEREXECODE	-0.2	1.2
OFCE	-0.4	0.3
Germany		
DIW	-0.4	0.8
IFW	-0.2	1.1
RWI	-0.3	1.0
Greece		
KEPE	-0.3	1.3
Hungary		
GKI	-0.5	1.3
KOPINT	-0.3	1.0
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	-0.4	1.1
CONFINDUSTRIA	-0.5	1.1
PROMETEIA	-0.3	0.9
Norway		
SSB	-0.4	0.7
Poland		
IBRKK	-0.3	0.9
Serbia	,	,
FIRI	n/a	n/a
SAVBA	n/a	n/a
Siovenia		-
SNEP	n/a	n/a
Spain	n/o	n/o
	n/a	11/a
CEFREDE	0.0	1.1
CSE	-05	0.0
	-0.5	0.9
Switzerland	-0.4	I
	-03	1.0
Inited Kingdom	-0.3	1.0
	0.0	4.0
NIESK	-0.2	1.3

Variable	2012	2013
Number	23	22
Average	-0.3	1.0
Std. dev.	0.1	0.2
Max	0.0	1.3
Min	-0.5	0.3
Std. dev./Avg	-0.4	0.2

**Frequency Distribution of the Answers** 




#### **Private consumption Euro Area**

Country	2012	2013
Austria		
WIFO	n/a	n/a
Belgium		
FPB	0.3	n/a
IRES	n/a	-0.2
Denmark		
DEC	n/a	n/a
Finland		
ETLA	0.5	n/a
France		
INSEE	n/a	-0.2
BIPE	0.6	0.0
COEREXECODE	0.6	-0.3
OFCE	0.1	-0.3
Germany		
DIW	0.4	-0.1
IFW	0.7	-1.7
RWI	0.4	-0.2
Greece		
KEPE	1.0	n/a
Hungary		
GKI	n/a	n/a
KOPINT	0.6	-0.3
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	0.5	n/a
CONFINDUSTRIA	n/a	n/a
PROMETEIA	0.4	n/a
Norway		
SSB	n/a	n/a
Poland		
IBRKK	0.7	n/a
Serbia		
FTRI	n/a	n/a
Slovak Republic		
SAVBA	n/a	n/a
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	n/a	n/a
CEPREDE	0.6	-0.3
Sweden		
CSE	n/a	na
NIER	0.7	-0.1
Switzerland		
KOF	-0.1	n/a
United Kingdom		
NIESR	0.7	-0.193

Variable	2012	2013
Number	17	12
Average	0.5	-0.3
Std. dev.	0.3	0.4
Max	1.0	0.0
Min	-0.1	-1.7
Std. dev./Avg	0.5	-1.4

**Frequency Distribution of the Answers** 





## **Public consumption Euro Area**

Country	2012	2013
Austria		
WIFO	n/a	n/a
Belgium		
FPB	0.3	0.4
IRES	-0.4	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	0.0	0.4
France		
INSEE	n/a	n/a
BIPE	-0.9	-0.5
COEREXECODE	-0.5	0.0
OFCE	-0.6	-0.5
Germany		
DIW	-0.4	0.0
IFW	-0.7	0.3
RWI	-0.7	0.7
Greece		
KEPE	-0.2	0.3
Hungary		
GKI	n/a	n/a
KOPINT	-0.4	-0.5
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	-0.9	-0.3
CONFINDUSTRIA	n/a	n/a
PROMETEIA	-0.8	0.0
Norway	,	,
SSB	n/a	n/a
Poland		
IBRKK	-0.8	1.5
Serbia	- 1-	. /-
FIRI	n/a	n/a
Slovak Republic	,	,
SAVBA	n/a	n/a
Slovenia	,	,
SKEP	n/a	n/a
Spain	- 1-	. [-
DGAMEI	n/a	n/a
	-0.5	-0.5
Sweden	,	,
USE	n/a	n/a
	-0.8	-0.1
Switzerland		
KOF	-0.9	-0.2
United Kingdom		<b>.</b> -
NIESR	-0.2	0.6

Variable	2012	2013
Number	18	17
Average	-0.5	0.1
Std. dev.	0.3	0.5
Max	0.3	1.5
Min	-0.9	-0.5
Std. dev./Avg	-0.6	5.6

**Frequency Distribution of the Answers** 





### **Unemployment rate Euro Area**

Country	2012	2013
Austria		
WIFO	n/a	n/a
Belgium		
FPB	11.3	10.9
IRES	n/a	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	10.8	11.0
France		
INSEE	n/a	n/a
BIPE	n/a	n/a
COEREXECODE	10.8	10.8
OFCE	10.9	11.1
Germany		
DIW	10.8	10.7
IFW	10.9	11.2
RWI	10.9	10.9
Greece		
KEPE	10.5	10.0
Hungary		,
GKI	n/a	n/a
KOPINT	11.0	11.2
Ireland	,	,
ESRI	n/a	n/a
Italy	,	,
ISTAT	n/a	n/a
CONFINDUSTRIA	n/a	n/a
PROMETEIA	10.7	10.5
Norway	,	,
SSB	n/a	n/a
Poland	44.0	
	11.0	11.5
Serbia		
FIKI Slavak Barublia	n/a	n/a
		. [-
SAVBA	n/a	n/a
Siovenia		
SREP	n/a	n/a
Spain	n/n	2/2
	n/a	n/a
CEPREDE	10.6	10.6
CSE	n/o	nla
NIER	11/a 11	11/a 11 0
Switzerland	11	11.2
	10.0	11 1
NUF United Kingdom	10.9	11.1
	10.0	10.2
NIESK	10.0	10.5

Variable	2012	2013
Number	15	15
Average	10.9	10.9
Std. dev.	0.2	0.4
Max	11.3	11.5
Min	10.5	10.0
Std. dev./Avg	0.0	0.0

**Frequency Distribution of the Answers** 





#### **Gross fixed investment Euro Area**

Country	2012	2013
Austria		
WIFO	n/a	n/a
Belgium		
FPB	-2.0	3.4
IRES	-0.2	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	-1.8	1.7
France		
INSEE	n/a	n/a
BIPE	-0.6	2.3
COEREXECODE	-0.8	1.4
OFCE	-1.6	0.0
Germany		
DIW	-2.6	0.8
IFW	-0.8	3.2
RWI	-0.9	2.4
Greece		
KEPE	0.5	2.8
Hungary		
GKI	n/a	n/a
KOPINT	-1.3	1.9
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	-1.8	-1.7
CONFINDUSTRIA	n/a	n/a
PROMETEIA	-1.1	1.6
Norway		
SSB	n/a	n/a
Poland		
IBRKK	-1.0	0.5
Serbia		
FTRI	n/a	n/a
Slovak Republic		
SAVBA	n/a	n/a
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	n/a	n/a
CEPREDE	-1.3	1.9
Sweden		
CSE	n/a	n/a
NIER	-1.8	1.7
Switzerland		
KOF	-0.9	2.7
United Kingdom		
NIESR	n/a	n/a

Variable	2012	2013
Number	17	16
Average	-1.2	1.7
Std. dev.	0.7	1.3
Max	0.5	3.4
Min	-2.6	-1.7
Std. dev./Avg	-0.6	0.8

**Frequency Distribution of the Answers** 





#### **Inflation rate Euro Area**

Country	2012	2013
Austria		
WIFO	n/a	n/a
Belgium		
FPB	2.0	1.6
IRES	2.1	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	2.1	1.8
France		
INSEE	n/a	n/a
BIPE	n/a	n/a
COEREXECODE	2.3	2.1
OFCE	2.3	1.9
Germany		
DIW	1.9	1.6
IFW	22	1.8
RWI	2.0	1.0
Greece	2.0	
KEPE	20	15
Hungary	2.0	1.0
GKI	21	15
KOPINT	1 9	1.0
Ireland	1.5	1.0
FSRI	n/a	n/a
Italy	n/a	n/a
	2.2	1 0
	2.3	1.0
	2.1	2.0
	2.2	1.9
	1.6	10
Beland	1.0	1.5
	0.4	4 7
	2.1	1.7
Serbia	,	,
FIRI	n/a	n/a
Slovak Republic	,	,
SAVBA	n/a	n/a
Slovenia	,	,
SKEP	n/a	n/a
Spain	,	,
DGAMEI	n/a	n/a
CEPREDE	1.9	1.8
Sweden		-
CSE	n/a	n/a
NIER	1.1	1.6
Switzerland		
KOF	2.2	1.9
United Kingdom		
NIESR	2	1.2

Variable	2012	2013
Number	20	19
Average	2.0	1.7
Std. dev.	0.3	0.2
Max	2.3	2.1
Min	1.1	1.2
Std. dev./Avg	0.1	0.1

**Frequency Distribution of the Answers** 





# **Cross Country Forecasts**

#### GDP

Country	2012	2013
Austria		
WIFO	0.4	1.4
Belgium		
FPB	0.1	n/a
IRES	-0.2	n/a
Denmark		
DEC	1.2	1.1
Finland		
ETLA	0.9	2.6
France		
INSEE	n/a	n/a
BIPE	0.7	1.2
COEREXECODE	0.6	1.4
OFCE	0.2	0.7
Germany		
DIW	1.0	2.4
IFW	0.7	1.9
RWI	1.0	2.0
Greece		
KEPE	-4.7	-1.5
Hungary		
GKI	-1.5	1.5
KOPINT	0.3	1.5
Ireland		
ESRI	0.9	2.3
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	-1.6	0.6
PROMETEIA	-1.4	0.4
Netherlands		
СРВ	-0.8	1.3
Norway		
SSB	2.6	2.8
Poland		
IBRKK	2.9	2.4
Serbia		
FTRI	0.5	1.8
Slovak Republic		
SAVBA	1.9	2.0
Slovenia		
SKEP	-1.2	0.7
Spain		
DGAMEI	-1.7	0.5
CEPREDE	-0.8	-0.4
Sweden		
CSE	0.2	1.7
NIER	0.4	2.5
Switzerland		
KOF	0.8	1.9
United Kinadom		
NIESR	-0.1	2.3

Variable	2012	2013
Number	29	27
Average	0.1	1.4
Std. dev.	1.5	1.0
Max	2.9	2.8
Min	-4.7	-1.5
Std. dev./Avg	12.3	0.7





### **Private consumption**

Country	2012	2013
Austria		
WIFO	0.8	0.9
Belgium		
FPB	-0.1	n/a
IRES	-0.2	n/a
Denmark		
DEC	2.3	1.4
Finland		
ETLA	1.7	1.5
France		
INSEE	n/a	n/a
BIPE	0.4	1.0
COEREXECODE	0.3	0.8
OFCE	-0.1	0.9
Germany		
DIW	1.1	1.6
IFW	0.7	1.1
RWI	0.9	1.1
Greece		
KEPE	-5.6	-3.4
Hungary		
GKI	-2.5	0.5
KOPINT	-1.2	1.0
Ireland		
ESRI	-1.8	-1.0
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	-1.0	0.4
PROMETEIA	-2.2	-0.6
Netherlands		
СРВ	-0.5	0.5
Norway		
SSB	3.2	4.0
Poland		
IBRKK	1.9	2.1
Serbia		
FTRI	3.0	3.5
Slovak Republic		
SAVBA	n/a	n/a
Slovenia		
SKEP	-0.9	-0.3
Spain		
DGAMEI	-1.4	0.3
CEPREDE	-1.5	0.0
Sweden		
CSE	1.5	2.5
NIER	1.5	3.1
Switzerland		
KOF	1.7	1.8
United Kingdom		
NIESR	0.2	1.4

Variable	2012	2013
Number	28	26
Average	0.1	1.0
Std. dev.	1.9	1.5
Max	3.2	4.0
Min	-5.6	-3.4
Std. dev./Avg	22.6	1.5





### **Private investments excl. dwellings**

Country	2012	2013
Austria		
WIFO	1.8	3.5
Belgium		
FPB	0.9	n/a
IRES	1.3	n/a
Denmark		
DEC	3.3	2.8
Finland		
ETLA	-1.4	3.8
France		
INSEE	n/a	n/a
BIPE	1.8	3.1
COEREXECODE	2.3	4.7
OFCE	0.9	0.6
Germany		
DIW	2.0	4.6
IFW	3.2	7.6
RWI	1.8	3.6
Greece		
KEPE	n/a	n/a
Hungary		
GKI	n/a	n/a
KOPINT	n/a	n/a
Ireland		
ESRI	n/a	n/a
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	n/a	n/a
PROMETEIA	n/a	n/a
Netherlands		
CPB	-3.3	7.5
Norway	0.0	
SSB	n/a	n/a
Poland	17,0	1,0
IBRKK	n/a	n/a
Serbia	17,0	1,0
FTRI	n/a	n/a
Slovak Republic	17,0	1,70
SAVBA	n/a	n/a
Slovenia	n/a	n/a
	n/a	n/a
SNEF	II/d	II/a
	6.4	0.6
	-0.4	0.0
CEPREDE	2.9	4.4
OSE	2.0	0.0
CSE	3.2	0.0
	5.2	5.6
Switzerland	~ ~	
KOF	3.2	4.5
United Kingdom	~	
NIESR	-6	4.1

Variable	2012	2013
Number	18	16
Average	0.9	3.9
Std. dev.	3.2	2.1
Max	5.2	7.6
Min	-6.4	0.6
Std. dev./Avg	3.4	0.5





## **Dwellings investments**

Country	2012	2013
Austria		
WIFO	0.4	0.6
Belgium		
FPB	_3.2	n/a
IRES	-2.8	n/a
Denmark		
DEC	1.1	0.5
Finland		
ETLA	-1.5	3.2
France	-	-
INSEE	n/a	n/a
BIPE	0.9	0.4
	17	-1.3
OFCE	1.7	0.9
Germany	1.2	0.0
	-0.4	17
IEW/	-0.4	1.7
	2.1	4.0
	2.0	4.0
Gleece	/	- 1-
KEPE	n/a	n/a
Hungary	,	,
GKI	n/a	n/a
	n/a	n/a
Ireland		
ESRI	-4.6	0.0
Italy	,	,
ISTAT	n/a	n/a
CONFINDUSTRIA	n/a	n/a
PROMETEIA	-3.9	-0.4
Netherlands		
CPB	-3.5	0.3
Norway		
SSB	6.6	4.8
Poland		
IBRKK	n/a	n/a
Serbia		
FTRI	n/a	n/a
Slovak Republic		
SAVBA	n/a	n/a
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	-4.5	3.3
CEPREDE	-5.0	-1.7
Sweden		
CSE	-3.1	0.8
NIER	-6.9	5.8
Switzerland	0.0	0.0
KOF	ΔΔ	ΛQ
United Kingdom	<b>-</b> -	0.3
NIESR	-4 2	85
	7.4	0.0

Variable	2012	2013
Number	20	19
Average	-0.9	1.9
Std. dev.	3.6	2.7
Max	6.6	8.5
Min	-6.9	-1.7
Std. dev./Avg	-3.8	1.4





### **Exports**

Country	2012	2013
Austria		
WIFO	3.3	5.9
Belgium		
FPB	0.5	n/a
IRES	1.0	n/a
Denmark		
DEC	2.7	3.7
Finland		
ETLA	2.3	5.5
France		
INSEE	n/a	n/a
BIPE	4.1	4.2
COEREXECODE	2.7	6.0
OFCE	1.2	0.7
Germany		
DIW	3.0	7.4
IFW	2.2	4.8
RWI	2.4	4.8
Greece		
KEPE	1.5	2.5
Hungary		
GKI	7.0	9.0
KOPINT	6.0	7.0
Ireland		
ESRI	3.4	3.8
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	0.2	3.6
PROMETEIA	2.1	3.8
Netherlands		
СРВ	-0.8	3.0
Norway		
SSB	-2.0	1.3
Poland		
IBRKK	6.0	7.0
Serbia		
FTRI	9.6	11.2
Slovak Republic		
SAVBA	6.5	8.2
Slovenia		
SKEP	2.9	4.7
Spain		
DGAMEI	3.5	5.7
CEPREDE	2.8	4.8
Sweden		
CSE	-1.5	3.5
NIER	0.4	4.5
Switzerland	0	
KOF	0.8	47
United Kingdom	0.0	
NIESR	0.6	6.4

Variable	2012	2013
Number	29	27
Average	2.6	5.1
Std. dev.	2.6	2.3
Max	9.6	11.2
Min	-2.0	0.7
Std. dev./Avg	1.0	0.4





### Imports

Country	2012	2013
Austria		
WIFO	3.2	5.0
Belgium		
FPB	0.7	n/a
IRES	1.1	n/a
Denmark		
DEC	5.2	4.7
Finland		
ETLA	2.7	3.8
France		
INSEE	n/a	n/a
BIPE	3.2	4.1
COEREXECODE	0.3	5.4
OFCE	-0.7	0.7
Germany		
DIW	3.8	7.0
IFW	3.5	5.7
RWI	3.0	4.1
Greece		
KEPE	-9.8	-8.0
Hungary		
GKI	5.0	8.5
KOPINT	4.3	6.6
Ireland		
ESRI	1.1	1.6
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	-1.3	3.4
PROMETEIA	-2.2	2.0
Netherlands		
СРВ	-1.5	2.8
Norway		
SSB	4.1	5.5
Poland		
IBRKK	5.0	6.5
Serbia		
FTRI	8.7	12.8
Slovak Republic		
SAVBA	5.3	7.4
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	-6.4	1.4
CEPREDE	-9.7	-1.0
Sweden	011	
CSE	-1.3	4 0
NIER	-0.1	54
Switzerland	0.1	0.7
KOF	37	79
United Kingdom	0.1	7.0
NIESR	-2	4.3

Variable	2012	2013
Number	28	26
Average	1.0	4.3
Std. dev.	4.4	3.8
Max	8.7	12.8
Min	-9.8	-8.0
Std. dev./Avg	4.2	0.9





### **Consumer prices**

Country	2012	2013
Austria		
WIFO	2.4	2.0
Belgium		
FPB	2.7	n/a
IRES	2.9	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	2.7	1.8
France		
INSEE	n/a	n/a
BIPE	2.0	2.0
COEREXECODE	1.9	2.0
OFCE	1.9	1.2
Germany	-	
DIW	1.6	2.0
IFW	2.5	2.3
RWI	22	1.9
Greece		
KEPE	16	15
Hungary	1.0	1.0
GKI	53	4 0
KOPINT	54	35
Ireland	0.4	0.0
FSRI	16	13
Italy	1.0	1.0
ISTAT	n/a	n/a
	11/a	11/a 2.4
	2.2	2.1
PROMETEIA	2.9	2.1
	2.2	1 0
СРВ	2.3	1.8
Norway	4.0	4 7
55B	1.3	1.7
Poland		
IBRKK	3.7	2.9
Serbia		
FTRI	8.0	6.0
Slovak Republic		
SAVBA	3.1	2.5
Slovenia		
SKEP	2.1	1.9
Spain		
DGAMEI	n/a	n/a
CEPREDE	n/a	n/a
Sweden		
CSE	1.3	1.7
NIER	1.5	1.4
Switzerland		
KOF	-0.4	0.8
United Kingdom		
NIESR	2.2	1.4

Variable	2012	2013
Number	26	24
Average	2.6	2.2
Std. dev.	1.6	1.1
Max	8.0	6.0
Min	-0.4	0.8
Std. dev./Avg	0.6	0.5





### **Unemployment rate**

Country	2012	2013
Austria		
WIFO	4.6	4.8
Belgium		
FPB	7.5	n/a
IRES	7.6	n/a
Denmark		
DEC	8.2	8.4
Finland		
ETLA	7.7	7.3
France		
INSEE	n/a	n/a
BIPE	10.4	10.5
COEREXECODE	9.8	9.8
OFCE	9.8	10.5
Germany		
DIW	5.8	5.5
IFW	4.8	4.0
RWI	5.1	4.7
Greece		
KEPE	21.1	n/a
Hungary		
GKI	11.0	10.0
KOPINT	10.9	10.7
Ireland		
ESRI	14.0	13.7
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	8.6	9.0
PROMETEIA	9.2	8.9
Netherlands		
СРВ	5.5	6.0
Norway		
SSB	3.4	3.5
Poland		
IBRKK	9.9	10.1
Serbia		
FTRI	25.4	24.6
Slovak Republic		
SAVBA	13.5	13.1
Slovenia		
SKEP	9.0	9.5
Spain		
DGAMEI	24.3	24.2
CEPREDE	23.4	24.3
Sweden	-	
CSE	7.9	7.9
	7.7	7.7
Switzerland	~ ~	
KOF	3.2	3.2
United Kingdom	~ ~	
NIESK	8.9	8.5

Variable	2012	2013
Number	29	26
Average	10.3	10.0
Std. dev.	6.0	5.9
Max	25.4	24.6
Min	3.2	3.2
Std. dev./Avg	0.6	0.6





#### **Public sector fiscal balance**

Country	2012	2013
Austria		
WIFO	-3.0	-2.6
Belgium		
FPB	n/a	n/a
IRES	-2.8	n/a
Denmark		
DEC	-5.1	-3.0
Finland		
ETLA	-0.7	-0.4
France		
INSEE	n/a	n/a
BIPE	-4.6	-3.6
COEREXECODE	4.5	-3.8
OFCE	-4.4	-3.5
Germany		
DIW	-0.7	-0.3
IFW	-0.7	-0.6
RWI	-0.7	-0.3
Greece		
KEPE	n/a	n/a
Hungary		
GKI	-2.9	-2.9
KOPINT	-2.9	-2.9
Ireland		
ESRI	-8.6	-7.5
Italy		
ISTAT	n/a	n/a
CONFINDUSTRIA	-1.5	-0.1
PROMETEIA	1.6	0.4
Netherlands		
СРВ	-4.6	-4.6
Norway		
SSB	n/a	n/a
Poland		
IBRKK	-3.1	-2.5
Serbia		
FTRI	-4.6	-3.9
Slovak Republic		
SAVBA	-4.6	-3.0
Slovenia		
SKEP	n/a	n/a
Spain		
DGAMEI	-5.3	-3.0
CEPREDE	-5.8	-3.2
Sweden		
CSE	n/a	n/a
NIER	-0.4	0.2
Switzerland		
KOF	0.8	0.4
United Kingdom		
NIESR	-9.3	-8.3

Variable	2012	2013
Number	24	23
Average	-2.9	-2.6
Std. dev.	3.1	2.3
Max	4.5	0.4
Min	-9.3	-8.3
Std. dev./Avg	-1.1	-0.9

**Frequency Distribution of the Answers** 





### World trade volume (goods)

Country	2012	2013
Austria		
WIFO	5.0	7.0
Belgium		
FPB	n/a	n/a
IRES	n/a	n/a
Denmark		
DEC	n/a	n/a
Finland		
ETLA	4.0	5.0
France		
INSEE	n/a	n/a
BIPE	n/a	n/a
COEREXECODE	4.3	6.0
OFCE	n/a	n/a
Germany		
DIW	n/a	n/a
IFW	5.0	6.5
RWI	3.7	6.7
Greece		
KEPE	n/a	n/a
Hungary		
GKI	7.0	4.0
KOPINT	4.0	5.5
Ireland	-	
ESRI	n/a	n/a
Italy		
ISTAT	3.9	n/a
CONFINDUSTRIA	25	6.9
PROMETEIA	2.8	4.9
Netherlands	2.0	
CPB	-1.8	4.5
Norway		
SSB	17	32
Poland		0.2
IBRKK	4 0	5.0
Serbia		0.0
FTRI	n/a	n/a
Slovak Republic	n/a	Π/α
SAVBA	n/a	n/a
Slovenia	n/a	n/a
SKEP	n/a	n/a
Snain	n/a	Π/α
DGAMEL	3.8	54
CEPREDE	7.0	0. <del>4</del> 6.5
Sweden	7.0	0.0
CSE	n/a	n/a
NIER	n/a	n/a
Switzorland	II/a	11/a
	10	10
NUF United Kingdom	4.2	4.0
	20	77
NIESK	3.8	1.1

Variable	2012	2013
Number	17	16
Average	3.8	5.6
Std. dev.	2.0	1.2
Max	7.0	7.7
Min	-1.8	3.2
Std. dev./Avg	0.5	0.2





# **Country Forecasts**

Austria	WIFO		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	301.3	0.4	1.4
Private consumption	161.6	0.8	0.9
Public consumption	58.1	-1.0	-1.0
Gross fixed capital formation	63.5	1.1	2.0
Equipment	25.1	1.8	3.5
Construction	33.7	0.4	0.6
Government			
Change in stocks (1)			
Total domestic demand	292.3	0.3	0.8
Exports of goods and services	170.6	3.3	5.9
Imports of goods and services	161.7	3.2	5.0
Net Exports (1)		0.3	0.9
GDP deflator (in %)		1.7	1.4
Consumer prices (in %)		2.4	2.0
Private consumption deflator (in %)		2.4	2.0
Output gap (2)			
Unit labour costs (3)		3.6	1.3
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	4304.1	0.9	0.6
Unemployment rate (4)		4.6	4.8
Real household disposable income		0.7	1.0
Net saving ratio (households) (5)		7.8	7.9
Public sector fiscal balance (6,7)		-3.0	-2.6
Gross public debt (6,7)		74.9	76.0
Current account balance (6)		1.4	1.8
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)		1.1	1.5
Long-term interest rate (10 years) (9)		2.9	2.9
World trade volume (goods)		5	7

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Belgium	FPB		
Variables	Level (Euro bn., current	Volume (% change from	
	prices)	previo	ous year)
	2011	2012	2013
GDP	369.5	0.1	
Private consumption	195.4	-0.1	
Public consumption	88.9	0.9	
Gross fixed capital formation	77.1	0.7	
Private. excl. dwellings	50.1	0.9	
Dwellings	20.4	_3.2	
Government	6.6	11.6	
Change in stocks (1)		0.0	
Total domestic demand	364.4	0.3	
Exports of goods and services	313.4	0.5	
Imports of goods and services	308.3	0.7	
Net exports (1)		-0.2	
GDP deflator (in %)		2.2	
Consumer prices (in %)		2.7	
Private consumption deflator (in %)		2.7	
Output gap (2)		-1.8	
Unit labour costs (3)		3.3	
Nominal hourly gross wage rate (in euro)	25.8	3.2	
Employment (thousands)	4547.5	0.1	
Unemployment rate (4)		7.5	
Real household disposable income		-1.0	
Net saving ratio (households) (5)		10.7	
Public sector fiscal balance (6,7)			
Gross public debt (6,7)			
Current account balance (6)		-1.0	
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)		0.6	
Long-term interest rate (10 years) (9)		3.8	
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Belgium	IRES		
Variables	Level (Euro bn., current prices)	Volume (% o previou	change from us year)
	2011	2012	2013
GDP		-0.2	
Private consumption		-0.2	
Public consumption		0.6	
Gross fixed capital formation		0.6	
Private. excl. dwellings		1.3	
Dwellings		-2.8	
Government		5.4	
Change in stocks (1)		-0.3	
Total domestic demand		-0.1	
Exports of goods and services		1.0	
Imports of goods and services		1.1	
Net exports (1)		-0.1	
GDP deflator (in %)			
Consumer prices (in %)		2.9	
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)		0.0	
Unemployment rate (4)		7.6	
Real household disposable income		-0.7	
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-2.8	
Gross public debt (6,7)			
Current account balance (6)			
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Denmark	DEC		
Variables	Level (Euro bn., current	Volume (% change from	
	prices)	previou	is year)
	2011	2012	2013
GDP	239.4	1.2	1.1
Private consumption	117.2	2.3	1.4
Public consumption	68.7	0.7	0.1
Gross fixed capital formation	41.1	2.7	2.2
Private. excl. dwellings	24.6	3.3	2.8
Dwellings	11.0	1.1	0.5
Government	5.6	11.0	24.0
Change in stocks (1)		0.5	0.4
Total domestic demand	226.6	2.5	1.6
Exports of goods and services	129.4	2.7	3.7
Imports of goods and services	116.5	5.2	4.7
Net exports (1)		-1.1	-0.4
GDP deflator (in %)		1.9	1.7
Consumer prices (in %)			
Private consumption deflator (in %)		1.9	1.7
Output gap (2)		-4.4	-4.4
Unit labour costs (3)		0.3	0.8
Nominal hourly gross wage rate (in euro)		1.8	1.8
Employment (thousands)	2736.0	2731.0	2736.0
Unemployment rate (4)		8.2	8.4
Real household disposable income		2.2	-0.8
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-5.1	-3.0
Gross public debt (6,7)		43.0	44.6
Current account balance (6)		5.2	5.0
Central bank policy rate (8)		0.7	0.7
Short-term interest rate (3 months) (9)		1.2	1.2
Long-term interest rate (10 years) (9)		1.8	2.1
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Finland	ETLA		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	191.6	0.9	2.6
Private consumption	105.3	1.7	1.5
Public consumption	45.7	0.5	0.5
Gross fixed capital formation	36.7	-1.1	3.7
Private. excl. dwellings	19.2	-1.4	3.8
Dwellings	12.7	-1.5	3.2
Government	4.8	1.0	4.5
Change in stocks (1)			
Total domestic demand	192.6	0.9	1.7
Exports of goods and services	74.9	2.3	5.5
Imports of goods and services	75.9	2.7	3.8
Net exports (1)			
GDP deflator (in %)		0.8	1.4
Consumer prices (in %)		2.7	1.8
Private consumption deflator (in %)		2.5	1.7
Output gap (2)			
Unit labour costs (3)		2.7	1.1
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	2474.0	2474.0	2489.0
Unemployment rate (4)		7.7	7.3
Real household disposable income		2.4	3.3
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-0.7	-0.4
Gross public debt (6,7)		51.4	52.7
Current account balance (6)		-1.2	-0.6
Central bank policy rate (8)		0.8	1.1
Short-term interest rate (3 months) (9)		0.9	1.2
Long-term interest rate (10 years) (9)			
World trade volume (goods)		3.971244349	4.954765721

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

France	BIPE				
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)		rel (Euro bn., current Volume (% ch prices) previous	change from us year)
	2011	2012	2013		
GDP	1996.1	0.7	1.2		
Private consumption	1150.6	0.4	1.0		
Public consumption	488.8	0.2	-0.4		
Gross fixed capital formation	394.7	1.5	1.9		
Private. excl. dwellings	221.6	1.8	3.1		
Dwellings	112.0	0.9	0.4		
Government	59.2	1.0	0.2		
Change in stocks (1)		-0.1	0.4		
Total domestic demand	2055.4	1.0	0.8		
Exports of goods and services	535.1	4.1	4.2		
Imports of goods and services	594.4	3.2	4.1		
Net exports (1)		0.2	-0.1		
GDP deflator (in %)		1.8	1.9		
Consumer prices (in %)		2.0	2.0		
Private consumption deflator (in %)		1.5	1.9		
Output gap (2)		-1.1	-0.6		
Unit labour costs (3)					
Nominal hourly gross wage rate (in euro)		1.9	2.2		
Employment (thousands)	24397.6	-0.4	0.3		
Unemployment rate (4)		10.4	10.5		
Real household disposable income		0.3	0.6		
Net saving ratio (households) (5)					
Public sector fiscal balance (6,7)		-4.6	-3.6		
Gross public debt (6,7)		87.9	88.9		
Current account balance (6)		-2.9	-3.0		
Central bank policy rate (8)		1.0	1.0		
Short-term interest rate (3 months) (9)		1.4	1.7		
Long-term interest rate (10 years) (9)		3.2	3.5		
World trade volume (goods)					

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Variables	Level (Euro bn., current	Volume (% d	change from
	prices)	previous year)	
	2011	2012	2013
GDP		0.6	1.4
Private consumption		0.3	0.8
Public consumption		0.6	0.3
Gross fixed capital formation		2.0	2.7
Private. excl. dwellings		2.3	4.7
Dwellings		1.7	-1.3
Government		1.3	1.6
Change in stocks (1)		-0.8	0.2
Total domestic demand		-0.1	1.2
Exports of goods and services		2.7	6.0
Imports of goods and services		0.3	5.4
Net exports (1)		0.7	0.2
GDP deflator (in %)		1.7	1.9
Consumer prices (in %)		1.9	2.0
Private consumption deflator (in %)		1.9	2.1
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)		1.8	1.9
Employment (thousands)		26843.6	26951.3
Unemployment rate (4)		9.8	9.8
Real household disposable income		-0.1	0.4
Net saving ratio (households) (5)		16.6	16.2
Public sector fiscal balance (6,7)		4.5	-3.8
Gross public debt (6,7)			
Current account balance (6)		-1.7	-1.5
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)		2.9	3.3
World trade volume (goods)		4.3	6

COEREXECODE

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

France

(7) EMU definition.

(8) In percent; non-EMU countries.

France	OFCE		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP		0.2	0.7
Private consumption		-0.1	0.9
Public consumption		0.7	0.4
Gross fixed capital formation		1.0	0.7
Private. excl. dwellings		0.9	0.6
Dwellings		1.2	0.9
Government		1.2	0.6
Change in stocks (1)		-0.6	0.0
Total domestic demand		-0.3	0.7
Exports of goods and services		1.2	0.7
Imports of goods and services		-0.7	0.7
Net exports (1)		0.5	0.0
GDP deflator (in %)			
Consumer prices (in %)		1.9	1.2
Private consumption deflator (in %)			
Output gap (2)		-6.9	-7.7
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)		-66.9	-132.5
Unemployment rate (4)		9.8	10.5
Real household disposable income			
Net saving ratio (households) (5)		16.9	16.9
Public sector fiscal balance (6,7)		-4.4	-3.5
Gross public debt (6,7)		88.7	90.0
Current account balance (6)		-2.5	-2.5
Central bank policy rate (8)		1.0	1.0
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Germany	DIW		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	2570.8	1.0	2.4
Private consumption	1474.4	1.1	1.6
Public consumption	502.9	1.3	0.7
Gross fixed capital formation	462.0	1.9	4.8
Private. excl. dwellings	467.7	2.0	4.6
Dwellings	255.5	-0.4	1.7
Government	32.8	-0.3	-1.0
Change in stocks (1)		0.0	0.0
Total domestic demand	2439.4	1.3	2.0
Exports of goods and services	1289.2	3.0	7.4
Imports of goods and services	1157.7	3.8	7.0
Net exports (1)		-0.2	0.5
GDP deflator (in %)		1.3	1.8
Consumer prices (in %)		1.6	2.0
Private consumption deflator (in %)		2.0	1.8
Output gap (2)		-0.7	0.1
Unit labour costs (3)		2.3	1.0
Nominal hourly gross wage rate (in euro)	22.1	3.1	2.6
Employment (thousands)	41099.8	0.7	0.6
Unemployment rate (4)		5.8	5.5
Real household disposable income		1.2	1.5
Net saving ratio (households) (5)		11.1	11.0
Public sector fiscal balance (6,7)		-0.7	-0.3
Gross public debt (6,7)		82.3	79.5
Current account balance (6)		4.5	4.8
Central bank policy rate (8)		1.0	1.0
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Germany	I	IFW		
Variables	Level (Euro bn., current prices)	Volume (% previo	change from us year)	
	2011	2012	2013	
GDP	2570.7	0.7	1.9	
Private consumption	1474.5	0.7	1.1	
Public consumption	502.9	1.2	1.5	
Gross fixed capital formation	467.7	2.9	6.2	
Private. excl. dwellings	290.5	3.2	7.6	
Dwellings	144.4	2.7	4.6	
Government	32.8	1.8	1.0	
Change in stocks (1)		0.0	0.0	
Total domestic demand	2439.4	1.2	2.1	
Exports of goods and services	1289.1	2.2	4.8	
Imports of goods and services	1157.7	3.5	5.7	
Net exports (1)		-0.4	-0.2	
GDP deflator (in %)		1.7	1.9	
Consumer prices (in %)		2.5	2.3	
Private consumption deflator (in %)		2.3	2.1	
Output gap (2)		-0.3	0.2	
Unit labour costs (3)		3.4	2.4	
Nominal hourly gross wage rate (in euro)	22.1	3.4	3.3	
Employment (thousands)	41099.5	1.2	1.1	
Unemployment rate (4)		4.8	4.0	
Real household disposable income		0.7	1.1	
Net saving ratio (households) (5)		10.9	10.9	
Public sector fiscal balance (6,7)		-0.7	-0.6	
Gross public debt (6,7)		79.2	77.3	
Current account balance (6)		5.0	4.8	
Central bank policy rate (8)		1.0	1.0	
Short-term interest rate (3 months) (9)		1.0	1.1	
Long-term interest rate (10 years) (9)		2.0	2.3	
World trade volume (goods)		5	6.5	

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Germany	ermany RWI		
Variables	Level (Euro bn., current prices)	Volume (% previor	change from us year)
	2011	2012	2013
GDP	2570.8	1.0	2.0
Private consumption	1474.4	0.9	1.1
Public consumption	502.9	1.4	1.5
Gross fixed capital formation	467.7	1.9	3.6
Private. excl. dwellings	290.5	1.8	3.6
Dwellings	144.4	2.6	4.0
Government	32.8	-0.8	1.2
Change in stocks (1)		0.0	-0.1
Total domestic demand	2439.4	1.2	1.5
Exports of goods and services	1289.2	2.4	4.8
Imports of goods and services	1157.7	3.0	4.1
Net exports (1)		-0.1	0.5
GDP deflator (in %)		1.5	1.6
Consumer prices (in %)		2.2	1.9
Private consumption deflator (in %)		1.8	1.5
Output gap (2)		-0.3	0.3
Unit labour costs (3)		2.2	1.2
Nominal hourly gross wage rate (in euro)	22.1	2.8	2.8
Employment (thousands)	41100.0	1.1	0.6
Unemployment rate (4)		5.1	4.7
Real household disposable income		0.9	1.2
Net saving ratio (households) (5)		11.0	11.0
Public sector fiscal balance (6,7)		-0.7	-0.3
Gross public debt (6,7)			
Current account balance (6)		5.4	6.0
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)		2.0	2.4
World trade volume (goods)		3.7	6.7

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Greece	KEPE		
Variables	Level (Euro bn., current prices)	t Volume (% change fr previous year)	
	2011	2012	2013
GDP	215088.2	-4.7	-1.5
Private consumption	158880.3	-5.6	-3.4
Public consumption	37534.8	-5.5	-2.2
Gross fixed capital formation	30012.4	-18.0	-12.0
Private. excl. dwellings	21,81		
Dwellings	8292.4		
Government			
Change in stocks (1)			
Total domestic demand	229867.0	-7.3	-4.3
Exports of goods and services	51664.8	1.5	2.5
Imports of goods and services	67690.5	-9.8	-8.0
Net exports (1)			
GDP deflator (in %)			
Consumer prices (in %)		1.6	1.5
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	4388.6		
Unemployment rate (4)		21.1	
Real household disposable income			
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)			
Gross public debt (6,7)			
Current account balance (6)			
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Hungary	GKI		
Variables	Level (Euro bn., current prices)	Volume (% previor	change from us year)
	2011	2012	2013
GDP	28154.0	-1.5	1.5
Private consumption	17858.0	-2.5	0.5
Public consumption	2941.0	-2.0	0.5
Gross fixed capital formation	4706.0	-4.0	5.0
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)		-0.5	-3.4
Total domestic demand	25737.0	-4.1	0.1
Exports of goods and services	25972.0	7.0	9.0
Imports of goods and services	23555.0	5.0	8.5
Net exports (1)		11.0	12.3
GDP deflator (in %)		4.5	3.0
Consumer prices (in %)		5.3	4.0
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)		5.5	3.5
Employment (thousands)	3800000.0	-0.8	0.8
Unemployment rate (4)		11.0	10.0
Real household disposable income		-2.5	2.0
Net saving ratio (households) (5)		5.0	4.0
Public sector fiscal balance (6,7)		-2.9	-2.9
Gross public debt (6,7)		75.0	75.0
Current account balance (6)		1.5	1.6
Central bank policy rate (8)		7.0	6.5
Short-term interest rate (3 months) (9)		7.5	7.0
Long-term interest rate (10 years) (9)		9.5	8.0
World trade volume (goods)		7	4

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Hungary	KOPINT		
Variables	Level (Euro bn., current prices)	Volume (% previo	change from us year)
	2011	2012	2013
GDP	100.8	0.3	1.5
Private consumption	64.4	-1.2	1.0
Public consumption	10.1	-2.0	-0.5
Gross fixed capital formation	16.9	-5.0	0.0
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)			
Total domestic demand	93.4	-1.9	-0.1
Exports of goods and services	93.0	6.0	7.0
Imports of goods and services	85.6	4.3	6.6
Net exports (1)		9.3	10.3
GDP deflator (in %)		4.5	3.0
Consumer prices (in %)		5.4	3.5
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal monthly gross wage rate (in euro	763.0	4.5	5.0
Employment (thousands) (15-74)	3812.0	0.0	0.0
Unemployment rate (4)		10.9	10.7
Real household disposable income		-2.5	1.0
Net saving ratio (households) (5)		9.1	9.0
Public sector fiscal balance (6,7)		-2.9	-2.9
Gross public debt (6,7)		80.0	80.0
Current account balance (6)		1.9	1.8
Central bank policy rate (8)		6.5	6.5
Short-term interest rate (3 months) (9)		6.0	5.5
Long-term interest rate (10 years) (9)		8.5	8.0
World trade volume (goods)		4	5.5

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Ireland	ESRI		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	154.9	0.9	2.3
Private consumption	81.3	-1.8	-1.0
Public consumption	25.4	-2.5	-2.0
Gross fixed capital formation	18.1	-3.3	-1.9
Private. excl. dwellings			
Dwellings	3.1	-4.6	0.0
Government			
Change in stocks (1)			
Total domestic demand	123.1	-2.3	-0.5
Exports of goods and services	164.6	3.4	3.8
Imports of goods and services	133.0	1.1	1.6
Net exports (1)			
GDP deflator (in %)		1.2	0.6
Consumer prices (in %)		1.6	1.3
Private consumption deflator (in %)		1.3	1.6
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)		1777.0	1763.0
Unemployment rate (4)		14.0	13.7
Real household disposable income			
Net saving ratio (households) (5)		11.7	11.4
Public sector fiscal balance (6,7)		-8.6	-7.5
Gross public debt (6,7)		115.0	120.0
Current account balance (6)		2.7	4.3
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
vvoria trade volume (goods)			

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Italy

### CONFINDUSTRIA

Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	0011	0040	
000	2011	2012	2013
GDP	1580220.2	-1.6	0.6
Private consumption	962593.0	-1.0	0.4
Public consumption	330718.3	-0.8	-0.4
Gross fixed capital formation	308561.4	-4.8	1.7
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)		-0.3	0.1
Total domestic demand			
Exports of goods and services	454479.0	0.2	3.6
Imports of goods and services	477738.1	-1.3	3.4
Net exports (1)		0.4	0.0
GDP deflator (in %)		2.3	2.2
Consumer prices (in %)		2.2	2.1
Private consumption deflator (in %)		2.3	2.2
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	24036.0	-0.6	-0.2
Unemployment rate (4)		8.6	9.0
Real household disposable income			
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-1.5	-0.1
Gross public debt (6,7)			
Current account balance (6)		-2.5	-2.0
Central bank policy rate (8)		0.6	0.5
Short-term interest rate (3 months) (9)		0.7	0.6
Long-term interest rate (10 years) (9)			
World trade volume (goods)		2.5	6.9

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Italy PRC			EIA	
Variables	Level (Euro bn., current Volume (% c prices) previou		hange from Is year)	
	2011	2012	2013	
GDP	1580.8	-1.4	0.4	
Private consumption	962.6	-2.2	-0.6	
Public consumption	330.7	-1.8	-0.2	
Gross fixed capital formation	309.3	-3.8	2.3	
Private. excl. dwellings				
Dwellings	86.1	-3.9	-0.4	
Government				
Change in stocks (1)		-0.2	0.2	
Total domestic demand	1604.0	-2.6	-0.2	
Exports of goods and services	455.3	2.1	3.8	
Imports of goods and services	478.4	-2.2	2.0	
Net exports (1)		0.3	0.7	
GDP deflator (in %)		2.1	2.4	
Consumer prices (in %)		2.9	2.7	
Private consumption deflator (in %)		2.7	2.5	
Output gap (2)				
Unit labour costs (3)		1.7	1.4	
Nominal hourly gross wage rate (in euro)	)			
Employment (thousands)	22960.3	-0.5	0.0	
Unemployment rate (4)		9.2	8.9	
Real household disposable income		-2.7	-1.3	
Net saving ratio (households) (5)		8.2	8.0	
Public sector fiscal balance (6,7)		1.6	0.4	
Gross public debt (6,7)		122.0	119.0	
Current account balance (6)		-2.8	-2.1	
Central bank policy rate (8)				
Short-term interest rate (3 months) (9)		0.6	0.6	
Long-term interest rate (10 years) (9)		5.2	5.2	
World trade volume (goods)		2.8	4.9	

(2) Percent of potential GDP.

(3) In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Netherlands	CPB		
Variables	Level (Euro bn., current prices)	Volume (% previo	change from us year)
	2011	2012	2013
GDP	603.6	-0.8	1.3
Private consumption	270.5	-0.5	0.5
Public consumption	170.5	-0.8	0.3
Gross fixed capital formation	112.2	-3.3	3.8
Private. excl. dwellings	60.0	-3.3	7.5
Dwellings	29.8	-3.5	0.3
Government	22.4	-2.5	-1.5
Change in stocks (1)		-0.3	0.0
Total domestic demand	555.4	-1.3	1.0
Exports of goods and services	499.0	-0.8	3.0
Imports of goods and services	450.7	-1.5	2.8
Net exports (1)		0.5	0.5
GDP deflator (in %)		1.8	1.5
Consumer prices (in %)		2.3	1.8
Private consumption deflator (in %)		2.3	1.8
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro	)		
Employment (thousands)	8356.5	0.5	-0.3
Unemployment rate (4)		5.5	6.0
Real household disposable income		0.0	1.3
Net saving ratio (households) (5)		7.3	8.0
Public sector fiscal balance (6,7)		-4.6	-4.6
Gross public debt (6,7)		70.2	73.0
Current account balance (6)		6.5	7.4
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)		1.0	0.8
Long-term interest rate (10 years) (9)		2.3	2.8
World trade volume (goods)		-1.75	4.5

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Norway	22B		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP**		2.6	2.8
Private consumption		3.2	4.0
Public consumption		2.2	2.8
Gross fixed capital formation		7.2	4.2
Private. excl. dwellings			
Dwellings		6.6	4.8
Government		-1.1	6.5
Change in stocks (1)		-0.4	0.0
Total domestic demand**		3.2	3.8
Exports of goods and services***		-2.0	1.3
Imports of goods and services***		4.1	5.5
Net exports (1)			
GDP deflator (in %)**		2.2	2.6
Consumer prices (in %)		1.3	1.7
Private consumption deflator (in %)		1.0	1.4
Output gap (2)			
Unit labour costs (3)		1.9	1.5
Nominal hourly gross wage rate (in euro)		3.6	3.7
Employment (thousands)		1.1	1.4
Unemployment rate (4)		3.4	3.5
Real household disposable income		3.6	3.8
Net saving ratio (households) (5)		8.4	8.3
Public sector fiscal balance (6,7)			
Gross public debt (6,7)			
Current account balance (6)		10.2	-4.6
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)		2.8	3.1
Long-term interest rate (10 years) (9)			
World trade volume (goods)****		1.7	3.2

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

(9) In percent; defined as the benchmark yield of corresponding government securities.

\*\*Mainland Norway

\*\*\*Traditional goods

\*\*\*\*Norway's trading partners
## Poland IB Variables Level (Euro bn., current 2011 GDP 369.6 Private consumption 226.6

GDP	369.6	2.9	2.4
Private consumption	226.6	1.9	2.1
Public consumption	67.2	0.0	1.0
Gross fixed capital formation	75.0	6.0	3.3
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)		0.1	0.0
Total domestic demand	374.3	2.5	2.2
Exports of goods and services	165.3	6.0	7.0
Imports of goods and services	170.0	5.0	6.5
Net exports (1)		0.4	0.2
GDP deflator (in %)		3.5	2.8
Consumer prices (in %)		3.7	2.9
Private consumption deflator (in %)		3.7	2.9
Output gap (2)		-0.8	-1.4
Unit labour costs (3)		1.6	1.5
Nominal hourly gross wage rate (in euro)	4.1	4.5	4.1
Employment (thousands)	16131.0	0.0	-0.2
Unemployment rate (4)		9.9	10.1
Real household disposable income		0.8	1.0
Net saving ratio (households) (5)		5.9	5.1
Public sector fiscal balance (6,7)		-3.1	-2.5
Gross public debt (6,7)		57.2	55.0
Current account balance (6)		-4.0	-4.2
Central bank policy rate (8)		4.3	4.3
Short-term interest rate (3 months) (9)		4.4	4.2
Long-term interest rate (10 years) (9)		5.4	5.3
World trade volume (goods)		4	5

**IBRKK** 

2012

Volume (% change from

2013

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Serbia	FTRI		
Variables	Level (Euro bn., current prices)	bn., current Volume (% change from ces) previous year)	
	2011	2012	2013
GDP	32.4	0.5	1.8
Private consumption	25.9	3.0	3.5
Public consumption	6.5	3.6	2.4
Gross fixed capital formation	5.9	1.4	2.6
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)			
Total domestic demand		-0.6	1.8
Exports of goods and services	11.5	9.6	11.2
Imports of goods and services	16.8	8.7	12.8
Net exports (1)			
GDP deflator (in %)			
Consumer prices (in %)		8.0	6.0
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro	)		
Employment (thousands)	1680.0		
Unemployment rate (4)		25.4	24.6
Real household disposable income			
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-4.6	-3.9
Gross public debt (6,7)		46.7	45.6
Current account balance (6)		-9.8	-8.7
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

## **Slovak Republic**

## SAVBA

Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	69.1	1.9	2.0
Private consumption	39.0		
Public consumption	12.5		
Gross fixed capital formation	15.5		
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)			
Total domestic demand	67.3		
Exports of goods and services	61.5	6.5	8.2
Imports of goods and services	59.7	5.3	7.4
Net exports (1)			
GDP deflator (in %)			
Consumer prices (in %)		3.1	2.5
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	2351.4	0.2	0.9
Unemployment rate (4)		13.5	13.1
Real household disposable income			
Net saving ratio (households) (5)			
Public sector fiscal balance (6,7)		-4.6	-3.0
Gross public debt (6,7)		47.5	50.1
Current account balance (6)			
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)			

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Slovenia	SKEP		
Variables	Level (Euro bn., current prices)	Volume (% o previou	change from us year)
	2011	2012	2013
GDP	35.6	-1.2	0.7
Private consumption	20.2	-0.9	-0.3
Public consumption	7.3	-2.1	-0.4
Gross fixed capital formation	6.9	-6.0	0.0
Private. excl. dwellings			
Dwellings			
Government			
Change in stocks (1)			
Total domestic demand		3.8	6.0
Exports of goods and services	25.8	2.9	4.7
Imports of goods and services	25.4		
Net exports (1)			
GDP deflator (in %)			
Consumer prices (in %)		2.1	1.9
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)		1.6	1.9
Employment (thousands)	824.0	-1.4	-0.7
Unemployment rate (4)		9.0	9.5
Real household disposable income			
Net saving ratio (households) (5)			
Public sector fiscal balance $(6,7)$		10.0	10.0
Gross public debt (6,7)		42.0	40.0
Current account balance (6)		-3.5	-2.9
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
vvorid trade volume (goods)			

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Spain	DGAMEI		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP	1073383.0	-1.7	0.5
Private consumption	625363.0	-1.4	0.3
Public consumption	217675.0	-11.5	-4.4
Gross fixed capital formation	232429.0	-7.7	-1.4
Private. excl. dwellings		-6.4	0.6
Dwellings		-4.5	3.3
Government	29.6	-39.5	-30.0
Change in stocks (1)		0.0	0.0
Total domestic demand	1 079782	-4.8	-1.0
Exports of goods and services	323198.0	3.5	5.7
Imports of goods and services	329597.0	-6.4	1.4
Net exports (1)		3.1	1.4
GDP deflator (in %)		1.0	1.8
Consumer prices (in %)			
Private consumption deflator (in %)		1.6	2.4
Output gap (2)			
Unit labour costs (3)		-1.7	-1.0
Nominal hourly gross wage rate (in euro)			
Employment (thousands)		-631.1	-43.6
Unemployment rate (4)		24.3	24.2
Real household disposable income			
Net saving ratio (households) (5)		10.8	9.9
Public sector fiscal balance (6,7)		-5.3	-3.0
Gross public debt (6,7)		79.7	81.0
Current account balance (6)		-0.6	0.7
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)			
Long-term interest rate (10 years) (9)			
World trade volume (goods)		3.8	5.4

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Spain	CEPREDE		
Variables	Level (Euro bn., current	Volume (% change from	
	prices)	previo	us year)
	2011	2012	2013
GDP	1073383.0	-0.8	-0.4
Private consumption	625363.0	-1.5	0.0
Public consumption	217675.0	-8.1	-8.1
Gross fixed capital formation	232429.0	-9.8	-4.2
Private. excl. dwellings	127528.2	2.9	4.4
Dwellings	73710.0	-5.0	-1.7
Government	31190.8	-40.0	-25.0
Change in stocks (1)		-0.1	0.0
Total domestic demand	1079782.0	-4.8	-2.6
Exports of goods and services	323198.0	2.8	4.8
Imports of goods and services	329597.0	-9.7	-1.0
Net exports (1)		3.8	1.8
GDP deflator (in %)		0.7	1.6
Consumer prices (in %)			
Private consumption deflator (in %)		2.2	2.3
Output gap (2)			
Unit labour costs (3)		-0.5	0.8
Nominal hourly gross wage rate (in euro)	21.4	1.2	1.5
Employment (thousands)	18104.6	-2.5	-1.2
Unemployment rate (4)		23.4	24.3
Real household disposable income		-3.5	-1.5
Net saving ratio (households) (5)		10.0	9.8
Public sector fiscal balance (6,7)		-5.8	-3.2
Gross public debt (6,7)		72.1	75.0
Current account balance (6)		-4.2	-3.9
Central bank policy rate (8)		1.0	1.3
Short-term interest rate (3 months) (9)		1.1	1.2
Long-term interest rate (10 years) (9)		5.2	5.0
World trade volume (goods)		7	6.5

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Sweden	en CSE		
Variables	Level (Euro bn., current prices)	Volume (% o previou	change from ıs year)
	2011	2012	2013
GDP	387.0	0.2	1.7
Private consumption	184.4	1.5	2.5
Public consumption	102.7	1.4	1.5
Gross fixed capital formation	75.7	2.0	1.0
Private. excl. dwellings	44.2	3.2	0.8
Dwellings	14.4	-3.1	0.8
Government	12.3	3.4	1.7
Change in stocks (1)		-1.1	-0.1
Total domestic demand	362.9	0.4	0.8
Exports of goods and services	193.5	-1.5	3.5
Imports of goods and services	169.4	-1.3	4.0
Net exports (1)		-0.2	0.0
GDP deflator (in %)			
Consumer prices (in %)		1.3	1.7
Private consumption deflator (in %)			
Output gap (2)			
Unit labour costs (3)			
Nominal hourly gross wage rate (in euro)	)		
Employment (thousands)	4642.0	-0.2	0.4
Unemployment rate (4)		7.9	7.9
Real household disposable income		1.5	1.7
Net saving ratio (households) (5)		9.6	8.9
Public sector fiscal balance (6,7)			
Gross public debt (6,7)			
Current account balance (6)		6.3	4.9
Central bank policy rate (8)		1.4	1.3
Short-term interest rate (3 months) (9)		1.4	1.5
Long-term interest rate (10 years) (9)		1.9	2.3
World trade volume (goods)			

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Sweden	NIER		
Variables	Level (Euro bn., current	Volume (% change from	
	prices)	previo	us year)
	2011	2012	2013
GDP	387.0	0.4	2.5
Private consumption	184.4	1.5	3.1
Public consumption	102.7	0.4	0.7
Gross fixed capital formation	70.9	1.4	4.5
Private. excl. dwellings	44.2	5.2	5.6
Dwellings	14.4	-6.9	5.8
Government	12.3	-2.9	-1.2
Change in stocks (1)		-0.9	0.0
Total domestic demand	362.9	0.2	2.7
Exports of goods and services	193.5	0.4	4.5
Imports of goods and services	169.4	-0.1	5.4
Net exports (1)		0.3	-0.1
GDP deflator (in %)		1.3	1.7
Consumer prices (in %)		1.5	1.4
Private consumption deflator (in %)		0.9	1.3
Output gap (2)		-3.1	-1.9
Unit labour costs (3)		6.1	2.5
Nominal hourly gross wage rate (in euro)		5.8	4.4
Employment (thousands)	4642.2	-0.1	0.6
Unemployment rate (4)		7.7	7.7
Real household disposable income		2.3	2.1
Net saving ratio (households) (5)		10.3	9.5
Public sector fiscal balance (6,7)		-0.4	0.2
Gross public debt (6,7)		36.5	35.1
Current account balance (6)		6.9	6.8
Central bank policy rate (8)		1.5	1.5
Short-term interest rate (3 months) (9)		1.6	1.6
Long-term interest rate (10 years) (9)		2.1	2.7
World trade volume (goods)			

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.

Switzerland	KOF		
Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP		0.8	1.9
Private consumption		1.7	1.8
Public consumption		1.0	0.9
Gross fixed capital formation		3.1	3.3
Private. excl. dwellings		3.2	4.5
Dwellings		4.4	0.9
Government		0.1	2.4
Change in stocks (1)		0.1	0.9
Total domestic demand		2.1	3.1
Exports of goods and services		0.8	4.7
Imports of goods and services		3.7	7.9
Net exports (1)		-1.1	-0.8
GDP deflator (in %)		0.1	0.1
Consumer prices (in %)		-0.4	0.8
Private consumption deflator (in %)		0.0	0.4
Output gap (2)		-1.5	-1.6
Unit labour costs (3)		1.1	0.4
Nominal hourly gross wage rate (in euro)	)	2.3	2.2
Employment (thousands)		0.6	0.8
Unemployment rate (4)		3.2	3.2
Real household disposable income		2.2	3.1
Net saving ratio (households) (5)		16.3	17.3
Public sector fiscal balance (6,7)		0.8	0.4
Gross public debt (6,7)		36.2	35.7
Current account balance (6)		15.6	14.6
Central bank policy rate (8)			
Short-term interest rate (3 months) (9)		0.1	0.1
Long-term interest rate (10 years) (9)		1.0	1.5
World trade volume (goods)		4.2	4.8

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

Curit- and an

(7) EMU definition.

(8) In percent; non-EMU countries.

## **United Kingdom**

Variables	Level (Euro bn., current prices)	Volume (% change from previous year)	
	2011	2012	2013
GDP		-0.1	2.3
Private consumption		0.2	1.4
Public consumption		0.0	-0.6
Gross fixed capital formation		-5.8	3.9
Private. excl. dwellings		-6.0	4.1
Dwellings		-4.2	8.5
Government		-7.7	-4.1
Change in stocks (1)		-0.4	0.3
Total domestic demand		-1.1	1.6
Exports of goods and services		0.6	6.4
Imports of goods and services		-2.0	4.3
Net exports (1)		0.8	0.6
GDP deflator (in %)		0.8	1.6
Consumer prices (in %)		2.2	1.4
Private consumption deflator (in %)		1.7	1.4
Output gap (2)			
Unit labour costs (3)		1.4	0.8
Nominal hourly gross wage rate (in euro)			
Employment (thousands)	2580.0	-0.7	0.9
Unemployment rate (4)		8.9	8.5
Real household disposable income		0.9	1.9
Gross saving ratio (households) (5)		6.9	7.4
Public sector fiscal balance (6,7)		-9.3	-8.3
Gross public debt (6,7)		91.3	95.9
Current account balance (6)		-2.5	-1.3
Central bank policy rate (8)		0.5	0.5
Short-term interest rate (3 months) (9)		1.0	0.7
Long-term interest rate (10 years) (9)		2.1	2.3
World trade volume (goods and services)		3.8	7.7

**NIESR** 

(1) Percent of GDP of previous year (contribution to growth).

(2) Percent of potential GDP.

(3)In euro, current prices; defined as compensation of employees per head divided by labour productivity.

(4) Percent of total labour force (according to Eurostat).

(5) Percent of net disposable income.

(6) Percent of GDP.

(7) EMU definition.

(8) In percent; non-EMU countries.