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

Alert Mechanism Report 2019

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

{SWD(2018) 466 final}

The alert mechanism report (AMR) is the starting point of the annual cycle of the macroeconomic imbalance procedure (MIP), which aims to identify and address imbalances that hinder the smooth functioning of the economies of Member States or the economy of the EU and may jeopardise the proper functioning of the economic and monetary union.

The AMR uses a scoreboard of selected indicators, plus a wider set of auxiliary indicators and additional relevant information, to screen Member States for potential economic imbalances in need of policy action. The AMR identifies Member States for which analysis in an in-depth review (IDR) is needed to assess how macroeconomic risks in the Member States are accumulating or winding down, and to conclude whether imbalances or excessive imbalances exist. Taking into account discussions with the European Parliament and within the Council and the Eurogroup on the AMR, the Commission will then prepare IDRs for the Member States concerned. Following established practice, an IDR is at any event prepared for Member States for which imbalances were identified in the previous round of IDRs. IDR findings will feed into the country-specific recommendations (CSRs) under the European Semester of economic policy coordination. The IDRs are expected to be published in February 2019, ahead of the European Semester package of CSRs.

1. EXECUTIVE SUMMARY

This report initiates the eighth annual round of the macroeconomic imbalance procedure (MIP).[1] The procedure aims to identify imbalances that hinder the smooth functioning of Member State economies and to spur appropriate policy responses. The implementation of the MIP is embedded in the European semester of economic policy coordination so as to ensure consistency with the analyses and recommendations made under other economic surveillance tools. The annual growth survey (AGS), which is adopted at the same time as this report, takes stock of the economic and social situation in Europe and sets out broad policy priorities for the EU as a whole for the coming year.

The report identifies Member States for which in-depth reviews (IDRs) should be undertaken to assess whether they are affected by imbalances in need of policy action.[2] The alert mechanism report (AMR) is a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. In particular, it is based on an economic reading of a scoreboard of indicators with indicative thresholds, alongside a set of auxiliary indicators. The AMR also includes an analysis of the euro-area wide implications of Member States' imbalances and examines the extent to which a coordinated approach to policy responses is needed in light of interdependencies within the euro area.[3] In this particular respect, the analysis contained in this report complements the assessment provided in the European Commission Staff Working Document "Analysis of the Euro Area economy", accompanying the Commission Recommendation for a Council Recommendation on the economic policy of the Euro Area.

[1] This report is accompanied by a *statistical annex*, which contains a wealth of statistics that have contributed to inform this report.

[2] See Article 5 of Regulation (EU) No 1176/2011.

[3] More attention to the euro-area dimension of imbalances was proposed in the 22 June 2015 Report 'Completing Europe's Economic and Monetary Union' by Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz. The role of interdependencies and systemic implications of imbalances is recognised in Regulation (EU) No 1176/2011, which defines imbalances with reference to "macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole."

The AMR assessment is set against the backdrop of economic growth that remains broad-based despite some deceleration. The European Commission autumn 2018 economic forecast estimates real GDP growth to be 2.1% in 2018 and 1.9% in 2019 for both the EU and the euro area, slightly decelerating as compared with the 2.4% growth recorded in 2017. Positive growth is expected in all Member States. Employment conditions are expected to improve further and to gradually translate into more sustained wage growth, which would support consumption and underpin, over time, core inflation dynamics approaching the inflation target of monetary authorities; investment growth is expected to remain robust despite a slight deceleration. Conversely, there are indications of a softening contribution of net exports to growth, amid increased uncertainty on the trade policy environment and the unfolding of the recent euro appreciation. All in all, growth prospects remain anchored on sound fundamentals, including overall strong labour markets, supportive credit conditions, improved balance sheets and profits of banks and non-financial corporations, but are set to decelerate as the cycle in main world areas matures.[4]

The correction of macroeconomic imbalances in the EU is progressing on the back of strengthening nominal GDP growth, but the medium-term horizon is clouded by heightened uncertainty. The economic expansion and inflation rates gradually approaching target help the reduction of debt-to-GDP ratios. However, private and government debt stocks remain at historically high levels, and pockets of balance-sheet vulnerabilities in the financial sector persist. As inflation gradually approaches the ECB target, the case for monetary policy normalisation would strengthen, with implications for borrowing costs, asset prices and balance sheets. Against that background, a number of triggers could lead to a reversal in risk attitudes, with confidence effects affecting Member States with worsened prospects for public finances or the financial sector, or subject to negative output shocks (including linked to the implications of the United Kingdom withdrawal from the EU). A number of downward risks emanate from the extra-EU environment, notably relating to the materialisation of protectionist trade policy measures, implications of geo-political tensions notably for energy prices, the coming to an end of the US fiscal expansion in a context of monetary tightening, and the implications for capital flows and exchange rates arising from the asynchronous monetary policy normalisation across different areas of the world economy.[5] The interplay among those sources of risks is tilting the balance of risks downward, and making the outlook increasingly uncertain, in a context where the possibility of cushioning shocks via private and public savings is limited in a relevant number of Member States.

The horizontal analysis presented in the AMR leads to a number of conclusions:

- **The rebalancing of current account positions needs to continue.** Large current account deficits have been corrected in most Member States, but in a few cases more prudent external positions are required to maintain an appropriate pace of reduction for the stocks of net foreign liabilities. The reduction of some of the largest current account surpluses have become visible only recently and remain modest. In a number of Member States, current account figures are increasingly affected by cross-border transactions linked to the activities of multinational corporations and of internationally-oriented service sectors that affect both the trade and income balances.

- **External stock positions remain unbalanced, and adjustment is taking place gradually.** The large negative net international investment positions (NIIP) recorded in Member States

[4] See, e.g., ECB, Economic Bulletin, 5/2018.
[5] See also International Monetary Fund, World Economic Outlook, October 2018.

with a past of large current account deficits are under correction on the back of external flow positions close to balance or in surplus and resumed nominal GDP growth, which need to be sustained to achieve a reduction of liabilities to more prudent levels. NIIPs in countries with large surpluses continue growing.

- **Cost competitiveness conditions are becoming less favourable for a number of Member States, and overall less supportive of more symmetric rebalancing.** Since 2016, unit labour costs are growing at a faster rate in a majority of Member States, with strong accelerations recorded especially in a number of EU countries in central and eastern Europe partly due to supply bottlenecks. Post-crisis cost competitiveness gains were faster in euro-area net-debtor countries than in net-creditor countries. However, more recently, the advantage of net-debtor countries in terms of cost competitiveness dynamics has slowed in comparative terms due to tightening labour markets and a reduced pace of productivity improvements, while tight labour markets in net-creditor countries have not translated so far into significant wage accelerations. Those recent cost competitiveness evolutions are not fully reflected in a corresponding deterioration in price competitiveness, possibly owing to a compensating effect by lower price-cost margins. That effect could be among the reasons why there is no prima-facie evidence suggesting the cost competitiveness losses have already dented on export market share growth, but effects could become visible if such trends persist.

- **Private sector deleveraging is ongoing, increasingly on the back of resumed nominal growth.** Private debt-to-GDP ratios are falling in a higher number of Member States as compared with one year ago. This is due to higher nominal GDP growth, as active deleveraging, i.e. deleveraging on the back of contracting debt levels in nominal terms, is taking place in few countries only, and at subdued pace. Active deleveraging is mostly confined to the corporate sector as borrowing by households has regained more dynamism. The pace of deleveraging remains faster in the corporate sector than in the household sector, also because debt stocks are higher in the former and thereby the impact of nominal GDP growth on the debt ratio is stronger.

- **In countries with high levels of public debt, deleveraging by governments has started only recently and proceeds at low pace**. Despite resumed nominal growth and reduced interest payments having contributed to bring government debt-to-GDP ratios on a downward path in most Member States, pro-cyclical fiscal loosening is taking place in a growing number of countries, with implications on the room for cushioning shocks in bad times.

- **Conditions in the EU banking sector are improving but low levels of profitability and large stocks of non-performing loans (NPLs) persist in some Member States.** Profitability has improved especially in the countries where the banking sector is characterised by weak profitability. NPLs ratios have further declined, notably in the Member States where their stock is the highest. Capitalisation ratios have further improved in a majority of countries. Banks equity valuations grew until early 2018, and a downward correction took place afterwards.

- **House price growth has accelerated and turned positive in a growing number of Member States, and more countries are exhibiting possible signs of overvaluations.** At the same time, house price growth has recently moderated in the countries where the evidence of overvaluation is the highest. Conversely, strong accelerations are observed especially in countries that, at present, show no or moderate evidence of overvaluation.

- **Labour markets continue improving and wage growth is gradually resuming.** Unemployment rates are further declining, including for youth and long-term unemployed, but joblessness remains high in some Member States and labour market participation low albeit often increasing. Social distress is receding despite the legacy of protracted joblessness and reduced earnings in a number of countries.[6] Wage growth at euro-area level remains below what would be expected at the current levels of unemployment on the basis of historical data. Wages in EU countries are however, gradually resuming at differentiated speeds that broadly reflect the extent of labour market tightness and labour supply bottlenecks in some countries.

Euro-area rebalancing continues to deserve careful consideration. The euro-area current account surplus stabilised in 2016 and remained broadly constant afterwards. Its level is the largest worldwide, and is above levels consistent with economic fundamentals. In light of intra-euro-area interconnectedness and spillovers, an appropriate combination of policies across euro-area countries is needed to make sure that the resuming growth is sustainable, and compatible with macroeconomic stability. In net-debtor countries, running down large stocks of foreign and domestic debt requires maintaining prudent current account balances and ensuring an appropriate pace of debt reduction without undermining the objective of raising the growth potential and with a view to prevent the risk of pro-cyclical tightening in bad times. In net-creditor countries, addressing persistent large surpluses by means of policies stimulating investment and overcoming wage inertia would contribute to support the growth potential and make growth prospects less dependent upon foreign demand. Box 2 discusses more at length the euro area dimension of imbalances.

Overall, risks relating to existing imbalances continue receding on the back of the economic expansion, but vulnerabilities linked to stock imbalances persist, and signs of possible unsustainable trends are visible. Potential sources of risk are broadly the same as those identified in the AMR 2018. Large surpluses persist, while competitiveness developments have become less supportive of rebalancing. Private sector deleveraging has benefited from the economic expansion but remains uneven, with large stocks of debt not correcting at sufficient pace. More fundamentally, reduced active deleveraging from the private and notably the public sector brings the question whether deleveraging could increasingly rely on potential GDP growth going forward. Such a challenge underscores the need of continuing the reform process started in a number of EU countries in past years and keeping high in the agenda policies and reforms aimed at raising the growth potential.[7] In light of the increasingly uncertain medium-term outlook, deleveraging efforts by the private and public sector in the current times of continued economic expansion are key also with a view to create room to cushion negative output shocks once economic conditions become less supportive and risks materialise. At the same time, in a number of countries signs of possible overheating are present, mainly linked to fast-growing unit labour costs implying reduced cost competitiveness, and dynamic house price growth from already relatively elevated levels. In light of the correction of most flow imbalances and the gradual reduction of the gravity of stock imbalances, and possible signs of overheating present in a number of countries, the orientation of MIP surveillance is gradually paying more attention to the monitoring of possibly unsustainable trends and the prevention of configurations of risks that could crystallise over the medium term.

For a number of Member States identified in the AMR, more detailed and encompassing analyses will be contained in the IDRs. As in recent annual cycles, IDRs will be embedded in the country reports, which provide the Commission services' analysis of the economic and social

[6] See Box 3 for an overview of main recent employment and social developments in the EU.
[7] See also European Commission, Annual Growth Survey 2019.

challenges in the EU Member States. To prepare the IDRs, the Commission will base its analysis on a rich set of data and relevant information and assessment frameworks developed by the Commission in cooperation with Council committees and working groups. The analysis contained in the IDRs will provide the basis for the identification of imbalances or excessive imbalances in Member States, and for possible updates in the country-specific recommendations (CSRs) issued to Member States.[8] Countries for which imbalances or excessive imbalances have been identified are, and will continue to be, subject to specific monitoring to ensure the continuous surveillance of the policies undertaken under the MIP.

IDRs will be prepared for the Member States already identified with imbalances or excessive imbalances. In line with established prudential practice, IDRs will be issued to assess whether existing imbalances are unwinding, persisting or aggravating, while taking stock of corrective policies implemented. The preparation of IDRs is therefore foreseen for the 11 Member States identified with imbalances in light of the findings of the 2018 vintage of IDRs.[9] They are **Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain,** and **Sweden**.

IDRs will be prepared also for Greece, which is for the first time subject to MIP surveillance, and for Romania. In light of AMR analysis, an IDR will be issued for **Greece,** which was previously excluded from MIP surveillance because it was subject to a macroeconomic adjustment programme in the context of financial assistance until August 2018.[10] The AMR assessment does not point to significant additional risks as compared to the ones identified in last available IDRs for a number of Member States that exited MIP surveillance in recent years, namely Slovenia (which was identified with no imbalances in 2018), Finland (exit in 2017), Belgium and Hungary (exit in 2016). Conditions have also not changed significantly in Austria since the assessment contained in the 2016 IDR that led to the identification of no imbalances. The case of Estonia was also analysed in an IDR in 2016, which concluded against the identification of imbalances. Despite strong unit labour cost growth since then, there were no significant implications for external balance, and the case for a new IDR for Estonia is not compelling, though close monitoring in the upcoming country report is needed. It seems warranted instead to issue an IDR to analyse the situation of **Romania** in order to assess the evolution and possible re-emergence of risky developments identified already in previous IDRs (in 2015 and 2016), notably in relation to competitiveness and external balance. Close analysis in the country reports seems warranted for risks linked to housing market developments in a number of Member States (Austria, Belgium, Czechia, Denmark, Hungary, Luxembourg, and the United Kingdom) and in relation to competitiveness developments (Czechia, Estonia, Hungary, Latvia and Lithuania).[11] Overall, the AMR therefore calls for the preparation of IDRs for 13 Member States compared to 12 in the previous cycle.

[8] Article 6 of Regulation (EU) No 1176/2011.

[9] See ‘2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011’ - COM(2018) 120 final, 7.3.2018.

[10] Member States undergoing macroeconomic adjustment programmes linked to financial assistance are exempted from surveillance under the MIP (Article 11 of Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability).

[11] In November 2016, the European Systemic Risk Board (ESRB) issued country-specific warnings on medium-term vulnerabilities in the residential real estate sector to eight EU Member States: Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Sweden, and the United Kingdom.

Box 1: **Revisions introduced to the auxiliary indicators of the MIP scoreboard**

The MIP scoreboard is complemented by a set of auxiliary indicators. As set in the MIP Regulation (Regulation (EU) No 1176/2011), the economic reading of the scoreboard shall use not only the headline scoreboard indicators, but also on additional relevant indicators and information. Since the inception of MIP surveillance, a set of auxiliary indicators have complemented the economic reading of the headline indicators. Unlike headline indicators, there are no thresholds for auxiliary indicators (see Table 2.1).

The MIP regulation requires the Commission to regularly review and revise the MIP scoreboard where necessary. The scoreboard has undergone a number of revisions since the MIP inception. In 2012, a headline indicator for the financial sector was added (total financial sector liabilities). In 2013, the definition of a number of headline scoreboard variables was revised (real effective exchange rate, private sector debt and credit flow) and some auxiliary indicators were added (including a set of social and employment indicators). In 2015, headline employment indicators were added. Overall, changes have been targeted and parsimonious.

This AMR introduces some revisions to the auxiliary indicators in order to benefit from improvements in available statistics and ensuring the pertinence of the indicators. Those latest revisions in the set of auxiliary indicators aim at benefiting from improved statistics on balance of payments and banking sector data (notably non-performing loans), and help the scoreboard to reflect indicators that are already widely used in AMR and IDR analysis. As in previous revisions to the scoreboard, the European Parliament and the Council (including its committees of experts) were duly consulted and the ESRB was informed. Those revisions can be summarised as follows:[12]

- *Net external debt (NED)* is replaced by *NIIP excluding non-defaultable instruments* (NENDI) in order to obtain a broader representation of external stocks (both assets and liabilities) carrying default risks. The new indicator profits from the revised methodology for balance of payments statistics (from BPM5 to BPM6), which allows a finer breakdown of foreign assets and liabilities. Compared with NED, NENDI: (i) excludes net intra-company foreign direct investment (FDI) debt, which in some cases accounts for a large share of cross-border debt without representing solvency concerns; (ii) includes mutual fund shares, which are sometimes a very large item and are mostly backed by bonds; and (iii) includes net financial derivatives. Seen from a different perspective, NENDI is a subset of the NIIP that excludes equity-related components, namely FDI equity and equity shares, and intra-company cross-border FDI debt.
- The *non-consolidated financial sector leverage* indicator from national accounts is replaced with *consolidated banking leverage, domestic and foreign entities* from ECB consolidated banking data, which has more clear economic interpretation, is comparable across countries, and is consistently based on book values, even if it covers the banking sector only.
- Two indicators that are regularly used in MIP analysis are added: first *household debt (consolidated)* to complement the headline indicator on private sector debt; and, second, *gross non-performing loans*, which provides complementary information to assess private sector debt. The addition of the latter has become possible thanks to the availability of cross-country-comparable data in the ECB's consolidated banking statistics as of 2015.
- To keep the scoreboard relevant and parsimonious, the total number of indicators is kept unchanged at 28. Two auxiliary indicators previously included are dropped: (i) the ten-year change in nominal unit labour costs (as it overlaps with data on three-year change on unit labour costs among the headline indicators and on ten-year change in unit labour costs relative to euro area also in the auxiliary indicators); (ii) non-consolidated private sector debt (which has been superseded by the headline indicator on consolidated private sector debt).

[12] For more details on the statistical definitions of the new indicators, see European Commission, "Envisaged revision of selected auxiliary indicators of the MIP scoreboard", Technical note; https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/scoreboard_en.

2. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS ACROSS COUNTRIES

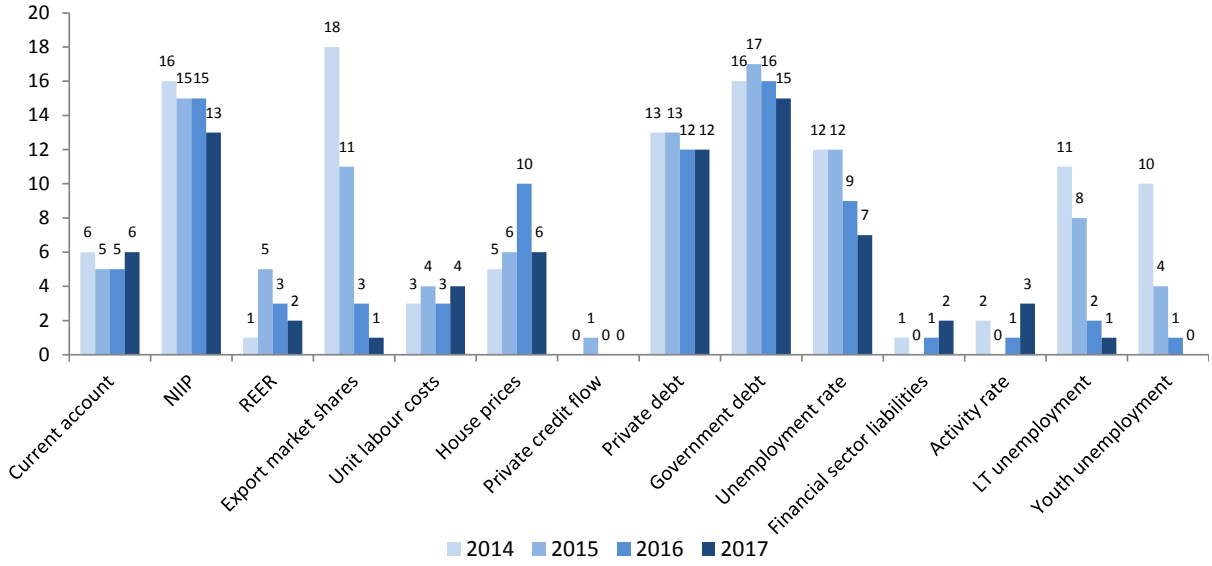
The AMR builds on an economic reading of the MIP scoreboard of indicators, **which provides a filtering device for detecting prima-facie evidence of possible risks and vulnerabilities**. The scoreboard includes a range of 14 indicators with indicative thresholds regarding areas, such as external positions, competitiveness, private debt, housing markets, the banking sector, and employment. It relies on actual data of good statistical quality to ensure data stability and cross-country consistency. Hence, the scoreboard used for this report reflects data up to 2017. In accordance with the MIP regulation (Regulation (EU) No. 1176/2011), scoreboard values are not read mechanically in the assessments included in the AMR, but are instead subject to an economic reading that enables a deeper understanding of the overall economic context and taking into account country-specific considerations.[13] A set of auxiliary indicators complements the reading of the scoreboard. More recent data and additional information, insights from assessment frameworks, as well as findings in existing IDRs and relevant analyses, and the Commission services autumn 2018 forecast, are also taken into consideration in the AMR assessment.

Scoreboard variables pertaining to year 2017 point to the persistence of stock imbalances, which are however gradually receding. Values in excess of the threshold in the AMR scoreboard continue to be frequent in the case of government debt, net international investment positions, and private debt (Graph 1).[14] The number of Member States with outcomes beyond the thresholds for those three indicators is marginally below the frequency recorded in previous scoreboard vintages, and confirms the long-lasting nature of these stock imbalances and an adjustment that is taking place only gradually. The majority of cases of current account balances beyond threshold is mostly linked to persistently large surpluses; the increase in the frequency of values beyond threshold in 2017 is due to a higher number of large deficits. The ongoing employment recovery is reflected in a further reduction of the number of EU countries with outcomes beyond the unemployment rate threshold, and more numerous reductions concern the youth and long-term unemployment indicators in light of their usual stronger sensitivity to the labour market situation. Despite the widespread and robust recovery in house prices across Europe, the scoreboard displays fewer Member States crossing the threshold for housing prices growth, as some countries with readings marginally over the threshold have meanwhile fallen below it. The number of countries with unit labour cost growth above threshold has remained broadly stable, while a reduced number of countries surpass the thresholds for the real effective exchange rate, and only in cases where the real exchange rate falls below the lower threshold. The number of Member States recording export markets share losses in excess of the threshold has further declined.

[13] On the rationale underlying the construction of the AMR scoreboard and its reading see European Commission (2016) '*The Macroeconomic Imbalance Procedure. Rationale, Process, Application: A Compendium*', European Economy, Institutional Paper 039.

[14] The detailed scoreboard indicators, together with the respective indicative thresholds, are displayed in Table 1.1 in annex; auxiliary indicators are displayed in Table 2.1. As explained in the note to Graph 1, the reading of the evolution of the scoreboard data is based on the data available at the time of each AMR. The cut-off date for data for the AMR 2019 was 24 October 2018.

Graph 1: Number of countries recording scoreboard variables beyond threshold



Source: Eurostat.
Note: the number of countries recording scoreboard variables beyond threshold is based on the vintage of the scoreboard published with the respective annual AMR. Possible ex-post data revisions may imply a difference in the number of values beyond threshold computed using the latest figures for the scoreboard variables compared with the number reported in the graph above.

Most EU countries continue recording current accounts in balance or in surplus and the large current account surpluses in some countries persist, declining marginally at best. Overall, recent changes in current account balances have been relatively limited (Graph 3). Most of the large and unsustainable current account deficits had adjusted already by the first years of the decade and turned into surpluses or balanced positions, which have been preserved and often marginally augmented over more recent years. The large surpluses in net-creditor countries have overall remained little changed or even increased. Current account balances are only to a limited extent driven by cyclical factors: the difference between actual and cyclically-adjusted current accounts is generally minor, and declining, against a backdrop of narrowing output gaps (Graph 2).[15] For most of the EU countries, recent current account outcomes exceed what could be expected on the basis of fundamentals (e.g., ageing and per-capita income).[16] However, in some cases, recent outturns may still be insufficient to run down the stock of net foreign liabilities at an appropriate pace. Broadly balanced current account positions in 2017 owed less than before to cyclical conditions, as negative output gaps in Member States are narrowing or turning positive. Driven by rising oil prices, developments in the energy balance detracted from the overall balance almost everywhere but often only slightly (see Table 2.1 in annex for data on the energy balance).

[15] Cyclically-adjusted current account balances take into account the impact of the cycle by adjusting for the domestic output gap and that in trading partners, see M. Salto and A. Turrini (2010), "Comparing alternative methodologies for real exchange rate assessment", European Economy, Discussion Paper 427/2010.
[16] Current accounts in line with fundamentals (current account norms) are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. The methodology is akin to S. Phillips et al. (2013), "The External Balance Assessment (EBA) Methodology", IMF Working Paper, 13/272. See L. Coutinho et al. (2018), "Methodologies for the assessment of current account benchmarks", European Economy, Discussion Paper 86, 2018, for the description of the methodology for the computation of the fundamentals-based current account used in this AMR.

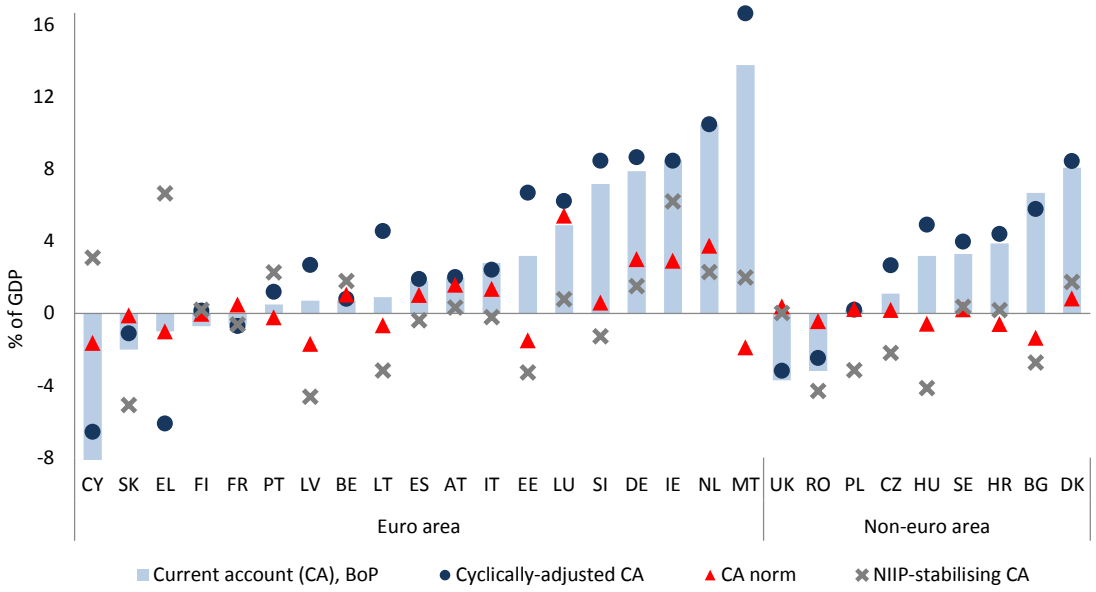
- **Cyprus is the Member State that records the largest current account deficit, beyond the MIP threshold** (based on the average of the 3 years to 2017). Readings of annual data have worsened in recent years only for Cyprus. The outcomes are **below what fundamentals would suggest and what is required to improve the NIIP at appropriate pace** and the deterioration in the current account in 2017 cannot be accounted for by the impact of the cycle. Outside the euro area, the current account of the United Kingdom is also below the MIP scoreboard threshold.

- In 2017, only **five other Member States recorded current account deficits**: Finland, France, Greece, Romania, and Slovakia, with only the latter two recording values worse than 1% of GDP. **Romania recorded a deterioration** in its current account deficit that appears below fundamentals for 2017. **Greece stands out for the large contribution of the negative output gap** for the low headline current account deficit; controlling for cycle, the current account appears below the level required to reduce the NIIP at rapid pace and below the current account norm.

- **Countries with a largely negative NIIPs** like Portugal and Spain had current account outturns above what could be expected on the basis of fundamentals but not sufficient to ensure an improvement of the NIIP at appropriate pace in the case of Portugal. Croatia posted a surplus that is conducive to a reduction of the NIIP at satisfactory pace. Ireland showed a large current account surplus in 2017 after a deficit in 2016, following recent substantial downward backward revisions. In the case of Ireland, current account figures are markedly affected by cross-border transactions linked to the activities of multinational corporations.

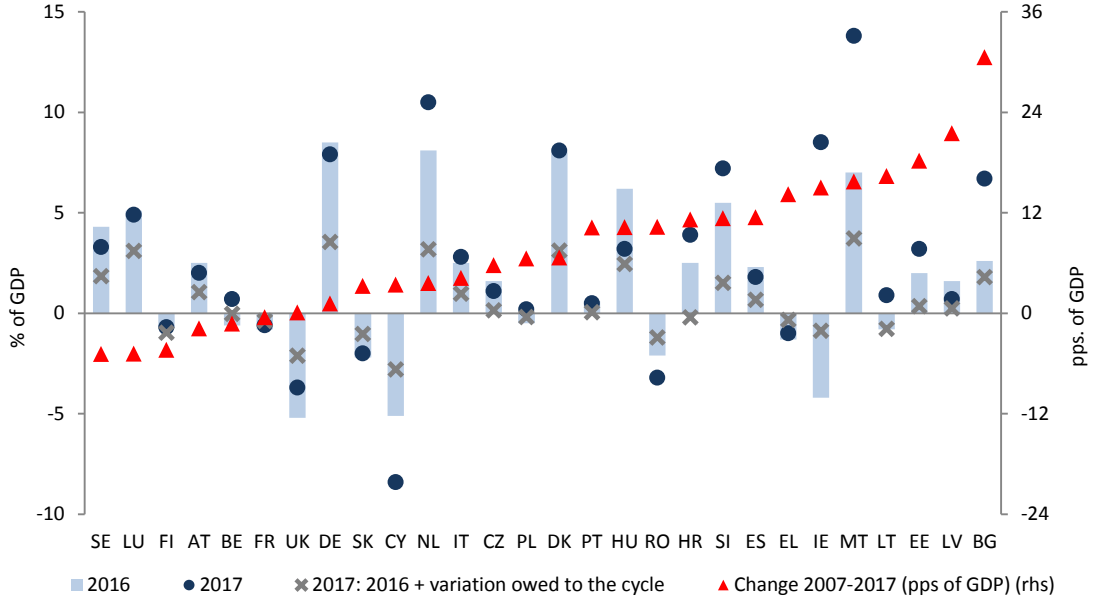
- **Four EU countries currently exceed the MIP scoreboard threshold on account of surpluses**. Values above threshold have been observed in Denmark, Germany and the Netherlands for several years and in Malta more recently. In 2017, the German surplus declined by 0.5% of GDP, while the surplus in the Netherlands widened by 2.5% of GDP. In all these four cases, those surpluses outturns are well **above what can be explained by fundamentals**, always by at least 5 percentage points of GDP. The dynamics of the surplus in the Netherlands and Malta were considerably driven by cross-border transactions linked to the activities of multinational corporations and of internationally-oriented service sectors that affect both the trade and income balances. A number of other countries have been recording current account surpluses for some years even if below the threshold, which is also the case of large euro area countries, notably Italy (see also Box 2 for more on the euro area current account surplus).

Graph 2: Current account balances and benchmarks in 2017



Source: Eurostat (BPM6 data) and Commission services calculations.
Note: Countries are ranked by current account balance in 2017. *Cyclically-adjusted current account balances*: see footnote 15. *Current account norms*: see footnote 16. The *NIIP-stabilising current account* benchmark is defined as the current account required to stabilise the NIIP at the current level over the next 10 years or, if the current NIIP is below its country-specific prudential threshold, the current account required to reach the NIIP prudential threshold over the next 10 years.[17]

Graph 3: Evolution of current account balances



Source: Eurostat and Commission services calculations.
Note: Countries are presented in increasing order of the variation in the NIIP-to-GDP ratio between 2007 and 2017. The variation owed to the cycle is computed as the variation of the current account that is not accounted for by the variation of the cyclically-adjusted current account balance; see footnote 15.

[17] For the methodologies for current account benchmarks see L. Coutinho et al. (2018); for country-specific NIIP prudential thresholds see footnote 18.

Net international investment positions (NIIPs) have continued improving in almost all Member States but deeply negative positions remain a concern in a number of them. NIIP stocks are still largely in negative territory for many EU Member States (Graph 4). In a majority of EU countries displaying a negative NIIP, the stock of foreign liabilities exceeds the NIIP that could be justified on the basis of economic fundamentals, while only in a minority of cases it seems to be below prudential threshold.[18] In some countries, the stock of foreign liabilities is large also when computed net of less risky financial instruments (NENDI). Improvements in the NIIPs continued in 2017 thanks to current account outcomes often in positive territory and to recovering nominal GDP growth (Graph 5). Improvements tended to be somewhat milder than in earlier years with valuation effects often contributing less to the NIIP improvement or even marginally detracting from the NIIP. The sign and strength of NIIP variations had no strong link with starting NIIP levels, but net-debtor countries improved or stabilised their readings in 2017 in a majority of cases.

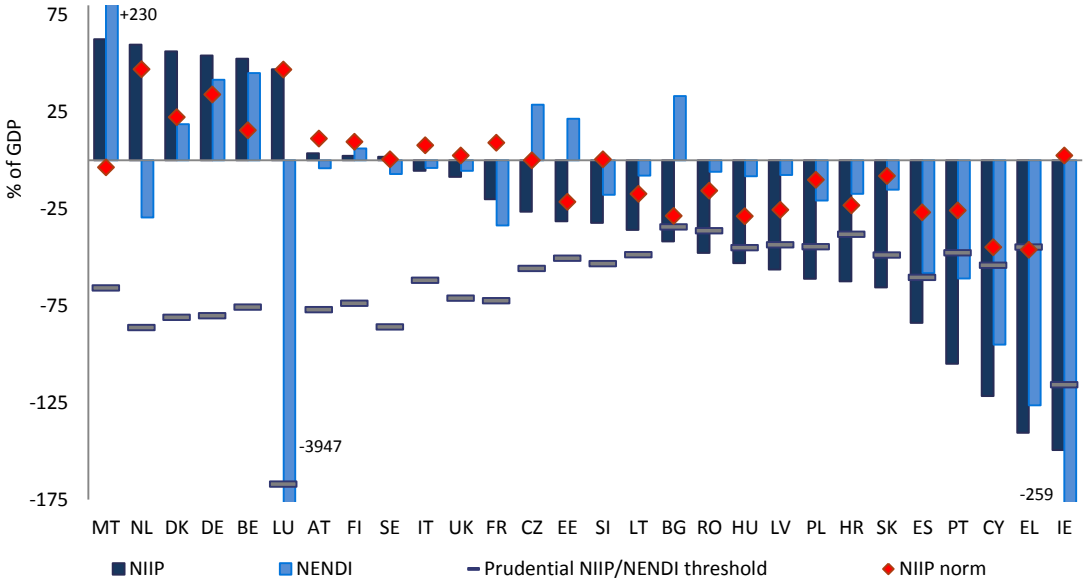
- In 2017, **almost half of the Member States recorded NIIPs worse than the scoreboard threshold** of -35% of GDP. Some continued exceeding -100% of GDP (Cyprus, Greece, Ireland and Portugal) and Spain -80% of GDP; also Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia were still behind the -35% of GDP mark.
- In countries with **largely negative NIIPs**, the readings are generally **below country-specific benchmarks,** both NIIP norms and NIIP prudential thresholds. This is the case in Ireland, Greece, Cyprus, Portugal, and also Spain. Greece recorded a marginal worsening of the NIIP and Portugal posted unchanged readings, in both cases with valuation effects dampened somewhat the NIIP in 2017; all of the others improved their outcomes. These most negative NIIPs are marked by a **strong incidence of net debt liabilities**.[19] The figures for Cyprus and Ireland have to be seen also in the light of the relevance for them of activities of multinational corporations and of internationally-oriented service sectors; and in Greece in light of the large external public debt at highly concessional rates.
- In countries with **intermediate negative NIIPs**, but still below the -35% of GDP scoreboard threshold, NIIP often appear below norm and in some cases slightly below prudential thresholds. In those countries, equity has a large incidence on the negative NIIP, including in light of inward net FDI stocks. In countries with **moderate external stock positions**, NIIPs are often above the respective norms, except for the cases of France and Slovenia, where they are below.
- In most of the countries with **large and positive NIIP stocks,** NIIPs are above norm and have been increasing in 2017, on the back of large current account surpluses. The Netherlands and Denmark recorded marginal falls in their NIIP on account of negative valuations effects. Malta

[18] NIIP in line with fundamentals are obtained as the cumulation over time of current account norms (see also footnote 16). NIIP prudential thresholds are determined from the maximisation of the signal power in predicting a balance of payment crisis, taking into account country-specific information summarised by per-capita income. For the methodology for the computation of NIIP stocks in line with fundamentals see A. Turrini and S. Zeugner, "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper, forthcoming.

[19] As reflected by the NENDI variable, i.e. the NIIP net of non-defaultable instruments. On the positive side, improvements in the NIIPs in these countries in 2017 were mostly driven by improvements in the NENDI.

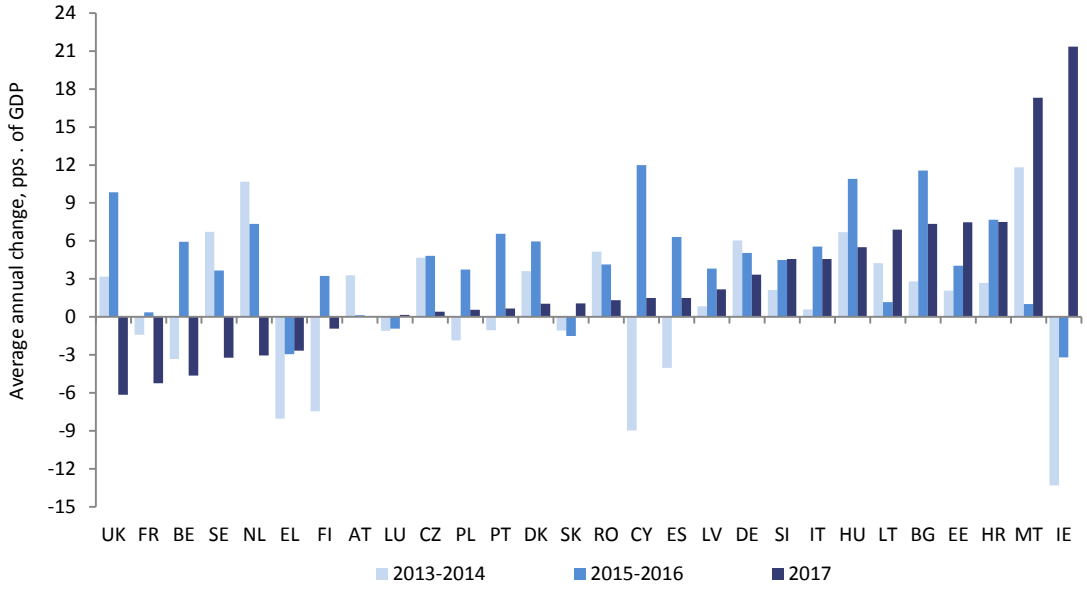
and the Netherlands ended 2017 with NIIPs at around 60% of GDP, Belgium, Denmark and Germany above 50%.[20]

Graph 4: Net international investment positions (NIIPs) and benchmarks in 2017



Source: Eurostat (BPM6, ESA10), Commission services calculations.
Note: Countries are presented in decreasing order of the NIIP-to-GDP ratio in 2017. NENDI is the NIIP excluding non-defaultable instruments, see Box 1 for more information. For the concepts of NIIP norm and NIIP prudential threshold, see footnote 18.

Graph 5: Dynamics of the net international investment positions (NIIPs)



Source: Eurostat
Note: Countries are presented in decreasing order of variation of the NIIP-to-GDP ratio in 2017.

[20] The relevance of the NENDI varies considerably across that group of countries, reflecting also the relevance of their financial centres, like in Luxembourg and Malta, or the external debt liabilities of banks and multinationals' headquarters as in the Netherlands.

Cost competitiveness developments have become less supportive of rebalancing. Post-crisis unit labour cost (ULC) patterns were characterised by relatively subdued dynamics in countries having witnessed demand compression after the unwinding of large current account deficits. ULC growth started resuming with the economic recovery, remaining however relatively subdued despite labour market tightening. Marked accelerations in ULCs were recorded in a number of countries in central and eastern Europe: since 2012 in Bulgaria and Estonia, 2013 in Latvia and Lithuania, 2016 in Czechia, Hungary and Romania. ULCs have further accelerated in 2017 in most Member States on the back of the consolidation of the economic expansion, without however a significant pick up in labour costs in large net-creditor countries. As a result, the tendency started in 2016 towards a pattern of cost competitiveness developments that appear less supportive of rebalancing remains confirmed (see also Box 2).

- **Unit labour costs have been accelerating in most Member States**. ULC growth in recent years was particularly strong in Bulgaria, Estonia, Latvia, and Lithuania (Graph 6**)**; for all of them the scoreboard threshold is crossed. In 2017, ULC accelerations from earlier years stood out clearly in Bulgaria and Romania and, to a lesser extent, also Czechia, Luxembourg and Slovakia. Estimates for 2018 point to scenarios of continued ULC dynamism in many of them, accelerating more markedly in Czechia, Hungary, Latvia, Lithuania, and Romania, and decelerating but remaining high in Bulgaria.

- **The cross-country pattern of unit labour cost growth broadly reflects differences in labour market tightness.** The countries where the ULC have been growing the fastest are generally those recording lower unemployment rates (Graph 8). Countries that recorded fast rates of GDP growth in past years, notably the Baltics and a number of other countries in eastern Europe, display both low or moderate unemployment and high growth rates for ULC, while labour cost dynamics are generally more contained in countries with higher unemployment. Such relation is expected from the operation of Phillips curve dynamics but holds only loosely, as some countries exhibit ULC growth rates well in excess of what the relation would imply, notably the Baltics, Bulgaria, the Czechia, Hungary or Romania. At the same time, others display lower ULC growth than expected (e.g., Croatia, Finland, and Ireland). In the former group, strong wage growth may also be associated with labour supply shortages linked to outward migration, skill shortages, skill mismatch.[21]

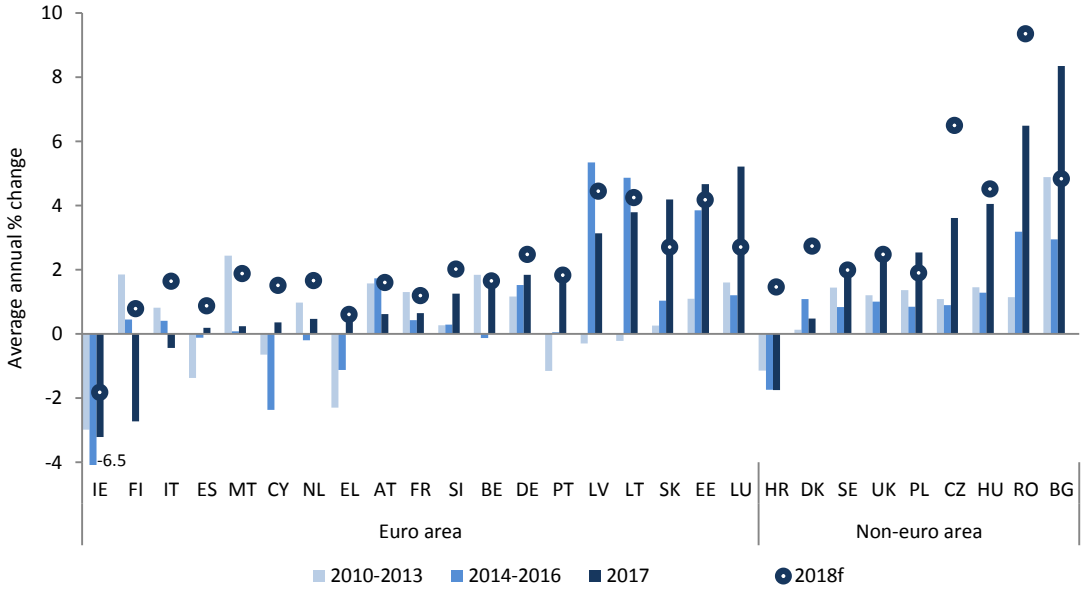
- **Nominal wage growth provided the biggest contribution to the ULC growth observed in 2017**. In most Member States, the largest contribution to ULC growth was provided by nominal wage growth, labour productivity playing a relatively milder role. Labour productivity generally contributed to slow down ULC growth, both on account of capital deepening and TFP growth, while reduced worked hours often implied reduced productivity (Graph 7).

- **ULC growth patterns are increasingly delinked from external rebalancing needs.** While in the crisis period unemployment tended to be higher in net-debtor countries that were subject to current account reversals and the ensuing demand compression, unemployment rates have been converging since the economic recovery started, implying that the patterns of ULC growth, which broadly reflects the different degree of labour market tightness, are increasingly de-linked from external rebalancing needs. In 2017, and somehow confirming the pattern already seen in 2016, some net-debtor countries have seen ULC growing again after years of reduction or

[21] See e.g., European Commission (2018), "Labour markets and wage developments in Europe", Annual review 2018, and Z. Darvas and I. Gonçalves Raposo (2018), "The ever-rising labour shortages in Europe", Bruegel Blog Post, January 25 2018.

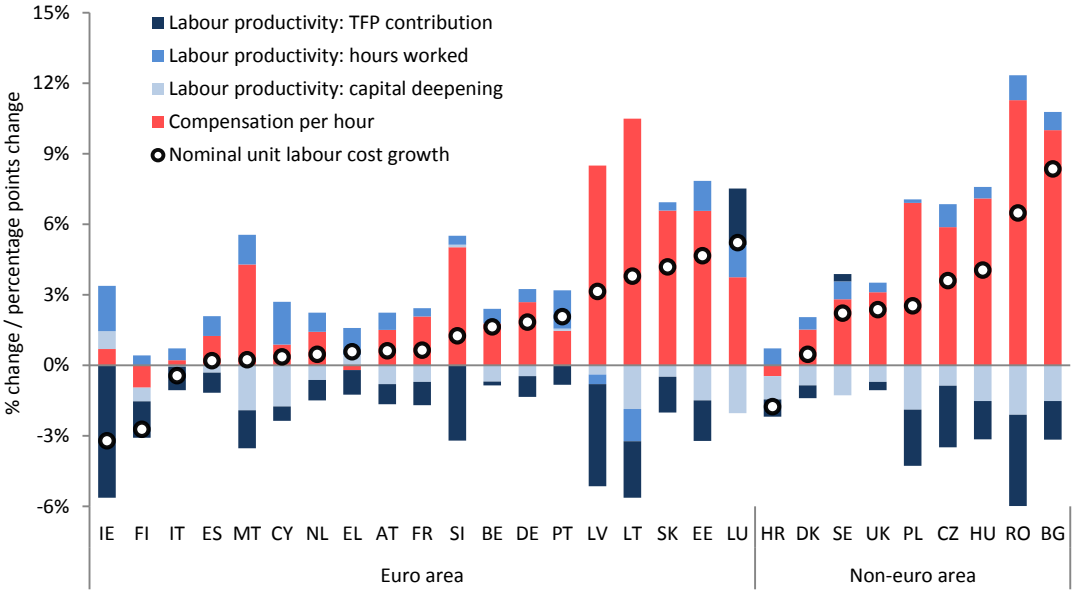
stagnation, with the accelerations being more noticeable in Cyprus, Greece and Portugal. At the same time, persistently tight labour markets in net-creditor countries have not translated so far into significant wage accelerations.

Graph 6: Unit labour cost growth in recent years



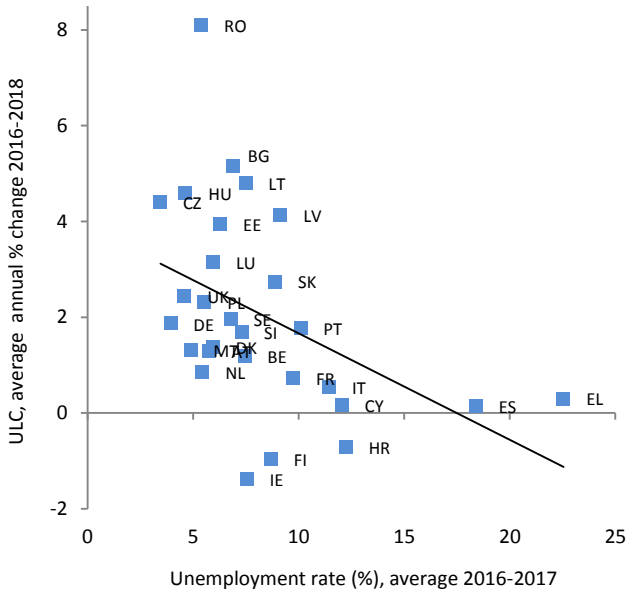
Source: AMECO; 2018 data come from the European Commission autumn 2018 economic forecast.
Note: Countries are presented in increasing order of unit labour cost growth in 2017.

Graph 7: Growth in unit labour cost and its drivers, 2017



Source: AMECO and Commission services calculations
Note: Countries are presented in increasing order of unit labour cost growth in 2017. The decomposition is based on the standard breakdown of unit labour cost growth into nominal hourly compensation and labour productivity, the latter being further broken down into the contribution of hours worked, total factor productivity and capital accumulation using a standard growth accounting framework.

Graph 8: Unit labour cost growth and unemployment rate



Source: AMECO

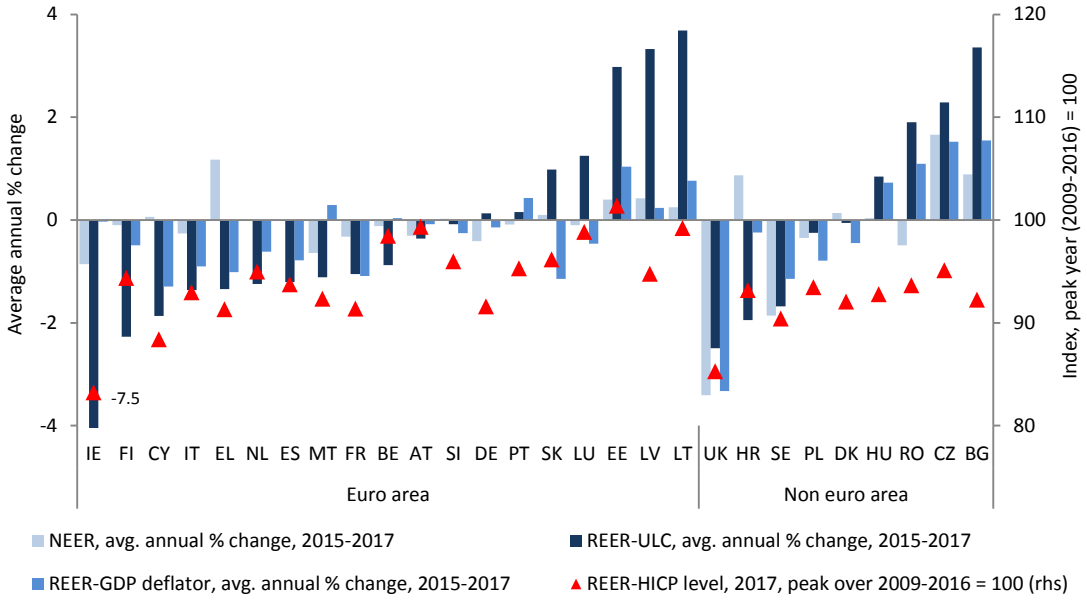
Price competitiveness developments measured by Real Effective Exchange Rates (REERs) reflect only partly cost competitiveness changes based on ULCs. Differences in ULC growth have translated into cost competiveness gains and losses for EU Member States when measured by ULC-based REERs, which take into account both changes in ULC growth relative to competitors in domestic and third markets as well as developments in nominal exchange rates (Graph 9).

- Over recent years, **a majority of euro-area Member States recorded reductions in the ULC-based REER**, meaning that comparative drops in labour costs were sufficient to compensate for the appreciation of the euro in effective terms since 2016. **A few euro-area countries**, however, and **notably the Baltics, recorded instead cost competitiveness losses** measured by the ULC-based REER. Among non-euro area countries, changes in the ULC-based were mostly linked to nominal exchange rate fluctuations, as measured by nominal effective exchange rates (NEERs). Depreciations implied competitiveness gains in Poland, Romania, Sweden, and the United Kingdom; appreciations had mostly implications for Bulgaria and Czechia. In recent years, cost competitiveness gains measured by changes in the ULC-based REER were in general of a larger magnitude in net-debtor countries. The evidence is consistent with the one reviewed above relating to ULC dynamics.
- **Price competitiveness dynamics**, measured by the GDP deflator-based REER, **were more contained than cost competitiveness dynamics**, measured according to the ULC-based REER. It implies that part of the variation in ULC affected price-cost margins rather than being transferred into prices (Graph 9). Evidence suggesting **margin compression** was particularly

strong in the countries recording large cost competitiveness losses, in particular the Baltic countries, Bulgaria and Romania.[22]

- In a number of countries, very moderate or **negative consumer price inflation rates** were reflected in strong **competitiveness gains** as measured by the HICP-based REER. Two countries, Cyprus and Ireland, were even below the lower scoreboard threshold in 2017. In most countries, **the current competitiveness position is more favourable than it was before the crisis as the HICP-based REER** level lies below the one recorded at previous peaks. The real depreciation coincided in most cases with a reduction of the relative price of non-tradables, and an increased share of tradables in the economy, improving the potential for export-led growth dynamics. However, in few countries, notably Austria, Estonia and Lithuania, current HICP-based REER figures are close or above previous peaks.

Graph 9: Nominal and real effective exchange rates (NEER and REER)



Source: AMECO

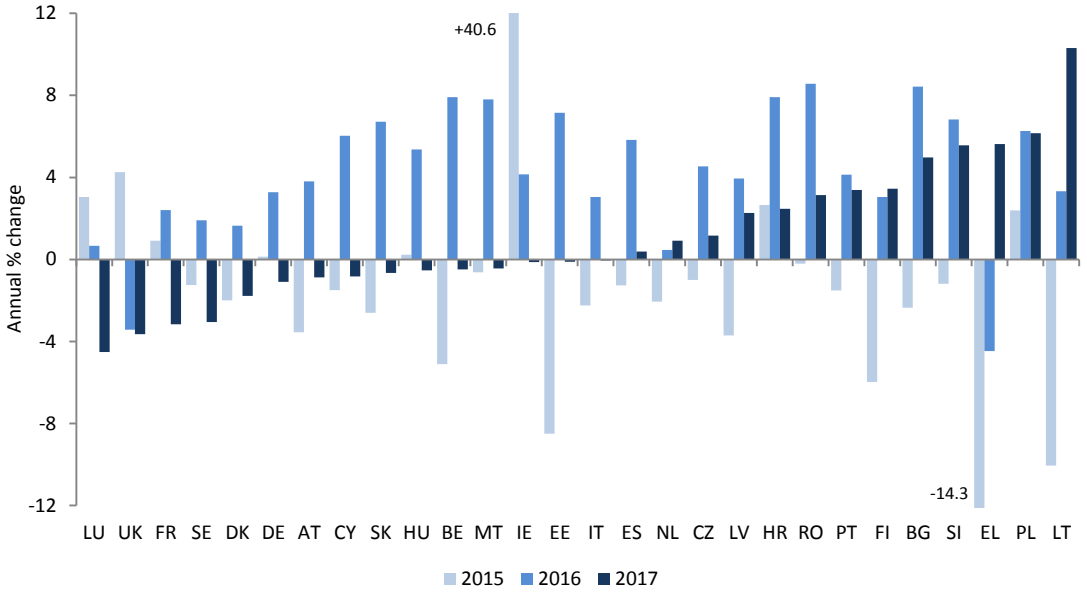
Note: Countries are presented in increasing order of the average annual variation of the Real Effective Exchange Rate (REER) based on ULC growth between 2015 and 2017. The REERs based on ULC and on the GDP deflator and the Nominal Effective Exchange Rate (NEER) are computed vis-à-vis 37 trading partners; the HICP-based REER is computed vis-à-vis 42 trading partners as in the AMR scoreboard.

[22] While margin compression prevents cost competitiveness to affect the terms of trade, thereby containing the impact on trade flows in industries characterised by product differentiation and pricing-to-market, persistent reduced profitability would over time imply a shrinking tradable sector.

Export market share gains are recorded in a majority of EU countries, but are becoming smaller in magnitude. The cumulated export market share change over 5 years recorded in 2017 shows positive values in most EU Member States, and only in one country (Greece) export market shares losses were beyond the scoreboard threshold. More recent data show a differentiated picture, with gains still prevailing but becoming more moderate in 2017 against the backdrop of the appreciation of the euro and less supportive commodity price dynamics. At the same time, while export activity of EU countries continued its recovery in 2017, export growth by other economies came close to that of the EU in 2017 with an acceleration from previous years.[23]

- The past overall positive trend in export market shares for the EU has been favoured by a rebound in intra-EU export demand and competitiveness gains as reviewed above. **Market share gains were in general somehow more pronounced in net-debtor countries and Central and some Eastern European countries**, meaning that stronger competitiveness gains in those countries also tended to translate into an advantage in terms of export penetration.
- More recent data on annual market share changes indicate gains in 2016, followed by generally more moderate outturns for 2017 (Graph 10). **Gains became more moderate in almost all EU Member States in 2017**, while stronger gains were recorded in Greece and Lithuania, reflecting a reversal of previous large losses.

Graph 10: Change in export market shares, recent years



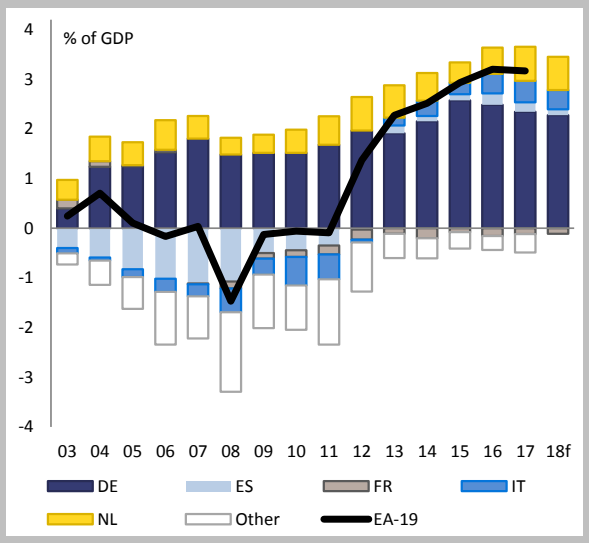
Source: Eurostat, Commission services calculations.
Note: Countries are presented in increasing order of the annual variation of the export market shares in 2017.

[23] See European Commission autumn 2018 forecast; and IMF (2018), World Economic Outlook, October 2018. See also Table 2.1 in annex for export performance against advanced economies.

Box 2: The euro area dimension of macroeconomic imbalances

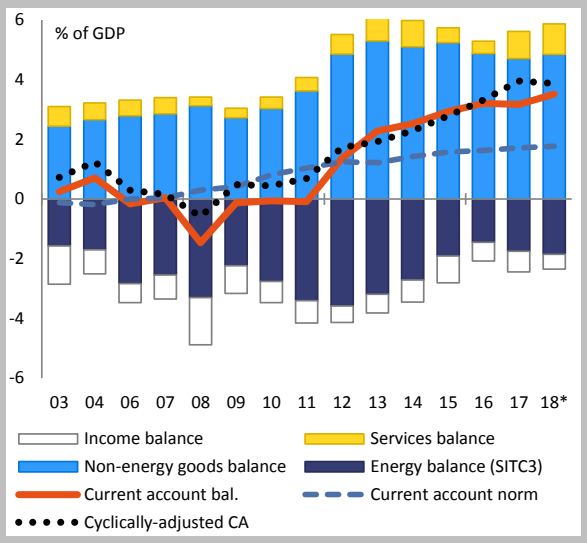
The euro area current account has stabilised at very high levels. The current account balance of the euro area increased visibly after the 2008 crisis and until 2016. Since then its value has stabilised at around 3.2% of GDP in 2016 and 2017, based on Balance of Payments statistics.[24] The euro-area current account surplus remains the largest worldwide, and is estimated to be above the value that would be expected on the basis of economic fundamentals (about 1.5% of euro area GDP).[25] At unchanged policies, the euro area current account surplus is expected to edge down somewhat by 2020 according to the European Commission autumn 2018 forecast.[26] Factors that could contribute to a reduction of the surplus include a relative weakening of cyclical conditions in other areas of the world economy, the unfolding of the effects from restrictive trade policies and from the recent euro effective real appreciation, a possible further euro appreciation (inter alia linked to upward market pressures arising from the persistent large external surplus), or the protraction of the ongoing trend towards higher oil prices.

Graph B.1: Euro area current account evolution: breakdown by country



Source: AMECO, Balance of payments figures.

Graph B.2: Euro area current account evolution: breakdown by items



Source: Eurostat, Balance of payment figures.
Note: "18*" refers to the four quarters moving average data until 2018-Q2.

[24] The euro-area current account figures based on balance of payments data were recently slightly revised downward, and currently show a surplus that is lower by about 0.3 and 0.1 percentage points of GDP for 2015 and 2016 respectively compared with the figures available one year ago. The current account balance of the euro area aggregate vis-à-vis the rest of the world was at 3.2% of GDP in both 2016 and 2017, according to figures from both balance of payments and national accounts. Yet the current accounts of euro area Member States sum up to 3.5% and 4% of euro area GDP for 2016 and 2017 respectively. The discrepancies between the euro area aggregate and the sum of the current account balances of the Member States are due to adjustments for asymmetries in the reported Member State data.

[25] For the methodology for the computation of current account balances in line with fundamentals (current account norm) see footnote 16 and references therein. The IMF (External Sector Report 2018) also suggests the euro area current account norm to be at around 1.5% of GDP.

[26] Forecast based on national accounts figures.

The built-up of the euro-area surplus reflects the correction of current accounts previously in deficit coupled with the persistence of large surpluses The euro-area current account position was broadly balanced before 2008, recorded a deficit in that year amid a large drop in world export demand, and moved into surplus after the 2008 financial crisis mainly in light of the sharp correction of large deficits following a reversal in private cross-border financial flows (Graph B.1). The surplus further increased after 2011 with the spreading of the debt crisis to Spain and Italy and the ensuing compression in domestic demand that contributed to shift the current account balance of these countries into surplus. Since 2011, there was also a gradual increase in the large current account surplus of Germany. At present, the current account surplus of the euro area is mainly the result of large surpluses recorded in Germany and the Netherlands, whose combined external positions account for the bulk of the euro-area surplus (Graph B.1). Since 2016, the gradual reduction in the German current account surplus is associated with the stabilisation of the surplus recorded by the euro area.

The recent evolution of the euro-area current account was mainly linked to the energy, income and services balance. The non-energy goods' balance recorded an improvement in the aftermath of the financial crisis reflecting the relative weak cyclical position of the euro area compared with other world areas and accounting for most of the current account improvement (Graph B.2). Consistently, over the same period, the euro-area cyclically-adjusted current account balance recorded a milder improvement. Starting from 2013, in light of the euro area output recovery, the surplus of the goods' balance stabilised and started shrinking only very moderately, amid a robust performance of exports in value and volume as compared with other advanced economies.[27] The post-crisis behaviour of the energy balance was mainly driven by variations in oil prices. After a major fall in 2008, oil prices recovered between 2009 and 2011, and dropped again between 2014 and 2016, underpinning variations in the opposite direction in the euro-area energy balance. The recovery in oil prices started at mid-2016 is behind the deterioration in the energy balance recorded since then.[28] The negative contribution of the energy balance to the euro area surplus since 2016 was compensated by an improvement in the services' balance. The income balance, despite the improving capital income balance associated with a positive and growing NIIP at euro-area aggregate level, remains in negative territory and has deteriorated in 2017 in light of dynamics recorded in net corporate income.

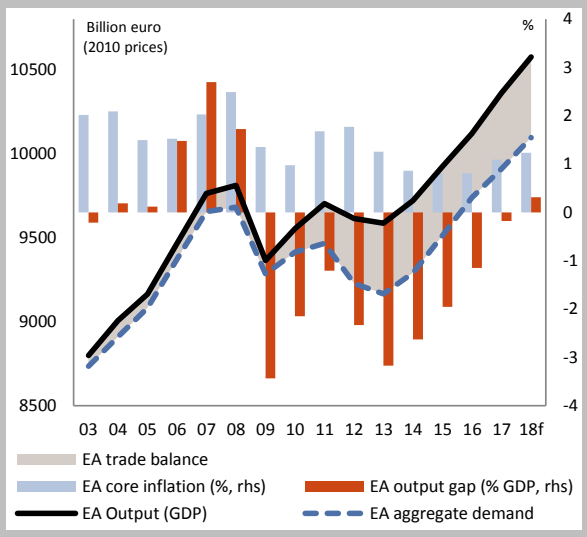
The dynamics of the euro-area surplus is linked to domestic demand lagging behind that of economic activity and sustained export demand, building on supportive global demand for European goods and services and on an improved competitive position. The difference between aggregate income and spending, which corresponds to net exports, has been widening since after the 2008 financial crisis until 2016 (see Graph B.3). At the onset of the crisis, subdued demand dynamics reflected a large-scale private sector deleveraging process, notably in net-debtor countries concerned by current account sudden stops, while increased net borrowing by the government sector helped cushioning the impact of the crisis on incomes (Graph B.4). After the aggravation of the euro-area debt crisis in 2011, deleveraging started also in the government sector, which has provided the largest contribution to the increase in the overall net lending position of the euro area since then. Net lending figures for the household sector are currently twice larger compared with the pre-crisis period, and non-financial corporations, which normally record net borrowing needs, have been posting a positive net lending position since 2013. Government net lending remains in negative territory and has only recently reached levels consistent with falling government debt ratios in most euro-area countries.

[27] See also ECB, Economic Bulletin 05/2018, Box 2.

[28] In assessing energy balance prospects it should also be taken into account the progressive structural improvement in the euro-area energy balance for a given level of oil prices associated with the reduced weight of energy-intensive activities and the increased energy efficiency of production processes. See, e.g., IAE (2018), "Energy Efficiency 2017", International Energy Agency.

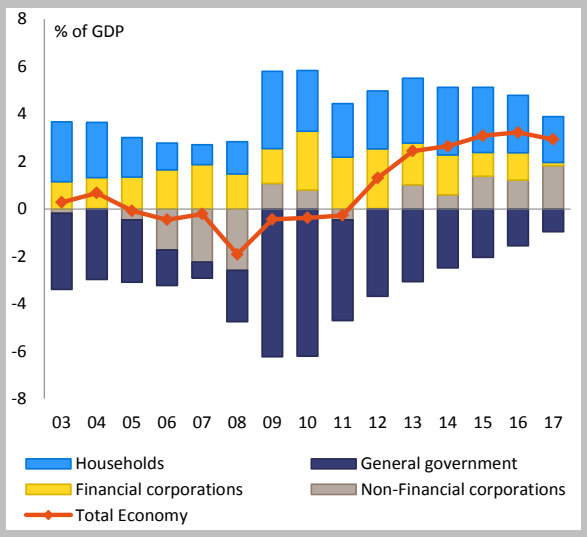
Despite active deleveraging, the protracted stagnation of nominal GDP after the crisis implied that debt-GDP ratios remained historically high for households, corporations and governments in a number of euro-area countries. Deleveraging is currently taking place amid favourable economic conditions.

Graph B.3: Euro-area output, domestic demand, net exports and core inflation



Source: AMECO

Graph B.4: Euro-area net lending/borrowing by sector



Source: Eurostat

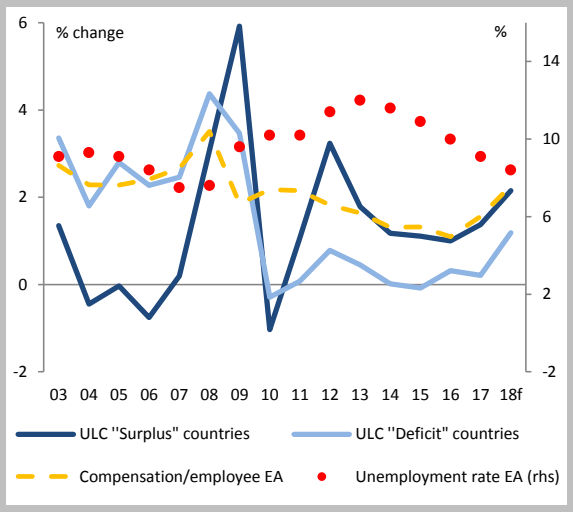
Challenges remain linked to the persistence of stock imbalances, the durability of the current economic expansion, and the limited room for cushioning negative shocks in high-debt countries. After almost a decade of sluggish dynamics, euro-area domestic demand is recovering, the output gap is moving into positive territory, and inflation is expected to gradually approach the target of monetary authorities (Graph B.3). The ongoing expansion is supporting the correction of stock imbalances but a number of challenges loom ahead. First, there is uncertainty on the durability of the current expansion, as the conditions for ensuring growth on a sustainable basis are not always in place, notably linked to persistent investment gaps, insufficient framework conditions to stimulate productivity growth, and unused human capital potential.[29] Second, rebalancing within the euro area is still incomplete. Countries with a past of large deficits remain characterised by large negative net international investment positions coupled with large stocks of private or government debt that represent vulnerabilities. Moreover, the same countries that are burdened by high debt are generally also those with relatively smaller room for relying on potential output growth for a reduction in the debt ratios, meaning that the room for private and public savings to cushion negative output shocks is likely to be limited (Graph B.6).

Symmetric rebalancing in the euro area would help restoring sustainable growth while ensuring macroeconomic stability looking forward. An appropriate combination of policies is needed to make sure that growth is sustainable going forward, and compatible with macroeconomic stability. In net-debtor countries, running down large stocks of foreign and domestic debt requires maintaining prudent current account balances and ensuring an appropriate pace of debt reduction while keeping the objective of raising the growth potential via appropriate investment and reforms and avoiding the risk

[29] See European Commission, Annual Growth Survey 2019, and B. Pierluigi and D. Sondermann (2018), "Macroeconomic imbalances in the euro area: where do we stand?" ECB Occasional Paper 211/2018.

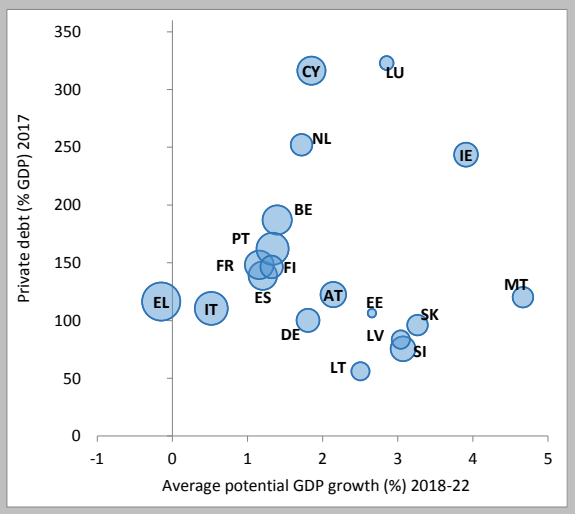
of pro-cyclical tightening in bad times. Enhancing productivity prospects is particularly needed in net-debtor countries both for the sustainability of debt stocks and to make relative competitiveness developments more supportive of rebalancing, in a context in which the relative competitiveness gains of net-debtor countries that started in 2012 have recently been narrowing (Graph B.5). Conversely, policies to foster investment and overcome wage inertia would help addressing persistent large surpluses in net-creditor countries while contributing to support the growth potential and to make growth prospects less dependent upon foreign demand.

Graph B.5: Rebalancing across the EA (unemployment, wage and ULC growth)



Source: AMECO
Note: "Surplus" countries include Austria, Belgium, Finland, Germany, Luxembourg, and the Netherlands; all the other current euro area members are considered as "deficit" countries.

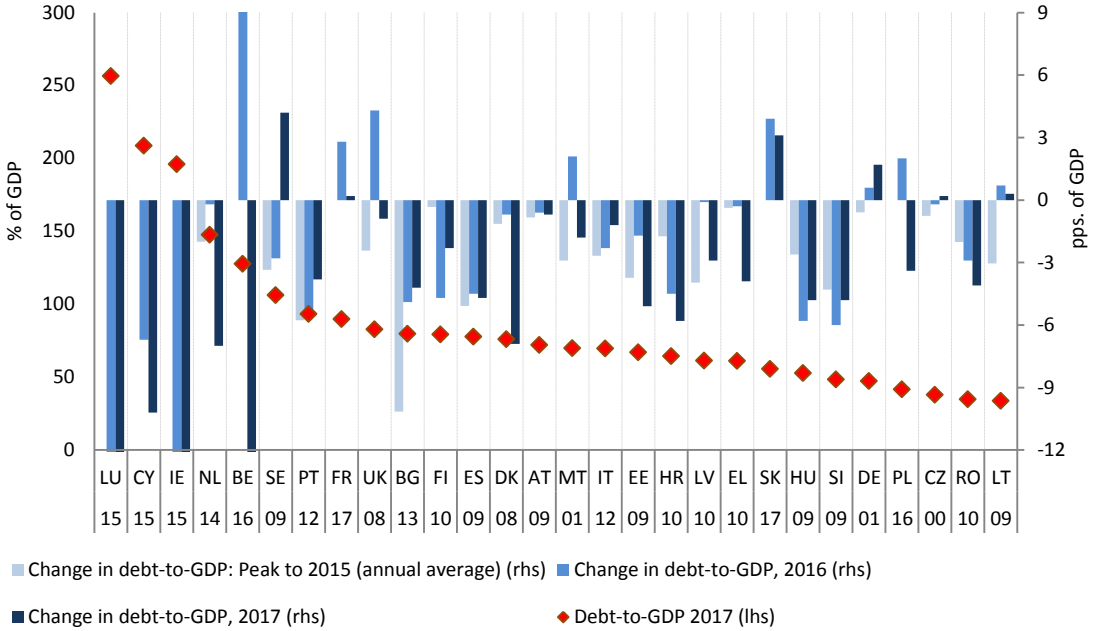
Graph B.6: Debt and potential growth prospects across euro-area countries



Source: AMECO
Note: the size of the bubbles represents the value of the government debt (% GDP) in 2017

Private sector debt ratios are gradually falling, but remain elevated in a number of Member States. Twelve Member States exceeded the scoreboard threshold for private debt in 2017, the same set of countries as in last year's AMR. Private debt ratios are highest in Cyprus, Ireland, Luxembourg, and the Netherlands, although their figures are influenced by cross-border transactions linked with the activity of multinational corporations. Particularly high levels of private debt are recorded also in Belgium, Denmark, Portugal, Sweden, and the United Kingdom, with stocks of private debt in excess of 160% of GDP. The relative contribution of households and non-financial firms to high private debt levels varies across Member States. In the case of Belgium, Ireland, and Luxembourg, high overall private debt ratios are mainly accounted for by the indebtedness of non-financial corporations (NFCs). Conversely, in Denmark and the United Kingdom, the household sector is driving the large stocks of private debt. Cyprus, the Netherlands, Sweden and Portugal experience comparatively high debt levels in both the corporate and household sectors. Differences in the stock of private debt across countries are, to a large extent, explained by differences in fundamental factors justifying the accumulation of debt, including prospects for growth and investment, and financial development. An assessment of debt levels should thereby take into account those factors, as well as other elements affecting risks posed by high debt from a forward-looking perspective.[30]

Graph 11: Pace of deleveraging of non-financial corporations

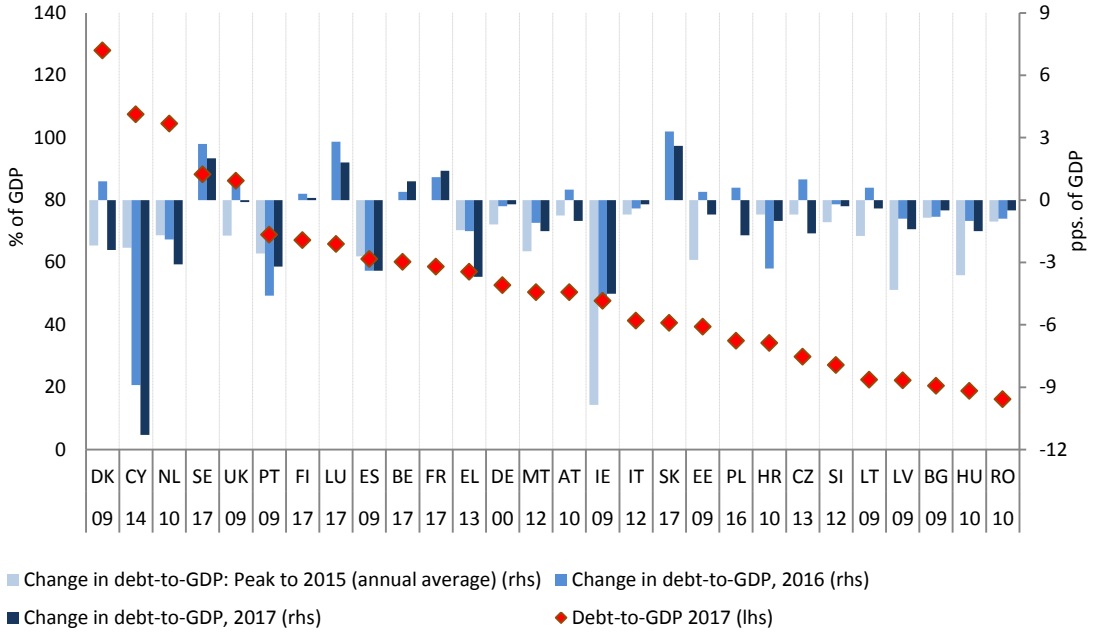


Source: Eurostat consolidated annual sectoral accounts, Commission services calculations.

Note: Countries are presented in decreasing order of the debt-to-GDP ratio in 2017. Numbers below the country codes indicate the peak year. The increase to peak was calculated based on an initial year other than 2000 for the cases of Croatia and Ireland (2001) and Cyprus (2006). Observations for LU, IE, BE have been truncated to fit the scale.

[30] Those factors are taken into account in country-specific benchmarks developed by the European Commission in cooperation with the EPC LIME Working Group (European Commission, "Benchmarks for the assessment of private debt", Note for the Economic Policy Committee, ARES (2017) 4970814). A first benchmark permits to assess private debt against values that can be explained on the basis of economic fundamentals. A second benchmark consists of prudential thresholds based on the maximisation of the signal power in predicting banking crises and incorporating country-specific information on bank capitalisation, government debt, level of economic development. In most EU Member States, private debt-to-GDP ratios in excess of the AMR scoreboard threshold are also in excess of both country-specific benchmarks.

Graph 12: Pace of household deleveraging

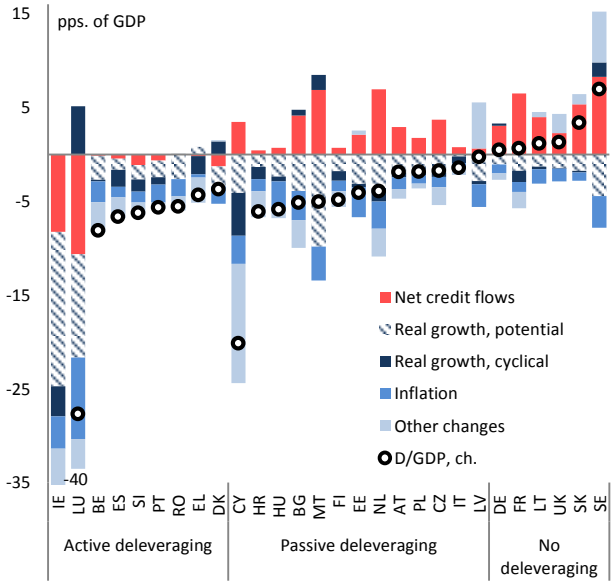


Source: Eurostat consolidated annual sectoral accounts, Commission services calculations.
Note: Countries are presented in decreasing order of the debt-to-GDP ratio in 2017. Numbers below the country codes indicate the peak year. The increase to peak was calculated based on an initial year other than 2000 for the cases of Croatia and Ireland (2001).

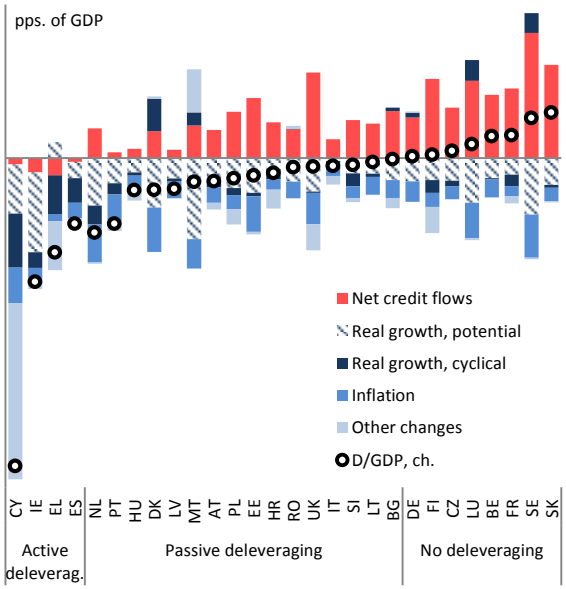
Private debt-GDP ratios are receding from the peak in most Member States, at a pace that is not always in line with deleveraging needs. Deleveraging has started first in NFCs, and has been faster as compared with that recorded in the household sector both because of more negative net credit flows in the corporate sector and because of a stronger impact of nominal growth in the reduction of debt-to-GDP ratios given the larger size of the corporate debt stocks as compared with households.

- In a number of countries, **NFCs** have managed to cut back at least about half of the debt-to-GDP ratios accumulated between 2000 and the year in which their debt peaked (Croatia, Denmark, Estonia, Hungary, Italy, Latvia, Lithuania, Portugal, Romania, Slovenia, Spain, Sweden, and the United Kingdom). However, the speed of deleveraging was not always in line with deleveraging needs, as in four countries with some of the highest corporate debt ratios (Luxembourg, Ireland, Cyprus, the Netherlands and Belgium), corporate deleveraging has been modest relative to debt stocks, while in France NFC debt levels have kept growing (Graph 11).
- **Households** leverage ratios declined over the past two years in the three Member States where households are most indebted (Cyprus, Denmark, and the Netherlands), as well as other high debt countries such as Greece, Portugal, and Spain (Graph 12). Household are no longer deleveraging in the United Kingdom and relatively high debt ratios in Finland and Sweden kept growing further.

Graph 13: Decomposition of the change in NFC debt-to-GDP (2018 Q1)



Graph 14: Decomposition of the change in Household debt-to-GDP (2018 Q1)



Sources: Eurostat non-consolidated quarterly sectoral accounts, Commission services calculations.
Notes: the graphs present a breakdown of the year-on-year evolution of the non-consolidated debt-to-GDP ratios into five components: credit flows, potential and cyclical real GDP growth, inflation and other changes. The cyclical component of GDP growth is computed as the difference between actual and potential growth. Active deleveraging involves net repayment of debt (negative net credit flows), usually leading to a nominal contraction of the sector's balance sheet. Passive deleveraging, on the other hand, consists in positive net credit flows being outweighted by higher nominal GDP growth, leading to a decrease in the debt-to-GDP ratio.

Deleveraging increasingly relies on higher rates of nominal GDP growth. Private sector credit flows are recovering but remain moderate and in no Member State exceeded the scoreboard threshold in 2017. Nominal GDP growth has loosened the pressure to deleverage actively, which has resulted into fewer countries exhibiting negative credit flows either to corporations or to households, and negative flows on average of a lower absolute value (Graphs 13 and 14). In addition, some countries that were not deleveraging previously started to deleverage "passively", i.e., only because nominal GDP growth is reducing debt-to-GDP ratios and since net credit flows are adding to debt. This is the case of Italy, Austria, and Czechia as far as NFCs are concerned, and Austria, Estonia, and Poland regarding the household sector. As shown in Graphs 13 and 14, a good deal of recent nominal growth rates are estimated to have cyclical nature (e.g., in Cyprus, Greece, Spain, Portugal, and Croatia). Looking forward, the prospects for further passive deleveraging will increasingly depend on growth potential, as the cyclical component growth will start fading off as output gaps are turning positive for a growing number of countries.

Conditions in the EU banking sector are improving but low levels of profitability and large stocks of NPLs persist in some countries. This is the case, in particular, in Greece, Cyprus, Italy, and Portugal (Graphs 15 and 16). On the positive side, in 2017 the recovery in banking sector profitability was particularly strong in those countries, and NPL reductions were often quite sizeable.

- **The growth in financial sector liabilities slowed down in 2017** in most EU countries and remains well within the scoreboard threshold in all but two Member States.[31] Bank credit flows moderated in 2017 after their previous pick up, with bank credit growth remaining stronger for the household sector than for the non-financial corporations.

- **Most Member States witnessed further improvements in bank profitability and capital ratios** over the past year. Bank equity valuations have grown until early 2018 and a downward correction took place afterwards, partially offsetting their previous increase partly linked to the flattening of yield curves and the associated compression of interest rate margins. In some Member States, a combination of low profitability, capital ratios on the low side of the cross-country distribution and high levels of NPLs can be found.

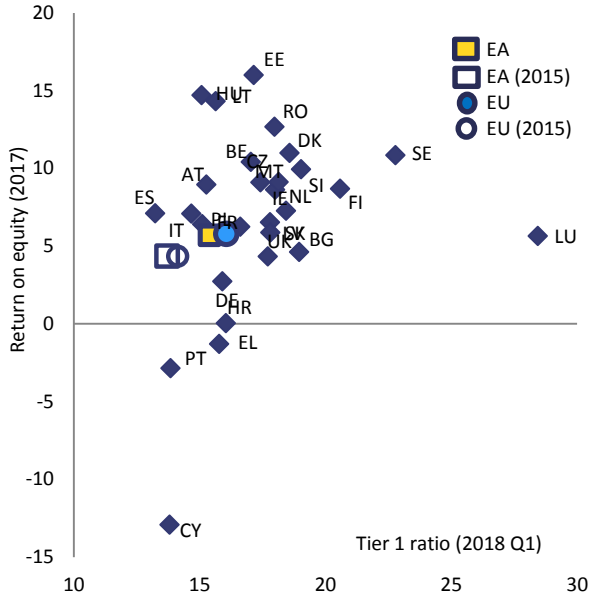
- **The stocks of NPLs remain elevated in a number of Member States.** The NPL ratio in 2017 is notably high in Greece and Cyprus where NPLs amount respectively to 45% and 30% of total loans, and in Italy, Portugal, Bulgaria, Ireland, and Croatia where the NPLs stocks remain close to 10% of total loans.[32] After having grown over the post-crisis period, NPLs have started declining at different speed across the EU. **Latest figures indicate continued progress on the front of NPL reduction**, including those countries with high shares of NPLs (except Greece), notably in Portugal and Italy (Graph 16).[33]

[31] Czechia and Slovakia are the exceptions. In the case of the former, the rapid growth in financial sector liabilities in 2017 is largely attributable to financial transactions prior to the end of the exchange rate commitment, and hence do not reflect domestic lending activity. In Slovakia, the increase was mainly accounted for by a rise in central bank liabilities to non-euro residents. This could have been linked to the reserve management services provided by the National Bank of Slovakia, which have no immediate impact on the domestic economy.

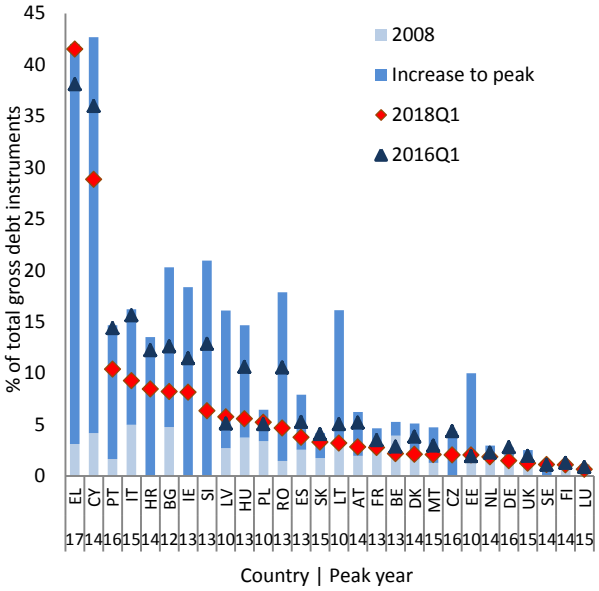
[32] NPLs in the set of scoreboard auxiliary indicators is defined as total gross NPLs and advances as percentage of total gross loans and advances (gross carrying amount), for the reporting sector "domestic banking groups and stand-alone banks, foreign controlled subsidiaries and foreign controlled branches, all institutions". Values are provided in Table 2.1.

[33] Harmonised NPL ratios are available only since 2014, Graph 17 displays the ratio of gross non-performing debt instruments on total gross debt instruments, which is available in longer time series, and that refers, besides loans, also to other debt instruments held by the banking sector. The latter is typically slightly lower than NPL ratios. The maximum difference between the two ratios currently amounts to 4 p.p. (for Greece), while for most Member States it is below 1 p.p.

Graph 15: Bank profitability and capital ratios



Graph 16: Non-performing debt instruments



Sources: ECB, Commission services calculations.
Notes: Data on gross non-performing debt instruments for 2008 are unavailable for CZ, HR, SE and SI.

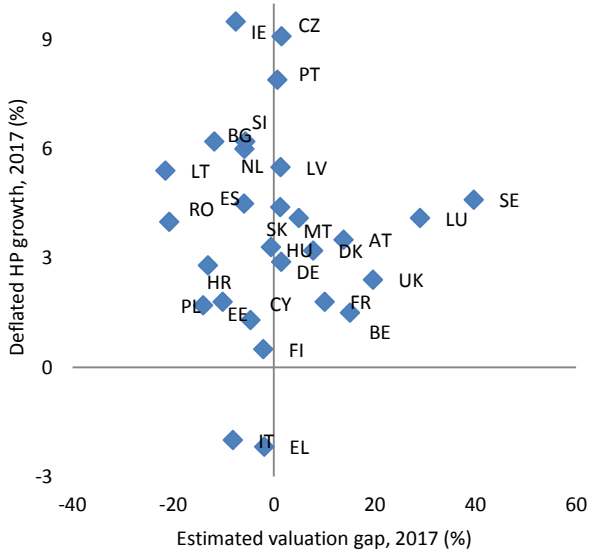
House prices kept increasing in almost all EU countries in 2017, but house price growth rates seem to be moderating where signs of overvaluations are the strongest. Despite continued sustained growth in house prices across the EU, 2017 data reveal fewer countries where house price growth is above the scoreboard threshold as compared with respect to 2016. In 2017, only six countries (Bulgaria, Czechia, Ireland, the Netherlands, Portugal, and Slovenia) exhibited values beyond the threshold, while the AMR 2018 identified cases above threshold in ten countries on the basis of 2016 data. Those changes reflect medium-to-moderate decelerations from values above the threshold and accelerations in few countries. Negative real house price growth in 2017 was recorded only in Greece and Italy. More recent data indicate that growth rates in the first half of 2018 from one year earlier have been above the 6% scoreboard threshold in Hungary, Ireland, Latvia, the Netherlands, Portugal, Slovakia, and Slovenia.

- The protraction of sustained rates of real house price growth have brought **house prices back to or above the pre-crisis maxima** in a number of countries, namely Austria, Belgium, Czechia, Germany, Luxembourg, Malta, and Sweden. Real house price growth rates above those of income and other relevant variables normally determining house prices are driving house price levels in a territory of **possible overvaluation in a growing number of countries** (Graph 17).[34]

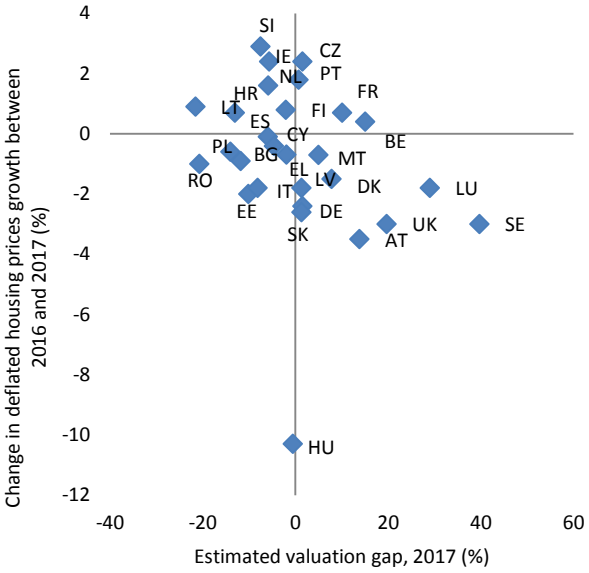
[34] The analysis of price valuations is based on an average of three metrics: (i) affordability gap (price-to-income deviation with respect to its long-term average); (ii) dividend gap (price-to-rent deviation from its long-term average); and (iii) estimates of deviations of house prices from equilibrium values justified by housing demand and supply fundamentals. See N. Philiponnet and A. Turrini (2017), "Assessing House Price Developments in the EU", European Commission Discussion Paper 048, May 2017. An alternative indicator based on ratios of house price levels to household disposable income per capita suggests that overvaluations could be present in Croatia, Cyprus, Estonia, while indications of overvaluation are less evident for Denmark, Czechia, Latvia (see European Commission, European Economic Forecast – Winter 2016, European Economy, Institutional Paper no. 20, 2016 (box 1.4)).

- Real house price **accelerations** in 2017 took place especially **in countries with negative or mildly positive valuation gaps** (Graph 18). **Decelerations** were instead observed **in countries presenting stronger indications of overvaluation**, including in light of affordability constraints, the implementation of macro-prudential policies, and the mechanical effect on real house price growth associated with the pick-up in inflation rates (e.g., in Austria, Luxembourg, and the United Kingdom). Currently, the strongest house price growth rates are recorded in countries with moderate or no sign of overvaluation. Quarterly data, also for early 2018, indicate accelerations in Estonia, Croatia, Hungary, Poland, Portugal, Slovenia, and Slovakia. Decelerations are observed especially in Bulgaria, Czechia, Romania, and Sweden, where house price growth entered negative territory in the first half of 2018 on a year-on-year basis.[35] Ireland, Portugal, and Slovenia recorded double-digit growth rates in the first half of 2018 from one year earlier.
- In a number of countries, including Denmark, Luxembourg, Sweden, and the United Kingdom, **overvalued house prices coexist with large household debt levels**. The Netherlands is marked by very high household debt. The growth of the mortgage stock in 2017 was particularly rapid (above 5% over the previous year) in Austria, Belgium, Bulgaria, Czechia, Estonia, France, Lithuania, Luxembourg, Malta, Poland, Romania, and Slovakia.

Graph 17: House prices changes and valuation gaps in 2017



Graph 18: Valuation gaps and changes in price growth between 2016 and 2017

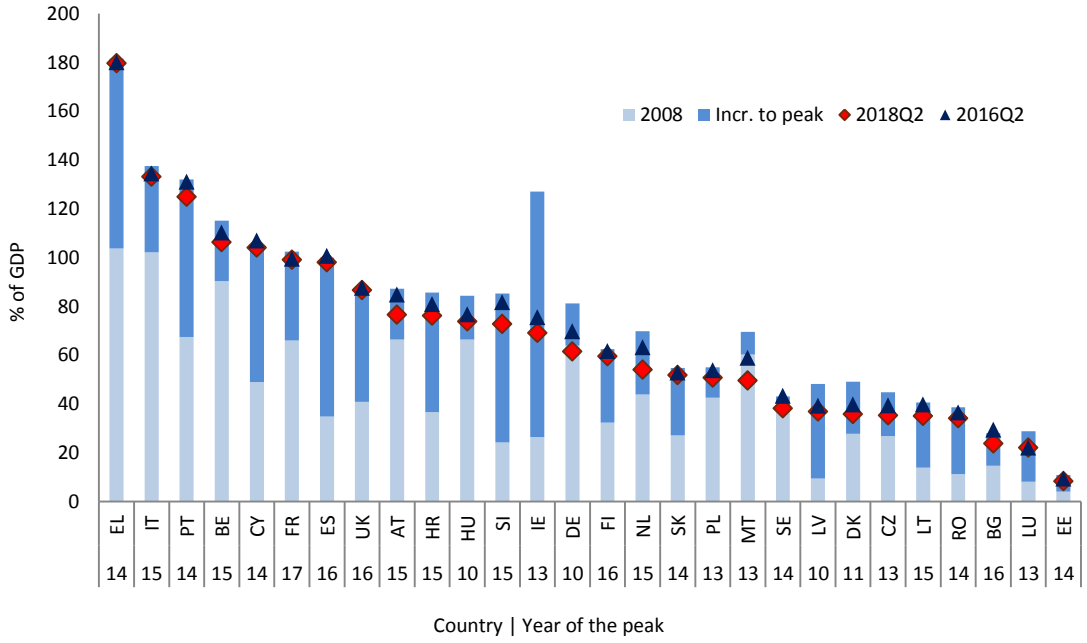


Source: Eurostat and Commission services calculations.
Note: the overvaluation gap was estimated as an average of three metrics: the deviations in the price-to-income and the price-to-rent ratios from their long-run averages, and the results from a fundamental model of valuation gaps; see footnote 34.

[35] The countries reported are those with real house price growth rates in the first half of 2018 that are above or below the annual growth rate in 2017 by at least 2 percentage points.

Government debt ratios stopped growing across the EU but debt levels remain elevated in many countries. Scoreboard values exceeded the threshold in 15 Member States in 2017. Belgium, Greece, Italy and Portugal display debt levels exceeding 100% of GDP, with Italy seeing significant increase in its funding cost in 2018. For eight countries (Belgium, Cyprus, Finland, France, Ireland, Portugal, Spain, and the United Kingdom) government debt in excess of 60% of GDP combines with private sector indebtedness beyond the respective threshold. Government debt-to-GDP ratios have generally embarked into downward trajectories (Graph 19). Yet in countries with high levels of public debt, deleveraging has started only recently and proceeds at low pace. Among all EU countries, debt ratios are forecast to grow only in Lithuania and Romania in 2019. Overall, government sector deleveraging is taking place in light of the gradual improvement in budgetary positions over the past years, continued nominal GDP growth and reduced interest payments. However, a growing number of countries are expected to run pro-cyclical budgetary loosening at the possible expense of the room available in the future to cushion negative output shocks.

Graph 19: Government debt



Source: Eurostat

Box 3: **Employment and social developments**

EU labour markets continued to improve during 2017 and the first half of 2018 with disparities across the EU decreasing from elevated levels. Employment has grown further and reached a new high in number of persons employed in the EU as a whole. Unemployment has been declining in all EU countries even if joblessness remains high in a number of them. The recovery has contributed to a decline in some poverty indicators but the social situation remains a concern in some Member States. Since 2008, relative poverty risk increased in the EU, but severe material deprivation decreased, especially in Eastern European Member States with a high initial level.

In 2017, the *unemployment rate* decreased in all Member States. Improvements were the strongest in countries with some of the highest levels of unemployment (reductions of 2 percentage points or more in Croatia, Greece, Portugal, and Spain). Nevertheless, seven Member States (Greece, Spain, Croatia, Cyprus, Italy, Portugal, and France) exceeded the MIP scoreboard indicator threshold of an average 10% over the past 3 years. In 2017, unemployment rates were still higher than in 2008 in about two-thirds of the Member States. In the whole EU and in the euro area, unemployment rates were about 3 percentage points below the peaks reached in 2013, but still ½ and 1½ percentage points higher than in 2008. Unemployment rates continued to steadily decrease in the first half of 2018, down to 6.9% and 8.3% in Q2-2018 in the EU and the euro area respectively.

Employment rates **went up in almost all Member States, continuing the positive developments of the last years.** The employment rate (20-64 years old) reached 72.1% in 2017 for the EU as a whole, well above the pre-crisis peak of 70.3% recorded in 2008. The employment rate kept increasing in the second quarter of 2018 up to a record 73.2%.

Activity rates **continued to increase nearly everywhere in the EU.** Only three countries registered a declining activity rate over the last three years: Spain (-0.3 percentage points), Cyprus (-0.4), and Luxembourg (-0.6). In all three cases, the decline exceeds the scoreboard threshold of -0.2. On aggregate, in 2017 for the EU and the euro area activity rates were at 73.3% and 73.1% respectively, i.e., 2½ and 2 percentage points above their 2008 levels. That increasing trend has been mostly due to increasing labour market participation by older workers and women.

Long-term and youth unemployment remain elevated in various EU countries but have improved more strongly than the rest of the labour market. *Long-term unemployment* decreased in all Member States in 2017. Only two countries recorded rates that are higher than three years earlier: in Austria, the long-term unemployment stood at 1.8% (0.3 percentage points higher than in 2014), while in Finland it stood at 2.1% (an increase of 0.2 percentage points since 2014). Neither increase exceed the scoreboard threshold of 0.5 percentage points. The highest rates of long-term unemployment were observed in Greece (15.6%), Spain (7.7%), Italy (6.5%), and Slovakia (5.1%). The *youth unemployment rate* fell in all EU countries in the three years to 2017. Falls of 10 percentage points or more over the same period were recorded in Bulgaria, Croatia, Cyprus, Portugal, Slovakia, and Spain. Yet the youth unemployment rate is still above 30% in Greece, Italy and Spain, while the share of young people not in employment, education or training is still above 15% in Bulgaria, Croatia, Cyprus, Greece, Italy, and Romania.

While improving, the social situation is still a source of concern in various EU countries as suggested by standard measures of poverty and deprivation. The share of people at risk of poverty or social exclusion (AROPE) decreased in the EU by one percentage point to 22.5% from 2016 to 2017.[36] This is about one percentage point below the rate observed at the onset of the crisis and about

[36] The indicator *At risk of poverty or social exclusion (AROPE)* corresponds to the share of persons who are vulnerable according to at least one of three social indicators: (1) *At risk-of-poverty (AROP)*, which measures monetary poverty relative to the national income distribution and is calculated as the share of persons with disposable income (adjusted for household

two percentage points below the peak observed in 2013. Most countries recorded decreases in 2017. Increases were recorded by Austria, Denmark, Luxembourg, and the Netherlands, albeit from comparatively low levels. The level of the AROPE rate varied considerably from 38.9% in Bulgaria, followed by Romania, Greece and Lithuania, to around 12% in Czechia, followed by Finland, Slovakia, and the Netherlands. These overall developments in poverty and social exclusion reflect different evolutions of its various components. The share of people at risk of poverty (AROP) has increased in some Member States, while it has decreased in others in recent years: the largest increases over a three-year period were recorded in Lithuania (3.8 percentage points) and Luxembourg (2.3), while a significant decrease was recorded in Greece (1.9) and Poland (2.0). In contrast, severe material deprivation (SMD) declined over a 3-year period (and also in 2017) in most EU Member States; it declined over 5 percentage points over a three-year period in Hungary, Latvia, Malta, and Romania. Finally, whereas the recovery brought a decline in the share of people (under 60) living in households with very low work intensity in most countries, that share increased in Finland and Lithuania in the three years to 2017; and, in-work poverty stabilised at a peak of 9.6% for the EU as a whole in the last two years.

composition) below 60% of the national median; (2) *Severe material deprivation (SMD)*, which covers indicators related to a lack of resources, and represents the share of people experiencing at least 4 out of 9 deprivations items, based on the inability to afford some specific types expenses; (3) *People living in households with very low work intensity* are those aged 0-59 living in households in which adults (aged 18-59) worked less than 20% of their total work potential during the past year. The income reference period for the data behind these measures is a fixed 12-month period, such as the previous calendar or tax year to which the data refer for all countries, except the United Kingdom for which the income reference period is the current year and Ireland for which the survey is continuous and income is collected for the last twelve months. As of the time of writing, 2017 data are available for all countries except Ireland and the United Kingdom.

3. SUMMARY OF MAIN CHALLENGES ACROSS MEMBER STATES CASES AND SURVEILLANCE IMPLICATIONS

Overall, risks remain present in a number of Member States, and in different combinations. The degree of severity of the challenges for macroeconomic stability vary significantly across Member States, depending on the nature and extent of vulnerabilities and unsustainable trends, and the way they interact and combine together. The main sources of risks combine according to a number of typologies summarised as follows:

- A number of Member States are mainly affected by *multiple and interconnected stock vulnerabilities*. This is typically the case for countries that were hit by boom-bust credit cycles coupled with current account reversals that also had implications for that banking sector and government debt.
    - In the case of Cyprus and Greece, elevated debt stocks, and large negative net international investment positions are coupled with remaining challenges for the financial sector. These countries still confront the issue of addressing significant deleveraging needs in the context of limited fiscal space, high (though receding) levels of unemployment and modest potential growth.
    - In Croatia, Ireland, Portugal and Spain, vulnerabilities stemming from stock legacy issues are also significant, multiple, and interconnected. In Bulgaria, high corporate indebtedness is coupled with lingering issues with the financial sector. In those countries, stock imbalances are receding on the back of economic expansions, associated in some cases with the re-emergence of cost pressures manifested at the level of housing prices (notably in Ireland, and, increasingly so, Portugal) as well as stalling gains in cost competitiveness (strong ULC increases recorded in particular in Bulgaria).
- In a few Member States, vulnerabilities are mainly linked to *large stocks of general government debt* coupled with concerns relating to *potential output growth* and *competitiveness*. This is particularly the case for Italy, where vulnerabilities are also linked to the banking sector and the large but recently declining at fast pace stock of NPLs. Belgium and France also face a high general government debt and potential growth issues amidst also compressed competitiveness, but are not confronted with similar potential risks to government debt or stemming from vulnerable banks. In France a comparatively high stock of corporate debt is on the rise. In Belgium, a relatively high stock of household debt is coupled with possibly overvalued house prices.
- Some Member States are characterised by *large and persistent current account surpluses* that also reflect, to a varying degree, subdued private consumption and investment, in excess of what economic fundamentals would justify. This is the case notably for Germany and the Netherlands. In the case of Germany, it is combined with deleveraging in all sectors of the economy, even though debt levels are not comparatively high. In the Netherlands, a large surplus is coupled with a high stock of household debt and strong house price growth. The large and persistent surpluses may imply forgone growth and domestic investment opportunities that bear consequences for the rest of the euro area in a context of still below-target inflation and an external backdrop that is becoming increasingly uncertain and may turn less supportive.
- In some Member States, *developments in price or cost variables show potential signs of overheating, particularly as regards the housing market or the labour market*.

- In Sweden, and to a smaller extent in Austria, Denmark, Luxembourg, the Netherlands, and the United Kingdom sustained house price growth has been taking place in a context of possible overvaluation gaps and significant levels of household debt, but recent evidence is pointing at house price decelerations. In a number of countries, strong house price growth is coupled with more limited evidence of overvaluation and contained household debt stocks (e.g., Czechia, Hungary, and Latvia).
- In Czechia, Estonia, Hungary, Latvia, Lithuania, and Romania, ULC continue to grow at a relatively strong pace while price competitiveness is edging down. In the case of Romania, accelerating ULC are recorded against the background of a worsening current account balance deficit and pro-cyclical fiscal policies that could exacerbate possible overheating pressures.

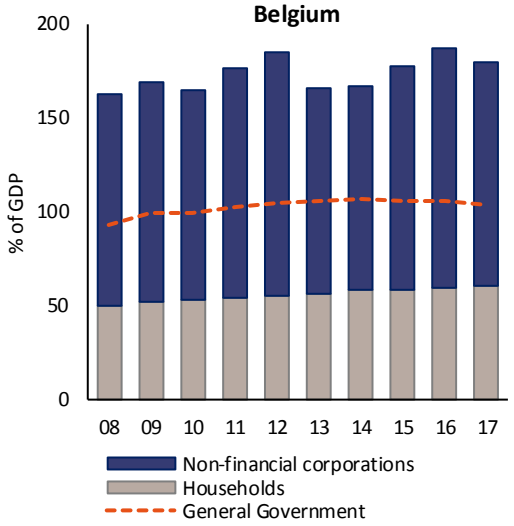
Forthcoming IDRs will help going deeper into the analysis of those challenges and assessing policy needs.

Overall, IDRs are warranted for 13 Member States: Bulgaria, Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, and Sweden. Eleven of these Member States were subject to an IDR in the previous annual cycle of MIP implementation. Following established practice, a new IDR will be prepared to assess if the imbalances identified are aggravating or are under correction, with the view to update existing assessment. The Member States concerned are Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, and Sweden. An IDR will also be issued for Greece, to assess possible imbalances stemming from a number of sources, notably stock vulnerabilities. Greece was previously excluded from MIP surveillance because subject to a macroeconomic adjustment programme in the context of financial assistance until August 2018. The AMR assessment does not point to significant additional risks as compared to the ones identified in the last available IDRs for a number of Member States that exited MIP surveillance in recent years (Slovenia in 2018, Finland in 2017, Belgium and Hungary in 2016) or that were subject to IDRs not leading to the identification of imbalances (Austria and Estonia in 2016). It seems warranted instead to carry out an IDR for Romania to assess the evolution and possible re-emergence of risky developments identified already in previous IDRs, notably in relation to competitiveness and external balance.

4. IMBALANCES, RISKS AND ADJUSTMENT: MEMBER STATE-SPECIFIC COMMENTARIES

Belgium: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Belgium. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely private debt and government debt.

Graph A1: ***Debt across sectors in the economy***



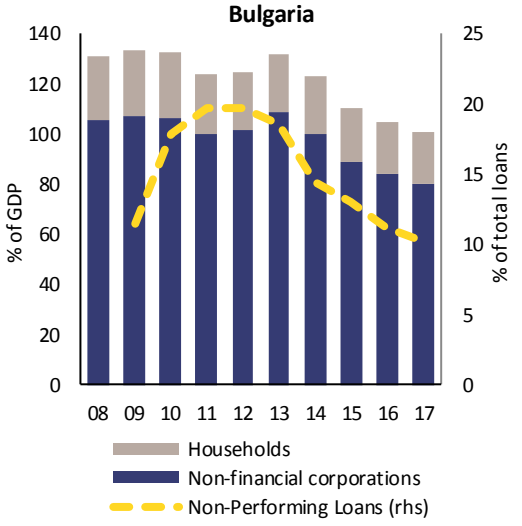
Source: Eurostat

External sustainability is underpinned by an improving current account balance and a favourable net international investment position. After some years of wage moderation unit labour cost growth has increased but remains contained. A limited decrease in export market share was recorded in 2017. Private debt is relatively high, in particular for non-financial corporates, though widespread cross-country intra-group lending inflates debt figures. Risks related to household debt originate predominantly from the housing market where real house price growth has been moderate in recent years although no correction has taken place for the fast increase prior to 2008. Government debt has levelled off and it has slightly decreased compared to its 2014 peak. However, the elevated level continues to represent a major challenge for the long-term sustainability of public finances. The labour market situation has improved with unemployment continuing to fall, including long-term and youth unemployment. The activity rate remains low compared to other EU countries in contrast with the high and increasing vacancy rate.

Overall, the economic reading highlights issues relating to mainly to public but also private indebtedness though risks appears contained. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Bulgaria*:* In March 2018, Bulgaria was found to be experiencing *imbalances* in particular related to vulnerabilities in the financial sector coupled with high indebtedness and non-performing loans in the corporate sector. In the updated scoreboard, three indicators are beyond the indicative threshold, namely the net international investment position (NIIP), nominal unit labour cost growth and real house price growth.

Graph A2: ***Private debt and non-performing loans***



Source: Eurostat and ECB

The current account surplus further increased in 2017, while the negative NIIP mainly reflects FDI has improved further. Unit labour cost growth increased markedly in 2017, but the real effective exchange rate remained broadly stable and there were some gains in export market shares. High corporate debt continues to

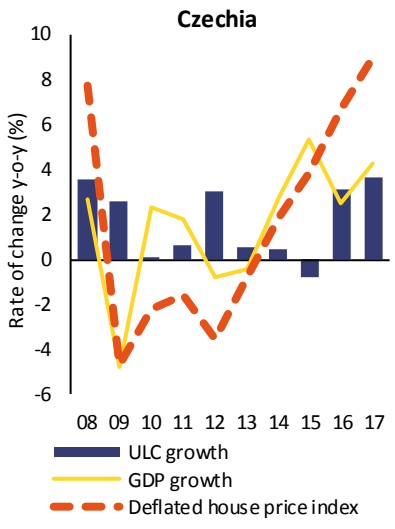
be a concern, although the debt ratio has gradually decreased over the last few years, in part due to the robust nominal GDP growth. Credit flows are picking up again, which will slow down the deleveraging process, but could also support higher private investment and stronger potential growth. Also, the ratio of non-performing loans, albeit decreasing, remains high, in particular for the corporate sector. While there has been progress in improving financial sector supervision following the 2016 asset quality review, some vulnerabilities still warrant attention, including related-party transactions and exposures to hard-to-value assets. Real house prices have increased fast and construction and mortgage credit have also picked up. There are not yet signs of overvaluation at this stage, but the current dynamics on the housing market justify close attention. In this context of positive cyclical developments, unemployment decreased further, notably for youth and long-term unemployed and activity rates improved.

Overall, the economic reading highlights issues relating to the remaining vulnerabilities in the financial sector and corporate debt. Therefore, the Commission finds it opportune, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

Czechia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Czechia. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely real house price growth and total financial sector liabilities.

The current account balance has been on an improving trend and recorded a small surplus in 2017. The end of the exchange rate commitment in April 2017 was followed by an appreciation of the real effective exchange rate, while the net international investment position continued to strengthen, although at a slower pace than in previous years. Nominal unit labour costs have increased on the back of strong wage rises and are projected to accelerate further in the context of acute labour market shortages. Despite the appreciation of the real effective exchange rate, there still have been some gains in export market shares in recent years. House price growth, and mortgage credit, have accelerated further and warrant close monitoring. However, private sector debt is moderate, including household debt which is stable. Government debt is low and continues to reduce supported by the general government budget surplus. Growth of financial sector liabilities accelerated significantly in 2017 to beyond the indicative threshold. This was principally due to the purchasing of CZK-denominated deposits by non-residents prior to the end of the exchange rate commitment. The unemployment rate decreased further and the labour market is very tight.

Graph A3: ***GDP, ULC and house prices***

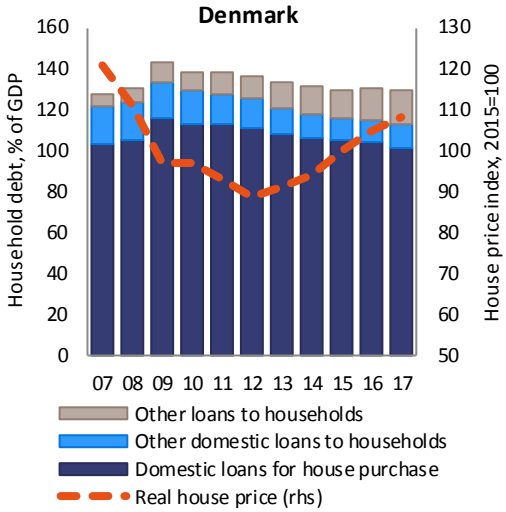


Source: Commission services

Overall, the economic reading highlights issues relating to competitiveness and pressures in the housing market although the risks appear contained at this stage. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Denmark: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Denmark. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the current account balance and the private sector debt.

Graph A4: ***Household debt and house price index***



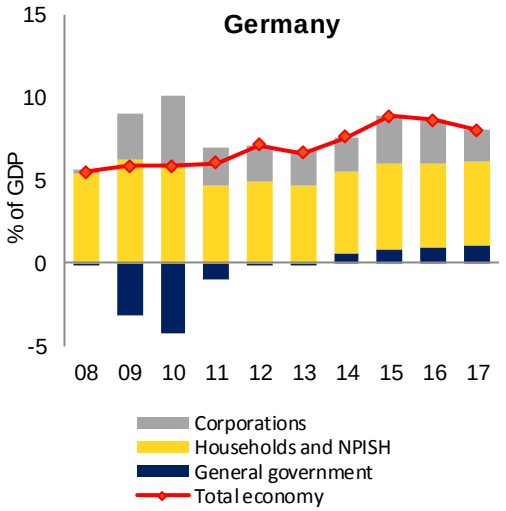
Source: Eurostat and ECB

The current account balance continues to show large surpluses. Consecutive surpluses have led to a large positive net international investment position, generating positive net primary income which reinforces the positive current account balance. Unit labour cost growth is contained even if a tighter labour market puts pressure on wages and productivity dynamics are muted. Export market share growth is broadly flat. While slowing at the national level, housing prices continued to grow more quickly in the main metropolitan areas. These developments warrant close attention. Household debt remains the highest in the EU as percentage of GDP and is only slowly decreasing in a context of modest credit growth. Households have continued to increase their savings, reflecting efforts to reduce debt and macro-prudential policy measures have been introduced to restrict risky loan taking. Corporate indebtedness, on the other hand, remains moderate. The labour market continues improving, employment growth is solid and labour shortages are becoming more widespread.

Overall, the economic reading highlights issues related to the current account, the private debt and the housing sector but risks appear contained. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Germany: In March 2018, the Commission concluded that Germany was experiencing *macroeconomic imbalances*, in particular related to its large current account surplus reflecting subdued investment relative to saving both in the private and public sector. In the updated scoreboard, a number of indicators remain beyond the indicative threshold, namely the current account balance and government debt.

Graph A5: ***Net lending/borrowing by sector***



Source: Eurostat

The current account continues to show very large surpluses although it narrowed slightly in 2017 on an annual basis. With steady domestic demand growth, the current account surplus is expected to continue narrowing, but to remain at a high level and lead to further increases in the net international investment position. Unit labour cost growth remains moderate. Export growth strengthened in 2017 but there was a slight loss in export market shares. Private sector deleveraging continues despite low private sector debt. At the same time, business investment is increasing relative to GDP. Housing investment continues to rise too, but it is still lagging behind housing needs in metropolitan areas. Real house prices growth and construction costs have been

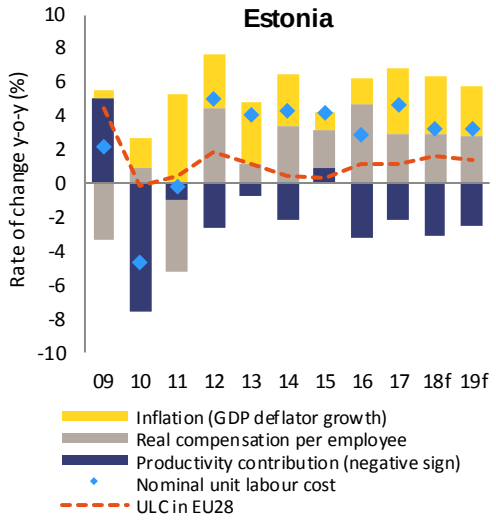
increasing and warrant attention, also with respect to regional disparities in prices and availability of housing. Credit growth is gradually strengthening. The household saving rate remains at an elevated level despite moderate wage growth and robust private consumption, reflecting higher inflows of distributed corporate income. Government debt continued to decrease and is expected to fall below the threshold of 60% of GDP by 2019 while the sizeable public investment backlog remains. Overall unemployment, as well as youth and long-term unemployment, have further decreased and remain very low.

Overall, the economic reading highlights issues relating to the persistent surplus of savings over investment reflected in the high and only gradually declining current account surplus underlining the need for continued rebalancing. Therefore, the Commission finds it useful, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

Estonia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Estonia. In the updated scoreboard, nominal unit labour cost growth is beyond the indicative threshold.

The current account surplus further increased in 2017 and the net international investment position improved to reach a level within the threshold. Nominal unit labour cost continue grow at a high rate reflecting inflation and the buoyant wage growth. Productivity dynamics have been muted, weighing somewhat on cost competitiveness indicators. The real effective exchange rate continued to appreciate while export market shares have been stable. Real house price growth has been dynamic in recent years but has slowed to moderate levels in 2017. Private debt deleveraging has been ongoing while the public debt level is very low. The labour market is tightening but inward migration has alleviated the labour shortages to some extent.

Graph A6: ***Decomposition of unit labour cost***



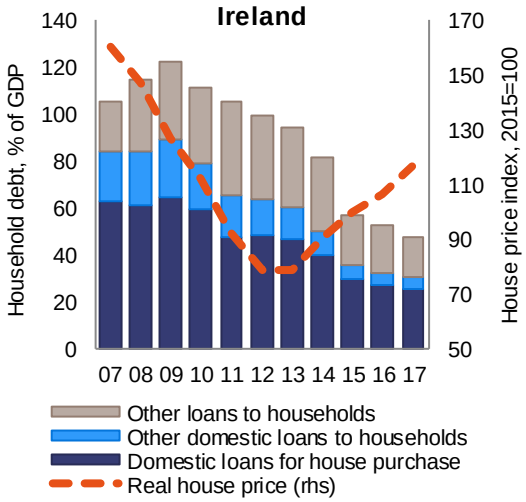
Source: Commission services

Overall, the economic reading highlights issues related to the nominal unit labour costs but risks appear contained. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Ireland: In March 2018, the Commission concluded that Ireland was experiencing *macroeconomic imbalances*, in particular involving vulnerabilities from large stocks of public and private debt and net external liabilities. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), the real effective exchange rate (REER), private debt, public debt as well as the annual change in real house prices.

The current account position showed a large surplus in 2017 compared to a substantial deficit in 2016 and surpluses the years before. Volatility in imports of intellectual property and contract manufacturing were contributing to these swings in the current account balance in the past years. [37] The NIIP has continued improving but remains highly negative, largely due to the activities of multinational companies with limited connections to the domestic economy. Strong productivity growth, also inflated by operations of multinationals, in recent years has contributed to improved competitiveness. Private debt remains very high, although it has continued to decline. Households have continued reducing their debt and Irish banks have lowered their exposures to domestic companies, suggesting continued corporate deleveraging. The situation of domestic non-financial companies is more difficult to interpret given the weight of multinationals on total corporate debt. House price growth has been very dynamic since 2014 mainly on the back of supply constraints and warrant close monitoring. On the back of strong economic growth, the ratio of public debt to GDP is falling but remains high. The non-performing loans ratio has been declining over the last years, but remains elevated. Although banks are well capitalised, provisioning levels have declined. Their profitability, albeit still subdued, is improving gradually. The unemployment rate fell below the MIP threshold in 2017 and long-term and youth unemployment keep declining.

Graph A7: ***Household debt and house price index***



Source: Eurostat and ECB

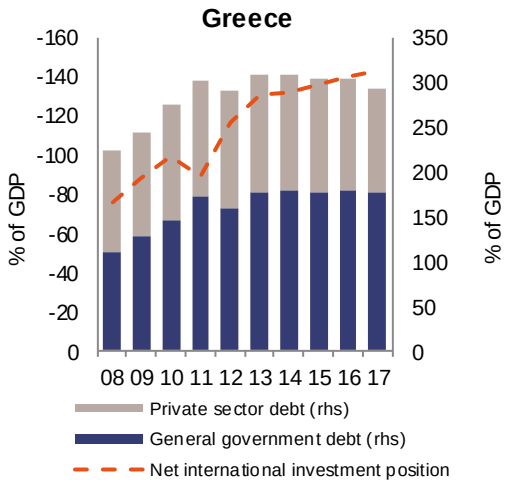
Overall, the economic reading highlights issues relating to the volatility of the external position and the stock of private and public debt as well as the rapid growth of house prices and relatively high share of non-performing loans. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in March 2018, to examine further the persistence of imbalances or their unwinding.

Greece: From 2010 and until recently, Greece has been under financial assistance programmes. Therefore, the surveillance of imbalances and correcting measures has taken place in the context of the programmes, and not under the MIP. In recent years, Greece has taken important steps to reduce its flow imbalances and to manage related risks, but legacy stock imbalances are expected to persist. This is reflected in the updated scoreboard, where a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), losses in export market shares, government debt and unemployment rate.

[37] Contract manufacturing is a process in which resident multinational companies issue contracts to foreign firms to produce goods on their behalf. As resident companies own these goods, their sales are recorded as exports of the resident country even though they do not enter the domestic economy.

While the private sector has a positive NIIP, the high share of public external debt results in an overall significantly negative NIIP. Although much of the external public debt has been given at highly concessional rates, long-term sustainability of the NIIP will require the recent improvements in the current account to be sustained in an environment of increasing domestic demand. Significant losses in export market shares have been observed in the last five years, but the trend appears to have reverted in 2017. The government debt-to-GDP ratio is very high, though it is expected to decline and its sustainability is underpinned by the Eurogroup agreement of June 2018. House prices continued to fall in real terms in 2017 but has stabilised in early 2018. Credit growth remains negative as private debt deleveraging continues. The high level of non-performing loans hampers the restoration of a healthy flow of credit to the economy, which is required for supporting growth in the medium term. Unemployment is declining but remains high, notably regarding long-term and youth unemployment.

Graph A8: ***NIIP, private debt and government debt***

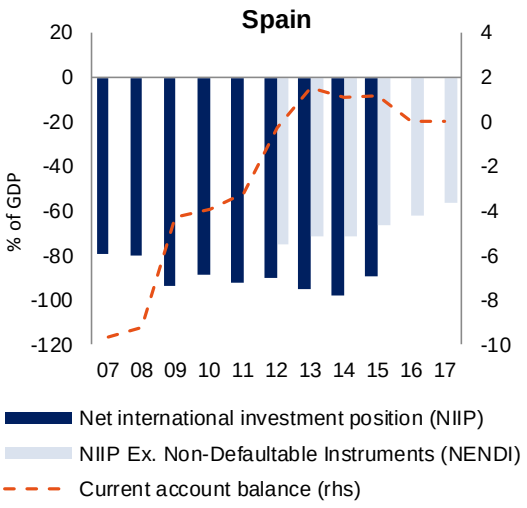


Source: Eurostat

Overall, the economic reading highlights issues linked to the high public and external debt, low savings and high stock of NPLs, all in a context of high unemployment, low productivity growth and sluggish investment activity. Therefore, the Commission finds it opportune to examine further the risks involved in an in-depth analysis with a view to assess whether an imbalance exists.

Spain: In March 2018, the Commission concluded that Spain was experiencing *macroeconomic imbalances*, in particular relating to the high levels of external and internal debt, both private and public, in a context of high unemployment. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), the private and government debt ratios, the unemployment rate as well as the growth in the activity rate.

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



Source: Commission services

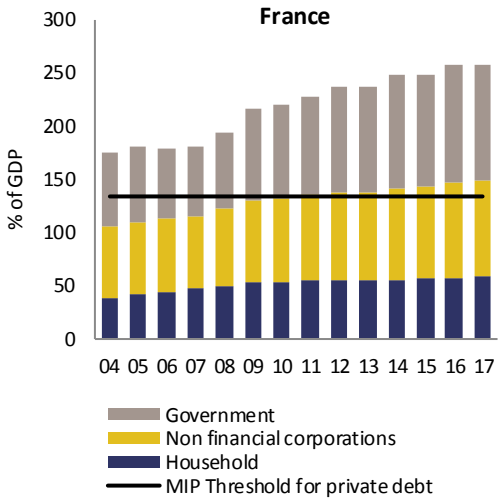
External rebalancing has continued although relatively slowly, and while the NIIP has improved it remains very high. Nominal ULC growth has been stable in a context of contained wage growth and low productivity growth. Export market growth has been moderate in year-on-year terms despite the slight appreciation of the real effective exchange rate in 2017. Private sector debt has continued to decline throughout 2017, especially for corporations, but deleveraging needs remain. Moreover, new credit has started flowing again, supporting a rebound in investment. For households, the pace of debt decline is also held back by a strong increase in consumer credit. House prices have been recovering in recent years in the context of previously undervaluation. In recent years, strong economic growth has been the main driver of the reduction in the general government deficit but the persistent deficits imply that the government debt ratio is only slowly decreasing. Unemployment has

been declining rapidly, but remains very high, especially among youth. At the same time, the low productivity growth makes competitiveness gains hinge upon cost advantages.

Overall, the economic reading highlights issues relating to external sustainability, private and public debt, and labour market adjustment, in the context of weak productivity growth. Therefore, the Commission finds it useful, also taking into account the identification of imbalances in March 2018 and their cross-border relevance, to examine further the persistence of imbalances or their unwinding.

France: In March 2018, the Commission concluded that France was experiencing *macroeconomic imbalances* in particular relating to high public debt and weak competitiveness in a context of low productivity growth. In the updated scoreboard, government and private sector debt and the unemployment rate indicators are on or beyond the indicative threshold.

Graph A10: ***Debt across sectors in the economy***



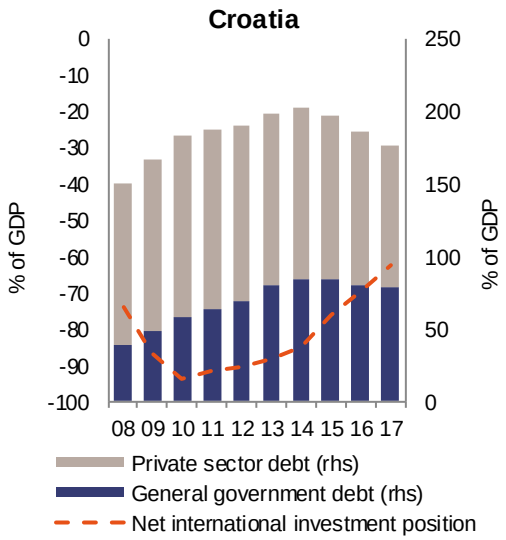
Source: Eurostat

The current account deficit was broadly stable in 2017 while the net international investment position deteriorated. Despite a pick-up in export growth there were some small losses in export market shares in 2017 while the real effective exchange rate stabilised. Due to a moderation of wage developments, unit labour cost growth was contained. However, productivity dynamics remained sluggish. Vulnerabilities stemming from the high and still increasing government debt remain a major source of concern. The combination of high public and private debt represents an additional vulnerability. Private sector debt is relatively high, in particular for non-financial companies, while credit growth is slightly picking up. Real house prices increased moderately. The labour market situation improves with the unemployment indicator moving within the threshold.

Overall, the economic reading highlights issues relating to high indebtedness and weak competitiveness, in a context of low productivity growth. Therefore, the Commission finds it opportune, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

Croatia: In March 2018, the Commission concluded that Croatia was experiencing *excessive macroeconomic imbalances*, linked to high levels of public, private and external debt, all largely denominated in foreign currency, in a context of low potential growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), the government debt and the unemployment rate.

Graph A11: ***NIIP, private debt and government debt***



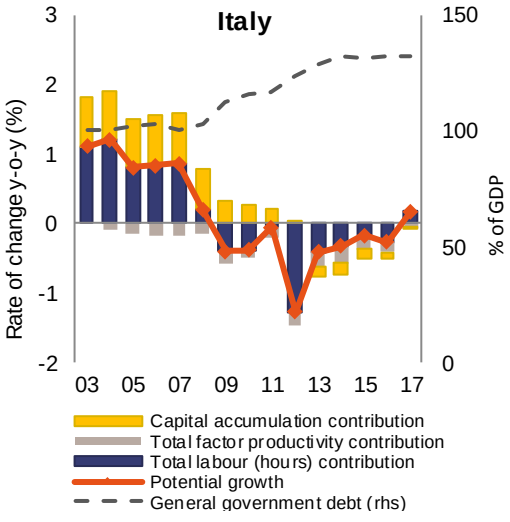
Source: Eurostat

Supported by a widening current account surplus, the negative NIIP, which to a large extent reflect FDI, has strengthened, although remaining beyond the threshold and exposed to persistent currency-related risks. Negative nominal ULC growth points to further gains in cost competitiveness, although the REER has been stable. As a result, in 2017, Croatia continued to gain market shares but at a slower pace than in previous years. Private sector debt continued decreasing despite a recovery of credit flows in 2017. The reduction of non-performing loans in the banking sector slowed, and a large share of loans to non-financial corporations remains non-performing. The government debt ratio declined further in 2017 also on account of an improving general government balance. The unemployment rate continued to decrease. However, labour market participation remains very low and, combined with sluggish productivity developments; it continues to weigh on potential growth. Risks associated with the country's largest employer, Agrokor, diminished after its creditors adopted a debt restructuring plan.

Overall, the economic reading highlights the still high but decreasing debt levels and currency risk exposures in all sectors of the economy and the importance of higher potential growth for a durable correction. Therefore the Commission finds it useful, also taking into account the identification of an excessive imbalance in March 2018, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Italy: In March 2018, the Commission concluded that Italy was experiencing *excessive macroeconomic imbalances*, in particular involving risks stemming from the very high public debt and protracted weak productivity dynamics in a context of high non-performing loans (NPLs) and unemployment. In the updated scoreboard, two indicators are beyond the indicative threshold, namely government debt and the unemployment rate.

Graph A12: ***Potential growth and public debt***



Source: Commission services

The external position is relatively strong with current account surpluses and an improving net international investment position. The government debt ratio stabilised at a very high level in 2017 but the government's fiscal plans, weaker than expected recovery and higher borrowing costs hamper a reduction of the debt-to-GDP ratio looking forward. At the same time, weak productivity growth and a shrinking working

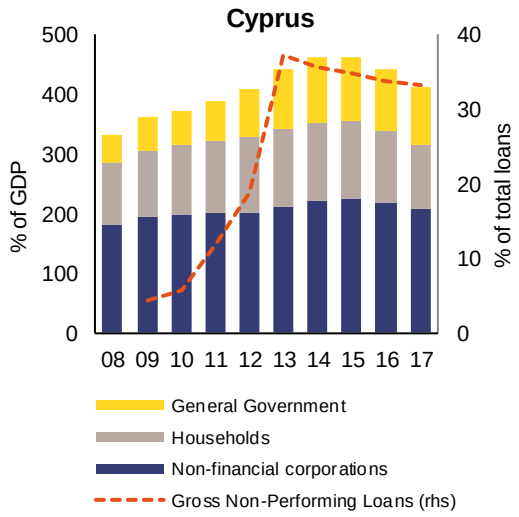
age population weigh on Italy's potential growth. Low productivity growth is rooted in long-standing structural weaknesses, including a business environment less favourable than in peer countries, financing constraints, a lack of high-skilled people and a low level of investments in intangible assets. Banks' balance sheet repair has progressed and the Italian banking sector became profitable again in 2017. However, vulnerabilities remain, in particular for medium and small banks, which still hold large legacy stocks of non-performing loans and are more exposed to sovereign risk than large banks. Labour market conditions are gradually improving, but the unemployment rate remains high, far above pre-crisis levels, in particular for young people and the long-term unemployed. The overall participation rate is rising but remains below the euro-area average. On the back of the on-going recovery, Italy's macroeconomic imbalances have stopped deteriorating but they remain sizeable and are unwinding only gradually. The slowdown in real GDP growth and the renewed tensions on the sovereign bond market could undermine the progress achieved so far.

Overall, the economic reading highlights issues relating to the high level of public debt in a context of higher market volatility and high unemployment. Productivity dynamics remain weak amid renewed concerns about the bank-sovereign feedback loop. Therefore, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in March 2018, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Cyprus: In March 2018, the Commission concluded that Cyprus was experiencing *excessive macroeconomic imbalances*, in particular involving large stocks of private, public, and external debt and the high share of NPLs in the banking system. In the updated scoreboard, a number of indicators remain beyond the indicative threshold in 2017, namely the current account, the net international investment position (NIIP), the real effective exchange rate (REER), private sector debt and government debt, the unemployment rate as well as the change in labour activity rate.

The current account deficit widened in 2017 against a background of strong import growth and the negative NIIP remains substantial. Cost competitiveness adjustment reduced as unit labour costs grew marginally and the real effective exchange rate stabilized. The level of private indebtedness is amongst the highest in the EU, both for households and corporates, while the deleveraging process is slow. In particular, household savings are negative. Downward adjustment in real house prices has passed its through and house prices started to moderately increase. The very high level of non-performing loans hampers the flow of credit to the economy, which is required for supporting potential growth in the medium term. The government debt-to-GDP ratio remains very high. Unemployment is rapidly declining yet still elevated, in particular youth unemployment, though over the last three years the long-term and the youth unemployment have improved.

Graph A13: ***Debt and non-performing loans***



Source: Eurostat and ECB

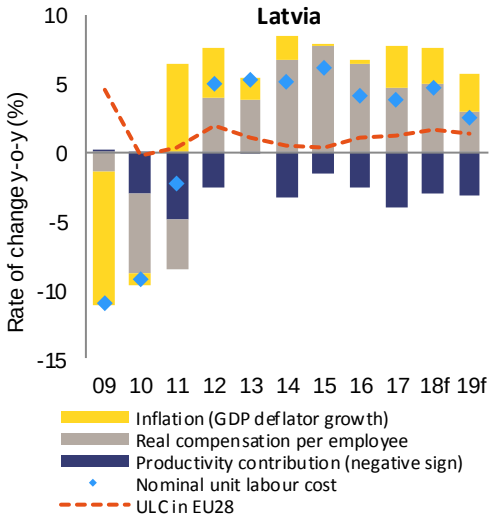
Overall, the economic reading highlights issues relating to external sustainability, public and private debt, vulnerabilities in the financial sector and labour market adjustment. Therefore, the Commission finds it useful, also taking into account the identification of an excessive imbalance in March 2018, to

examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Latvia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Latvia. In the updated scoreboard, a number of indicators are beyond the indicative thresholds, namely the net international investment position (NIIP) and unit labour cost growth.

The current account is broadly balanced and the negative NIIP, which largely consists of FDI, has improved given the strong nominal GDP growth although it remains above the threshold. Unit labour costs have been growing fast for several years in comparative terms, reflecting strong wage growth and a tight labour market and the indicator has remained above the scoreboard threshold since 2014. The impact on external price competitiveness and the export performance has been limited so far, cushioned in part by reduced profit margins. Going forward, wage growth is expected to remain strong due to further tightening of the labour market. Altogether, these developments pose a risk to country's competiveness and the growth prospects over the medium term. Real house price growth remains dynamic. While in 2017 house prices decelerated in comparison with 2016, they have accelerated again in the first half of 2018. Overall, credit growth has been subdued. Government and private debt are relatively low.

Graph A14: ***Decomposition of unit labour cost***



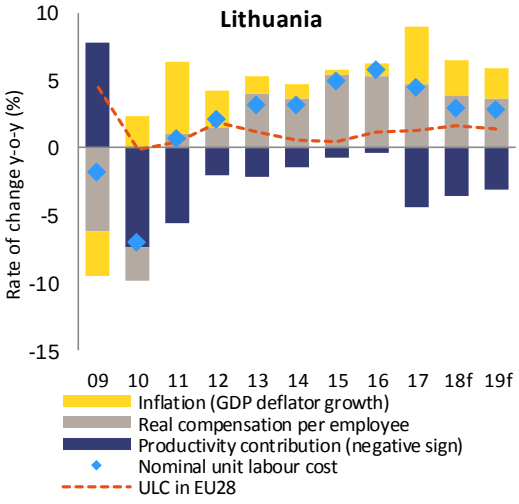
Source: Commission services

Overall, the economic reading highlights issues relating to the dynamics in the labour market and the external competitiveness although the risks appear contained at this stage. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Lithuania: In previous rounds of the MIP, *no macroeconomic imbalances* were identified in Lithuania. In the updated scoreboard, a number of indicators are beyond the indicative thresholds, namely the net international investment position (NIIP) and nominal unit labour costs.

The current account is broadly balanced and given the strong nominal GDP growth, the negative NIIP, which largely consists of FDI, has improved although it remains slightly above the threshold. Unit labour cost growth has been high for years in comparative terms, and the indicator has been beyond the scoreboard threshold since 2015, driven by high wage growth reflecting the tight labour market and, amongst other factors, a fast increase in the minimum wage since 2016. The impact of rising labour costs on external cost competitiveness and the export performance has been limited so far, cushioned in part by reduced profit margins, which in itself may not be sustainable in the longer term. Going forward, wage growth is expected to remain strong in a context of falling unemployment and a

Graph A15: ***Decomposition of unit labour cost***



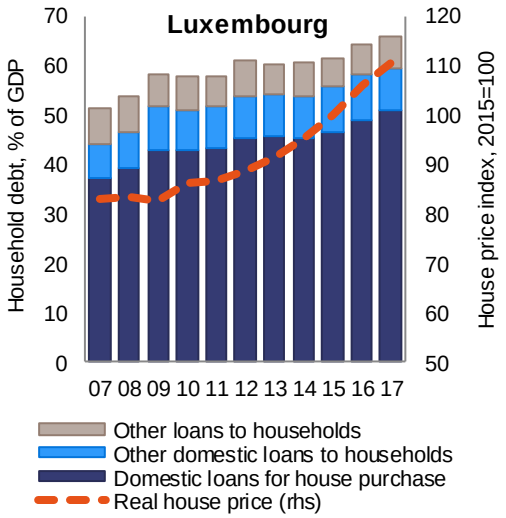
Source: Commission services

tightening labour market. Altogether, these developments may weigh on the country's competiveness and the growth prospects over the medium term. House price growth has been dynamic in recent years, gradually increasing although still within the threshold. Credit growth has picked up. Public and private debt levels continue to be relatively low and stable.

Overall, the economic reading highlights issues relating to unit labour costs dynamics and external competitiveness although the risks appear contained at this stage. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Luxembourg: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Luxembourg. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely private indebtedness as well as the change in the activity rate and the long-term unemployment rate.

Graph A16: ***Household debt and house price index***



Source: Eurostat and ECB

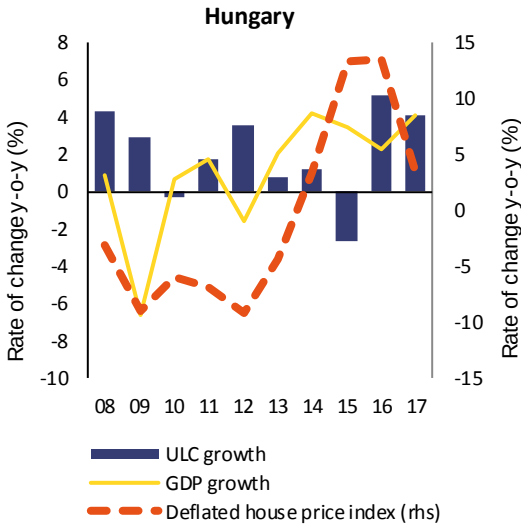
The external position continues to show a stable current account surplus and a positive and constant NIIP. However, the country's position as an international financial centre has a more important impact on the figures than the activity of the domestic economy. Cumulated export market shares gains have stabilised. However, some market losses have been recorded most recently, partially fostered by the worsening in cost competitiveness, deteriorated in turn by the stronger unit labour cost growth and import prices growth. During the last decade, real house prices have been growing at a relatively high rate which overall continue to warrant close monitoring. The increase in house prices takes place in the context of a dynamic labour market combined with the sizeable net migration flows and favourable financing conditions while supply is relatively constrained and remains insufficient to counteract strong demand. Housing affordability keeps on deteriorating in view of constantly increasing house prices. Corporate indebtedness is very high but this is mostly related to cross-border intracompany loans. The level of household debt, mostly mortgages, has been steadily increasing, reflecting the dynamism of the real estate market and favourable credit conditions. Although lower interest rates and longer mortgage duration have lessened households' financial strain and most of new mortgages are set on fixed rates, a large share of indebted households remains exposed to interest rates hikes. Risks for the country financial stability are however mitigated by the solidity of the banking sector. Public debt remains very low. Despite the recent economic slowdown, the labour market is tightening and unemployment declining further.

Overall, the economic reading points mainly to some contained risks related to constantly increasing housing prices and household debt. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Hungary: In the previous round of the MIP, *no macroeconomic imbalances were identified* in Hungary. In the updated scoreboard, some indicators are beyond the indicative threshold, namely net international investment position (NIIP) and government debt.

The current account surplus over recent years has implied a rapid and sustained improvement in the negative NIIP which also to a large extent reflects FDI. Export market shares increased in 2017, supported by a growing car industry. Nominal unit labour costs have been substantially increasing in a context of a tightening labour market. Administrative wage increases also added to labour cost increases, but they were partly offset by the reduction of employers' social contributions. Lending flows to the private sector turned positive but the stock of private sector credit continued to decrease in 2017. The growth of real house prices has moderated after significant increases in previous years. Nonetheless, high valuations in certain regions and the fast run-up of mortgage lending warrant attention. The ongoing recovery in the real estate market may contribute to further reduce the share of non-performing loans, which is still high. The banking sector has improved its profitability and its shock-absorbing capacity. Despite a favourable economic cycle, government debt has declined only gradually on the back of pro-cyclical fiscal policy. Unemployment decreased to historic low levels and the tightening labour market contributed to rapid wage growth, which continued to exceed productivity gains.

Graph A17: ***GDP, ULC and house prices***



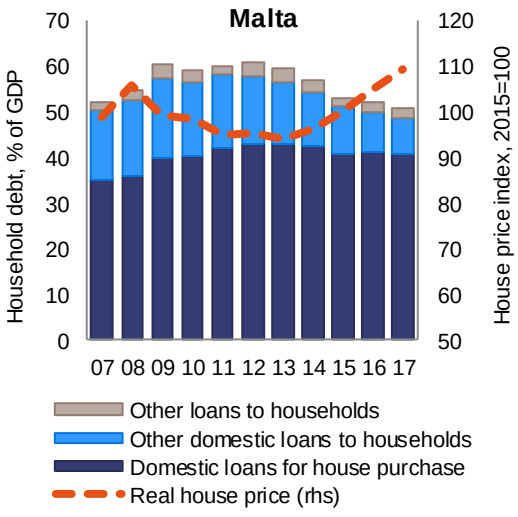
Source: Eurostat

Overall, the economic reading highlights issues relating to the housing market and a tightening labour market, although risks appear contained. The Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Malta: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Malta. In the updated scoreboard, the current account balance is beyond the indicative threshold.

The high current account surplus increased further in 2017 to significantly high levels, coinciding with a strong improvement of the already positive net international investment position. However, the external position reflects fluctuations in the internationally-oriented corporate sector rather than domestic developments. Cost competitiveness developments and REER developments have been relatively favourable, while moderate wage developments coupled with relatively strong labour productivity growth have kept unit labour cost growth moderate. The private sector debt-to-GDP ratio decreased substantially in 2017, underpinned by strong nominal GDP growth. While corporate sector leverage remains high, the growth rate of credit to households has been decelerating. The government debt-to-GDP ratio has been on a firm downward trend. Real house prices have increased in 2017, warranting monitoring. In particular, the strong economic activity and limited possibilities to invest

Graph A18: ***Household debt and house price index***



Source: Eurostat and ECB

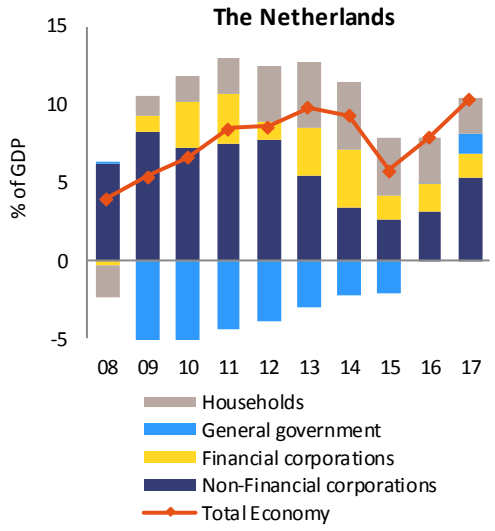
private savings has led to a renewed interest in the housing market. Asset quality in the domestic banking sector is improving and the available capital buffers appear sufficient to absorb immediate risks that could emerge from the housing market or from the perceived institutional framework. The labour market continues to perform vigorously, with strong employment growth accompanied by low and further declining unemployment.

Overall, the economic reading points to issues related to the external position and housing markets in the context of robust economic growth although risks appears contained at this stage. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

The Netherlands: In March 2018, the Commission concluded that the Netherlands was experiencing *macroeconomic imbalances*, in particular involving a high stock of private debt and the large current account surplus. In the updated scoreboard a number of indicators are beyond the indicative threshold, namely the three year average of the current account balance, private sector debt and real house price growth.

The current account surplus remains very high and increased further in 2017 while the positive net international investment position decreased slightly. While all sectors are net savers, the current account surplus increase in 2017 was mainly driven by non-financial corporations with a savings surplus related to relatively high corporate profitability and a comparatively low investment rate. Unit labour cost developments are muted with wage growth in line with productivity developments. Private debt is at high levels where corporate debt is also explained by intra-group debt of multinationals. Household debt is high and fuelled by a generous tax treatment of owner-occupied homes and favourable mortgage rates. While household debt as a share of GDP is on a decreasing trend, nominal debt is increasing again. There is a strong recovery in the housing market as house prices accelerated further in 2017, also in the context of a sub-optimally functioning rental market. The labour is tightening with low and falling unemployment.

Graph A19: ***Net lending/borrowing by sector***



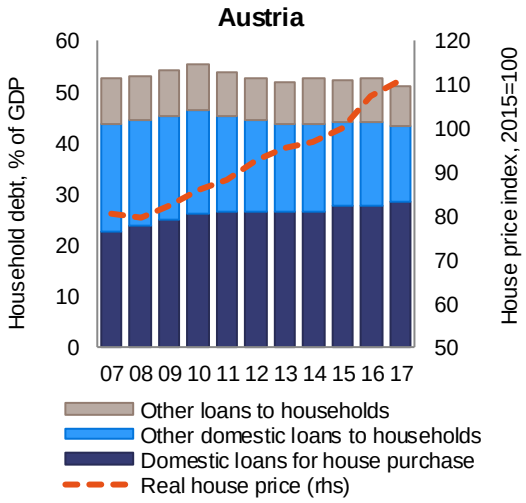
Source: Eurostat

Overall, the economic reading highlights issues relating to the high household debt and the large domestic savings surplus. Therefore, the Commission finds it opportune, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

Austria: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Austria. In the updated scoreboard, only the government debt indicator is beyond the indicative threshold.

The current account surplus remained stable at a moderate level in 2017 with a slightly positive net international investment position. Export market shares were stable. Unit labour cost growth is low supported by an increase in labour productivity growth combined with limited wage growth. Real house prices continued its growing trend but at a decelerated pace in 2017 as compared to 2016. While these developments warrant monitoring, the price increase does not appear to be credit-driven and little acceleration in credit growth is observed. Moreover, both corporate and household debt ratios are slowly decreasing. Also government debt continued its downward path and declined in 2017 on the back of strong economic growth and the ongoing asset wind-down from nationalised financial institutions. The banking sector situation improved further also linked to the recovery in neighbouring countries. In these favourable economic conditions and with strong employment growth, the unemployment rate decreased notably.

Graph A20: ***Household debt and house price index***



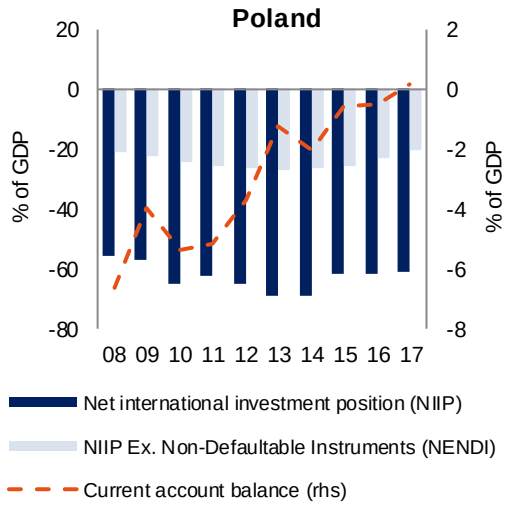
Source: Eurostat and ECB

Overall, the economic reading highlights issues relating to the housing sector, but risks appear contained. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Poland: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Poland. In the updated scoreboard, the net international investment position (NIIP) is beyond the indicative threshold.

The current account balance improved to a broadly balanced position in 2017 while the negative NIIP was stable. External vulnerabilities remain contained, given that foreign direct investments account for a major part of foreign liabilities. Gains in export market shares were strong again in 2017. Coinciding with both strong productivity growth and rising wages, nominal unit labour cost growth is contained. The private sector debt-to-GDP ratio declined in 2017, reflecting strong GDP growth and an appreciation of the zloty against the currencies in which part of the outstanding debt stock is denominated. General government debt, measured as percentage of GDP, decreased further from already relatively low levels on the back of fast nominal economic growth, a lower headline deficit and an appreciation of the zloty. Banking sector risks remained contained. The strong labour market performance persisted, resulting in a decline in the unemployment rate to a very low level.

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

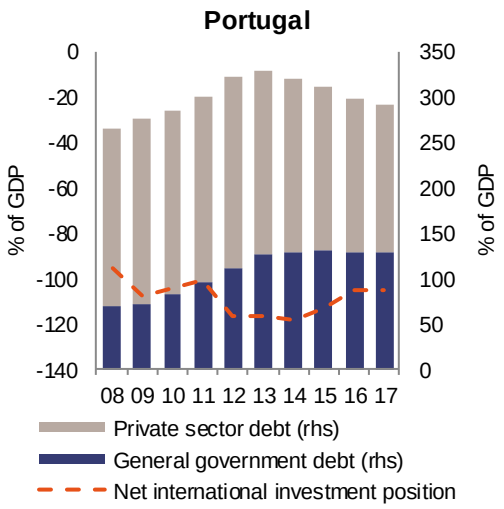


Source: Commission services

Overall, the economic reading highlight issues related to the net international investment position but risks are limited. Thus, the Commission does not see it necessary at this stage to carry out an in-depth analysis in the context of the MIP.

Portugal: In March 2018, the Commission concluded that Portugal was experiencing *macroeconomic imbalances*, in particular involving the large stocks of net external liabilities, private and public debt, and a high share of non-performing loans in a context of low productivity growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), government debt, private debt, unemployment, and real house price growth.

Graph A22: ***NIIP, Private debt and government debt***



Source: Eurostat

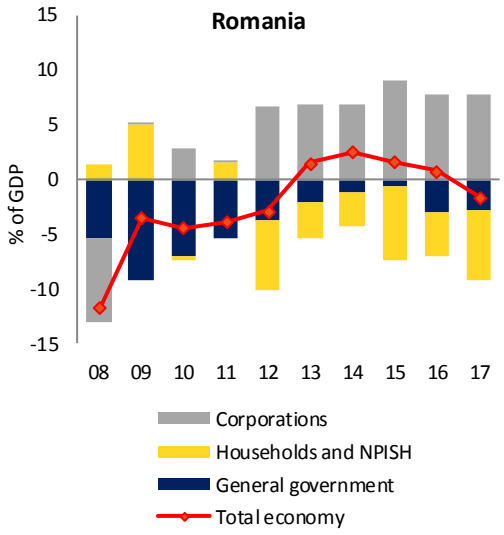
The current account position is stable showing a small surplus while the NIIP remains deeply negative and the pace of adjustment is projected to remain very slow. Price competitiveness has deteriorated slightly in 2017 as the real effective exchange rate appreciated marginally. Nominal ULC growth increased moderately while labour productivity growth was negative in 2017. Yet, these developments are broadly in line with those in trading partners and there are gains in export market shares. Private debt deleveraging is on-going and credit growth remains weak. Government debt is still very high but projected to decrease steadily. Banks have strengthened significantly their balance sheets and net income, but vulnerabilities still persist, as the stock of non-performing loans is still high despite its recent decline. House prices retain a strong growth but in the context of previously undervaluation and a broadly stable mortgage stock. Benefiting from the positive economic cycle, the labour market has undergone a broad-based improvement over the past years and unemployment has dropped significantly.

Overall, the economic reading highlights issues relating to imbalances in stock variables, in particular net external liabilities, public and private debt, banking sector vulnerabilities and weak productivity growth. Therefore, the Commission finds it opportune, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

Romania: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Romania. In the updated scoreboard one indicator is beyond the indicative threshold, namely the net international investment position (NIIP).

The current account deficit continued to deteriorate in 2017 on account of an acceleration of imports, mainly of consumption goods. Despite the increasing current account deficit, the negative NIIP, which consists mostly of FDI, further improved on the back of strong nominal GDP growth. Exports continued to perform well in 2017 and Romania gained further export market shares. Unit labour costs, however, increased very significantly in 2017 due to higher wage growth, particularly in the public sector. While Romania's export performance has been strong so far, past evidence suggests public wage growth is likely to also spill-over to the private sector, which could trigger cost competitiveness losses looking forward. The growth of real house prices declined marginally in 2017 and remains moderate. The banking sector continues to be well capitalized and liquid. The growth of credit to the private sector picked up slightly but remains subdued. The unemployment rate further declined in 2017 reflecting a tightening of the labour market, while the activity rate improved somewhat. Given the strong nominal GDP growth, both private and public debt declined as a share of GDP and both remain relatively low. However, the fiscal stance is set to remain expansionary in the medium run despite favourable economic conditions and could have a negative impact on public debt and current account dynamics. Both the deteriorating trade deficit and the acceleration of ULC are linked to the government's persistently pro-cyclical fiscal policy, which has stimulated an already strongly growing economy through repeated tax cuts and public wage increases. Moreover, frequent and unpredictable legislative changes contribute to an uncertain business environment, with negative repercussions on business decisions and investments, possibly affecting the attractiveness of the country to foreign investors.

Graph A23: ***Net lending/borrowing by sector***



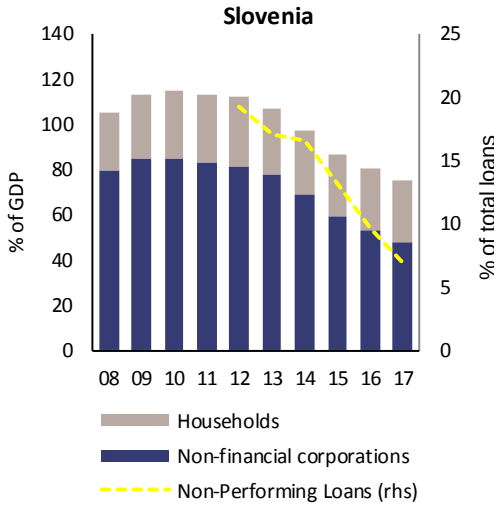
Source: Eurostat

The economic reading suggests that vulnerabilities have increased, particularly with respect to the external position and competitiveness. Overall, the Commission finds it opportune to examine further the risks involved in an in-depth analysis with a view to assess whether imbalances exist.

Slovenia: In March 2018, the Commission concluded that Slovenia *was no longer experiencing macroeconomic imbalances*. In the updated scoreboard, government debt and real house price growth are beyond the indicative threshold.

The large current account surplus increased further in 2017 due to strong export growth. The negative NIIP improved substantially and is no longer beyond the threshold. Export market shares increased while unit labour cost growth was contained and real effective exchange rate depreciated. Private debt decreased further, driven by the corporate sector while credit flows to the private sector have turned positive. Investment

Graph A24: ***Private debt and non-performing loans***



Source: Eurostat and ECB

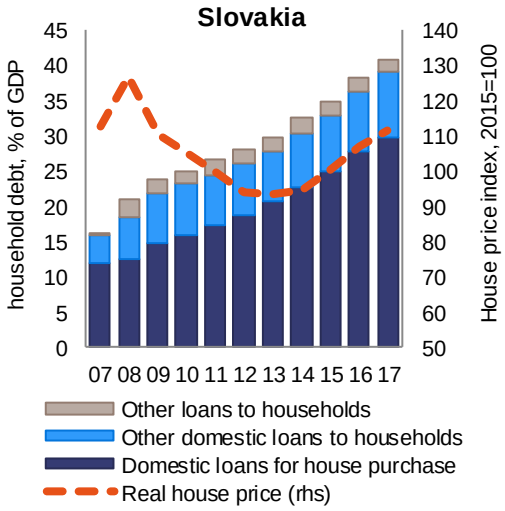
improved significantly but remains still below the historical averages. House price growth increased somewhat faster than in the previous years while residential investment is stable and mortgage credit growth contained. Government debt remains high but has decreased since its peak in 2015. Projected ageing costs continue to pose risks to medium and long-term fiscal sustainability. The banking sector has stabilised, its leverage is decreasing and the still relatively high share of non-performing loans continues its downward trend with further reductions expected. The labour market improved further, with the activity rate increasing and unemployment rate decreasing. Labour productivity growth also picked up somewhat in 2017.

Overall, the economic reading highlights issues relating mainly to the long-term fiscal sustainability. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Slovakia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Slovakia. In the updated scoreboard, the net international investment position (NIIP) and total financial sector liabilities are in breach of the indicative threshold.

The current account balance deficit widened further in 2017 but remains moderate overall. The NIIP is substantially negative, notwithstanding some improvement recently, while risks are limited as much of the foreign liabilities relates to foreign direct investment, especially in the expanding automotive industry and in the financial sector. Export market shares and the real effective exchange rate have been broadly stable. Nominal unit labour cost growth increased, driven by strong wage growth in the context of a tightening labour market. Growth in house prices remains strong but eased in 2017 compared to 2016 to a rate just within the threshold value. Private sector credit decelerated somewhat while the private debt-to-GDP ratio kept increasing overall. The largely foreign-owned banking sector is well-capitalised. Further declines in both total and long-term unemployment rates have been accompanied by increases in the participation rate.

Graph A25: ***Household debt and house price index***



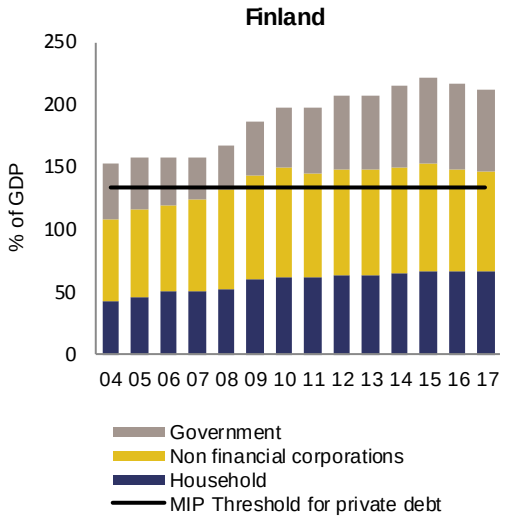
Source: Eurostat and ECB

Overall, the economic reading highlights issues relating to external aspects, the housing market and credit growth but risks appear contained so far. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Finland: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Finland. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the level of private sector debt and government debt.

The current account balance remained slightly negative in 2017 after several years of deficits while the net international investment position is marginally positive. Export market shares recovered for a second year in a row, while cost competitiveness indicators improved as unit labour costs fell and the real effective exchange rate depreciated. In 2018 and 2019, export growth is likely to still outpace import growth. Nevertheless, cost competitiveness indicators are expected to stabilise as the positive effect of the Competitiveness Pact fades out partly. Public and private sector debt-to-GDP ratios came down further in 2017, reflecting the strong output recovery. However, favourable credit conditions, low interest rates and the improved economic outlook have accelerated private credit growth, which may limit deleveraging going forward, while private debt is still at an elevated level. Household debt is high and the household saving rate historically low. The financial sector remains well capitalised, limiting risks to financial stability, while relatively stable real house prices point to limited risks to the household sector debt. The public debt ratio is reducing, reflecting the improved economic growth environment. Employment continues to expand and unemployment to decrease as a result of the higher economic activity.

Graph A26: ***Debt across sectors in the economy***



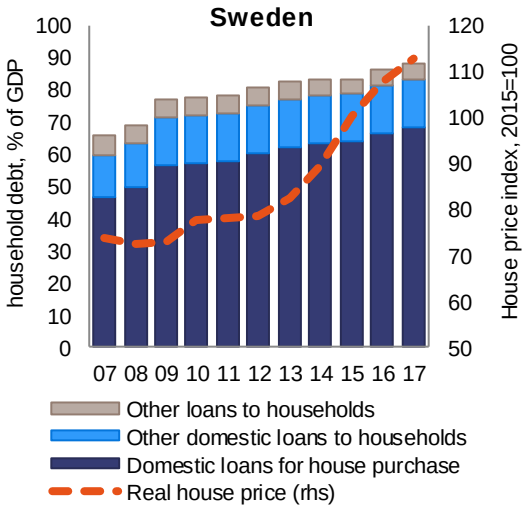
Source: Eurostat

Overall, the economic reading highlights challenges related to the private sector debt but risks remain limited. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Sweden: In March 2018, the Commission concluded that Sweden was experiencing *imbalances*, in particular involving overvalued house price levels coupled with a continued rise in household debt. In the updated scoreboard, private sector debt is beyond the indicative threshold.

The current account surplus remains moderate and narrowed in 2017. The NIIP has fallen slightly and is now close to balance. Export market share losses have moderated and the indicator is now somewhat below the threshold. Unit labour cost growth is contained while the real effective exchange rate has depreciated. Household debt is high and has grown continuously since 2008, including in 2017. This increase has been coupled with house prices rises implying risks for macroeconomic stability. In autumn 2017, house prices declined somewhat but remain overall very high. House prices and household indebtedness are being pushed up by the favourable tax treatment of home-ownership, low mortgage interest rates and

Graph A27: ***Household debt and house price index***



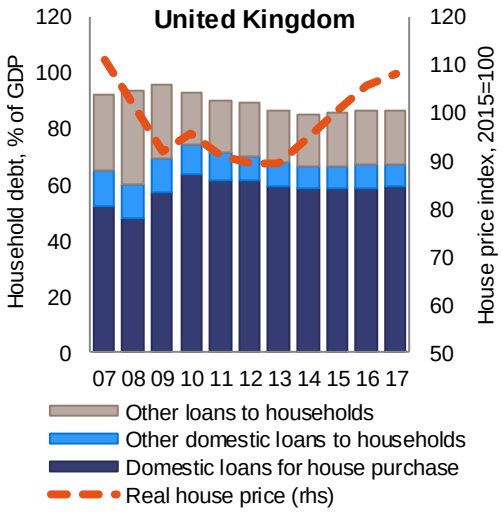
Source: Eurostat and ECB

specific features in the mortgage market. Risks in the banking system appear contained, as asset quality and profitability remain high and household finances are generally strong. The labour market is tightening and unemployment falling further.

Overall, the economic reading highlights issues relating to high private debt and the housing sector. Therefore, the Commission finds it useful, also taking into account the identification of an imbalance in March 2018, to examine further the persistence of imbalances or their unwinding.

United Kingdom: In the previous round of the MIP, *no macroeconomic imbalances were identified* in the United Kingdom. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the current account deficit, private sector debt and government debt.

Graph A28: ***Household debt and house price index***



Source: Eurostat and ECB

The current account narrowed slightly in 2017, driven primarily by an improvement in the primary income balance, but the significant deficit and associated sizeable external financing needs remain. The depreciation of sterling has supported the net international investment position, which is mildly negative, and improved price competitiveness in a context of moderate unit labour cost growth. However, to date the net trade response to weaker sterling has been disappointing. After several years of gradual deleveraging, the private sector debt-to-GDP ratio has bottomed out. In particular, household debt remains high and continues to warrant close monitoring. Real house price growth has slowed and the cost of housing is stabilising, though at a high level. Government debt is high and broadly stable. Strong employment growth continued to be accompanied by low and falling unemployment, although labour productivity remains weak.

Overall, the economic reading highlights some issues relating to private debt, the housing market and the external side of the economy. These issues appear to pose limited risks to stability in the short term. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

Table 1.1: MIP Scoreboard 2017

Year 2017	External imbalances and competitiveness					Internal imbalances						Employment indicators[1]		
	Current account balance - % of GDP (3 year average)	**Net international investment position** (% of GDP)	**Real effective exchange rate - 42 trading partners, HICP deflator** (3 year % change)	**Export market share - % of world exports** (5 year % change)	**Nominal unit labour cost index (2010=100)** (3 year % change)	**House price index (2015=100), deflated** (1 year % change)	**Private sector credit flow, consolidated** (% of GDP)	**Private sector debt, consolidated** (% of GDP)	**General government gross debt** (% of GDP)	**Unemployment rate** (3 year average)	**Total financial sector liabilities, non-consolidated** (1 year % change)	**Activity rate - % of total population aged 15-64** (3 year change in pp)	**Long-term unemployment rate - % of active population aged 15-74** (3 year change in pp)	**Youth unemployment rate - % of active population aged 15-24** (3 year change in pp)
Thresholds	-4/6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	-0.3	52.6	0.9	3.9	1.1	1.5p	-1.5	187.0	103.4	7.8b	0.7	0.3b	-0.8b	-3.9b
BG	3.1	-42.8	-3.3	19.4	13.6p	6.2	6.2	100.1	25.6	7.7	1.1	2.3	-3.5	-10.9
CZ	1.0	-26.5	5.4	8.2	5.9	9.1p	4.1	67.4	34.7	4.0	22.9	2.4	-1.7	-8.0
DK	8.1	56.3	-2.1	0.5	3.0	3.2	-1.4	204.0	36.1	6.0	4.1	0.7b	-0.4b	-1.6
DE	8.4	54.0	-2.5	6.5	5.1	2.9	4.9	100.1	63.9	4.2	4.0	0.5	-0.6	-0.9
EE	2.3	-31.4	2.9	2.6	12.4	1.8	3.6	106.4	8.7	6.3	9.7	3.6	-1.4	-2.9
IE	2.9	-149.3	-6.2	64.4	-17.2	9.5p	-7.5	243.6	68.4	8.4	4.3	0.9	-3.6	-9.0
EL	-0.8	-142.5	-2.8	-10.0	-1.0p	-2.2e	-0.8p	116.4p	176.1	23.3	-12.9	0.9	-3.9	-8.8
ES	1.8	-83.8	-2.5	9.8	0.0p	4.5	0.2p	138.8p	98.1	19.6	4.0	-0.3	-5.2	-14.6
FR	-0.6	-20.1	-2.9	2.7	1.3p	1.8	7.0p	148.2p	98.5	10.0	4.3	0.5	-0.3	-1.9
HR	3.6	-62.4	0.0	20.0	-4.3d	2.8	1.2	98.4	77.5	13.5	3.9	0.3	-5.5	-17.7
IT	2.3	-5.3	-3.1	2.0	1.1	-2.0p	2.1	110.5	131.2	11.6	4.3	1.5	-1.2	-8.0
CY	-5.0	-121.5	-6.6	6.9	-2.7p	1.3p	8.7p	316.3p	96.1	13.0	-2.3	-0.4	-3.2	-11.3
LV	0.6	-56.3	1.7	7.8	14.7	5.5	0.3	83.5	40.0	9.4	6.1	2.4	-1.3	-2.6
LT	-0.7	-35.9	2.3	9.7	16.0	5.4	3.7	56.1	39.4	8.0	14.0	2.2	-2.1	-6.0
LU	5.0	47.0	-0.9	25.2	7.1	4.1	-15.5	322.9	23.0	6.1	-1.7	-0.6	0.5	-6.9
HU	4.0	-52.9	0.1	11.3	6.7	3.3	0.9	71.4	73.3	5.4	-8.0	4.2	-2.0	-9.7
MT	8.4	62.6	-2.3	11.2	1.7	4.1p	2.9	120.2	50.9	5.2	4.7	4.4	-1.1	-1.2
NL	8.3	59.7	-1.6	1.2	-0.2p	6.0	3.0p	252.1p	57.0	5.9	2.0p	0.7	-1.0	-3.8
AT	2.1	3.7	0.3	2.3	3.7	3.5	4.3	122.5	78.3	5.7	1.8	1.0	0.3	-0.5
PL	-0.3	-61.2	-3.4	28.4	4.5p	1.7	2.7	76.4	50.6	6.2	6.3	1.7	-2.3	-9.1
PT	0.4	-104.9	-0.7	14.6	3.5p	7.9	1.3p	162.2p	124.8	10.9	1.8	1.5	-3.9	-10.9
RO	-2.2	-47.7	-5.5	37.0	11.9p	4.0	1.7p	50.8p	35.1	5.9	8.1	1.6	-0.8	-5.7
SI	5.7	-32.3	-2.0	18.6	3.4	6.2	0.8	75.6	74.1	7.9	5.1	3.3	-2.2	-9.0
SK	-2.0	-65.6	-1.9	6.7	6.9	4.4	5.9	96.1	50.9	9.8	17.9	1.8	-4.2	-10.8
FI	-0.7	2.4	-2.6	-4.3	-2.5	0.5	8.2	146.4	61.3	8.9	-3.8	1.3	0.2	-0.4
SE	4.0	1.8	-5.4	-4.3	3.7	4.6	13.1	194.4	40.8	7.0	6.8	1.0	-0.2	-5.1
UK	-4.6	-8.6	-10.7	-1.0	5.4	2.4	8.4	169.0	87.4	4.8	-1.6	0.9	-1.1	-4.9

Figures highlighted are the ones at or beyond the threshold. Flags: b: Break in series. d: Definition differs. e: Estimated. p: Provisional.

1) For the employment indicators, see page 2 of the AMR 2016. 2) House price index e = source NCB for EL. 3) For Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. 4) Unemployment rate, Activity rate, Long-term unemployment rate and Youth unemployment rate: BE: Revision in the survey methodology; IE: introduction of the new Labour Force Survey in substitution to the Quarterly National Household Survey as data source; DK: data collection improvement, introduction of computer-assisted web interviewing.

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, WEO (for world volume exports of goods and services)

Table 2.1: Auxiliary indicators, 2017

Year 2017	Real GDP (1 year % change)	Gross fixed capital formation (% of GDP)	Gross domestic expenditure on R&D (% of GDP)	Current plus capital account (Net lending-borrowing) (% of GDP)	Net international investment position excluding non-defaultable instruments (% of GDP)	Foreign direct investment in the reporting economy - flows (% of GDP)	Foreign direct investment in the reporting economy - stocks (% of GDP)	Net trade balance of energy products (% of GDP)	Real effective exchange rate - Euro Area trading partners (3 year % change)	Export performance against advanced economies (5 year % change)	Terms of trade (5 year % change)	Export market share in volume (1 year % change)	Labour productivity (1 year % change)	Gross non-performing loans of domestic and foreign entities (% of gross loans)	Unit labour cost performance relative to EA (10 year % change)	House price index (2015=100) - nominal (3 year % change)	Residential construction (% of GDP)	Household debt, consolidated (incl. NPISH, % of GDP)	Consolidated banking leverage, domestic and foreign entities (total assets/total equity)
BE	1.7	23.5	:	0.8	45.0	-7.8	199.9	-2.5	2.8	-0.8	1.0	-0.3	0.3	2.7p	1.4	8.2	5.9	60.1	13.2p
BG	3.8	18.5	0.8p	7.7	33.1	3.8	88.4	-4.2	-3.0	14.0	5.7	0.5	2.0p	10.2p	50.9	19.5	2.9	20.4	7.7p
CZ	4.3	24.7	1.8p	2.0	28.8	4.3	78.3	-2.6	5.8	3.3	3.1	1.4	2.7	2.8p	1.0	24.4p	3.9	29.7	12.4p
DK	2.3	20.5	:	8.1	18.6	0.6	54.3	-0.1	-0.5	-4.0	2.9	-0.9	0.7	2.5p	-0.2	17.7	4.6	128.0	16.4p
DE	2.2	20.3	3.0e	7.9	41.5	2.1	42.1	-1.8	0.3	1.7	5.9	-0.7	0.7	1.8p	8.4	16.0	6.1	52.7	14.1p
EE	4.9	24.4	:	4.2	21.5	5.9	95.5	-0.6	2.5	-2.0	4.2	-1.8	2.1	1.9p	22.5	18.1	4.3	39.4	6.8p
IE	7.2	23.5	1.1	-1.1	-259.1	0.3	435.6	-1.2	-2.1	57.0	-0.1	2.5	4.2	9.9p	-39.2	32.8p	2.0	47.7	6.6p
EL	1.5p	12.9p	1.1p	-0.5	-126.4	1.8	17.6	-1.8p	-1.7	-14.1	7.4p	1.5p	0.0p	45.0p	-12.9	-8.3e	0.6p	57.0	8.8p
ES	3.0p	20.5p	:	2.1	-58.1	0.6	58.6	-1.8p	-1.0	4.8	0.8p	-0.1p	0.4p	4.4p	-11.1	15.1	5.2p	61.1	13.5p
FR	2.2p	22.5p	:	-0.5	-33.5	1.9	46.5	-1.7p	-0.5	-1.9	5.0p	-0.8p	1.1p	3.1p	-0.2	2.6	6.2p	58.6	15.2p
HR	2.9	20.1	:	4.5	-17.3	3.6	58.7	-2.9	0.7	14.6	2.5	1.1	0.7d	8.8p	-15.0	1.7	:	34.1	7.4p
IT	1.6	17.6	:	2.7	-3.9	0.5	26.1	-1.9	-0.6	-2.6	7.6	0.4	0.4	11.2p	-0.3	-4.6	4.4	41.3	12.2p
CY	4.2p	20.9p	:	-7.9	-95.1	50.0	1017.8	-4.2p	-3.7	2.1	0.9p	0.7p	0.4p	30.7p	-8.9	1.0p	5.7p	107.5	12.1p
LV	4.6	20.9	0.5p	1.5	-7.6	3.8	59.0	-3.0	0.9	2.9	3.4	0.9	4.7	5.6p	7.7	14.0	1.9	22.2	8.9p
LT	4.1	19.2	0.9	2.1	-7.9	2.4	40.9	-3.0	1.5	4.8	5.9	8.3	4.7	3.2p	8.9	19.0	2.7	22.4	10.7p
LU	1.5	18.9	:	4.5	-3947.3	-264.1	8263.3	-2.8	0.1	19.5	-0.1	-7.2	-1.8	0.7p	14.9	18.0	3.2	65.9	13.2p
HU	4.1	22.2	1.4	4.2	-8.1	-9.3	211.0	-3.8	0.7	6.3	3.3	-0.6	2.1	8.4p	6.3	35.8	2.8	18.8	9.7p
MT	6.7	21.1	0.6	14.3	229.6	27.3	1627.0	-8.9	1.4	6.2	2.7	-1.5	1.4	3.1p	4.8	17.5p	4.8	50.4	13.5p
NL	2.9p	20.5p	:	10.4	-29.5	39.4	615.5	-0.8p	-0.5	-3.3	1.7p	0.0p	0.7p	2.1p	-2.5	17.0	4.4p	104.5p	16.7p
AT	2.6	23.6	3.2p	1.9	-4.1	3.7	66.7	-2.1	2.1	-2.3	1.9	-0.6	0.8	3.5p	5.7	19.9	4.4	50.4	11.6p
PL	4.8	17.7	1.0	1.4	-20.7	2.0	49.7	-2.0	-3.0	22.7	6.1	4.2	3.4p	6.6p	1.7	7.4	2.8	34.9	8.8p
PT	2.8p	16.6p	1.3p	1.4	-60.9	4.6	79.6	-2.1p	0.9	9.5	7.3p	2.5p	-0.5p	13.3p	-8.2	20.6	2.8p	68.9	10.6p
RO	7.3p	22.6p	:	-2.0	-5.8	2.8	44.5	-1.3p	-5.0	30.9	3.6p	4.4p	4.3p	6.6p	32.8	15.6	:	16.1	9.6p
SI	4.9	18.5	:	6.4	-17.7	2.2	37.3	-2.6	-1.4	13.3	3.6	5.4	1.9	9.2p	1.1	12.5	2.1	27.1	8.0p
SK	3.2	21.4	0.9	-1.1	-15.1	6.3	72.4	-3.5	-1.5	1.9	-1.6	0.6	1.0	3.7p	2.0	19.0	2.7	40.6	9.3p
FI	2.8	22.1	2.8	-0.6	6.1	5.8	55.0	-1.6	-1.0	-8.6	5.5	2.2	1.6	1.2p	5.4	2.0	6.4	67.1	18.9p
SE	2.1	25.0	3.3	3.2	-7.0	5.8	4.2	-0.9	-3.9	-8.6	1.2	-2.1	-0.2	1.3p	5.6	30.7	5.7	88.2	16.5p
UK	1.7	17.2	1.7p	-3.8	-5.3	2.5	76.5	-0.6	-6.7	-5.4	5.3	0.4	0.7	1.5p	5.0	18.5	4.0	86.2	15.0p

Flags: d: Definition differs. e: Estimated. p: Provisional.

1) Official transmission deadline for 2017 data on Gross domestic expenditure on R&D is 31 October 2018 while data were extracted on 24 October 2018. 2) House price index e = source NCB for EL. 3) Labour productivity for HR d: employment data use national concept instead of domestic concept.

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), European Central Bank (for Gross non-performing loans of domestic and foreign entities and Consolidated banking leverage, domestic and foreign entities), and International Monetary Fund data, WEO (for world volume exports of goods and services)

Table 2.1 (continued): Auxiliary indicators, 2017

Year 2017	Employment rate (1 year % change)	Activity rate - % of total population aged 15-64 (%)	Long-term unemployment rate - % of active population aged 15-74 (%)	Youth unemployment rate - % of active population aged 15-24 (%)	Young people neither in employment nor in education and training - % of total population aged 15-24		People at risk of poverty or social exclusion - % of total population		People at risk of poverty after social transfers - % of total population		Severely materially deprived people - % of total population		People living in households with very low work intensity - % of total population aged 0-59	
					%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp
BE	1.4	68.0b	3.5b	19.3b	9.3b	-2.7b	20.3	-0.9	15.9	0.4	5.1	-0.8	13.5	-1.1
BG	1.8p	71.3	3.4	12.9	15.3	-4.9	38.9	-1.2b	23.4	1.6	30.0	-3.1	11.1	-1.0
CZ	1.6	75.9	1.0	7.9	6.3	-1.8	12.2	-2.6	9.1	-0.6	3.7	-3.0	5.5	-2.1
DK	1.6	78.8b	1.3b	11.0	7.0b	1.2b	17.2	-0.7	12.4	0.3	3.1	-0.1	10.0	-2.2
DE	1.4	78.2	1.6	6.8	6.3	-0.1	19.0	-1.6	16.1	-0.6	3.4	-1.6	8.7	-1.3
EE	2.7	78.8	1.9	12.1	9.4	-2.3	23.4	-2.6b	21.0	-0.8	4.1	-2.1	5.8	-1.8b
IE	2.9	72.7	3.0	14.4	10.9b	-4.4b	:	:	:	:	:	:	:	:
EL	1.5p	68.3	15.6	43.6	15.3	-3.8	34.8	-1.2	20.2	-1.9	21.1	-0.4	15.6	-1.6
ES	2.6p	73.9	7.7	38.6	13.3	-3.8b	26.6	-2.6	21.6	-0.6	5.1	-2.0	12.8	-4.3
FR	1.1p	71.5	4.2	22.3	11.5	0.3b	17.1	-1.4	13.3	0.0	4.1	-0.7	8.1	-1.5
HR	2.2d	66.4	4.6	27.2	15.4	-3.9	26.4	-2.9	20.0	0.6	10.3	-3.6	12.2	-2.5
IT	1.2	65.4	6.5	34.7	20.1	-2.0	28.9	0.6	20.3	0.9	10.1	-1.5	11.8	-0.3
CY	3.9p	73.9	4.5	24.7	16.1	-0.9	25.2	-2.2	15.7	1.3	11.5	-3.8	9.4	-0.3
LV	0.0	77.0	3.3	17.0	10.3	-1.7	28.2	-4.5	22.1	0.9	11.3	-7.9	7.8	-1.8
LT	-0.5	75.9	2.7	13.3	9.1	-0.8	29.6	2.3	22.9	3.8	12.4	-1.2	9.7	0.9
LU	3.4	70.2	2.1	15.4	5.9	-0.4	21.5	2.5	18.7	2.3	1.2	-0.2	6.9	0.8
HU	2.0	71.2	1.7	10.7	11.0	-2.6	25.6	-6.2	13.4	-1.6	14.5	-9.5	6.6	-6.2
MT	5.2	72.2	1.6	11.3	8.6b	-1.7b	19.2	-4.6	16.8	0.9	3.3	-6.9	6.7	-3.1
NL	2.2p	79.7	1.9	8.9	4.0	-1.5	17.0	0.5	13.2	1.6	2.6	-0.6	9.5	-0.7
AT	1.7	76.4	1.8	9.8	6.5	-1.2	18.1	-1.1	14.4	0.3	3.7	-0.3	8.3	-0.8
PL	1.4p	69.6	1.5	14.8	9.5	-2.5	19.5	-5.2	15.0	-2.0	5.9	-4.5	5.7	-1.6
PT	3.3p	74.7	4.5	23.8	9.3	-3.0	23.3	-4.2	18.3	-1.2	6.9	-3.7	8.0	-4.2
RO	2.8p	67.3	2.0	18.3	15.2	-1.8	35.7	-4.6	23.6	-1.5	19.7	-6.2	6.9	-0.3
SI	2.9	74.2	3.1	11.2	6.5	-2.9	17.1	-3.3	13.3	-1.2	4.6	-2.0	6.2	-2.5
SK	2.2	72.1	5.1	18.9	12.1	-0.7	16.3	-2.1	12.4	-0.2	7.0	-2.9	5.4	-1.7
FI	1.2	76.7	2.1	20.1	9.4	-0.8	15.7	-1.6	11.5	-1.3	2.1	-0.7	10.7	0.7
SE	2.3	82.5	1.2	17.8	6.2	-1.0	17.7	-0.5	15.8	0.2	1.1	0.1	8.8	-0.2
UK	1.0	77.6	1.1	12.1	10.3	-1.6	:	:	:	:	4.9p	-2.5p	:	:

Flags: b: Break in series. d: Definition differs. p: Provisional.

1) Official transmission deadline for 2017 data on People at risk of poverty and social exclusion is 30 November 2018 while data were extracted on 24 October 2018. 2) Nominal unit labour cost and labour productivity for HR d: employment data use national concept instead of domestic concept. 3) Labour Fource Survey indicators for IE: introduction of the new LFS in substitution to the Quarterly National Household Survey (QNHS) as data source.

Source: European Commission, Eurostat