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Report 2017 (prepared in accordance with Articles 3 and 4 of Regulations
(EU) No 1176/2011 on the prevention and correction of macroeconomic
imbalances)

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REPORT FROM THE COMMISSION

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

Alert Mechanism Report 2017

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

{SWD(2016) 354 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, to screen Member States for potential economic imbalances in need of policy action. Member States identified by the AMR are then analysed in an in-depth review (IDR) by the Commission to assess how macroeconomic risks in the Member States are accumulating or winding down, and to conclude whether imbalances or excessive imbalances exist. Following established practice, for Member States for which imbalances were identified in the previous round of IDRs, a new IDR will in any case be prepared.

Taking into account discussions with the European Parliament and within the Council and the Eurogroup, the Commission will prepare IDRs for the relevant Member States. The 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 2017 as part of the country reports, ahead of the European semester package of CSRs.

1. EXECUTIVE SUMMARY

This report initiates the sixth 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 action². 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 alert mechanism report emphasises euro area considerations. In line with the 21 October 2015 Commission Communication ‘*On Steps Towards Completing Economic and Monetary Union*’, the AMR also aims at a systematic analysis of the euro area wide implications of countries’ imbalances and it examines how such implications require a coordinated approach to policy responses.

¹ This report is accompanied by a *Statistical Annex* which contains a wealth of statistics which have contributed to inform this report.

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

The assessment in this report is set against the background of a continuing but still fragile economic recovery. The European Commission autumn 2016 economic forecast projects real GDP growth in the EU to be 1.8% in 2016 and to fall to 1.6% in 2017 against the backdrop of softening domestic demand, notably private consumption and investment. GDP forecasts for the euro area are 1.7% and 1.5% for 2016 and 2017, respectively. Inflation is expected to remain at historically low levels in 2016 and 2017, with core inflation of around 1% despite the highly accommodative monetary policy stance. Labour markets conditions are expected to further improve, with the EU unemployment rate projected to fall from an estimated 8.6% in 2016 to 8.3% in 2017. The tail winds that have supported the recovery so far are fading (falling oil prices, a depreciating euro), and risks to the outlook persist. Despite the recovery in some emerging markets, uncertainties remain linked to the rebalancing in China and the implications of the normalisation of US monetary policy for global capital flows. Uncertainties linked to geopolitical tensions remain high, while risks are emerging concerning the policy environment amid rising populism linked in some cases with social hardship and reform fatigue and with growing protectionist sentiments around the world.

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

- **The adjustment in countries with external deficits or debt has made further progress, while large current account surpluses remain.** Significant progress has been achieved among net debtor countries in correcting their external imbalances. Unsustainable current account deficits have been eliminated in almost all Member States, including as a result of adjustments in cost competitiveness over the past few years, although stocks of net foreign liabilities remain high. In contrast, current account surpluses are not adjusting in all net creditor countries and continue to grow in some cases.
- **Private debt deleveraging continues, but at a slow and uneven pace, hampered by low nominal growth.** Vulnerabilities linked to high levels of private debt, often compounded by high stocks of government debt, persist in a number of countries. Private debt overhang depresses investment and finds a counterpart in the weakness of banks' balance sheets in some countries. Deleveraging is ongoing but in most cases at a slow pace compared with past experience, notably in light of subdued nominal growth³. Moreover, deleveraging is not always taking place where it is most needed, with some high-debt countries making slower progress in reducing their liabilities than low-debt countries.
- **Despite improved capital positions, the banking sector is facing challenges linked to falling profitability and a legacy of bad debt.** While banks have generally improved their capital ratios and resilience to shocks, reduced profitability prospects constrain the ability to raise new capital on the market against the background of new regulatory capital requirements. In some countries, the legacy of non-performing loans reduces the room for lending and raises the risk of capital misallocation.
- **House price dynamics are gaining momentum and deserve monitoring in some countries.** Following sharp downward corrections during the post-crisis recessions,

³ See, e.g. IMF, Fiscal Monitor, October 2016.

house prices are currently growing in most countries. Despite the low interest rate environment, house price dynamics remain well below the growth rates recorded during the mid-2000s. In some countries, however, strong price dynamics are observed in a context of likely overvalued prices and rising net credit to households, which deserves close monitoring.

- **Labour markets continue their recovery, but social distress persists in some countries.** Labour markets have been improving since mid 2013, accompanied by a reduction in the dispersion of unemployment rates across Member States after major divergent trends in earlier years. However, there are still very high unemployment rates and stagnant labour income in a number of EU countries, and social distress persists, especially in the countries hardest hit by the financial and debt crises.

Euro area rebalancing issues continue to deserve careful consideration. The euro area current account surplus further increased to 3.3% of GDP in 2015 and is projected to reach 3.7% of GDP in 2016, reflecting aggregate demand dynamics weaker than output dynamics. The weak recovery in euro area aggregate demand has underpinned the low inflation environment and the persistent slack in the economy. The improved current account positions of net debtor countries need to be sustained in order to ensure a reduction of the stock of net external liabilities. In turn, some net creditor countries are yet to start correcting external flow imbalances.

Overall, despite continued improvements, the same sources or risks identified in the 2016 AMR are confirmed. Progress continues in addressing external imbalances among net debtor countries, but the rebalancing process remains uneven. Internal stock imbalances are adjusting slowly on the back of the low nominal growth environment, and progress is uneven. The banking sector witnesses reduced profitability prospects and a legacy of non-performing loans in some countries. In some countries, signs of possible overheating in housing markets or labour markets deserve monitoring.

More detailed and encompassing analyses for Member States flagged by the AMR will be performed in IDRs. As in the previous cycle, IDRs will be embedded in the country reports, which provide the Commission services' analysis of the economic and social challenges in Member States. This analysis then informs the European semester's country specific recommendations (CSRs). To prepare the IDRs, the Commission will base its analysis on a rich set of data and information. All pertinent statistics, all relevant data, all material facts will be taken into account. As established by the legislation, it is on the basis of the IDRs that the Commission will conclude whether imbalances or excessive imbalances exist, and subsequently prepare the policy recommendations for each Member State⁴. Countries for which imbalances or excessive imbalances have been identified in the previous MIP cycle are now all subject to specific monitoring, which is modulated according to the gravity of the underlying challenges (Box 1)⁵.

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

⁵ See '2016 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(2016) 95 final/2 -, 7.4.2016.

Box 1: Application of the MIP: main developments since 2015

Categorisation of macroeconomic imbalances

The categorisation of macroeconomic imbalances was streamlined and stabilised in the previous cycle, as indicated in the April 2016 Commission Communication on the European semester and in line with the October 2015 Commission Communication '*On Steps Towards Completing Economic and Monetary Union*'. The streamlining reduced the number of possible categories from six to four (no imbalances; imbalances; excessive imbalances and excessive imbalances with corrective action). Among the 19 countries subject to an IDR in 2016, six were found to experience no imbalances (Austria, Belgium, Estonia, Hungary, Romania and the United Kingdom), seven were found to experience imbalances (Finland, Germany, Ireland, the Netherlands, Slovenia, Spain and Sweden) and six were found to experience excessive imbalances (Bulgaria, Croatia, Cyprus, France, Italy and Portugal).

Specific monitoring

Specific monitoring aims to enhance the continuous monitoring of the policies taken in the context of the MIP. It does not replace the encompassing Commission monitoring of reform implementation in response to country specific recommendations that is presented in the country reports, but strengthens the basis for such an assessment.

Specific monitoring was put in place for the first time in 2013 to follow up to the strengthened policy commitments taken by Spain and Slovenia after they were identified with excessive imbalances. It consisted of two missions followed by reports, in the autumn and in the winter, discussed in the Council committees preparing the ECOFIN (EPC/EFC). Given the positive experience with these two countries, in 2014 the Commission extended specific monitoring to all countries with excessive imbalances and to selected euro area countries with imbalances of systemic relevance. In 2016, with the streamlining of MIP categories, specific monitoring was extended to all countries with imbalances or excessive imbalances, with monitoring taking place in the autumn only, and modulated on the basis of the scope of the challenges and the severity of the imbalances. Further adaptations in the implementation of specific monitoring may take place if necessary on the basis of the accumulated experience.

IDRs are warranted for the countries identified with imbalances or excessive imbalances in the previous round of IDRs⁶. An IDR is again needed to assess whether existing excessive imbalances or imbalances are unwinding, persisting or aggravating, while paying due attention to the contribution of the policies implemented by these Member States to overcome imbalances. The Member States concerned are **Bulgaria, Croatia, Cyprus, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden.**

On the basis of the economic reading of the scoreboard, the Commission will not at this stage carry out further analyses in the context of the MIP for the other Member States.

⁶ See '*2016 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(2016) 95 final/2 -, 7.4.2016. For the full set of country-specific recommendations adopted by the Council, including those that are MIP-relevant, see OJ C 299, 18.8.2016.

In particular, the countries that exited MIP surveillance in 2016 (Belgium, Hungary, Romania and the United Kingdom) do not signal major additional risks compared with last year to require analysis in an IDR in 2017. A number of countries not recently examined in IDRs exhibit sustained dynamics in house prices (Denmark, Luxembourg) and labour costs (Estonia, Latvia, Lithuania) that deserve close monitoring but do not require a screening of vulnerabilities and risks for the whole economy in an IDR. In the case of Greece, the surveillance of imbalances and the monitoring of corrective measures continues to take place in the context of the programme of financial assistance. Overall, the alert mechanism report therefore calls for the preparation of IDRs for 13 Member States compared to 19 in the previous cycle. None of the countries that were not subject IDRs in the previous cycle will be so in 2017.

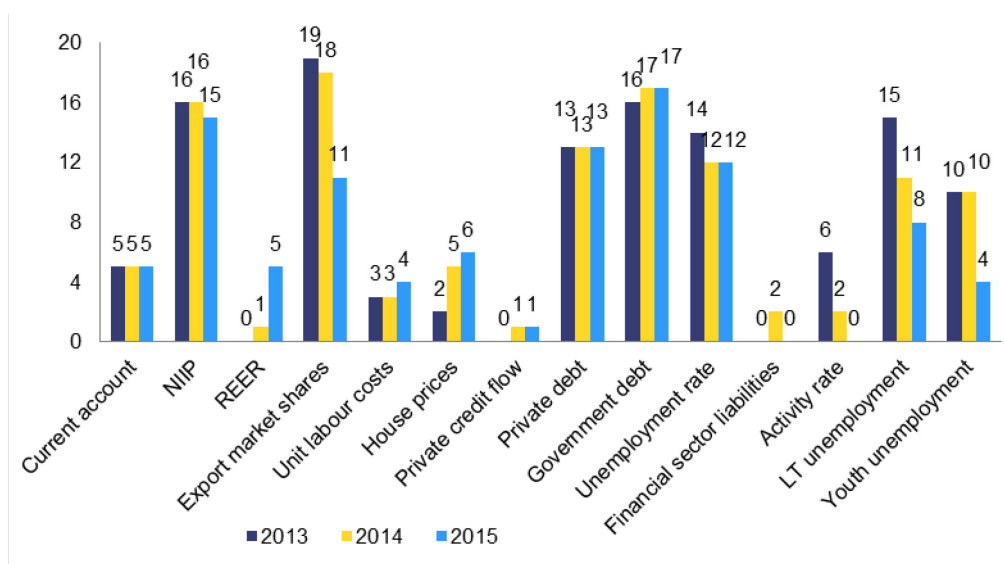
2. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS ACROSS COUNTRIES

The alert mechanism report builds on an economic reading of the scoreboard of indicators. The AMR scoreboard of indicators and the indicative thresholds provides a filtering device for detecting prima-facie evidence of possible risks and vulnerabilities deserving further investigation. The scoreboard includes a range of indicators and reference thresholds regarding a number of areas, including external positions, competitiveness, private debt, housing markets, the banking sector, employment. It relies on ex-post data to ensure data stability and cross-country consistency. Hence, the scoreboard used for this report reflecting data up to 2015. More recent data, in addition to a set of auxiliary indicators, are nevertheless reviewed in the economic reading of the indicators. Scoreboard values are not read mechanistically, but subject to an economic reading that enables country-specific issues and contextual considerations to be taken into account⁷.

The evolution of scoreboard indicators reflect the gradual adjustment process as well as remaining imbalances and vulnerabilities. The correction of potential current account imbalances is evident from the evolution of the number of values beyond the threshold on the current account variable in the AMR scoreboard (Graph 1). While the current account indicator was beyond the threshold for 14 countries as a result of deficits and for 2 countries as a result of surpluses in 2009, this was the case for only 5 countries in 2015, three of which as a result of surpluses. In light of resuming output and export growth for most EU countries, the number of readings beyond the threshold concerning unemployment, other social indicators and export markets shares has been falling. Price dynamics have resumed in a few countries in a context of generally low inflation, which results in a growing, but still limited, number of values beyond the threshold for the REER and real house prices. Values in excess of the threshold are numerous and persistent regarding stock imbalances. This is the case for 15 countries as far as the net international investment position is concerned in 2015, one fewer than in the previous year, and for 17 countries on the government debt indicator, the same as in the previous year. As far as private debt is concerned, the number of values in excess of the threshold has remained stable at 13.

⁷ A mechanistic reading of the scoreboard is ruled out by the MIP Regulation (Regulation (EU) 1176/2011). On the rationale underlying the construction of the AMR scoreboard and its reading see *'The Macroeconomic Imbalance Procedure. Rationale, process, application: a compendium'* (European Commission, 2016).

Graph 1: Number of values beyond threshold per scoreboard indicators, 2013, 2014 and 2015.

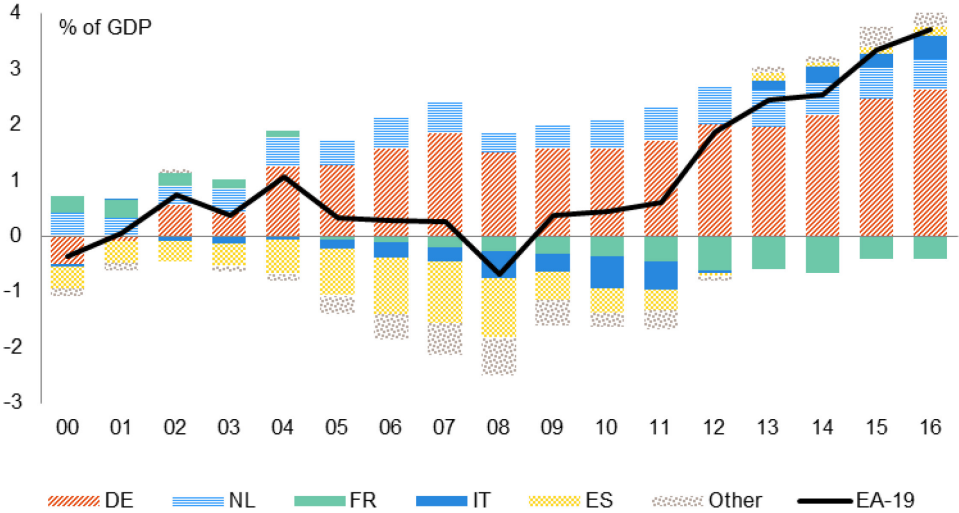


Source: Eurostat.

Past current account deficits have mostly turned into surpluses or balanced positions, while large surpluses persist. Net debtor countries made strides in correcting excessive current account deficits in the immediate aftermath of the crisis (Graph 2). Following a pause in 2014, they further adjusted their position in 2015, mainly on account of export growth, but in few cases (e.g. Italy) also as a result of weak domestic demand. As a result, only Cyprus and the United Kingdom had deficits beyond the threshold. In contrast, the surpluses in

Denmark, Germany and the Netherlands continue to exceed the threshold. Germany’s already large current account surplus widened further to 8.5% of GDP in 2015 following a significant increase in 2014 as all sectors of the economy continued to deleverage, which made the country’s positive saving vs. investment imbalance even larger⁸. Low oil prices and terms of trade effects also contributed somewhat to further increasing the surplus in 2015. Germany’s surplus is larger still on a cyclically adjusted basis at 9.4% of GDP, as is the case for 15 other Member States that have actual positions below cyclically adjusted ones. The Netherlands also still has a large current account surplus, but it has decreased over the past two years. Among net creditor countries, Denmark, Germany, Malta and the Netherlands had surpluses that were more than 5 percentage points of GDP larger than what can be explained by fundamental factors such as demographics or manufacturing intensity. Among net debtor countries, only the United Kingdom had a deficit that exceeded fundamentals by a similar magnitude, while the majority of net debtor countries had current account positions beyond fundamentals following the recent external rebalancing. Overall, the correction of imbalances in net debtor countries and continued surpluses in the main net creditor countries means that the euro area current account surplus expanded by another 0.8 percentage point of GDP in 2015 to 3.3% of GDP, compared with a nearly balanced position in 2009-2010 (Box 2).

Graph 2: Current account balances of the euro area and select Member States



Source: National accounts and European Commission autumn 2016 forecast (AMECO).

Box 2: The euro area dimension of macroeconomic imbalances
Euro area wide implications of macroeconomic imbalances deserve careful consideration. In line

⁸ Current account figures referred to here are on a national accounts basis.

with proposals contained 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, and the 21 October 2015 Commission Communication ‘*On steps towards completing Economic and Monetary Union*’, starting from last year the AMR contains a systematic analysis of the euro area wide implications of countries’ imbalances and how such implications require a coordinated approach to policy responses.

The large euro area current account surplus keeps rising. The current account balance of the euro area is the largest in the world at EUR 349 billion in 2015, or 3.3% of euro-area GDP⁹. The euro area surplus built up in the post-crisis period from a deficit of 0.7% of GDP in 2008. Its current level can hardly be fully accounted for by economic fundamentals: empirical estimates of a current account norm for the euro area indicate that fundamental characteristics (including ageing, relative per-capita income, etc.) would imply a small surplus of about 0.3% of GDP in 2015¹⁰. The euro area surplus is expected to increase further by 0.4 percentage points in 2016, even though oil prices have risen from a low basis since early 2016 and the euro has appreciated in effective terms. Looking forward, the large and growing current euro area account surplus could contribute to put upward pressure on the external value of the euro.

The euro area surplus reflects correction of former current account deficits and widespread deleveraging as well as persisting large surpluses in some Member States. The swing of the euro area current account position immediately after the crisis coincided with a sharp correction in countries with large external deficits following a reversal in private cross-border financial flows. Thereafter, the dynamics of domestic demand and imports remained subdued in net debtor countries. A symmetric post-crisis correction did not take place in countries with positive current account balances, and surpluses further grew in the countries with the largest surpluses in value, notably Germany and the Netherlands. In 2015, the surpluses of Germany and the Netherlands accounted for respectively EUR 257 billion and EUR 57 billion of the euro area surplus. The large swing of the euro area current account surplus is rooted in a deleveraging process involving all sectors of the economy since 2009. The improvement in net lending positions concerned mostly households and corporations first, and the government sector afterwards, in light of the need to correct deeply deteriorated fiscal positions.

Although most euro area countries have moved to external positions close to balance or in surplus, rebalancing within the euro area needs to continue. Few countries are left with sizable current account deficits, but this does not mean that further progress in terms of rebalancing within the euro area is not needed. Countries that had large deficits for a long time are still characterised by large negative net international investment positions that represent vulnerabilities. Winding down large stocks of liabilities requires maintaining current account balances in positive territory or small deficits, which in turn implies limited room for expanding domestic demand in net debtor countries. As large and negative net international investment positions are generally coupled with large stocks of private or government debt, the maintenance of prudent current account positions in net debtor countries is also the counterpart of a necessary internal deleveraging process. The extent to which the deleveraging

⁹ National accounts-based figure.

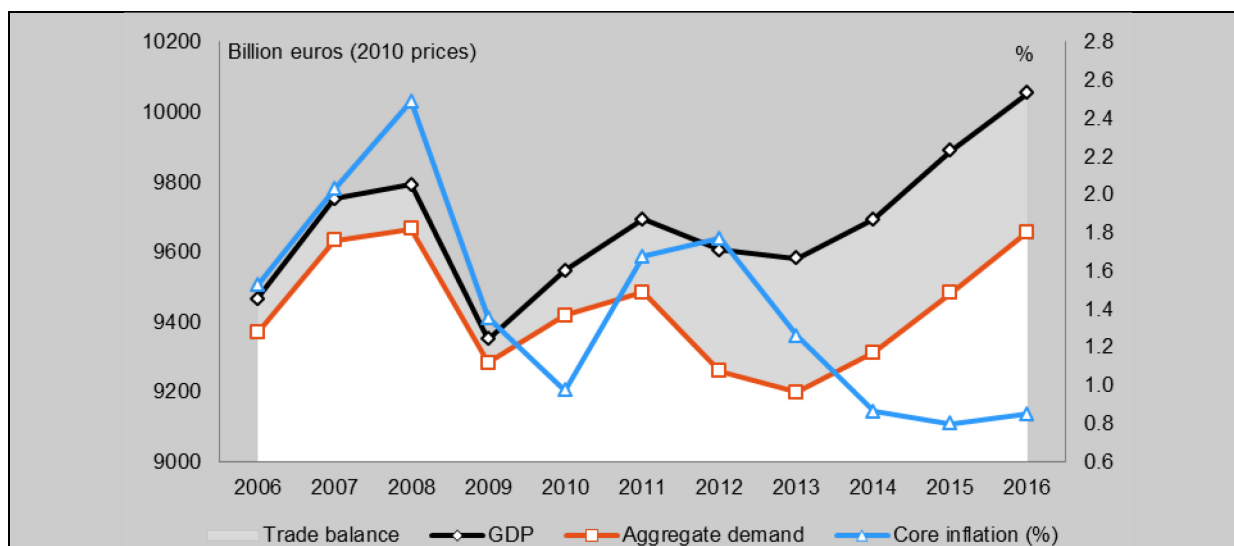
¹⁰ The benchmark is derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants (e.g. demography, resources), policy factors and global financial conditions. The methodology is akin to the External Balance Assessment (EBA) approach developed by the IMF (Phillips, S. et al., 2013, ‘*The External Balance Assessment (EBA) Methodology*’, IMF Working Paper, 13/272), with no interactions for the variable capturing ageing effects and additional variables capturing the share of manufacturing in value added.

process in net debtor countries comes at the expense of their recovery prospects crucially depends on the growth and inflation environment and debt-deflation risks, the room for further competitiveness gains and demand dynamics in the net creditor surplus countries and in non-euro area countries, in a context of falling trade intensity of growth.

The persistence of the large euro area current account surplus reflects aggregate demand dynamics that continue to lag behind that of economic activity. Real domestic demand in the euro area is expected to recover to levels prevailing before the economic crisis only this year (Graph 3). This protracted trend of domestic demand recovering more slowly than output resulted from both the investment and the consumption component, and is reflected with output gap figures that have stayed in negative territory since 2009 and still remain below 1%. This persistent degree of slack underpins the current historically low levels of core inflation, which remain below the target of monetary authorities and create a challenging environment for deleveraging and euro area rebalancing. In addition, the large and growing euro area current account surplus could contribute to the persistence of low inflation via the exchange rate channel.

The financial sector is facing a number of challenges. Banks' capital base in the euro area has improved on average, but remarkable differences persist. The profitability of banks is below pre-crisis levels and is expected to fall further as the low-inflation environment is increasingly reflected in reduced margins and low returns on assets, overbanking and the persistence of outdated business models also being contributing factors. In some countries, high levels of non-performing loans compound narrowing profit margins, and the work-out of the large stocks of non-performing assets can weaken an already low capital base for a number of banks. The combination of low inflation, high stocks of non-performing loans in some countries and regulatory capital buffers still to be built up could limit the room for credit expansion.

Graph 3: Euro area output, domestic demand, trade balance and core inflation

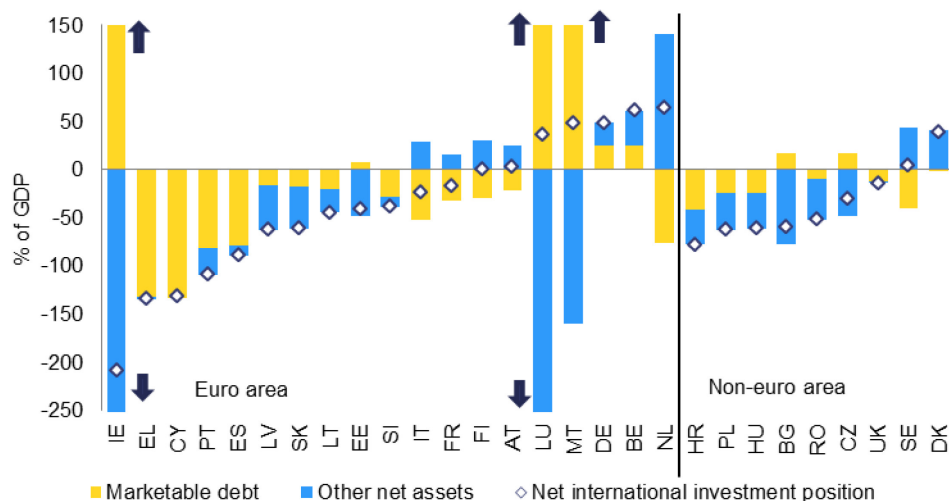


Source: National accounts and European Commission autumn 2016 forecast (AMECO).

Stronger demand dynamics and a more robust recovery in nominal growth would help accelerate the deleveraging and rebalancing process. Investment rates persistently below pre-crisis levels can be seen as a possible manifestation of worsening expectations concerning future real returns on capital (the ‘secular stagnation’ hypothesis). In turn, the persistently weak investment does not bode well for productivity growth prospects. In such a context, the euro area risks a self-sustaining spiral of diminished expectations, low investment and low productivity growth.¹¹ Coordinated action to mobilise resources for public and private investment and support the demand recovery could break such a vicious circle. More active support to domestic demand in the surplus countries could complement the action of monetary authorities and be consistent with rebalancing objectives. In turn, structural conditions that favour investment, productivity growth and competitiveness gains, in particular in net debtor countries, would support a durable correction of imbalances and help ease the debt burden.

¹¹ IMF, World Economic Outlook, October 2016, Ch. 1.

Graph 4: Net international investment positions and net external debt, 2015

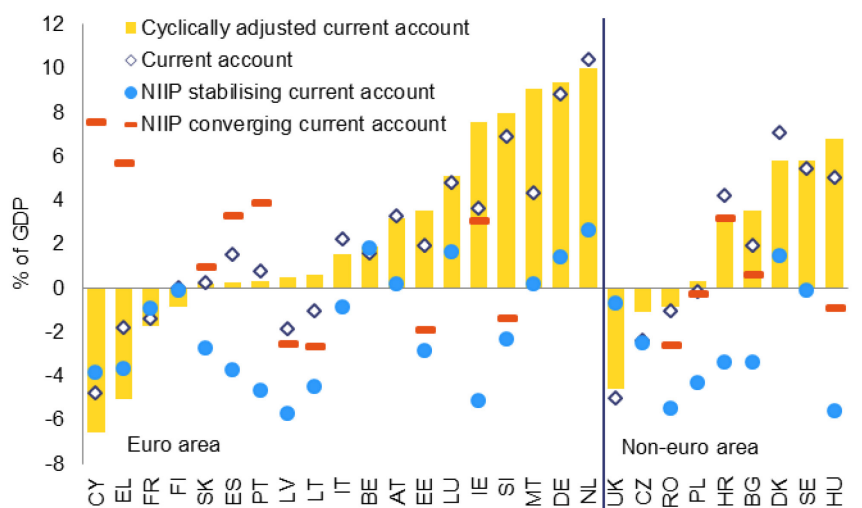


Source: Eurostat (BPM6, ESA10), Commission service calculations.

Stocks of net external liabilities are generally falling, though in most cases at a slow pace. Many net debtor countries remain vulnerable on account of their negative net international investment positions, with scoreboard values beyond the threshold in 15 Member States in 2015, only one fewer than in 2014 (Czech Republic). Some progress has nevertheless been achieved recently, mainly as a result of positive current account balances, and through an often modest impact of nominal GDP growth. Negative net international investment positions are the largest in Cyprus, Greece, Ireland, Portugal and Spain, and significantly above the scoreboard threshold in Bulgaria, Croatia, Hungary, Latvia, Poland and Slovakia (Graph 4). Risks and vulnerabilities linked to negative positions vary considerably, however, owing to the different composition of external assets and liabilities. In particular, liabilities linked to foreign direct investment (with high incidence e.g. in many Eastern European countries and in Ireland) and equity liabilities (proportionately very significant in Bulgaria, Czech Republic, Estonia, Ireland and Romania) represent lower risks.¹² The current account balances needed for net international investment positions to converge rapidly (within 10 years) towards the threshold of 35% of GDP are above the 2015 balances for most net debtor countries (Graph 5). Most net creditor countries (Austria, Belgium, Germany, Malta, the Netherlands and Sweden) have further increased their positive net international investment position over the past few years. While risks associated with large and growing stocks of net foreign assets cannot be assimilated to external sustainability issues, the fast and persistent accumulation of net creditor risk should not be overlooked, mainly as a result of the valuation risks that such positions generate.

¹² Foreign direct investment flows and liabilities are less susceptible to sudden stops or outflows than other forms of financial flows or liabilities, and equity liabilities entail lower risks than debt obligations as a result of potentially large valuation changes at times of crises.

Graph 5: Cyclically-adjusted current account balances and balances required to stabilise or reduce external liabilities, 2015



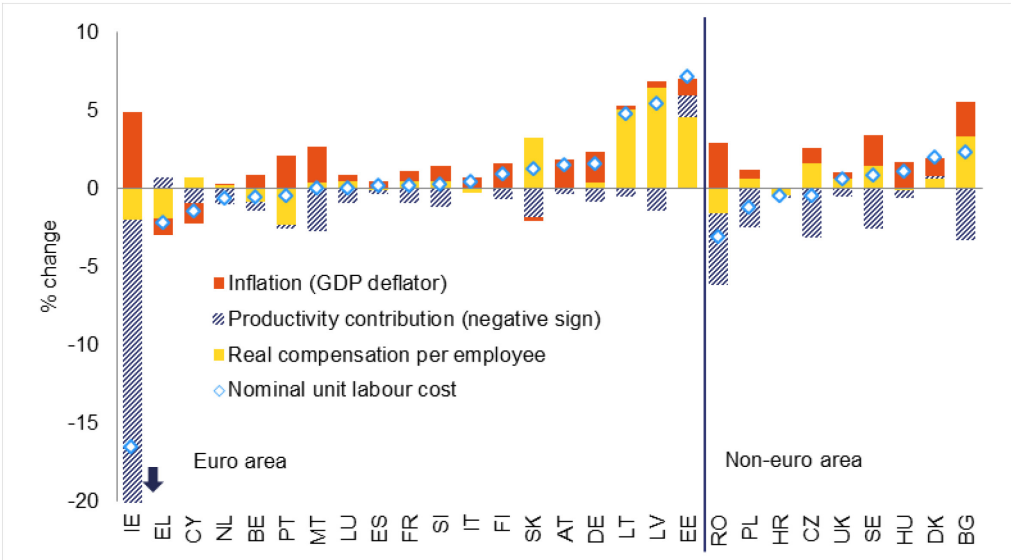
Source: Commission services calculations.

Note: cyclically-adjusted balances are calculated using the output gap estimates underlying the European Commission autumn forecast 2016. Current account balances required to stabilise or reduce net external liabilities rest on the following assumptions: nominal GDP projections stem from the European Commission autumn 2016 forecast (up to 2018), and the Commission T+10 methodology projections beyond that ; valuation effects are conventionally assumed to be zero in the projection period, which corresponds to an unbiased projection for asset prices; capital account balances are assumed to remain constant as a percentage of GDP, at a level that corresponds to the median over 2015 and projections for 2016-2018.

Cost competitiveness improvements in net debtor countries remain broadly supportive of rebalancing but have slowed down recently. The bulk of the adjustment in unit labour costs in countries that faced external imbalances and competitiveness issues occurred relatively early-on in the post crisis period. The current low-inflation environment, with limited dispersion in price developments across countries, limits the room for further adjustments in relative prices. Changes in unit labour costs have been muted in 2014 and 2015 and do not diverge much across countries, with a few exceptions (Graph 6). In 2015, the nominal unit labour cost indicator (changes over 3 years) exceeded the threshold only in the three Baltic countries and Bulgaria as wage growth outpaced productivity gains. Unit labour costs increased relatively faster in net creditor countries – including Austria, Denmark, Germany and Sweden – than in most other countries, though not significantly more so than in France and Italy. Among euro area Member States, the convergence in inflation towards low rates implies that real effective exchange rates are driven mainly by changes in the euro exchange rate and the relative importance of non-euro area countries as trading partners. Cyprus, France, Greece, Ireland, Italy, Portugal and Spain recorded the largest real effective exchange rate depreciations in 2015, with values beyond the threshold in Cyprus, Greece and Ireland. The indicator also exceeded the threshold on account of appreciations in Estonia, while appreciation pressures are also evident in Latvia and Lithuania. Outside the euro area,

the Czech Republic, Hungary, and Sweden recorded the largest depreciations, while appreciation pressures materialised in 2015 in Romania and the United Kingdom.

Graph 6: Growth in unit labour cost and decomposition of factors, 2015

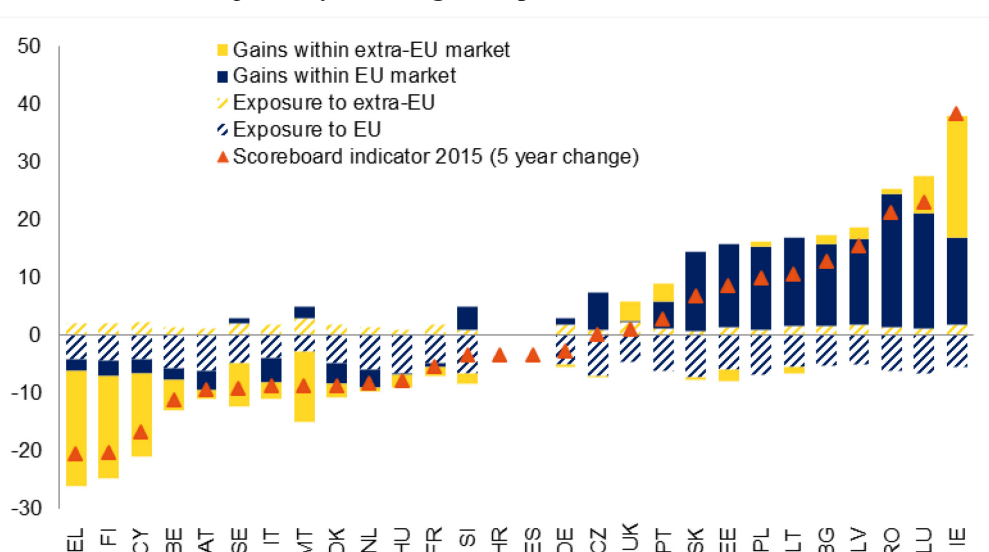


Source: AMECO and Eurostat. Commission services calculations

Note: The decomposition is based on the standard breakdown of unit labour cost growth into inflation, real hourly compensations 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.

Changes in export market shares indicate a mixed picture. In 2015, against the background of weak global trade dynamics, scoreboard values were no longer beyond the threshold in Croatia, France, Germany, Ireland, Slovenia, Spain and the United Kingdom, but remained so in 11 countries. In the majority of the latter cases, 5-year losses in market shares slowed down as well. However, much of the improvement across Member States is driven by a base effect. The scoreboard indicator currently includes the large losses of market shares that affected almost all Member States in 2010, thereby mechanically lowering cumulative losses in shares (Graph 7). On a year-on-year basis, the evolution of export market shares in 2013, 2014 and 2015 also reflects the differentiated trends in EU and non-EU trade. Intra-EU trade picked up faster than trade outside the EU in 2013 and 2014 when global trade slowed down, which explains the better performance in these two years. As trade outside the EU recovered in 2015, the year-on-year evolution in export market shares of Member States were negatively affected again.

Graph 7: 5-year change in export market shares, 2015



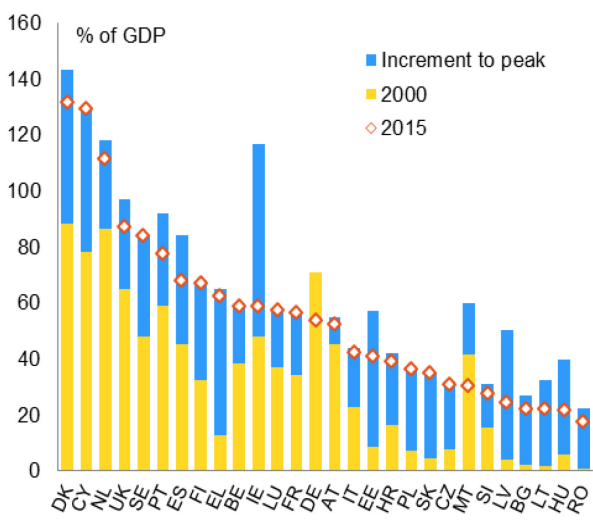
Source: Eurostat, Commission services calculations.

Note: The decomposition rests on the shift-share methodology. Shaded bars represent the contribution to market share dynamics stemming from changes in the exposure to a given market; solid bars measure the contribution to market share dynamics coming from market share changes within a given market. Calculations use BPM6 data except for BG and FI where exports to EU are derived from national accounts; data partly unavailable for ES and HR.

Private sector over-indebtedness continues to affect many countries. Scoreboard values exceeded the threshold in 13 countries in 2015, all of which were in that position in 2009 except France where this became the case in 2011. Cyprus, Ireland and Luxembourg have the highest level of private sector indebtedness, though special factors linked to multinational companies are at play. Denmark, the Netherlands, Portugal and Sweden have the next highest scoreboard indicator value. The factors underlying high private sector indebtedness vary significantly across countries. In Belgium, Cyprus, Finland, Ireland, Luxembourg, the Netherlands, Portugal and Sweden, both households and non-financial corporations (NFCs) have levels of debt above the EU average due to a multiplicity of factors, including easy credit

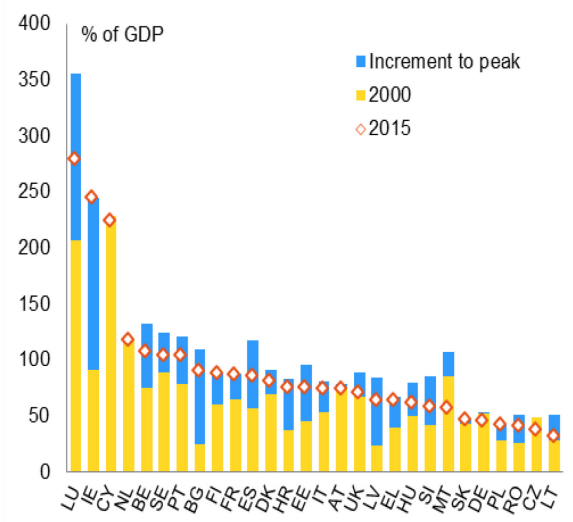
extension in the pre-crisis period for real estate transactions (Graphs 8a and 8b). In Denmark and the United Kingdom the high level of debt mainly derives from high household leverage. In France and Spain, high private debt levels stem from both households and NFCs, as neither sector’s debt levels stand out strongly in comparison to EU averages. Variability in private debt levels across countries reflect to a large extent also differences in financial development, as manifested in large differences in the stock of financial assets held by the private sector, notably households. Large stocks of household assets are found especially in Belgium, Denmark, Italy, Malta, the Netherlands, Sweden and the United Kingdom. Elevated private sector indebtedness generates a number of vulnerabilities, especially in a low-growth, low-inflation environment, which makes deleveraging difficult. In particular, it increases the impact of potential shocks on households and/or NFCs, with possible repercussions on the banking sector. Risks are further amplified in those countries (including Croatia, Hungary, Poland and Romania) in which large shares of domestic debt are denominated in foreign currencies.

Graph 8a: Consolidated household debt



Source: Eurostat, Commission services calculations.

Graph 8b: Consolidated debt of NFCs

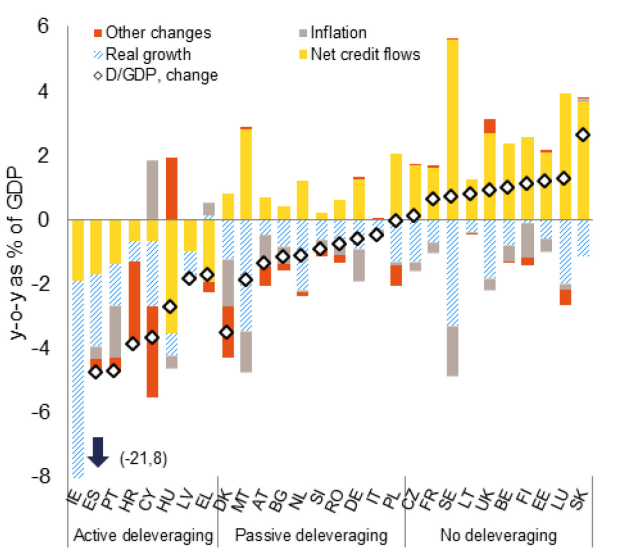


Source: Eurostat, Commission services calculations.

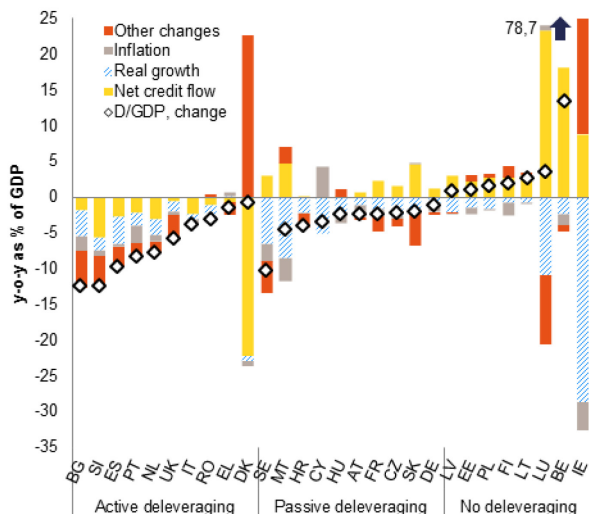
Deleveraging is ongoing but is slow and uneven. Among households, active or passive deleveraging – i.e. a reduction in debt ratios at least in part due to negative net credit flows or a reduction in debt ratios through increased GDP, but with positive net credit flows – continues in many countries, albeit at varying paces and with notable exceptions. The latest developments indicate that households in Croatia, Cyprus, Greece, Hungary, Ireland, Latvia,

Portugal and Spain are deleveraging actively and reducing their net borrowing (Graph 9a).¹³ In Denmark and the Netherlands, deleveraging also advances further but under a passive form (via nominal GDP growth). In the latter, net credit flows have turned mildly positive after two years of contraction. In contrast, debt ratios continue to increase from already elevated levels in Sweden and the United Kingdom, where net credit flows to households are positive on the back of persistent strong house price dynamics. In turn, deleveraging further advanced in a number of countries where household indebtedness is least elevated (Graph 10a). This is the case in Austria, Germany, Italy, Slovenia and some non-euro area Member States. The latest developments also indicate that NFCs in a number of countries, including Bulgaria, Denmark, Italy, the Netherlands, Portugal, Slovenia, Spain and the United Kingdom are deleveraging under an active form (Graph 9b). In other countries, mainly Austria and Germany, NFCs are not confronted with issues related to their indebtedness but are still deleveraging, including as a result of low investment and credit growth. In contrast, high-debt-level NFC sectors in some countries are increasing their leverage further, including in some cases as a result of positive credit flows. This is the case mainly in Belgium, Finland and Ireland (though in the latter case special factors are at play related to the operations of multinational companies).

Graph 9a: Drivers of household deleveraging (2016Q1)



Graph 9b: Drivers of nonfinancial corporations deleveraging (2016Q1)



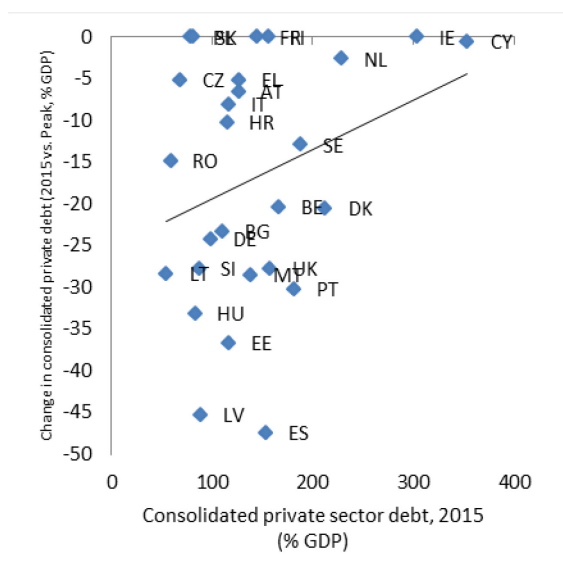
Sources: Eurostat, Commission services calculations.

Notes: the graphs present a breakdown of the evolution of the debt-to-GDP ratios into four components: credit flows, real GDP growth, inflation and other changes. A reduction of leverage can be achieved through different combinations of debt repayment, growth of the economy and other changes in the outstanding debt stock. Active deleveraging involves net repayment of debt (negative net credit flows), usually leading to a nominal contraction of the sector’s balance sheet and having, ceteris paribus, adverse effects on economic activity and asset markets.

¹³ The text refers to developments up to 2016Q1, which may differ somewhat from what is suggested on the basis of scoreboard indicators, which relate to 2015.

Passive deleveraging, on the other hand, consists in positive net credit flows being outweighed by higher nominal GDP growth, leading to a gradual decrease in debt/GDP.

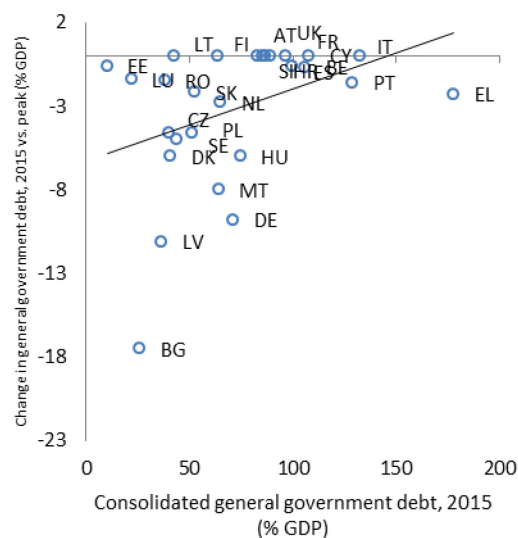
Graph 10a: Evolution of private sector debt-to-GDP (2015 vs. peak) and private debt levels (2015)



Source: Eurostat.

Note: Luxembourg is excluded from the chart as special factors related to the presence of multinational companies are behind a 59.2 percentage points fall in the private sector debt to GDP ratio between the peak and 2015.

Graph 10b: Evolution of government debt-to-GDP (2015 vs. peak) and government debt levels (2015)



Source: Eurostat.

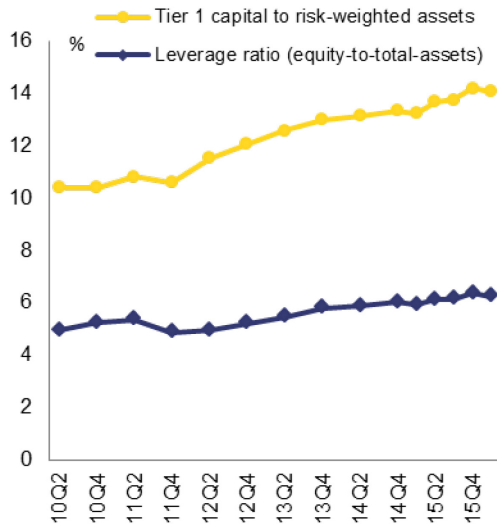
Note: Ireland is excluded from the chart as special factors related to the large GDP revision in 2015, mainly attributed to the activities of multinational companies, are behind a 40.9 percentage points fall in the general government debt to GDP ratio between the peak and 2015 (78.6% of GDP).

Banks have strengthened their capital ratios and their resilience is generally improving, but challenges remain. The phasing-in of new prudential requirements and banking sector deleveraging supported the increase in capital ratios in euro-area banks to 14.2% (Tier 1 capital to risk-weighted assets) at the end of 2015 from 10.4% at the end of 2011 (Graph 11a). The overall improvement in banks' capital positions contributes to enhance resilience and provided the basis for a recent recovery in credit against the backdrop of resuming output growth in most Member States. Capitalisation nevertheless continues to vary across Member States, with ratios (Tier 1) in excess of 17% in 10 countries (including Bulgaria, Luxembourg, Romania, Slovenia and Sweden), but below 13% in 6 countries, including Italy, Portugal and Spain (Graph 11b). Net credit growth to the private sector was positive in 17 Member States in 2015 (and beyond threshold value only in Luxembourg), up from 16 in 2014, suggesting an incipient improvement in access to finance, confirmed by survey evidence. Financial sector liabilities are gradually starting to rise again on an annual basis, though increases are small in most Member States and below threshold values. Banking sector challenges are mostly linked to profitability prospects (Graph 11c), in addition to non-performing loans in a number of countries (Graph 11d). Retained earnings have been the main instrument to raise bank capital, but profitability remains low in most Member States and the build-up of low-yielding assets in a low-rate environment and the persistence of outdated business models is expected to further affect profitability going forward. Low profitability in turn impacts equity valuations and affects the ability of banks to raise new capital on the market, thereby limiting the room for credit expansion. In addition, legacy issues in the form of still high levels of non-

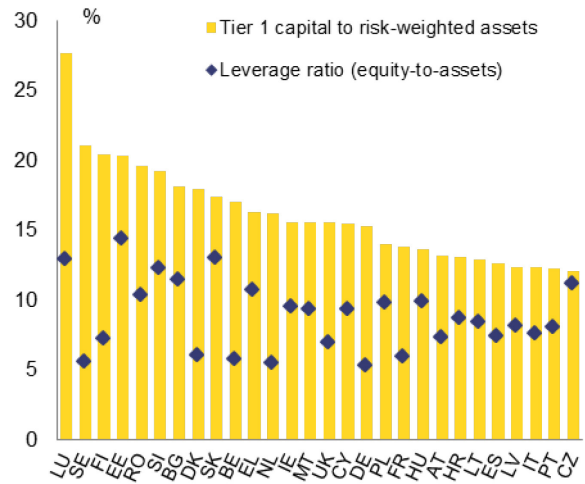
performing loans continue to weigh on banks' balance sheets. A number of countries (Bulgaria, Croatia, Cyprus, Greece, Hungary, Ireland, Italy, Portugal, Romania and Slovenia) record high system-wide average but banks with high NPL ratios can be found also in other Member States. In Italy and Portugal, high levels of NPLs combine with low capitalisation ratios. Balance sheet clean-up is currently ongoing, but progress remains uneven, and loan-loss provisioning practices diverge across countries.

Graph 11a: Capital ratios in the euro area

Graph 11b: Capital ratios in Member States, 2015Q4

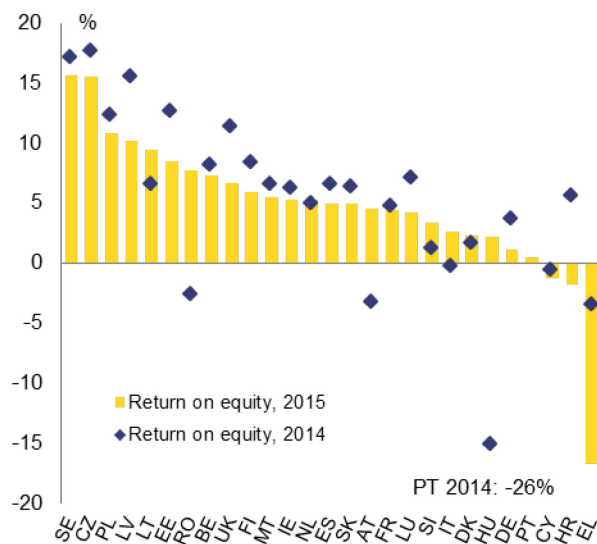


Source: European Central Bank.



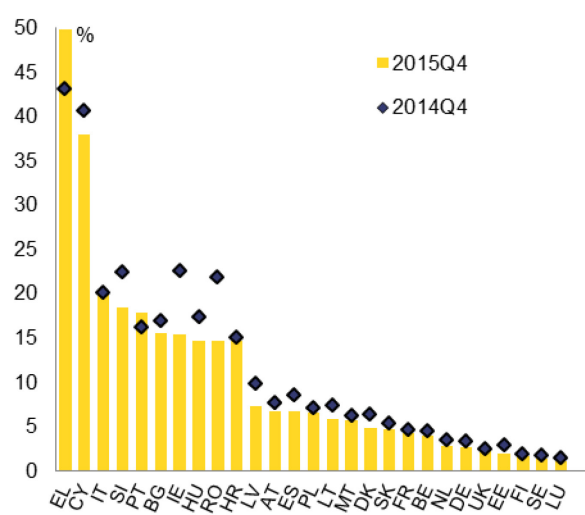
Source: European Central Bank.

Graph 11c: Banks' return on equity



Sources: European Central Bank and International Monetary Fund, European Commission calculations.

Graph 11d: Non-performing loans, percent of total loans and advances

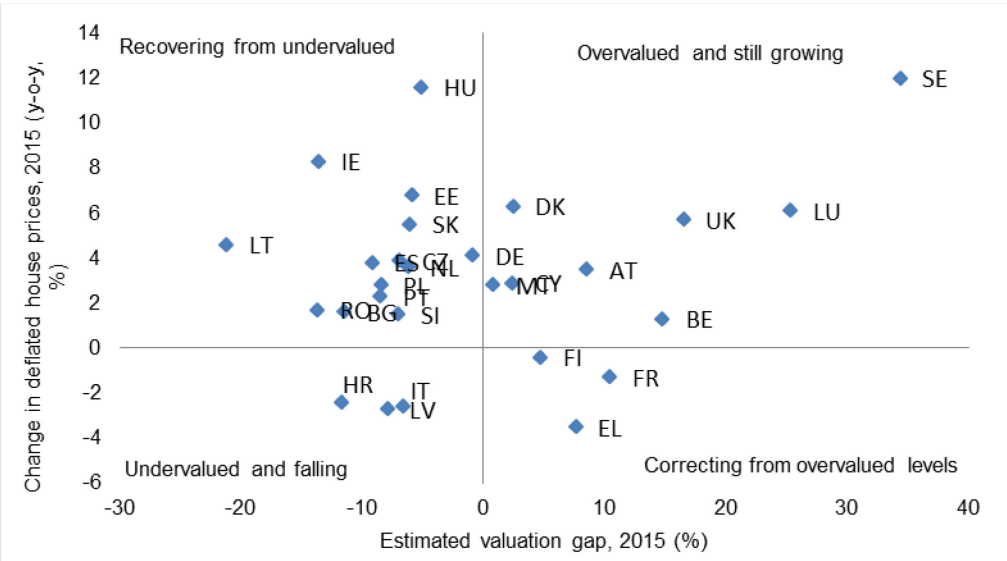


Source: European Central Bank.

Real house prices increased in the majority of Member States in 2015. The scoreboard indicator shows increases in prices in 22 Member States, with values exceeding the threshold in Denmark, Estonia, Ireland, Luxembourg, Hungary and Sweden. In Croatia, Italy and Latvia, house prices declined from levels that were already estimated to be under-valued, thereby further widening the negative valuation gap (Graph 12). In contrast, moderate decreases in real house prices in Finland, France and Greece contributed to reducing a persistent overvaluation. In a number of other Member States, the increase in real house prices in 2015 added further pressure to already overvalued housing markets. Tensions are particularly visible in Sweden, where the increase in real house prices in 2015 came on top of

a substantial overvaluation gap. In addition, the further price increases have been fuelled by rising net credit to households coming on top of already elevated debt levels. Denmark, Luxembourg and the United Kingdom are three other countries where price increases were significant in 2015 and coming on top of overvaluation gaps. In all three cases, this was also fuelled by rising net credit flows to households. These situations will therefore call for careful monitoring of future developments. In Estonia, Ireland, Hungary and Slovakia, prices are recovering from under-valued levels, while elsewhere prices rises are moderate and coming on top of limited overvaluation gaps or contributing to closing an under-valuation gap.

Graph 12: House prices valuation levels and variations in 2015



Source: Eurostat, ECB, BIS, OECD and Commission services calculations.
 Note: the overvaluation gap estimated as an average of the price/income, price/rent and fundamental model valuation gaps.

Government debt ratios declined somewhat in many Member States in 2015, but typically not in the most indebted countries. Scoreboard values exceeded the threshold in 17 Member States in 2015. For 10 of these, including Cyprus, France, Ireland, Spain and Portugal, it combined with private sector indebtedness also beyond threshold, generating economy-wide deleveraging pressures. The prevailing low-growth, low-inflation environment still does not support a robust decline in government debt ratios in spite of Member States’ efforts to cut budget deficits (which declined in structural terms in 21 countries in 2015) and generate primary surpluses (which were achieved in 19 countries). Declines in government debt ratios are taking place predominantly in Member States with lower levels of indebtedness (Graph 10b), with the most sustained drops occurring in Denmark, Germany, Latvia, Malta and the Netherlands. In contrast, none of the Member States with the highest general government debt-to-GDP ratios (Belgium, Croatia, Cyprus, France, Greece, Italy, Portugal, Spain) has yet embarked on a sustainable decline in its debt ratio. Among countries with elevated debt levels, Ireland is the only one that has initiated a robust and sustained reduction in government indebtedness, driven by strong real and nominal GDP growth. Although the

trend has been amplified by recent upward revisions in GDP figures led by the activities of multinationals, the underlying trend remains sustained.

Box 3: Employment and social developments

Labour markets conditions continued to improve in 2015 and the first half of 2016. Annual growth in employment in the euro area and the EU as a whole amounted to around 1% during most of 2015 and accelerated to around 1.6% in the first half of 2016. Employment growth in the euro area caught up with non-euro area countries growth, after lagging behind it between 2012 and 2015. Similarly, unemployment rates declined further in 2015 and the first half of 2016. Disparities in unemployment rates across the EU decreased from high levels, although they remain high in several countries, in particular Greece and Spain – where unemployment affects around 20% of the labour force – and in Croatia, Cyprus, Italy and Portugal where unemployment still exceeds 10%. Scoreboard values for the three-year average unemployment rate exceed the threshold for all these countries in 2015, in addition to Bulgaria, France, Ireland, Latvia, Lithuania and Slovakia. Overall, in the second quarter of 2016, the unemployment rate remains 1.5 percentage points higher in the euro area than in the EU as whole, reflecting the significant extent of remaining adjustment needs in a number of euro area countries. In addition, while employment growth and the fall in unemployment has been relatively strong so far in view of the only modest increase in output growth in the past couple of years, it remains to be seen whether a sustained improvement in labour market conditions can be achieved with a subdued recovery.

Employment rates increased in almost all Member States. The employment rate (20-64 years old) reached 70% in 2015 for the EU as a whole and continued rising to 71% in the second quarter of 2016, surpassing the 2008 peak of just over 70% for the first time. Activity rates (15-64 years old) increased nearly everywhere, but declined in Cyprus, and receded marginally in Belgium and Germany. Activity rates in the EU and the euro area in 2015 were at 72.5% and 72.4%, respectively, about 3 and 2 percentage points above the pre-crisis levels. This may reflect entry in the labour market during the crisis to contribute to household income in a situation of increased uncertainty about jobs and labour income as well as higher labour market participation by older workers and women.

Job-finding rates for jobseekers with spells of unemployment longer than 12 months started to recover in 2015. In contrast, the decline in unemployment observed at the beginning of the recovery was linked mostly to reductions in the job separation rates. Consequently, the long-term unemployment rate declined in most of the EU in 2015 but still remained elevated. Eight countries recorded rates in excess of those of 3 years ago by 0.5 percentage points or more. The highest shares were observed in Croatia, Greece and Spain, with more than 10% of the active population being out of a job for more than a year.

Youth unemployment is falling. The youth unemployment rate fell in all Member States except Finland and, to a lesser extent, in Austria, France and Malta. Youth unemployment has fallen frequently faster than total unemployment, reflecting a higher cyclical response and the unused labour potential in countries with high unemployment. Values exceed the 3-year change scoreboard threshold in Belgium, Cyprus, Finland and Italy. In 2015, declines in the share of young people that are neither in employment, education nor training were also common, but less frequent than the ones on youth unemployment, in fact remaining above double-digit marks in two thirds of EU Member States.

Labour mobility and migration have helped mitigate labour market imbalances. Their size and relevance to smooth unemployment nevertheless remains limited in overall terms. In 2015, net inflows of population were the strongest in countries with the lowest unemployment rates in 2014 (notably Austria, Germany and Luxembourg); some of the highest net outflows happened in parallel with some of the highest declines in joblessness in 2015 (e.g. Croatia, Greece, Latvia and Lithuania). The apparent disconnection between rising inflows in receiving and outflows in sending EU countries may be driven by the rising importance of extra-EU migration, including refugees from Middle Eastern

countries.

The social situation is slowly improving but remains difficult in a number of Member States. The share of people at risk of poverty or social exclusion (AROPE) decreased from 24.4% in 2014 to 23.7% in 2015, with a decline in over three quarters of Member States in 2015 in comparison with 2014 and over half of the countries when compared with 3 years ago – the AMR scoreboard indicator.¹⁴ ¹⁵ Declines over the past three years were the strongest in Bulgaria, Hungary, Latvia and Romania, while Cyprus, Greece, the Netherlands, Portugal and Spain recorded the largest increases. Rates vary considerably from around 40% in Bulgaria and Romania to less than 20% in the Czech Republic, France, the Netherlands and the Nordic countries. In comparison with the pre-crisis years, these risks receded for several Central and Eastern European countries (most notably Poland and Romania) and increased for most of the remainder (especially for Cyprus, Greece and Spain). The prolonged weak social situation can have a negative impact on potential GDP growth in a variety of ways and risks compounding macroeconomic imbalances.

Trends in risks of poverty or social exclusion stem from various factors. First, the share of people at risk of poverty (monetary poverty) has been increasing in most Member States in recent years – both in terms of 3-year changes and year-on-year changes. Second, severe material deprivation (SMD) has declined over a 3-year period in many Member States. Marked declines in SMD, an absolute measure of poverty, in the poorest Member States have been observed, reflecting the catching up of these countries to higher levels of income. An increase in SMD has been seen in countries with higher per capita GDP but more affected by the crisis, notably Greece, Italy and Spain. Finally, whereas there has been a recent decline or stabilisation in the share of people (under 60) living in households with very low work intensity, the 3-year change still points out that a majority of EU countries had increases or at best stabilisation compared with 2012.

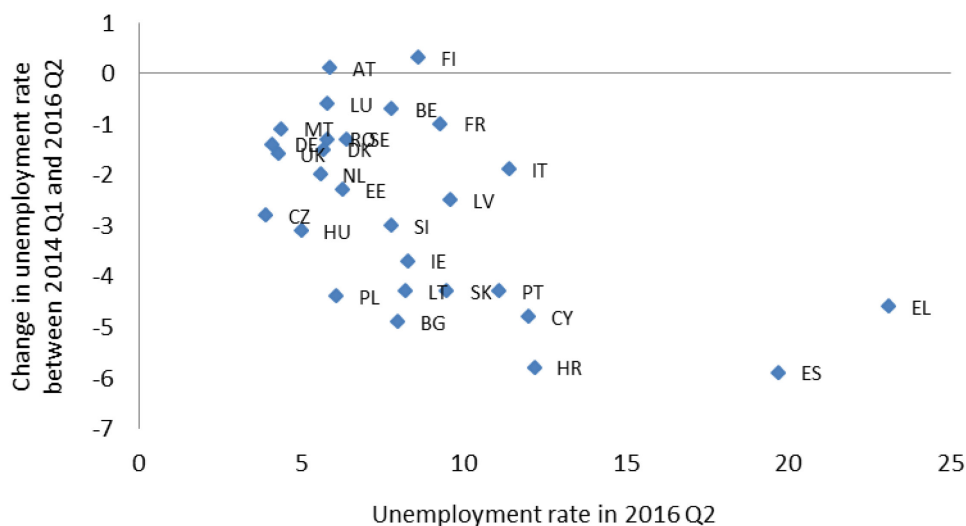
Income inequality grew in most of the EU countries over the crisis period.¹⁶ However, income inequality stabilised or declined in 2015 in a considerable number of Member States. Yet, countries like Lithuania and Romania have recorded the sharpest increases in income inequality from already worse-than-average situations.

¹⁴ This indicator corresponds to the sum of persons who are: at risk of poverty (after social transfers) also called monetary poverty; or severely materially deprived; or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below 60% of the national median equivalised disposable income. Severe material deprivation (SMD) covers indicators relate to a lack of resources, namely the share of people experiencing at least 4 out of 9 deprivations items. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year. No 2015 data are available for Ireland, Croatia, Italy and Luxembourg.

¹⁵ There are breaks in the data series for Bulgaria, Estonia and Romania.

¹⁶ Inequality as measured by the S80/S20 income quintile share ratio and by the Gini coefficient of equivalised disposable income. The former compares the income of those at the end of the top quintile with the one of those at the top of the bottom quintile of the income distribution. The latter is defined as the relationship between the cumulative shares of the population ordered according to their equivalised disposable income levels and the cumulative share of the equivalised total disposable income received by them: it is measured between 0, where income is distributed equally across the whole population and 1, where all of the country's income is earned by a single person. The data show somewhat different paths for the two measures: the S80/S20 has decline less frequently than the Gini coefficient in recent years, but the S80/S20 had also increased less over the crisis.

Graph 13: Evolution of the unemployment rate (20-64 years old), 2014Q1 vs. 2016Q2



Source: Eurostat.

Overall, risks and vulnerabilities stemming from legacy issues and/or recent trends are present in a majority of Member States. The degree of severity and the urgency in bringing forth adequate policy responses vary significantly across Member States depending on the nature of the vulnerabilities or trends, as well as their confinement to one or several sectors of the economy:

- A number of Member States are affected by *multiple and interconnected stock and/or flow vulnerabilities*. This is the case of countries that were hit most severely by boom-bust credit cycles – frequently associated with liquidity and solvency issues in their banking sectors – and the sharpest reversals of current account positions. In a number of cases (Cyprus, Croatia, Portugal), elevated private indebtedness combines with high levels of public debt, large negative net international investment positions and remaining issues within the banking system. These countries still confront the issue of addressing significant deleveraging needs in the context of limited fiscal space, high unemployment, low inflation and low real GDP growth. In Bulgaria, Ireland, Slovenia and Spain, vulnerabilities are also multiple and interconnected but faster progress in addressing them has been achieved than in the countries above.

- In a few Member States, vulnerabilities are driven mainly by *large stocks of general government debt* and concerns relating to *potential output growth* and *competitiveness*. This is particularly the case of Italy, where vulnerabilities are also linked to the banking sector, in particular the large stock of non-performing loans. Belgium and France also face general government debt and potential growth issues, but are not confronted with similar potential risks stemming from vulnerable banks.
- Some Member States are characterised by *large and persistent current account surpluses* that reflect subdued private consumption and investment. This is the case notably of Denmark, Germany, the Netherlands and Sweden. In the case of Germany, this is combined with deleveraging in all sectors of the economy, even though debt levels are not comparatively high. The large and persistent surpluses may imply forgone growth opportunities and growing creditor risks. In addition, the shortfalls in aggregate demand bear consequences for the rest of the euro area in a context of low growth and low inflation.
- In some Member States, *developments in price or cost variables show potential signs of overheating*. In Sweden, as well as in Denmark, Luxembourg and the United Kingdom, price pressures relate mainly to the housing sector in combination with significant levels of household debt. In Bulgaria, Estonia, Latvia and Lithuania, unit labour costs continue to grow at a relatively strong pace.
- In some Member States, vulnerabilities and possibly unsustainable trends are concentrated mainly on a *particular sector of the economy*. In the Netherlands, vulnerabilities persist linked to household indebtedness and the housing market, in combination with the large current account surplus. In Finland, vulnerabilities relate mainly to competitiveness arising from a structural shift in the economy.

Overall, in-depth reviews are warranted for 13 countries.¹⁷ All of these countries were subject to an IDR in the previous cycle, during which IDRs were prepared for 19 countries overall. While the reduction in the number of IDRs reflects the recent progress made in addressing imbalances, vulnerabilities remain even in countries for which IDRs are not warranted at this stage, and developments will continue to be monitored, as indicated in section 3. Relative to the AMR 2016, progress has been most notable in addressing external imbalances among net debtor countries, and labour markets have continued to improve in general. Internal and external stock imbalances nevertheless only adjust slowly and remain a source of risks and vulnerabilities in many Member States, in addition to weighing on investment prospects and the economic recovery. In turn, the incipient building-up of price pressures warrant close monitoring in some countries.

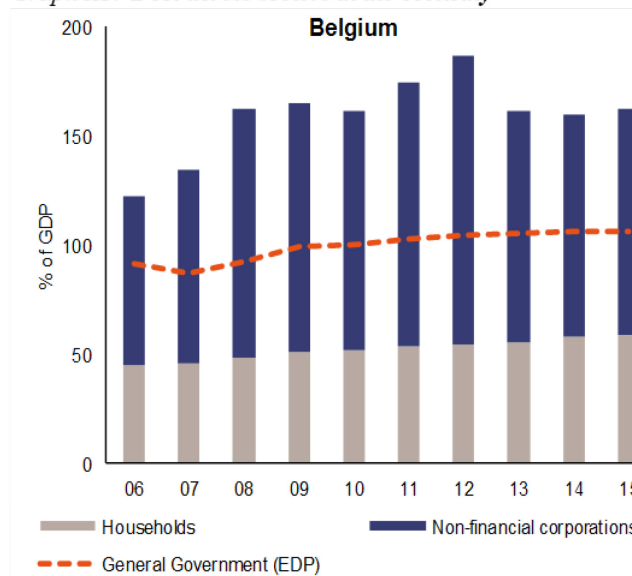
¹⁷ These countries are Bulgaria, Croatia, Cyprus, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden.

3. IMBALANCES, RISKS AND ADJUSTMENT: COUNTRY-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 the change in export market shares and indebtedness, both private and government, as well as the change in the rates of long-term and youth unemployment.

External sustainability is underpinned by the balanced current account position and the very favourable net international investment position. Accumulated export market share losses remain large but have stemmed in recent years despite losses in 2015. This trend is expected to continue in conjunction with the notable slowdown in unit labour cost growth. Private debt remains relatively high, in particular for non-financial corporates, though widespread intra-group lending inflates debt figures. Risks related to household debt originate predominantly from the housing market. Real house prices have been relatively flat in recent years but no correction has taken place for the fast increase prior to 2008. Government debt is stable but at a high level and continues to represent a major challenge for the long-term sustainability of public finances. Recent data suggest that the increase in long-term unemployment is cyclical in nature, while the high and persistent youth unemployment is a more structural feature. The number of persons living in households with very low work intensity is one of the highest of all Member States, highlighting the increasingly polarised state of the Belgian labour market.

Graph A1: Debt across sectors in the economy



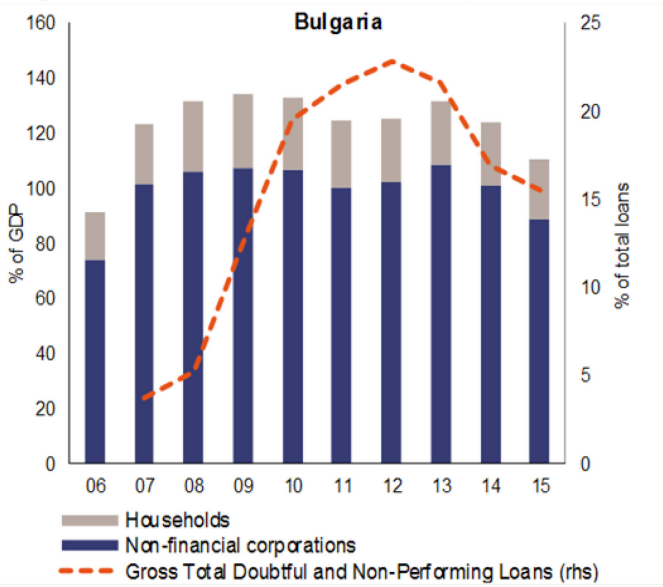
Source: Eurostat

Overall, the economic reading highlights issues relating to competitiveness, public indebtedness, house prices and labour market functioning, though the risks linked to these issues remain contained. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Bulgaria: In March 2016, the Commission concluded that Bulgaria was *experiencing excessive macroeconomic imbalances*, due to remaining fragilities in the financial sector and high corporate indebtedness 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 nominal unit labour cost (ULC) growth and the unemployment rate.

The negative NIIP remains beyond the scoreboard threshold but has continued to improve against the background of a positive current account. The export market share increased over the last five years despite losses in 2015. ULC growth is steadily decelerating, even if the three-year average remains beyond the indicative threshold. Private sector indebtedness remains of concern, in particular for non-financial corporates, with recent data indicating an orderly but slow deleveraging process. Vulnerabilities are still present in the financial sector and fragilities remain in the insolvency framework. The level of non-performing loans has decreased but remains high. Asset quality review and stress tests in the banking sector have been completed and did not identify a significant need for additional capital across the sector. They will nevertheless require strict implementation of the follow-up action, including via the recommendations that the BNB has issued to individual banks. Similar reviews in the insurance and pension fund sectors are ongoing. The unemployment rate is beyond the indicative threshold, albeit on a decreasing trend due to the recent strengthening of GDP growth, while the growth of long-term unemployment rate is no longer beyond its indicative threshold. Persistent structural issues on the labour market, such as low participation as well as skills and qualification mismatches remain a concern.

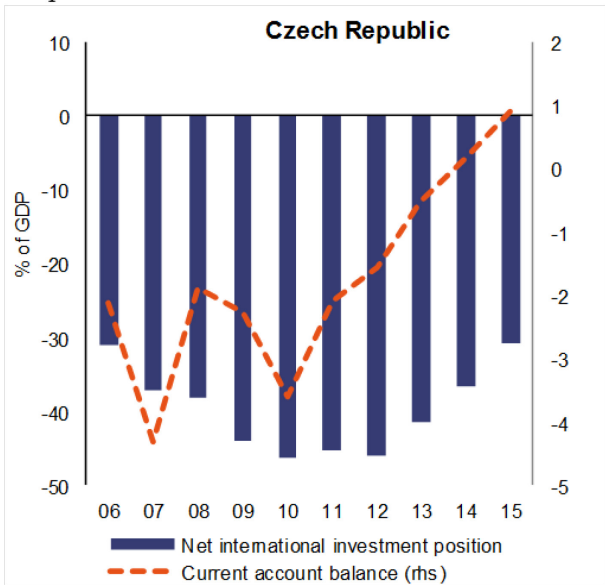
Graph A2: Private Debt and Non-Performing Loans



Source: Eurostat and ECB

Overall, the economic reading highlights issues related to external and internal vulnerabilities, including in the financial sector. Therefore the Commission finds it useful, also taking into account the identification of an excessive imbalance in March, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Graph A3: NIIP and CA balance



Source: Eurostat

Czech Republic: In the previous round of the MIP, no macroeconomic imbalances were identified in the Czech Republic. In the updated scoreboard no indicators are beyond the indicative thresholds.

The current account balance has improved considerably in recent years, with the three year average turning positive in 2015. The net international investment position has been gradually falling and moved within the threshold in 2015,

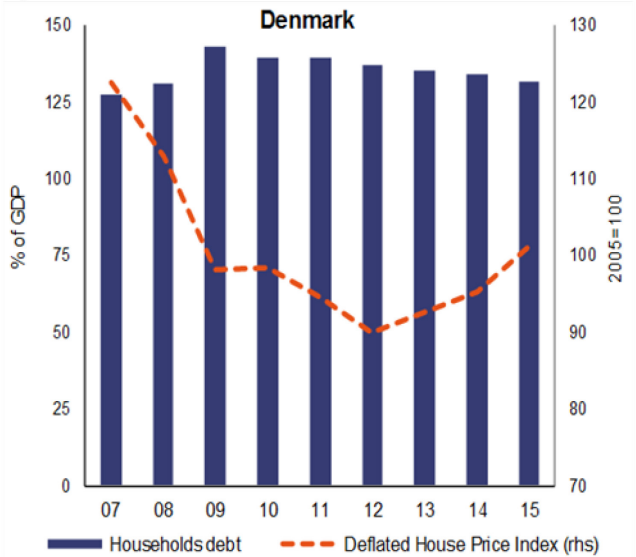
partly due to the ongoing accumulation of foreign-denominated assets by the Czech National Bank as part of an exchange rate floor in operation vis-à-vis the euro. Risks related to the external position remain overall limited as much of the foreign liabilities are accounted for by foreign direct investment and, consequently, net external debt is very low. There were further competitiveness gains in 2015, with a small increase in export market shares and a slight decrease in nominal unit labour costs. Accelerating wage growth and possible exchange rate appreciation, following the removal of the exchange rate floor, could partly reverse these recent gains. Risks of internal imbalances appear low. Despite higher confidence of households to enter the housing market, the private sector debt level slightly decreased in 2015 and remains within the threshold. Real house price growth also accelerated somewhat in 2015. The largely foreign-owned banking sector remains stable, with total financial sector liabilities increasing only marginally in 2015. Government debt has declined and is expected to continue to fall and remains within the threshold. Unemployment is low.

Overall, the economic reading points to contained external risks and low internal risks. Therefore, the Commission will at this stage not 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, the change in export market shares, real house prices and private sector debt.

The current account balance continues to show large surpluses. This reflects strong private and public savings, high revenues from investment abroad as well as compressed corporate investment. The net international investment position is positive and high, although decreasing in 2015 due to negative valuation effects. The accumulated losses in export market shares decreased in 2015, although on an annual basis there were additional losses, and are expected to be limited in the coming years. The recent relative weakness of export can also be partly attributed to the decline of oil and gas extraction and the sea freight sector. Cost competitiveness indicators have remained rather stable. Private sector debt declined marginally in 2015 but remains very high. The comparatively high household debt reflects also a specific mortgage bank funding model and an advanced pension system. Deleveraging is slow as incentives to pay down debt is low, while they are high for building housing equity. Real house prices growth accelerated beyond the threshold in 2015 against the background of very low interest rates, which warrants close

Graph A4: Households' debt and House Price Index



Source: Eurostat

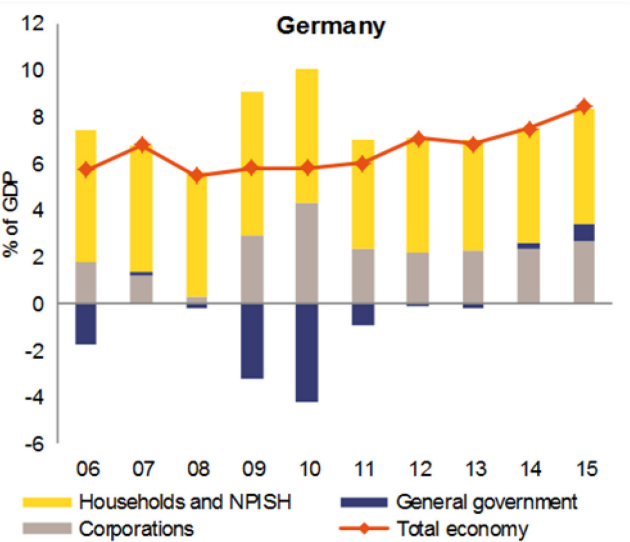
monitoring. However, the banking sector remains sound and credit developments contained. Regulatory and supervisory measures to increase the financial sector’s stability and to reduce the debt incentive for households are taking effect gradually. Unemployment remains low.

Overall, the economic reading points to possible issues related to private debt and the housing sector, but risks still 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 2016, the Commission concluded that Germany was *experiencing macroeconomic imbalances*, in particular involving risks stemming from excess savings and subdued private and public investment. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the current account surplus and government debt.

In 2015, the current account surplus continued to increase from already very high levels, further boosted by stronger positive terms of trade due to lower oil prices and a favourable exchange rate. This surplus is expected to remain high in coming years. Investment is forecast to remain subdued and as a share of GDP has remained broadly at the same low level since 2011. The very large net international investment position continued to grow rapidly. Unit labour costs increased above the euro area average, gradually closing the negative gap to euro area. Private sector credit flows picked up, while private sector deleveraging continued amid strengthening business and household savings. The rise in real house prices accelerated, but the indicator remains within the threshold. The government debt ratio continued to decrease. The financial sector remains under pressure from low profitability. Very low and declining unemployment rates reflect the robust labour market in Germany.

Graph A5: Net lending/borrowing by sector



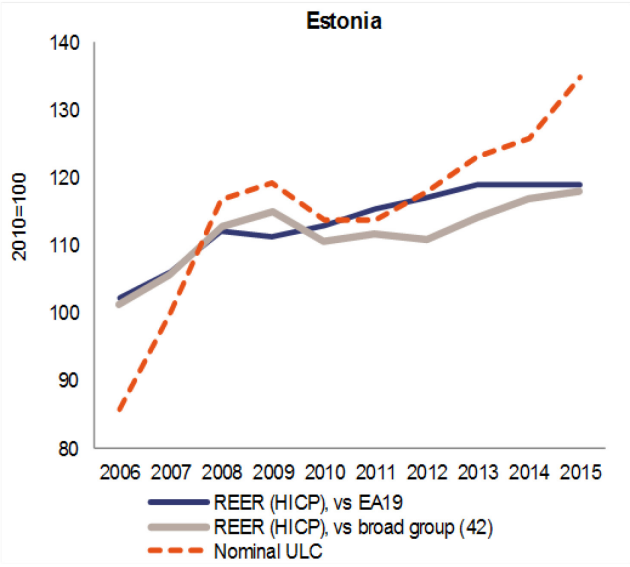
Source: Commission services. NPISH stands for non-profit institutions serving households

Overall, the economic reading highlights issues relating to the very large and increasing external surplus and strong reliance on external demand, which expose growth risks and underline the need for continued rebalancing towards domestic sources. Therefore, the Commission finds it useful, also taking into account the identification of an imbalance in March, to examine further the persistence of imbalances or their unwinding.

Estonia: In the previous rounds of the MIP, *no macroeconomic imbalances were identified* in Estonia. In the updated scoreboard, a number of indicators are beyond the indicative thresholds, namely the negative net international investment position (NIIP), the real effective exchange rate (REER), unit labour costs and real house prices.

The negative NIIP remains beyond the threshold but it has further improved. More than half of the external liabilities consist of foreign direct investments which reduces risks. The current account has been in surplus since 2014, supported by strong and stable exports of services. While there are still large accumulated gains in export market shares, there was substantial losses in 2015. The real effective exchange rate indicator slightly exceeds the threshold but is expected to decline. The increase in nominal unit labour costs reflects the continuous decline in working-age population pulling up wage growth. Furthermore, the fall in oil prices and the depreciation of the rouble curtailed

Graph A6: Real effective exchange rate and ULC



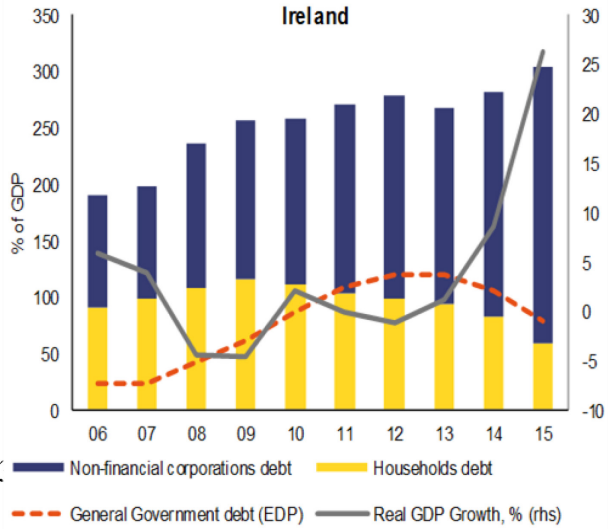
Source: Eurostat, Commission services

Estonia’s exports, including of its relatively large oil shale industry. The increase in real house prices is decelerating as housing supply is catching up with demand. Private sector debt is within threshold but bottoming out as lending, especially to enterprises, is gradually rising. In contrast, government debt is stable and at the lowest level in the EU. Long-term and youth unemployment and the severe material deprivation rate have further declined.

Overall, the economic reading highlights issues related to pressures in the domestic economy but risks remain contained. Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Ireland: In March 2016, the Commission concluded that Ireland was *experiencing macroeconomic imbalances*, related to large stocks of external liabilities and vulnerabilities from private and public debt. 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, real house prices, government debt and unemployment.

Graph A7: Debt across sectors in the economy and real GDP growth



Source: Eurostat

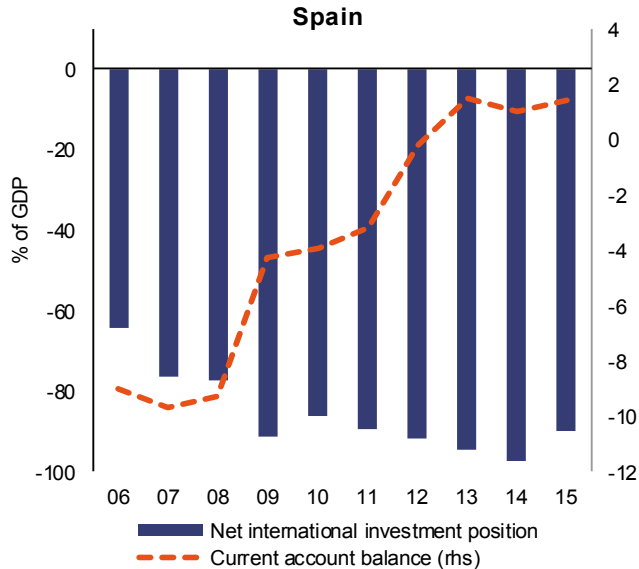
The NIIP worsened significantly in 2015, partially explained by some of the activities of multinationals with limited implications for the domestic economy. Ireland has run large current account surpluses in the past few years. This reflects, to some extent, the rebalancing of the economy and improved competitiveness with supportive REER developments. However, the underlying current account and external position are difficult to assess due to the size and impact of the activities of multinationals. The private debt-to-GDP ratio remains high and households have continued to deleverage actively but the situation of domestic non-financial companies is more difficult to interpret given the weight of multinationals on total corporate debt. The non-performing loans ratio is high but at a declining trend with long-term mortgage arrears a concern. Real house price increases have moderated, although with substantial regional variation, mainly driven by insufficient housing supply. In relation to peak levels, property prices remain well below while rents are now above. Government debt is on a downward trend and also fell substantially in 2015 due to the exceptional upward level-shift in GDP. The 3-year average unemployment rate is close to the threshold as it has continued to fall thanks to strong employment creation. Long-term and youth unemployment have also fallen substantially.

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

Spain: In March 2016, the Commission concluded that Spain was *experiencing macroeconomic imbalances*, in particular involving risks related to the high levels of external and internal debt, both private and public and 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), private and government debt and the unemployment rate.

External rebalancing has continued and the current account balance is expected to remain in moderate surplus over the medium term. However, this adjustment is only slowly translating in a reduction of Spain’s external liabilities. The NIIP has improved since 2014, but remains very negative and is mainly composed of debt, which exposes the country to risks stemming from shifts in market sentiment. Furthermore, low productivity growth makes competitiveness gains hinge upon cost advantages, also affecting working conditions and social cohesion. Private sector deleveraging continued throughout 2015, also supported by robust real growth.

Graph A8: NIIP and CA balance



Source: Eurostat

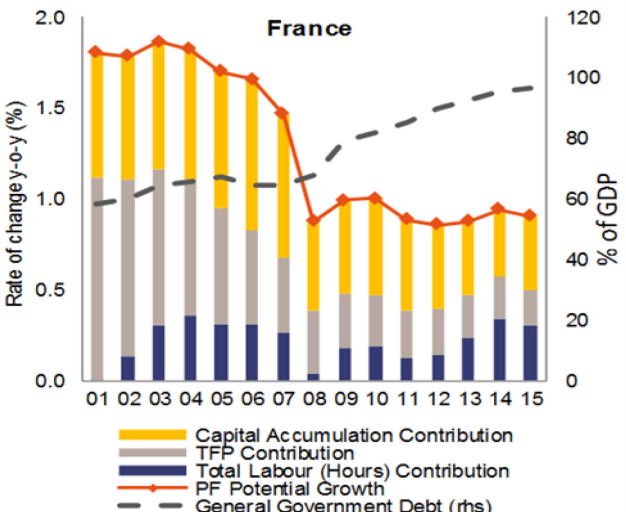
Government debt was generally stable, despite a sizeable though improving deficit. Although unemployment has been declining rapidly, it remains very high, especially among young people, and a high share of the unemployed has been without a job for more than one year. The improvement in the labour market is only slowly translating in a reduction of poverty, with poverty metrics remaining among the highest in the EU.

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 and their cross-border relevance, to examine further the persistence of imbalances or their unwinding.

France: In March 2016, the Commission concluded that France *experienced excessive macroeconomic imbalances*, in particular involving a high and increasing public debt coupled with weak productivity growth and deteriorated competitiveness. In the updated scoreboard, a number of indicators are still beyond the indicative threshold, namely government debt, private sector debt, unemployment as well as the change in long-term unemployment.

Indicators of external imbalances and competitiveness broadly stabilised in 2015, as reflected in a current account close to balance, the slowdown in accumulated export market share losses, which is now within the threshold, and the contained unit labour costs' growth. However, weak labour productivity growth is a risk factor for the evolution of unit labour costs. The high and increasing government debt remains a major source of vulnerability and is forecast to increase in the coming years. Low potential growth and low inflation compound the risks associated with the high government debt by making deleveraging more difficult. Private sector debt is beyond the threshold but deleveraging pressures appear contained. Real house prices are slowly correcting, and private sector credit has stabilised at quite moderate positive levels. Unemployment increased further in 2015 against a background of low growth. Similarly, the long-term unemployment kept on rising.

Graph A9: Potential Growth and Public Debt



Source: Commission services

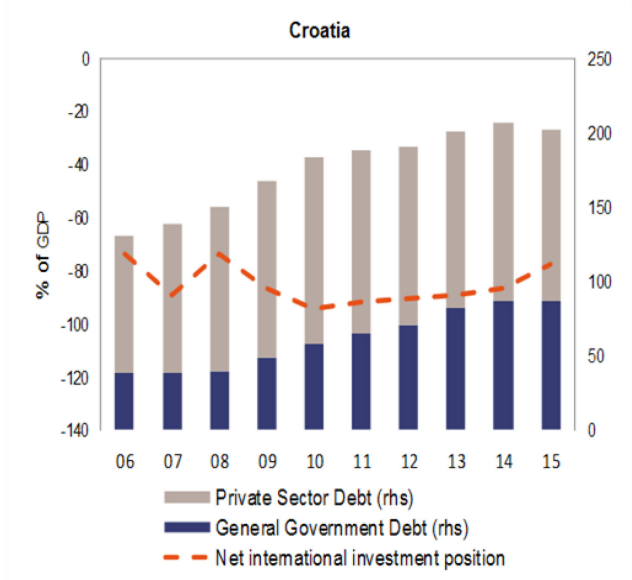
Overall, the economic reading highlights issues relating mainly to internal imbalances, especially public indebtedness in the context of low productivity growth and weak competitiveness. Therefore, the Commission finds it useful, also taking into account the identification of an excessive imbalance in March, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Croatia: In March 2016, the Commission concluded that Croatia was *experiencing excessive macroeconomic imbalances*, in particular involving risks related to high levels of public, corporate and external debt 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), government debt and the unemployment rate.

The NIIP remains strongly negative but has improved with the current account position showing an increasing surplus in 2015. Annual gains in export market shares have continued, thus broadly reversing the losses accumulated in the pre-accession years. Both public and private debt levels, in particular corporate debt, are high. Following five years of rapid increase, government debt has stabilised at a very high level and is now set to decrease as a share of GDP over the forecast horizon. Private sector debt has also started to decline and, although within the threshold, it remains high in comparison to peer countries. Moreover, a high share of domestic debt is denominated in EUR, which adds to the currency risks stemming from the high external liabilities. Despite being well-capitalised, the financial sector remains exposed to high rates of non-performing loans. Acceleration of writing-off and sell-off of loan has recently brought about a reduction in non-performing loans, signalling an easing of credit conditions. The high unemployment rate is also falling, partly due to the rapidly shrinking labour force from an already low basis. With low employment and activity rates, a relatively large share of the population continues to be at risk of poverty and social exclusion.

Overall, the economic reading highlights issues relating to the external position, public debt sustainability and labour market adjustment. Therefore the Commission finds it useful, also taking into account the identification of an excessive imbalance in March, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

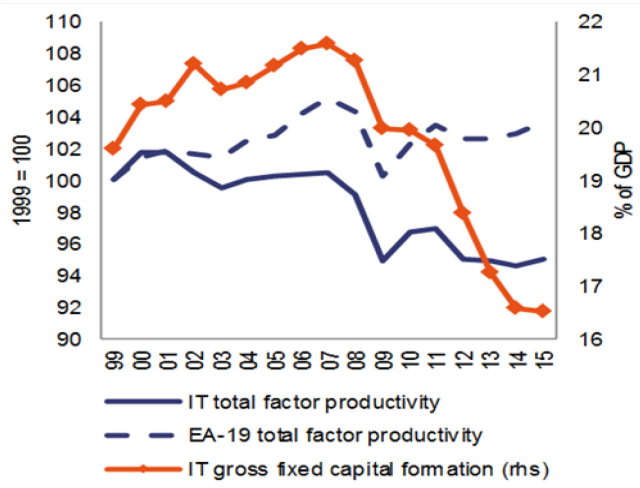
Graph A10: NIIP, Private Debt and Government Debt, % of GDP



Source: Eurostat

Italy: In March 2016, the Commission concluded that Italy was *experiencing excessive macroeconomic imbalances*, particularly very high public debt and weak external competitiveness in a context of low economic growth and lacklustre productivity dynamics. In the

Graph A11: Total Factor Productivity and Gross Fixed Capital Formation



Source: Commission services

updated scoreboard, a number of indicators are beyond the indicative threshold, namely the loss of export market shares, government debt, the unemployment rate as well as the change in long-term and youth unemployment rates.

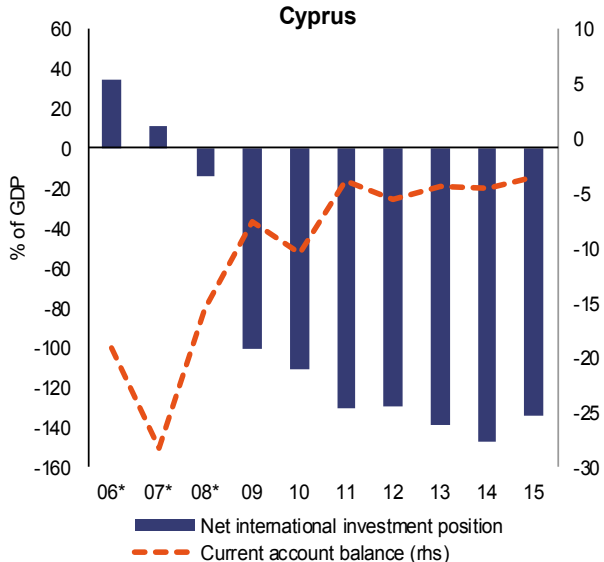
The current account remained in surplus in 2015, contributing to the improvement of the net international investment position. Yet, this surplus also mirrors continued weak domestic demand, as reflected in the historically low ratio of fixed investment of GDP. Losses in export market share remain substantial. The external performance and the cost competitiveness suffer from subdued labour productivity growth, despite contained wage growth and the depreciation of the real effective exchange rate. The weak economic recovery, low inflation and expansionary fiscal policy are delaying the reduction of the very high government debt ratio and related risks. The low profitability and the high stock of non-performing loans make the banking system increasingly vulnerable and hamper banks’ capacity to support the economy. In particular, the capital misallocation associated with the high stock of non-performing loans also contributes to low productivity growth, and the low lending volumes are associated with a subdued level of investment. Improving labour market conditions are gradually reducing the unemployment rate, which nevertheless remains far above pre-crisis levels, similarly to the long-term and youth unemployment rates.

Overall, the economic reading highlights issues relating to high public indebtedness and the banking system in a context of weak productivity growth. Therefore the Commission finds it useful, also taking into account the identification of excessive imbalances in March, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of the excessive imbalances.

Cyprus: In April 2016, the Commission concluded that Cyprus was *experiencing excessive macroeconomic imbalances*, particularly involving large stocks of private, public and external debt and the high ratio of non-performing loans in the banking system. In the updated scoreboard, a number of indicators remain beyond the indicative threshold, namely the current account deficit, the net international investment position (NIIP), the real effective exchange rate (REER), losses in export market shares, private sector debt, government debt, unemployment as well as the change in long-term and youth unemployment rates.

The current account deficit and the negative NIIP remains substantial even if there were some improvement in 2015. The good performance of services exports, particularly tourism have contributed to this outcome. The significant depreciation of the REER mainly reflects the negative inflation experienced since 2015. The level of private indebtedness remains amongst the highest in the EU. Although real GDP growth resumed in 2015 and is

Graph A12: NIIP and CA balance



Source: Eurostat. Note: * indicates BMP5 and ESA95

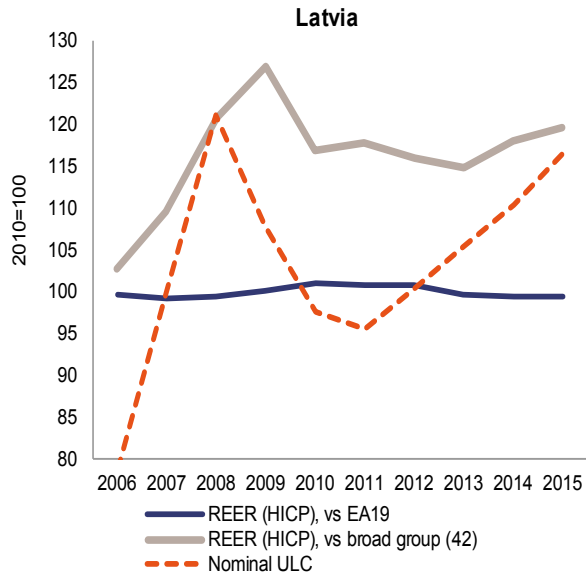
expected to strengthen over the forecast horizon, falling prices reduce nominal GDP growth and make the deleveraging process more difficult. The very high level of non-performing loans suggests that severe risks remain for the restoration of a healthy flow of credit to the economy, which is required for supporting growth in the medium term. The very high government debt-to-GDP ratio is stable and is expected to have peaked in 2015. Unemployment is high but declining while long-term and youth unemployment remains relatively high.

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 in the case of Cyprus, also taking into account the identification of an excessive imbalance in April, 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 threshold, namely the net international investment position (NIIP), unit labour costs and unemployment.

The current account deficit is narrowing and the negative NIIP ratio remains significantly beyond the threshold but is steadily improving and the outlook is also favourable. A very large share of the external exposure reflects foreign direct investment stocks. Cumulated gains in export market shares remains substantial despite losses in 2015. Cost competitiveness indicators points to some losses. The real effective exchange rate appreciated in 2015. Unit labour costs have increased further beyond the indicative threshold posing some risks to external cost competitiveness. However, the pace of increase is projected to slow down in the light of the latest wage developments. Public and private debt ratios are clearly within the thresholds.

Graph A13: Real effective exchange rate and ULC



Source: Eurostat, Commission services

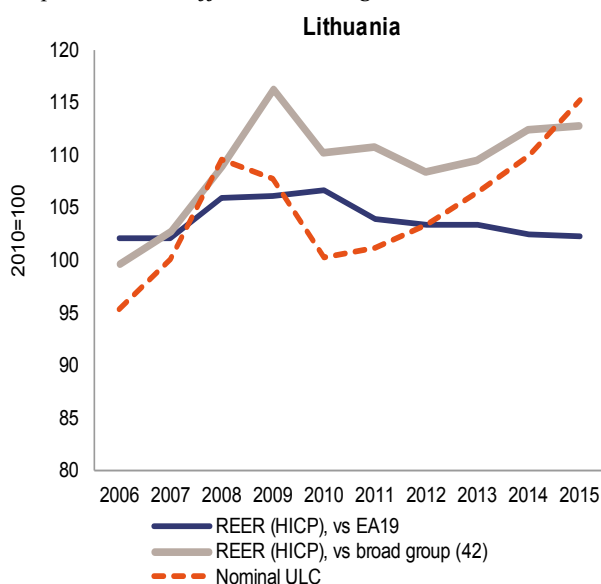
The financial sector remains robust. Lending, in particular to corporates, is growing again after a long period of deleveraging. Real house price growth has abated. The three-year indicator for unemployment is marginally beyond the threshold but is on a declining trend.

Overall, the economic reading highlights issues relating to the external sector of the economy and the labour market amid continuous rebalancing. Therefore, the Commission will at this stage not 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 indicative threshold, namely the net international investment position (NIIP), nominal unit labour costs (ULC), and the unemployment rate.

While still beyond the indicative threshold, the NIIP is on an improving trend. The government and the private sector contribute equally to the total negative net position and private sector liabilities consist almost entirely of foreign direct investment implying a lower risk. There are still cumulated export market share gains but there were large losses in 2015. Cost competitiveness indicators points to some losses. The real effective exchange rate appreciated in 2015. Weak productivity and strong wage growth implied strong ULC growth in 2015 moving the indicator beyond the threshold, but over the forecast horizon a deceleration is foreseen. Public and private debt levels are relatively low. Real house prices continue to increase but at a lower growth rate and from a relatively low level. The unemployment indicator is beyond the threshold but is on a steadily decreasing trend.

Graph A14: Real effective exchange rate and ULC



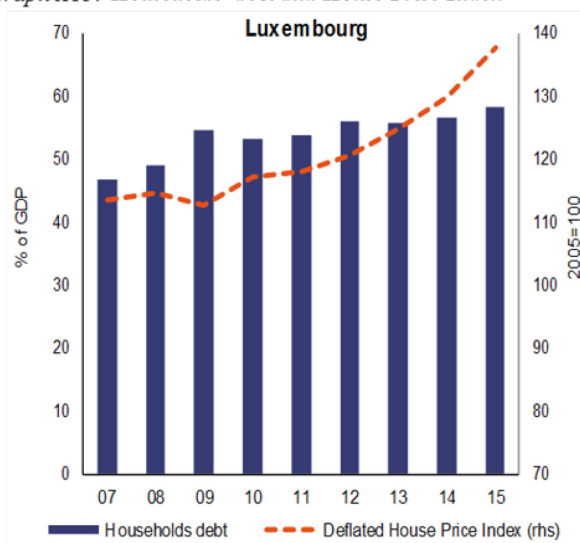
Source: Eurostat, Commission services

Overall, the economic reading highlights issues relating to external competitiveness but risks remain contained. Therefore, the Commission will at this stage not 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 real house prices, private sector credit flow and indebtedness.

The structurally high current account surplus was stable in 2015 and is narrowly within the threshold. The positive net international investment position increased, mostly reflecting the dominance of the financial sector, while only a limited share of the flows is related to domestic economic activity. Wages growth is low contributing

Graph A15: Households' debt and House Price Index



Source: Eurostat

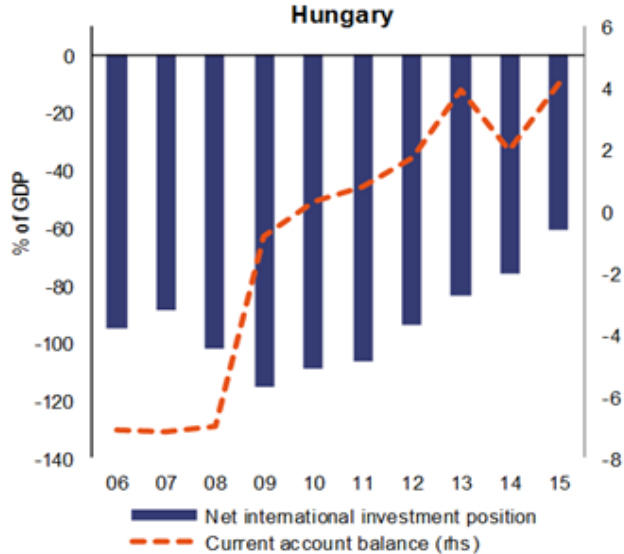
to the recent labour costs moderation. Combined with the improvement in productivity recorded over the recent years, it helps to explain the recovery of export market shares. The low government debt further declined. Credit growth remained dynamic and buoyant growth of loans for housing acquisition has pushed up the level of household debt close to the euro area average, while deleveraging pressures on households' and corporations' balance sheets appear contained. Housing prices are accelerating from already high levels, which warrants close monitoring. Several factors, such as sizeable net migration flows, a dynamic labour market and low financing costs concur to sustain housing demand, while supply remains relatively constraint as also reflected in a low growth of building permits. Loan to value ratios have decreased as has housing affordability. Unemployment increased but from a low level.

Overall, the economic reading points mainly to issues related to the increasing housing prices although overall risks still appear relatively contained. 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, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), losses in export market shares, real house prices and government debt.

The continued strengthening of the current account has implied a very rapid and sustained improvement in the negative NIIP. Export market shares recorded gains in 2015 and cumulated losses are only narrowly beyond the threshold. This is supported by a growing car industry and by improvements in cost competitiveness as reflected in a depreciating real effective exchange rate and contained growth in unit labour costs. Corporate lending by domestic banks continues to contract but new household lending picked up in 2015. The overall pace of deleveraging has slowed down, supported by sustained economic growth. The previous decline in real house prices reversed sharply and house prices surged in 2015, exceeding the threshold, however still from undervalued levels. The subsequently introduced debt cap rules will limit the risks of market overheating. Government debt has continued to decline gradually, although it still remains relatively high for a middle income economy. The banking sector improved its profitability and its shock-absorbing capacity. The recovery in the housing market may contribute to reduce the problem of the still high non-performing mortgage loans of households. The unemployment indicator remained within the threshold in 2015, while employment has increased further in 2015 and 2016.

Graph A16: NIIP and CA balance



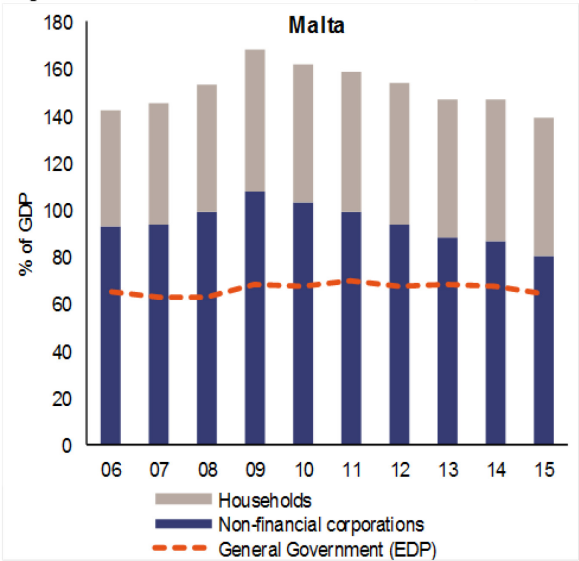
Source: Eurostat

Overall, the economic reading highlights the improving external position and issues relating to the housing 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, a number of indicators are beyond the indicative threshold, namely the losses in export market shares, private debt and government debt.

The current account surplus decreased somewhat in 2015, reflecting also the impact of a strong increase in import-intensive investment. The positive NIIP strengthened. Export market shares have been on a persistent downward trend since 2009, in particular due to exports of goods. However, cost competitiveness developments have been favourable as rising productivity and moderate wage developments have kept unit labour costs in check and the real effective exchange rate mildly depreciating. The private debt-to-GDP ratio is on a firmly downward trend on the back of orderly deleveraging among non-financial corporations and robust economic growth. House-price dynamics remained subdued in 2015, but growing demand is expected to result in an upward pressure on prices in the coming years. Government debt continued to decrease, approaching the indicative threshold. Labour-market conditions remained favourable and unemployment low.

Graph A17: Debt across sectors in the economy



Source: Eurostat

Overall, the economic reading highlights the robust external position and ongoing deleveraging in a context of relatively strong growth. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

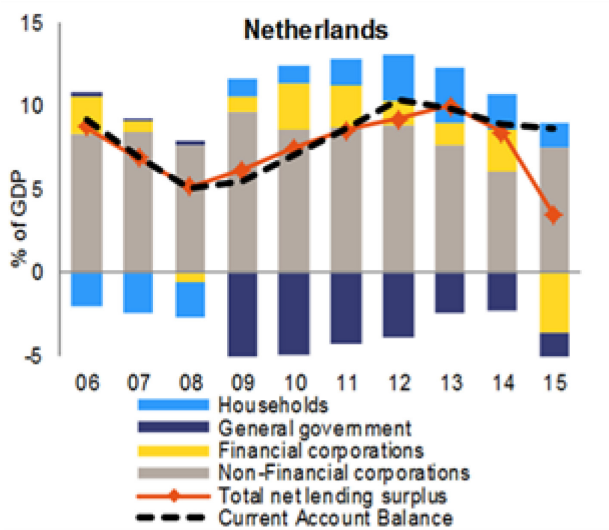
Netherlands: In March 2016, the Commission concluded that the Netherlands was experiencing macroeconomic imbalances, in particular involving risks stemming from the large and persistent current account surplus and the very large stock of household debt. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely current account surplus, loss of export market shares, private sector debt, government debt as well as the change in long-term unemployment.

The current account surplus remains at a level far beyond the indicative threshold. Structural features partially contribute to the high level, including high re-export activities and the presence of multinational companies. Also, the surplus reflects high savings of non-financial corporations, in a context of low investment and contained corporate profit distribution.

Nevertheless, investment is forecast to grow more strongly in line with robust domestic demand which may result in a moderate decline in the current account surplus. Cumulated export market share losses remained beyond the threshold on the back on annual losses in 2015. Cost competitiveness indicators point to small gains in 2015.

Private sector debt is very high but private deleveraging continues, leading to a marginal reduction in debt level. Policy measures such as the lowering of mortgage interest deductibility and loan-to-value ratios are expected to support the reduction of household debt. Real house prices started to grow in 2015 after previous years correction phase. Government debt is moderately beyond the threshold and slightly declining. While the labour market is showing strong employment growth, leading to a steady reduction in the unemployment rate, the share of long-term unemployed remains elevated.

Graph A18: Net Lending/Borrowing by Sector and current account



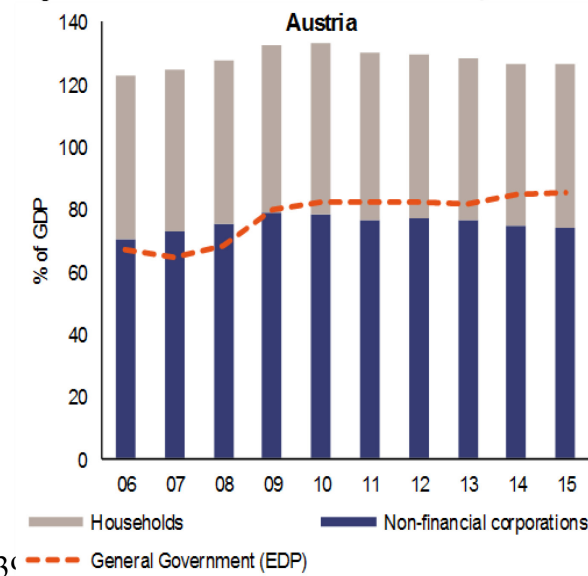
Source: Eurostat

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

Austria: In March 2016, the Commission concluded that Austria was experiencing no macroeconomic imbalances. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely losses in export market shares, government debt as well as the change in long-term unemployment.

The current account shows a moderate surplus that increased slightly in 2015, while the net international investment position is slightly positive. Cumulated losses in export market shares remain beyond the threshold and there were some additional losses in 2015. The real effective exchange rate depreciated on a yearly basis. Also, labour productivity growth was positive after three years of losses, contributing to a reduction in nominal unit labour cost growth. Private sector indebtedness remains within but close to the threshold, and continues its decline relative

Graph A19: Debt across sectors in the economy



Source: Eurostat

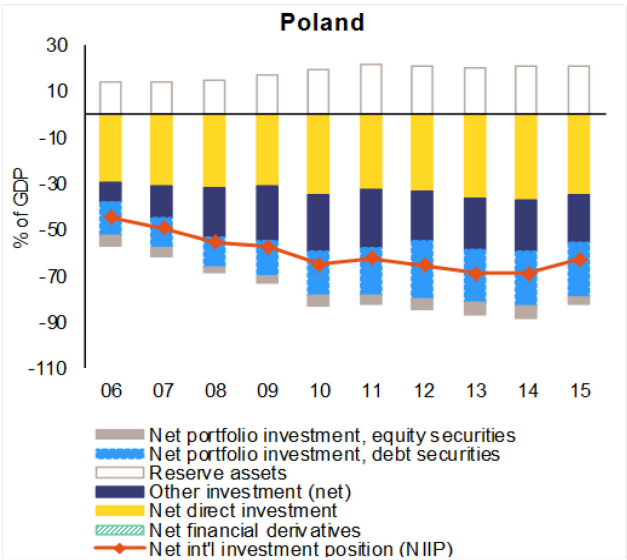
to GDP due to non-financial corporations deleveraging in spite of the low interest rate environment. The growth rate of real house prices accelerated from already relatively high levels and, although the indicator remains within the threshold, this warrants close monitoring. Government debt increased, also due to the protracted restructuring of distressed banks which still may pose some risks to public finances. Financial sector liabilities have remained broadly stable as Austrian banks cut their foreign exposures also due to the relatively lower asset quality in Central and Eastern Europe, requiring monitoring as to potential spillovers to the domestic and partner economies. The unemployment rate continues to increase mainly as an effect of the growing labour supply, but remains among the lowest in the EU even if long-term and youth unemployment have increased.

Overall, the economic reading highlights issues relating to the external performance and the banking 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.

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 3 year average deficit has continued to narrow towards balance. The NIIP however still remains highly negative but improved substantially in 2015. External vulnerability is contained by that foreign direct investments account for a major part of foreign liabilities. In 2015, the cumulated gains in export market shares progressed while cost competitiveness indicators point to some gains. Both private sector debt and government debt are relatively low and stable. The stability of the banking sector was maintained but profitability was reduced. Real house prices showed limited positive growth in 2014 and 2015 after a number of years with corrections. The unemployment rate kept falling further within the indicative threshold.

Graph A20: Net International Investment Position



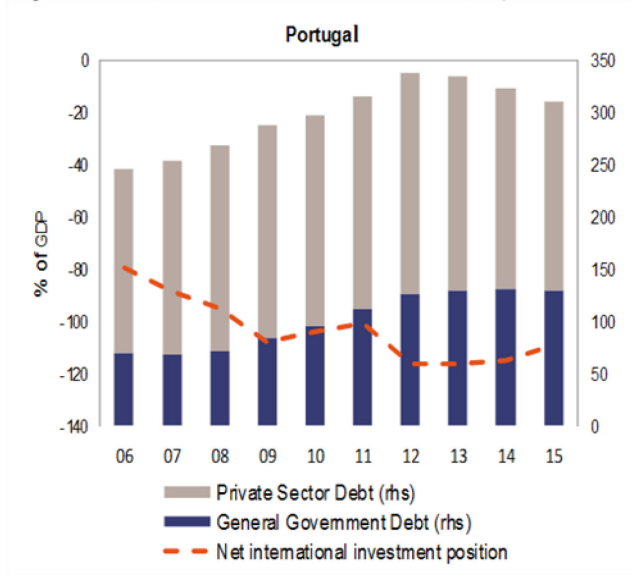
Source: Eurostat

Overall, the economic reading highlights issues in the external position where overall risks however remain limited. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Portugal: In March 2016, the Commission concluded that Portugal was *experiencing excessive macroeconomic imbalances* relating to large stocks of external liabilities, private and public debt, a large share of non-performing loans (NPL) and elevated unemployment. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), private sector debt, government debt and unemployment.

The current account position recorded a small surplus in 2015 and the negative NIIP position improved slightly but remains very large. Substantial current account surpluses will be needed for a long time to reach a more sustainable external position. Previously cumulated losses in export market shares have been partially regained also against a background of supportive cost competitiveness developments. The still elevated private debt ratio implies that further deleveraging needs remain. The high level of government debt, in a context of low potential growth, implies risks to medium-term sustainability,

Graph A21: NIIP, Private Debt and Government Debt, % of GDP



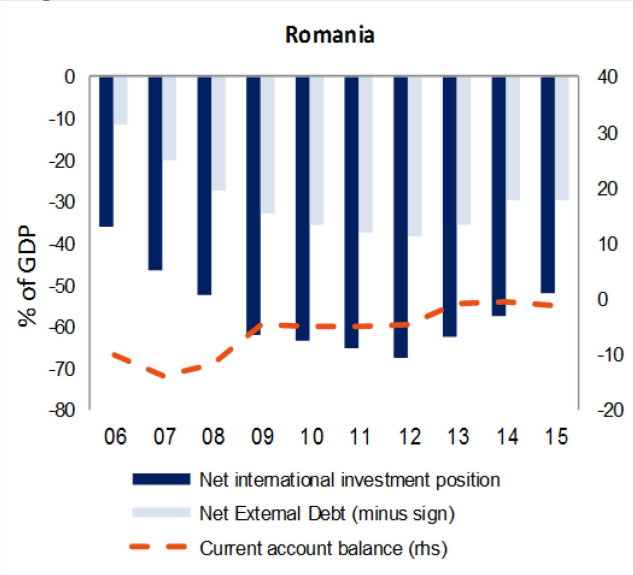
Source: Eurostat

vulnerabilities to adverse shocks and increases financing costs. The high stock of corporate NPLs, together with low profitability, is putting pressure on the banking sector impeding the productive allocation of credit and investment. The adjustment in the labour market is gradually progressing, also as regards youth and long-term unemployment even if they remain among the highest in the EU, which increases risks of human capital deterioration.

Overall the economic reading highlights issues relating to external sustainability, public and private debt, banking sector vulnerability and the labour market adjustment process, in the context of low productivity growth. Therefore the Commission finds it useful, also taking into account the identification of an excessive imbalance in March, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of the excessive imbalances.

Graph A22: NIIP and CA balance

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



Source: Commission services

The current account showed a small deficit in 2015 but is expected to gradually widen, sustained by strong

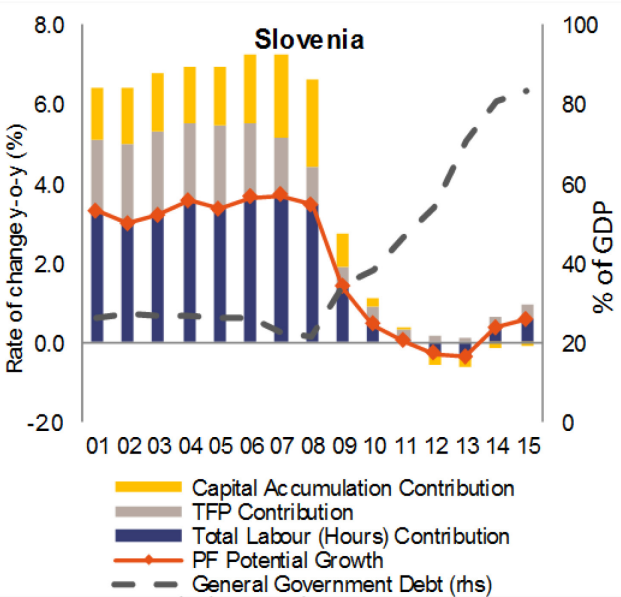
domestic demand. The negative NIIP continued to improve in 2015 on the back of relatively strong GDP growth. Almost half of the NIIP consists of foreign direct investments while net external debt continued to decline. Cumulated export market gains remains substantial despite small losses in 2015. Cost competitiveness indicators improved moderately in 2015 with a small decrease in nominal unit labour costs, associated with an increase in labour productivity, and a depreciation of the real effective exchange rate. However, competitiveness may worsen if the current pace of wage increases is sustained ahead of productivity gains. The overall health of the banking sector has improved and the sector remains well capitalized and liquid. In addition, private sector credit stopped contracting. Although on a declining path, non-performing loans ratios remain high, while recurrent domestic legal initiatives impact legal predictability and could negatively affect the stability of banking institutions. Government debt remains relatively low and on a declining path. However, fiscal measures and ad hoc wage increases for some categories of public employees point toward a fiscal relaxation and pro-cyclical fiscal policy in 2016-2017 which could deteriorate debt dynamics. The unemployment rate remained unchanged in 2015, partially reflecting structural challenges in the labour market, and the activity rate increased somewhat in a context of strong economic growth.

Overall, the economic reading highlights issues related to the external position and to fiscal relaxation. Risks currently seem contained but could increase as a result of policy initiatives, including in the financial sector. The Commission will, at this stage, not carry out further in-depth analysis in the context of the MIP, but will closely monitor initiatives that could adversely affect financial stability.

Slovenia: In March 2016, the Commission concluded that Slovenia was *experiencing macroeconomic imbalances*, in particular involving fiscal risks and vulnerabilities stemming from the banking sector and corporate indebtedness. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position and government debt.

The current account surplus remained highly positive in 2015 and expanded as investment remained weak. The negative net international investment position improved substantially and is approaching the threshold. Export growth has remained strong and 5-year cumulated losses in export market shares substantially declined. Unit labour costs growth was low and the real effective exchange rate depreciated supporting competitiveness. Credit growth was negative and corporate deleveraging continued in 2015, but the pressures are easing. Government debt is high but expected to have peaked in 2015. The

Graph A23: Potential Growth and Public Debt



Source: Commission services

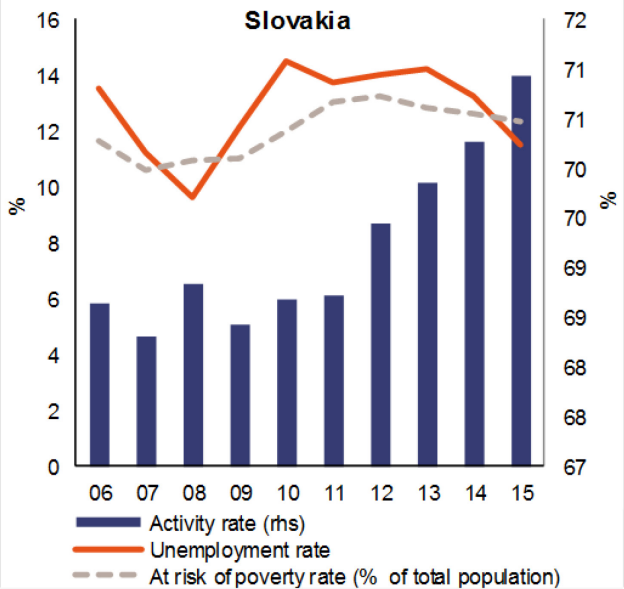
situation in the banking sector has further stabilised. Non-performing loans continued to decline, but still remain relatively high, while bank profitability is under pressure. Following the solid GDP and export growth since 2014, the labour market improved in 2015. On the back of recovered demand for labour in the private sector, the unemployment rate decreased further in 2015 as did the long-term and the youth unemployment rates.

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

Slovakia: In the previous round of the MIP, *no macroeconomic imbalances were identified* in Slovakia. In the updated scoreboard, a number of indicators remain beyond the indicative threshold, namely the net international investment position (NIIP) and unemployment.

The current account balance has improved significantly in recent years with the three year average showing a small surplus in 2015. However, the NIIP is only slowly improving, with the ongoing inflow of foreign direct investment which largely relates to the expanding automotive industry. The recent weakening in the real effective exchange rate including only moderate growth in nominal unit labour costs underpinned cost competitiveness while there have been cumulative gains in export market shares. However, a tightening labour market and increasing pressure on nominal wage growth could put cost competitiveness under pressure in the coming years. Private sector credit flow was strong in recent years, contributing to the upward path of the private sector debt ratio, which nevertheless still remains well within the indicative threshold. Real house prices bottomed out in 2013, and in 2015 there was significant positive growth although from a low level. Further acceleration in credit for house purchases in a low-rate environment could imply faster growth of house prices in the coming years. The government debt ratio decreased marginally in 2015. The largely foreign-owned banking sector is well-capitalised. The unemployment rate is improving. Although activity rates have gradually improved since 2012, structural unemployment represents a key challenge.

Graph A24: Labour market and social indicators



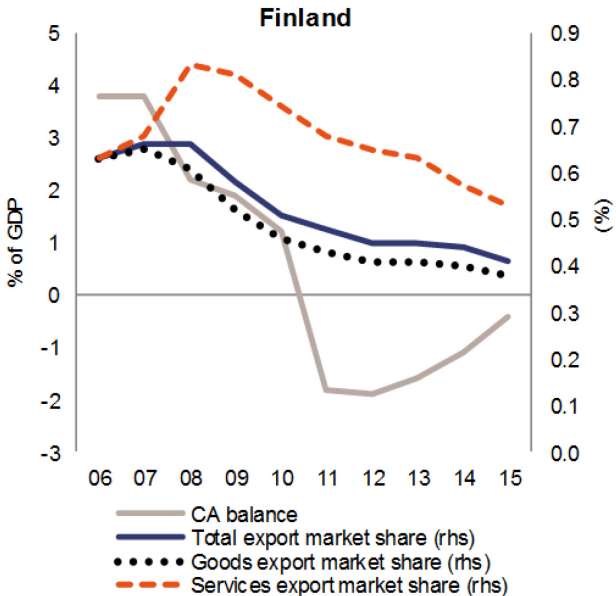
Source: Eurostat

Overall, the economic reading points to issues relating to external aspects but with limited risks while structural unemployment remains a challenge. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Finland: In March 2016, the Commission concluded that Finland was *experiencing macroeconomic imbalances*, in particular related to competitiveness and external performance. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the loss in export market shares, the level of private sector debt and government debt, as well as the increase in youth and in long-term unemployment.

The current account deficit narrowed further in 2015 and is expected to remain at similar levels in the coming years. The net-international investment position has deteriorated over time but remains close to balance. The cumulative loss of export market shares since the economic and financial crises remains substantial despite the recent improvement in cost competitiveness indicators. In 2015 the market share loss accelerated again and was one of the weakest in the EU, related to the on-going structural change in the economy and the sensitivity of exports to the recession in Russia. In 2016 the social partners agreed on a Competitiveness Pact which is expected to improve cost-competitiveness as of 2017. After being broadly stable since 2009, in 2015 private sector debt increased substantially while favourable credit conditions, low interest rates and moderately decreasing real house prices supported the strong credit growth. The financial sector remains well capitalised limiting risks to financial stability. Government debt is now beyond the 60% of GDP threshold. Unemployment continued to increase in 2015 but is expected to be reduced looking forward. The growth in youth unemployment has recently begun to recede but long-term unemployment continues to increase.

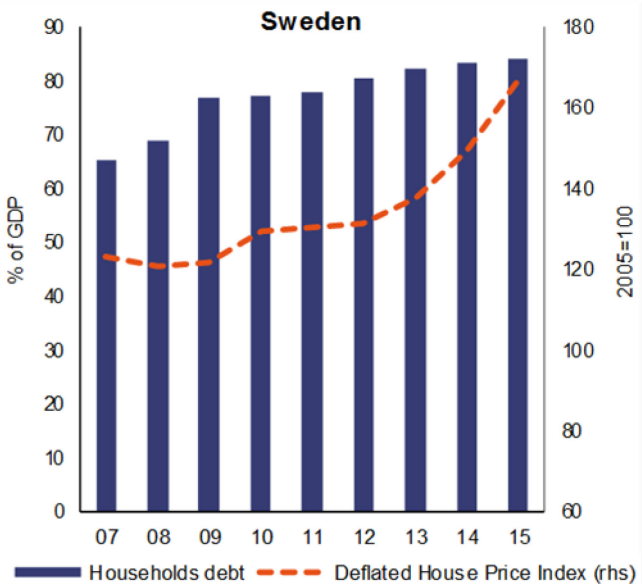
Graph A25: *Export market shares and CA balance*



Source: Eurostat

Overall, the economic reading highlights challenges related to both price- and non-price competitiveness in a context of sectoral restructuring. Therefore, the Commission finds it useful, also taking into account the identification of an imbalance in March, to examine further the persistence of imbalances and their unwinding.

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



Source: Eurostat

Sweden: In March 2016, the Commission concluded that Sweden *experienced macroeconomic*

imbalances, particularly involving high and increasing household debt associated with high and growing house prices. In the updated scoreboard, a number of indicators are beyond the indicative thresholds, namely loss of export market shares, private sector debt and real house price growth.

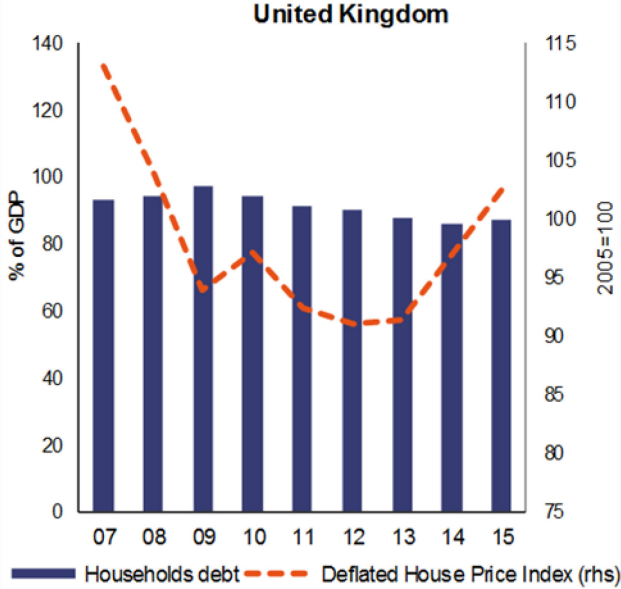
The current account surplus remains high, although within the threshold, reflecting primarily high private savings. The net international investment position (NIIP) has continued to improve gradually and has turned positive in 2015. Cumulative losses in export market shares are beyond the threshold and there were additional limited losses in 2015. Cost competitiveness indicators developed favourably in 2015, with contained unit labour cost growth and a depreciation of the real effective exchange rate (REER). Overall losses in export market shares are driven by weak external demand rather than by competitiveness issues. Private sector debt is broadly stable at a level among the highest in the EU where risks relate mainly to high household debt. Credit growth increased in 2015 and real house price growth accelerated further from already high levels. House prices and household indebtedness are pushed up by the favourable tax treatment of debt-financed home-ownership, specific aspects of the mortgage market and low mortgage interest rates. On the supply side, constraints on new construction remain an issue. In spite of the high level of household debt, bank risks currently appear contained as asset quality and profitability remain high and household finances are generally strong. Unemployment edged down in 2015 and is on a slowly declining trend, aided by the improvement of growth conditions.

Overall, the economic reading highlights issues related to high private debt and the developments in the housing sector. Therefore, the Commission finds it useful, also taking into account the identification of an imbalance in March, 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, real effective exchange rate, private sector debt and government debt.

The current account deficit continued to increase in 2015, driven by a widening primary income deficit and the indicator remains beyond the threshold. The net international investment position is negative but improved slightly. The cumulated change in export market share improved significantly and now shows gains. While unit labour cost growth has been moderate, in 2015 the real effective change rate indicator appreciated and moved marginally beyond the threshold. This reflected the strength of sterling until late 2015,

Graph A27: Households' debt and House Price Index



Source: Eurostat

since which sterling has weakened significantly. Private sector debt-to-GDP continued to decrease slightly overall, even though it remains high and household indebtedness started increasing again. Real house prices continue to rise from already high levels. Although the growth rate eased somewhat, this warrants close monitoring. Government debt was close to stable in 2015 but the high level remains a concern. Strong employment growth continued to be accompanied by falling long term and youth unemployment.

Overall, the economic reading highlights some issues relating to the housing market and the external side of the economy although risks to stability in the short term appear limited. However the outcome of the EU referendum has raised economic and political uncertainty looking forward. Overall the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Table 1.1: MIP Scoreboard 2015

Year 2015	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 (2010=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	-0.2□	61.3□	-1.2	-11.3□	1.5	1.3p□	4.5	166.3	105.8	8.5	-1.0□	0.7□	1.0	2.3
BG	0.6□	-60.0□	-4.1	12.8□	14.9p	1.6bp□	-0.3	110.5	26.0	11.2	7.0□	2.2□	-1.2	-6.5
CZ	0.2□	-30.7□	-8.0	0.1□	0.5	3.9p□	0.9	68.6	40.3	6.1	7.7□	2.4□	-0.6	-6.9
DK	8.8□	39.0□	-1.5	-8.8□	4.9	6.3□	-3.3	212.8	40.4	6.6	-2.0□	-0.1□	-0.4	-3.3
DE	7.5□	48.7□	-1.4	-2.8□	5.7	4.1□	3.0	98.9	71.2	4.9	2.8□	0.4□	-0.4	-0.8
EE	0.9□	-40.9□	6.4	8.5□	14.4	6.8□	3.3	116.6	10.1	7.4	8.1□	1.9□	-3.1	-7.8
IE	4.7*□	-208.0*□	-5.9	38.3*□	-18.1	8.3□	-6.7	303.4	78.6	11.3	9.5□	0.8□	-3.7	-9.5
EL	-1.2□	-134.6□	-5.5	-20.6□	-11.1p	-3.5e□	-3.1	126.4	177.4	26.3	15.7□	0.3□	3.7	-5.5
ES	1.3□	-89.9□	-2.9	-3.5□	-0.7p	3.8□	-2.7	154.0	99.8	24.2	-2.1□	0.0□	0.4	-4.6
FR	-0.7□	-16.4□	-2.7	-5.4□	2.5p	-1.3□	4.4	144.3	96.2	10.3	1.8□	0.8□	0.6	0.3
HR	2.7□	-77.7□	0.1	-3.5□	-5.0	-2.4□	-1.3	115.0	86.7	17.0	2.1□	2.9□	0.1	0.9
IT	1.5□	-23.6□	-2.2	-8.9□	1.5	-2.6p□	-1.7	117.0	132.3	12.2	1.7□	0.5□	1.3	5.0
CY	-4.1□	-130.3□	-6.2	-16.8□	-10.5p	2.9bp□	4.4	353.7	107.5	15.7	2.8□	0.4□	3.2	5.1
LV	-1.8□	-62.5□	3.1	10.5□	16.0	-2.7□	0.7	88.8	36.3	10.9	12.2□	1.3□	-3.3	-12.2
LT	0.9□	-44.7□	4.0	15.5□	11.6	4.6□	2.2	55.0	42.7	10.5	6.7□	2.3□	-2.7	-10.4
LU	5.3□	35.8□	-0.5	22.9□	0.6	6.1□	24.2	343.1	22.1	6.1	15.5□	1.5b□	0.3	-1.4
HU	3.0□	-60.8□	-6.9	-8.0□	3.9	11.6□	-3.1	83.9	74.7	8.2	0.4□	4.9□	-1.9	-10.9
MT	4.3□	48.5□	-0.2	-8.8□	3.9	2.8p□	5.4	139.1	64.0	5.9	1.3□	4.5□	-0.7	-2.3
NL	9.1□	63.9□	-0.6	-8.3□	0.2p	3.6□	-1.6p	228.8p	65.1	7.2	3.2p□	0.6□	1.1	-0.4
AT	2.1□	2.9□	1.8	-9.6□	6.1	3.5□	2.1	126.4	85.5	5.6	0.6□	0.4□	0.5	1.2
PL	-1.3□	-62.8□	-1.0	9.7□	-0.4p	2.8□	3.2	79.0	51.1	8.9	2.4□	1.6□	-1.1	-5.7
PT	0.7□	-109.3□	-2.8	2.8□	0.0e	2.3□	-2.3	181.5	129.0	14.4	-1.6□	0.0□	-0.5	-6.0
RO	-1.0□	-51.9□	2.7	21.1□	0.5p	1.7□	0.2	59.1	37.9	6.9	4.1□	1.3□	0.0	-0.9
SI	5.4□	-38.7□	0.6	-3.6□	-0.6	1.5□	-5.1	87.3	83.1	9.6	-3.4□	1.4□	0.4	-4.3
SK	1.1□	-61.0□	-0.7	6.7□	2.2	5.5□	8.2	81.4	52.5	13.0	4.5□	1.5□	-1.8	-7.5
FI	-1.0□	0.6□	2.3	-20.5□	3.6	-0.4□	9.5	155.7	63.6	8.8	1.5□	0.6□	0.7	3.4
SE	5.0□	4.1□	-7.9	-9.3□	3.6	12.0□	6.5	188.6	43.9	7.8	2.3□	1.4□	0.0	-3.3
UK	-4.8□	-14.4□	11.3	1.0□	1.7	5.7□	2.5	157.8	89.1	6.3	-7.8□	0.8□	-1.1	-6.6

Flags: b: break in time series, e: estimated, p: provisional.

Note: * The level shift is due to relocation to Ireland of balance sheets of large multi-national enterprises and inclusion of corresponding transactions in the Irish BoP and IIP statistics. 1) See page 2 of the AMR (2016.2) House price index e = source: NCB of EL.3) The level of TFSL in Greece is higher than would otherwise have been recorded, due to the improved treatment of banks' holdings of short-term debt securities issued by banks.□

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund

Table 2.1: Auxiliary indicators, 2015

Year 2015	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 external debt (% of GDP)	Foreign direct investment in the reporting economy - flows	Foreign direct investment in the reporting economy - stocks	Net trade balance of energy products (% of GDP)	Real effective exchange rate - Euro Area trading partners (3 years % change)	Export performance against advanced economies (5 years % change)	Terms of trade (5 years % change)	Export market share in volume (1 year % change)	Labour productivity (1 year % change)	Nominal unit labour cost index (2010=100) (10 years % change)	Unit labour cost performance relative to EA (10 years % change)	House price index (2010=100) - nominal (3 years % change)	Residential construction (% of GDP)	Private sector debt, non-consolidated (% of GDP)	Financial sector leverage, non-consolidated (% debt-to-equity)
BE	1.5	23.0	na□	0.5□	-67.7□	-4.7□	213.6□	-2.8	0.2	-9.4□	0.1	1.6	0.6□	20.5	4.0	2.30p	5.8	218.8	176.5
BG	3.6	21.0	1.0p□	3.5□	3.4□	3.7□	88.9□	-3.8	-3.9	15.2□	3.5	3.0	3.3p□	78.4p	51.2	2.00bp	1.4	121.5	494.3
CZ	4.5	26.3	na□	3.2□	-9.8□	1.3□	74.2□	-2.5	-8.0	2.3□	0.7	5.0	3.1□	14.1	-2.8	6.60p	3.4	77.0	516.4
DK	1.0	19.0	na□	9.0□	3.6□	0.7□	49.8□	0.1	-1.3	-6.8□	0.7	-2.4	-0.1□	26.0	7.4	15.3	4.0	218.9	159.9
DE	1.7	19.9	2.9ep□	8.4□	-10.2□	1.4□	41.0□	-2.0	0.5	-0.7□	2.0	2.5	0.8□	15.1	-1.6	11.4	5.9	106.1	368.0
EE	1.4	23.7	1.5p□	4.3□	-10.3□	-2.9□	99.9□	-1.4	1.6	10.8□	2.8	-3.3	-1.4□	72.0	42.1	34.5	4.4	130.9	366.1
IE	26.3	21.2	na□	9.7*□	-289.0*□	72.3*□	495.9*□	-1.6	-1.3	41.2*□	3.6	31.7	23.2□	-14.9	-22.7	30.7	1.9	323.6	80.6
EL	-0.2p	11.5p	1.0p□	1.2□	138.1□	0.6□	14.5□	-2.2p	-5.2	-18.9□	5.8p	0.7p	-0.7p□	-0.2p	-12.6	-21.70e	0.7p	126.4	1359.6
ES	3.2p	19.7p	na□	2.0□	93.1□	2.1□	59.8□	-2.1p	-1.3	-1.5□	-4.7p	2.2p	0.7p□	8.9p	-6.2	-5.6	4.4p	173.1	468.4
FR	1.3p	21.5p	na□	-0.1□	37.3□	1.5□	43.3□	-1.8p	-0.4	-3.4□	2.1p	3.4p	0.8p□	17.9p	1.9	-4.9	5.8p	183.3	356.6
HR	1.6	19.5	0.85□	5.6□	52.7□	0.4□	55.0□	-3.5	-1.1	-1.5□	0.6	7.3	0.1□	23.3	-4.1	-8.2	na	140.2	427.0
IT	0.7	16.6	na□	1.8□	59.7□	0.7□	25.6□	-2.0	-0.5	-7.0□	2.1	1.6	0.2□	17.6	3.0	-12.20p	4.4	120.1	657.3
CY	1.7p	13.3p	na□	-2.6□	133.4□	41.0□	911.2□	-4.2p	-2.4	-15.0□	-0.8p	-2.7	0.9p□	5.4p	-4.1	-4.60bp	4.3p	354.9	85.0
LV	2.7	22.6	0.6p□	2.0□	28.6□	2.8□	60.1□	-2.9	-2.0	12.8□	0.2	-0.1	1.4□	71.7	39.1	9.5	1.8	97.6	625.4
LT	1.8	19.3	1.0p□	0.7□	26.4□	2.3□	40.0□	-3.5	-1.4	17.9□	2.2	-3.1	0.5□	35.3	10.0	11.7	2.8	57.5	467.9
LU	3.5	19.0	na□	4.1□	-2220.9□	766.4□	8616.9□	-3.1	0.3	25.5□	0.0	10.1	0.9□	29.8	11.1	15.5	3.9	425.1	53.9
HU	3.1	21.7	1.38□	7.8□	23.0□	-2.2□	222.1□	-4.2	-7.1	-6.0□	-0.2	5.0	0.5□	24.4	8.8	13.0	1.9	99.1	114.1
MT	6.2	25.4	0.8p□	4.9□	-262.7□	25.8□	1867.3□	-9.8	1.0	-6.8□	0.8	-0.6	2.7□	29.8	10.7	6.20p	3.4	204.7	37.1
NL	2.0p	19.4p	na□	3.6□	40.0□	13.4□	580.5□	-1.0p	1.0	-6.4□	-0.9p	2.3p	1.0p□	15.3p	1.5	-1.9	3.7p	236.3p	129.7p
AT	1.0	22.6	3.1ep□	1.4□	20.1□	1.1□	80.9□	-2.3	2.3	-7.7□	-0.2	0.9	0.3□	23.3	5.7	14.2	4.3	145.1	186.7
PL	3.9	20.1	1.01□	1.7□	35.7□	3.0□	48.6□	-1.6	-1.9	12.1□	2.8	5.0	2.5p□	17.0p	2.5	-2.0	3.1	83.4	305.9
PT	1.6e	15.3e	na□	1.7□	100.8□	0.3□	71.7□	-2.3e	-1.0	5.0□	4.8e	3.4e	0.2e□	0.6e	-12.4	5.4	2.5e	195.9	372.0
RO	3.7p	24.7p	na□	1.2□	24.5□	2.4□	42.6□	-0.9p	2.4	23.7□	6.1p	2.8p	4.6p□	43.9p	23.6	0.5	na	61.2	391.5
SI	2.3	19.5	na□	6.1□	31.2□	3.9□	34.5□	-2.9	-0.7	-1.5□	0.7	2.9	1.2□	19.9	1.1	-10.8	2.3	96.0	402.6
SK	3.8	23.0	1.18□	3.8□	27.3□	1.3□	60.5□	-3.5	-1.2	8.9□	-3.2	4.3	1.8□	16.1	-1.2	7.8	2.3	83.7	831.7
FI	0.2	20.4	2.9p□	-0.3□	43.9□	7.3□	58.0□	-1.5	1.1	-18.8□	2.7	-2.9	0.6□	28.1	8.8	0.8	5.5	182.8	299.4
SE	4.1	23.7	na□	5.0□	46.3□	3.4□	78.0□	-0.9	-7.8	-7.4□	0.6	2.9	2.6□	25.1	6.8	30.5	4.5	234.9	184.5
UK	2.2	16.9	na□	-5.4□	na	1.8□	74.3□	-0.6	14.0	3.1□	3.5	1.8	0.5□	21.9	3.6	17.4	3.7	161.1	628.3

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

Note: *The level shift is due to relocation to Ireland of balance sheets of large multi-national enterprises and inclusion of corresponding transactions in the Irish BoP and IIP statistics. 1)House price index e = source NCB for EL. 2) Official transmission deadline for 2015 data on Gross domestic expenditure on R&D is 31 October 2016; data as transmitted to Eurostat by the 24 October 2016 were used for this document.□

Source: Eurostat, Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate) and International Monetary Fund data, WEO (for world exports series)

Table 2.1 (continued): Auxiliary indicators, 2015

Year 2015	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 years change in p.p	%	3 years change in p.p	%	3 years change in p.p	%	3 years change in p.p	%	3 years change in p.p
BE	0.9□	67.6□	4.4	22.1	12.2	-0.1	21.1	-0.5	14.9	-0.4	5.8p□	-0.5p□	14.9	1.0
BG	0.4p□	69.3□	5.6	21.6	19.3	-2.2	41.3	-8.0	22.0	0.8	34.2□	-9.9□	11.6	-0.9
CZ	1.4□	74.0□	2.4	12.6	7.5	-1.4	14.0	-1.4	9.7	0.1	5.6□	-1.0□	6.8	0.0
DK	1.1□	78.5□	1.7	10.8	6.2	-0.4	17.7	0.2	12.2	0.2	3.7□	1.0□	11.6	1.4
DE	0.9□	77.6□	2.0	7.2	6.2	-0.9	20.0	0.4	16.7	0.6	4.4□	-0.5□	9.8	-0.1
EE	2.9□	76.7□	2.4	13.1	10.8	-1.4	24.2	0.8	21.6	4.1	4.5□	-4.9□	6.6	-2.5
IE	2.5□	70.0□	5.3	20.9	14.3	-4.4	na	na	na	na	na□	na□	na	na
EL	0.5p□	67.8□	18.2	49.8	17.2	-3.0	35.7	1.1	21.4	-1.7	22.2p□	2.7p□	16.8	2.6
ES	2.5p□	74.3□	11.4	48.3	15.6	-3.0	28.6	1.4	22.1	1.3	6.4p□	0.6p□	15.4	1.1
FR	0.5p□	71.5□	4.3	24.7	12.0	-0.5	17.7	-1.4	13.6	-0.5	4.5□	-0.8□	8.6	0.2
HR	1.5□	66.8□	10.3	43.0	18.5	1.9	29.1	-3.5	20.0	-0.4	13.7□	-2.2□	14.4	-2.3
IT	0.6□	64.0□	6.9	40.3	21.4	0.4	28.7	-1.2	19.9	0.4	11.5□	-3.0□	11.7	1.1
CY	0.8p□	73.9□	6.8	32.8	15.3	-0.7	28.9	1.8	16.2	1.5	15.4□	0.4□	10.9	4.4
LV	1.3□	75.7□	4.5	16.3	10.5	-4.4	30.9	-5.3	22.5	3.3	16.4□	-9.2□	7.8	-3.9
LT	1.3□	74.1□	3.9	16.3	9.2	-2.0	29.3	-3.2	22.2	3.6	13.9□	-5.9□	9.2	-2.2
LU	2.6□	70.9b□	1.9	16.6	6.2b	0.3b	18.5	0.1	15.3	0.2	2.0□	0.7□	5.7	-0.4
HU	2.6□	68.6□	3.1	17.3	11.6b	-3.2b	28.2	-5.3	14.9	0.6	19.4□	-6.9□	9.4	-4.1
MT	3.4□	67.6□	2.4	11.8	10.4	-0.2	22.4	-0.7	16.3	1.2	8.1□	-1.1□	9.2	0.2
NL	0.9p□	79.6□	3.0	11.3	4.7	-0.2	16.8p	1.8p	12.1p	2.0p	2.5p□	0.2p□	10.2	1.3
AT	0.6□	75.5□	1.7	10.6	7.5	0.7	18.3	-0.2	13.9	-0.5	3.6□	-0.4□	8.2	0.5
PL	1.4p□	68.1□	3.0	20.8	11.0	-0.8	23.4	-3.3	17.6	0.5	8.1□	-5.4□	6.9	0.0
PT	1.4e□	73.4□	7.2	32.0	11.3	-2.6	26.6	1.3	19.5	1.6	9.6p□	1.0p□	10.9	0.8
RO	-0.9p□	66.1□	3.0	21.7	18.1	1.3	37.3	-5.9	25.4	2.5	22.7□	-8.4□	7.9	0.0
SI	1.1□	71.8□	4.7	16.3	9.5	0.2	19.2	-0.4	14.3	0.8	5.8□	-0.8□	7.4	-0.1
SK	2.0□	70.9□	7.6	26.5	13.7	-0.1	18.4	-2.1	12.3	-0.9	9.0□	-1.5□	7.1	-0.1
FI	-0.4□	75.8□	2.3	22.4	10.6	2.0	16.8	-0.4	12.4	-0.8	2.2p□	-0.7p□	10.8	1.5
SE	1.5□	81.7□	1.5	20.4	6.7	-1.1	16.0	0.4	14.5	0.4	0.7□	-0.6□	5.8	0.1
UK	1.8□	76.9□	1.6	14.6	11.1	-2.8	23.5	-0.6	16.7	0.7	6.1□	-1.7□	11.9	-1.1

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

Note: 1) IE: Official transmission deadline for 2015 data on People at risk of poverty or social exclusion is 30 November 2016, while data were extracted on 24 October 2016.

Source: European Commission, Eurostat