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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 2020

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

{SWD(2019) 630}

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 proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole" (Article 2(1) of Regulation (EU) No 1176/2011).¹

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

1. EXECUTIVE SUMMARY

This report initiates the ninth annual round of the macroeconomic imbalance procedure (MIP).²

The procedure aims at identifying imbalances that hinder the smooth functioning of Member State economies, the economic and monetary union or the Union as a whole, and spurring appropriate policy responses. The implementation of the MIP is embedded in the European Semester of economic policy coordination to ensure consistency with the analyses and recommendations made under other economic surveillance tools. The annual sustainable growth strategy (ASGS), 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.

This report identifies Member States for which in-depth reviews (IDRs) should be undertaken to assess whether they are affected by imbalances in need of policy action.³ The alert mechanism report (AMR) is a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. The analysis in the AMR makes use of the economic reading of a scoreboard of indicators with indicative thresholds, alongside a set of auxiliary indicators. The AMR in section 2 includes an analysis of the euro area wide implications of Member States' imbalances and examines the extent to which a coordinated approach to policy responses is needed in light of interdependencies within the euro area.⁴ In this particular respect, the analysis contained in this report

¹ [In the event that the United Kingdom leaves the Union on the basis of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community ('the Withdrawal Agreement', OJ C 384 I, 12.11.2019, p. 1), Union law will continue to apply to and in the United Kingdom, for the duration of the transition period established by the Withdrawal Agreement.]

² This report is accompanied by a *statistical annex*, which contains a wealth of statistics that have contributed to inform this report.

³ See Article 5 of Regulation (EU) No 1176/2011.

⁴ More attention to the euro area dimension of imbalances was proposed in the 22 June 2015 Report 'Completing Europe's Economic and Monetary Union' by Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz. The role of interdependencies and systemic implications of imbalances is recognised in Regulation (EU) No 1176/2011, which defines imbalances with reference to "macroeconomic developments which

accompanies the assessment provided in the European Commission Staff Working Document "Analysis of the Euro Area economy", accompanying the Commission Recommendation for a Council Recommendation on the economic policy of the euro area.

The AMR analysis is carried out against the background of a changing economic outlook, where the economic expansion is weakening and inflation expectations have been revised downward. The European Commission autumn 2019 economic forecast estimates real GDP growth to be 1.4% in the EU and 1.1% in the euro area in 2019, implying a deceleration compared with 2% and 1.9% in 2018 respectively. For 2020, GDP is forecast to grow by 1.4% and 1.2% in the EU and the euro area respectively. Data since late 2018 have pointed towards a loss of momentum, notably in net exports and in manufacturing output. The slowdown has been particularly visible in large euro area Member States more exposed to trade, on the back of heightened uncertainty surrounding the trade policy environment.⁵ Inflation expectations have declined considerably, leading to measures by monetary authorities in the second half of 2019 to counter the incipient slowdown in output and prices. Bond yields moved downward, especially for longer maturities. Despite the recent reduction in headline inflation and productivity growth, wage growth since 2018 has somewhat strengthened, amid tighter labour markets.

Existing macroeconomic imbalances have been gradually correcting amid favourable economic conditions. Following a widespread post-crisis deleveraging process, a number of “flow” imbalances and unsustainable trends have been corrected (notably, large current account deficits, excessive credit growth fuelling house prices, strong unit labour costs implying cost competitiveness losses). The correction of vulnerabilities linked to “stock” imbalances (high private, government, and external debt) has started later and progressed more slowly, but debt-to-GDP ratios embarked more firmly on a downward trajectory with the economic expansion and resumed price growth over recent years. At the same time, the acceleration of economic activity has recently been accompanied by buoyant growth in unit labour costs and house prices in a number of Member States.

The changing outlook may imply a slower adjustment of existing imbalances or the materialisation of new risks, in a context where the room for policy to deal with shocks is narrowing. Downward risks to the economic outlook relate in particular to trade tensions and the disruption of global value chains, a stronger than expected slowdown in emerging markets, the aggravation of geo-political tensions.⁶ Nominal growth is expected to weaken, implying a less supportive environment for debt reduction. The considerable reduction in interest rates reduces the cost of debt, but also brings challenges linked, inter-alia, to weaker incentives to deleverage, possible excessive risk taking induced by search for yield, reduced profitability of financial institutions in a context of flatter yield curves.⁷ The room left for monetary policy to address policy shocks is narrowing, and the possibility of cushioning shocks via private and public savings varies considerably across the EU and is limited by high debt ratios in a relevant number of Member States.

are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole."

⁵ The World Trade Uncertainty Index shows major increase in large European economies as well as in other major economic areas. https://www.policyuncertainty.com/wui_quarterly.html

⁶ See also International Monetary Fund, World Economic Outlook, October 2019; European Commission (2019), European Economic Forecast, Autumn 2019, Institutional paper 115, November 2019.

⁷ See also Bank of International Settlements, Annual Economic Report, June 2019; and, International Monetary Fund, Global Financial Stability Report, April 2019.

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

- **Current account balances have slightly moved downward across the EU in 2018, deficit positions remaining an exception and large surpluses persisting.** With few exceptions, countries that have previously recorded large current positions are currently displaying broadly balanced current accounts, while some Member States have continued running large and persistent surpluses above levels justified by fundamentals. Slowing trade, resilient domestic demand, and rising oil prices detracted from current account balances across the board.
- **Net international investment positions (NIIPs) have been improving at a higher pace, but large stocks of external liabilities persist in a number of Member States.** Prudent current account positions and continued nominal growth in recent years have underpinned the reduction in the ratio of external financial liabilities to GDP. The NIIPs of net debtors have improved faster than before also due to positive valuation effects that however may not last. NIIPs remain largely negative in a number of EU countries and some of the latest current account outturns risk being insufficient to ensure improvements of these external stock positions at an appropriate pace. In parallel, large net creditors have been recording increasingly positive NIIPs on the back of large current account surpluses.
- **Unit labour costs (ULCs) have been growing at a faster pace in many Member States due to both wage acceleration and reduced productivity growth.** Stronger wage growth is recorded across the EU against the backdrop of tighter labour markets. The acceleration in ULC is also increasingly linked to a moderation in productivity growth. In a few cases, notably in central and eastern European and Baltic countries, the marked ULC growth is the continuation of a trend started some years ago, and which is associated with rising labour demand coupled with skill gaps and labour supply bottlenecks in economies with below-average wage levels. To a lesser extent, ULC growth edged up more recently also in euro area countries. While ULC growth has been higher in net-creditor countries than in net-debtor ones, this difference is narrowing as a result of which cost competitiveness developments are becoming less supportive of more symmetric rebalancing.
- **Real effective exchange rates (REERs) have been appreciating.** Since 2016, REERs have been appreciating in a number of countries against the backdrop of accelerating unit labour costs and nominal appreciations. That followed years where relative costs and prices for many EU Member States were falling thanks to nominal exchange rate depreciations and subdued cost and price inflation compared with competitors. The sectoral reallocation from non-tradable to tradable activities, which has been recorded in net-debtor countries for a number of years after the crisis, is decelerating, coming to a halt, or reverting.
- **Private sector deleveraging is proceeding largely on the back of nominal GDP growth, and the pace of deleveraging has fallen for household debt.** Net savings in the private sector have reduced, and falling debt/GDP ratios are increasingly the result of nominal GDP growth. The pace of deleveraging has slowed down, reflecting both reduced savings and a slowdown in GDP. Households in particular have been increasing their borrowing in a growing number of Member States. While deleveraging has taken place in most of the countries with high debt ratios, private debt ratios have nevertheless increased in a few high-debt countries. Government debt has kept declining in most Member States, but in a few high-debt countries reductions were absent or limited. Government bond yields nonetheless declined remarkably in 2019, including for the most indebted sovereign borrowers.

- **The resilience of the EU banking sector has improved but some challenges remain.** Capitalisation ratios have stopped growing from levels above regulatory standards. Returns on equity have also stabilised after having improved over past years. Non-Performing Loans (NPL) ratios have fallen considerably over recent years, and substantial drops in bad loans are currently confined to those countries with high NPL ratios. Nonetheless, challenges remain in a number of EU countries still characterised by relatively low capitalisation and profitability and high NPL ratios. The changing outlook characterised by low-for-long interest rates and weakening economic growth is adding to those challenges.
- **House prices continued growing quickly during 2018, but price dynamics cooled where evidence of overvaluation is stronger.** House prices continued to grow in 2018, and in a growing number of countries house price valuations are above peaks since mid-2000s and likely to be overvalued. The strongest growth in house prices was however recorded in various EU countries that so far have shown only limited evidence of overvalued house prices. By contrast, in those countries where concerns with overvaluation have been stronger and household debt is high, prices often decelerated. In some countries, new mortgage credit appears on the rise, which could lead to further house price accelerations going forward.
- **Labour markets continued to improve and unemployment has fallen in all EU Member States.** Unemployment has further dropped across the EU, notably for youth and the long-term unemployed. Labour market tightening was somewhat reflected in stronger wage growth also in euro area countries. However, since the recovery, real wage growth was below labour productivity growth until 2017, with a reversal taking place only since 2018. While rising labour incomes thanks to employment and wage growth has helped the domestic demand expansion, there is little evidence of a pass through of wage increases into price inflation.⁸

In the current economic context, rebalancing in the euro area of both current account deficits and surpluses is pressing and would be beneficial for all Member States. The euro area current account surplus is forecast to edge downward amid slowing export demand, while remaining close to its peak and above levels consistent with economic fundamentals. The euro area surplus grew in light of a strong export performance and major deleveraging processes involving various sectors of the economy, including in countries with little or no deleveraging needs. The most recent moderation mainly reflects the weakening of global trade and a higher energy balance deficit. In the current economic context, there is a stronger case to progress with rebalancing at the euro area level of both current account deficits and surpluses, to help overcoming the low-inflation, low-interest-rate environment, and to reduce the dependency on foreign demand. Against this backdrop, an appropriate combination of policies across euro area members is needed that takes into account interdependencies and spillovers. While large current account deficits in many net-debtor countries have been corrected in the past, their current account positions are weakening and the large stocks of foreign and domestic debt require continued prudent current account balances and ensuring an appropriate pace of debt reduction while pursuing reforms that raise the GDP growth potential. In net-creditor countries, the window for financing at low interest rates, should be seized to achieve a continued increase in public and private investment. The use of the favourable fiscal position to support investment and other productive spending in those countries would also help to make growth prospects less dependent on foreign demand, and support rebalancing in the euro area.

⁸ See Box 1 for an overview of main recent employment and social developments in the EU.

All in all, sources of potential imbalances are broadly the same as those identified in the AMR 2019, but prospects appear to be worsening in a number of respects. External stock positions have been improving at faster pace amid favourable economic conditions, but further improvements are clouded by weakening current account balances and lower nominal GDP growth. Large current account surpluses persist, while competitiveness developments have become less supportive of rebalancing and real effective appreciations are becoming more widespread. Private sector deleveraging is taking place at slower pace, even in some cases where debt is already high, and has been relying increasingly on nominal GDP growth. The weakening prospects for nominal growth raises the question whether deleveraging in high-debt countries can continue without increased private or government savings or enhanced GDP growth potential. After years of considerable improvements, the situation of the financial sector has stabilised but new challenges may emerge going forward linked to the low interest rate environment. House price growth remains strong, bringing house price valuations to peak levels in a growing number of EU countries. Decelerations are taking place in overvalued markets, but resuming mortgage credit in some countries may make strong house price growth self-sustaining.

Potential sources of imbalances combine according to a number of typologies. A number of Member States are affected by multiple and interconnected debt vulnerabilities possibly reflecting to some extent the conditions of the financial sector. In a few Member States, vulnerabilities are mainly linked to large and persistent public debt coupled with lacklustre productivity and competitiveness impinging on the growth potential. Some Member States are characterised by large and persistent current account surpluses. For some Member States, concerns are linked to trends in cost competitiveness possibly coupled with deteriorating external balance positions. Finally, in a few Members the main challenges come from trends in house prices in some cases coupled with large household debt.

The upcoming challenges call for a forward-looking orientation of MIP surveillance. In light of the correction of most flow imbalances and the gradual reduction of stock imbalances, the MIP surveillance is gradually focusing more on the monitoring of possibly unsustainable trends that could crystallise over the medium term. At the same time, the changing economic situation, including the risks that emanate mainly from the economic environment external to the euro area and the EU, make it important to also assess imbalances from the euro area and EU perspectives.

For a number of Member States identified in the AMR, more detailed and encompassing analyses will be contained in the IDRs. As in recent annual cycles, IDRs will be embedded in the country reports. To prepare the IDRs, the Commission will base its analysis on a rich set of data and relevant information and assessment frameworks developed by the Commission in cooperation with Council committees and working groups. The analysis contained in the IDRs will provide the basis for the identification of imbalances or excessive imbalances in Member States, and for possible updates in the country-specific recommendations (CSRs).⁹ Countries for which imbalances or excessive imbalances have been identified are, and will continue to be, subject to specific monitoring to ensure the continuous surveillance of the policies undertaken under the MIP.

IDRs will be prepared for the Member States already identified with imbalances or excessive imbalances. In line with established prudential practice, IDRs will be issued to assess whether existing imbalances are unwinding, persisting or aggravating, while taking stock of corrective policies implemented. The preparation of IDRs is therefore foreseen for the 13 Member States identified with

⁹ Article 6 of Regulation (EU) No 1176/2011.

imbalances and excessive imbalances in light of the findings of the February 2019 IDRs.¹⁰ Ten Member States are currently identified with imbalances (**Bulgaria, Croatia, France, Germany, Ireland, the Netherlands, Portugal, Romania, Spain, and Sweden**), while **Cyprus, Greece, and Italy** are identified with excessive imbalances.

On the basis of the analysis carried out in this AMR, the Commission does not deem necessary to prepare IDRs for other Member States. The AMR assessment does not point to significant additional risks that would justify a new IDR for any of the Member States that were not identified with imbalances or excessive imbalances in the latest annual cycle of MIP implementation. However, this AMR points to the need of **close monitoring in the upcoming country reports** of a number of developments that could imply macroeconomic risks if protracted. Those developments relate to unit labour costs and implications for external competitiveness in a number of Member States (Czechia, Estonia, Hungary, Latvia, Lithuania, and Slovakia) and to housing markets and household debt (Austria, Belgium, Czechia, Denmark, Finland, Hungary, Luxembourg, Slovakia, Slovenia, and United Kingdom).¹¹

2. THE EURO AREA DIMENSION OF MACROECONOMIC IMBALANCES

The euro area current account balance has peaked, but still records very elevated levels. The current account balance of the euro area has moved from a broadly-balanced pre-crisis position to a peak of 3.2 % of GDP in 2016. Since then, its value has come down very slightly, reaching 3.1% of GDP in 2018 (Graph 1).¹² The euro area current account surplus remains the largest worldwide, and is estimated to be above the level suggested by economic fundamentals (about 1.7% of euro area GDP in 2018).¹³ It mainly reflects the large surpluses recorded in Germany and the Netherlands, whose combined external balances accounted for 2.8% of euro area GDP in 2018. At unchanged policies, the euro area adjusted current account surplus is expected to fall in 2019 according to the European Commission autumn 2019 forecast, reaching 2.7% of GDP, and to further decline to 2.5% of GDP by 2020.

¹⁰ See '2019 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(2019) 150 final, 27.2.2019.

¹¹ In September 2019, the European Systemic Risk Board (ESRB) issued country-specific warnings and recommendations on medium-term vulnerabilities in the residential real estate sector to nine Member States: recommendations to Belgium, Denmark, Finland, Luxembourg, the Netherlands, and Sweden, and warnings to Czechia, France, and Germany. Of the former group of countries, all had already received warnings by the ESRB in November 2016, and the same held for Austria and the United Kingdom. The MIP regulation (Regulation (EU) No 1176/2011) calls on the Commission to take into account any warnings or recommendations addressed by the ESRB to Member States subject to an IDR.

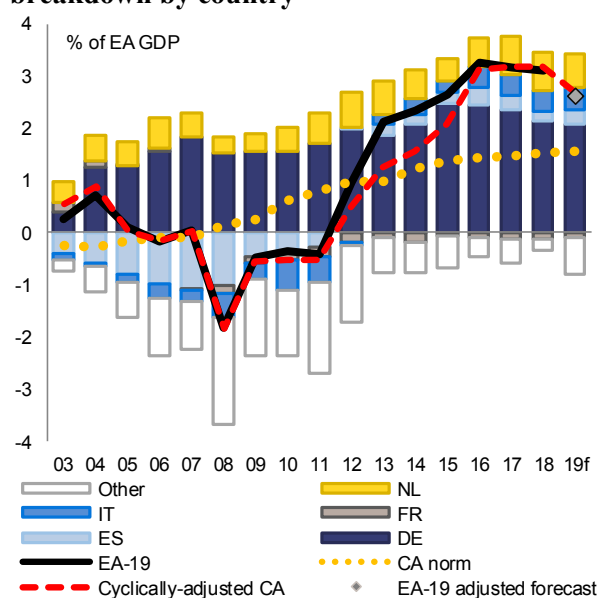
¹² The figures for the euro area current account mentioned and used here refer to the euro area "adjusted" current account balance reported vis-à-vis the rest of the world (from euro area balance of payments statistics), which report a euro area aggregate current account balance of 3.1% of GDP for 2018, and is consistent with the current accounts Member States report (under the so-called "community concept"). However, Member States headline current account balances sum up to 4% of the euro area GDP (balance of payments figures) and 3.8% of GDP (national accounts statistics), due to asymmetries in the intra-euro area balances reported by the different national statistical authorities. The euro area figures both reported from balance of payments and national accounts statistics were revised in October 2019, which hardly affected the reading for 2018, but broadly revised downward the euro area current account balance for the years 2009-2015.

¹³ The IMF (External Sector Report 2019) suggests the euro area current account "norm" to be around 1.6% of GDP.

The ongoing reduction in the euro area surplus is mainly the result of a weakening trade balance.

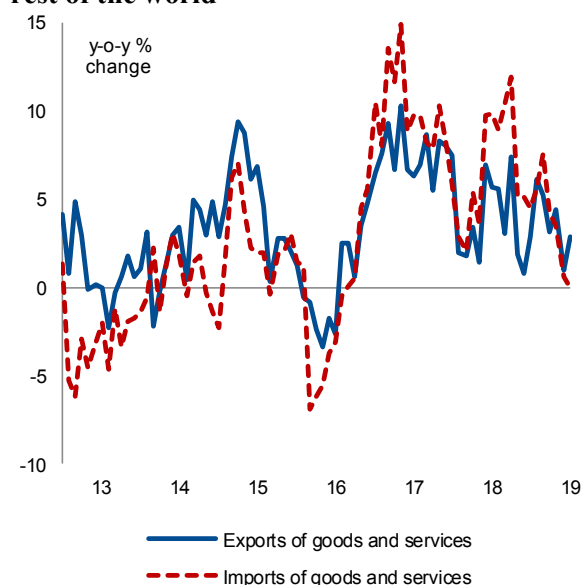
The energy balance is the main contributor to the reduction of the current account balance between 2016 and 2018, on the back of rising oil prices. The energy balance recorded a deficit of -1.7% of GDP in 2017, which expanded to -2.1% of GDP in 2018, while the balance on remaining goods trade has remained roughly stable as a share of GDP at 4.6%. A global growth and trade slowdown since mid-2018, persistent heightened uncertainty surrounding the trade policy environment, and the appreciation of the euro in effective terms in 2018 are at the basis of a reduced growth rate in both euro area imports and exports. Monthly data reveal an ongoing further reduction in goods exports and imports of the euro area with the rest of the world in the course of 2019 (Graph 2). A number of factors could contribute to a further deterioration of the euro area current account going forward, including a relative weakening of cyclical conditions in other areas of the world economy, the unfolding of the effects from restrictive trade policies, or higher oil prices resulting from geopolitical tensions.

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



Source: Eurostat Balance of Payments, European Commission autumn 2019 economic forecast.

Graph 2: Evolution of euro area trade with the rest of the world



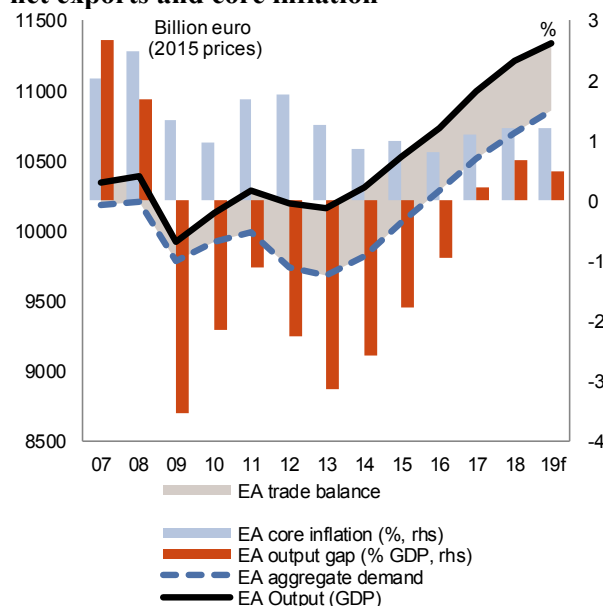
Source: Eurostat Foreign Trade Statistics
Note: Seasonally-adjusted data, current prices.

The factors underpinning the recent slight reduction in the euro area current account surplus differ from those at the root of its earlier widening.

The euro area current account position moved into surplus after the 2008 financial crisis because of the sharp correction of large deficits following a reversal in cross-border financial flows, and further increased with the spreading of the debt crisis to Spain and Italy, which resulted in a compression in domestic demand of these countries. In parallel, there was also a gradual increase in the large current account surplus of Germany amid domestic demand growing at a weaker pace than output, and deleveraging across all sectors of the economy. Overall, the widening of the euro area surplus between the financial crisis and 2016 mainly reflected a widespread deleveraging process, which involved the private sector, joined by the government sector after the aggravation of the debt crisis in 2011. The contraction in the euro area surplus since 2017 is mainly accounted for by a narrowing surplus in Germany and, to a latter extent, Italy and Spain, which are comparatively large manufacturing exporters and depend on imported hydrocarbon energy. The recent dynamics in the euro area current account do not appear to be linked to a major re-leveraging process, but rather to declining net exports on the back of the global trade slowdown and a more

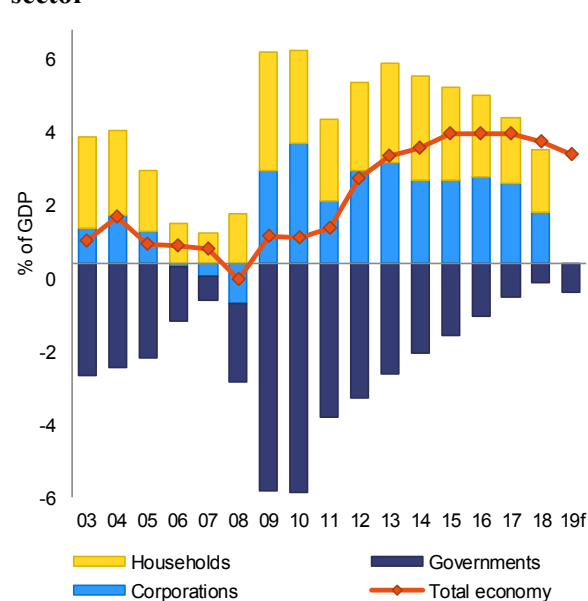
expensive energy bill. The reduction of the euro area surplus between 2017 and 2018 is mainly reflected in a declining net lending position of non-financial corporations, which had been recording positive values since 2013. The recent moderation of corporate net savings compensated for the improving net borrowing position of the government sector over the same period (Graph 4).

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



Source: AMECO¹⁴

Graph 4: Euro area net lending/borrowing by sector



Source: Eurostat

The low-inflation, low-interest-rate environment poses a number of challenges. Monetary authorities both in the euro area and other major world regions have taken measures to counter the incipient slowdown in output and the downward shift in inflation expectations in 2019, thus reversing the previously communicated path towards tighter conditions. Bond yields have shifted to negative levels, with falling returns especially on the long end of yield curves, and narrowing interest rate spreads on riskier bonds. Core inflation remains below the target of monetary authorities; the euro area output gap is estimated to be edging down after turning positive in 2017 following a protracted period of subdued demand and negative output gaps (Graph 3). Going forward, while reduced nominal growth makes deleveraging less easy, the low interest rate environment would reduce the cost of debt. However, long-term interest rates at historically very low levels bring also a number of potential challenges: incentives to circumvent regulatory constraints and search for yield in risky investment; underestimation of credit risk and weakened incentives to reduce high debt induced by compressed spreads; and reduced profitability in regulated financial institutions, notably banking and insurance, in view of flat yield curves.¹⁵

Rebalancing within the euro area is still incomplete and competitiveness developments are becoming less supportive of intra euro area rebalancing. While most large current account deficits have corrected, large surpluses persist in a number of euro area countries. Countries with a past of large deficits remain characterised by large negative net international investment positions, and are generally coupled with large stocks of private or government debt that represent vulnerabilities. After the financial crisis, an adjustment process in relative costs and prices has been supportive of rebalancing. Unit labour costs have been growing at a faster pace in net-creditor countries compared to net-debtor countries, thus reversing the trend predating the financial crisis. This trend persists, but with differences that appear less

¹⁴ Note that while the difference between GDP and domestic demand should equal the trade balance by definition, data are not fully aligned due to intra-euro area reporting discrepancies (see footnote 12).

¹⁵ E.g., ECB, Financial Stability Review, May 2018, May 2019.

marked across relevant country groups (Graph 5).¹⁶ The tightening of labour markets also in net-debtor countries imply accelerating wage growth and with cost competitiveness further dampened by reduced productivity growth associated with a slowdown or decline in capital-labour ratios. Competitiveness levels, as measured by GDP deflators expressed in purchasing power parities with respect to that of competitors (Graph 6), exhibit a loose relation to external balances and rebalancing needs.¹⁷ The share of tradable goods on total value added has matched the adjustment in relative prices: its share has been growing after the crisis in countries formerly with high deficits, but this process is decelerating or reversing.¹⁸

In the current economic context, rebalancing in the euro area of both current account deficits and surpluses is pressing and would be beneficial for all Member States. In net-debtor countries, running down large stocks of foreign and domestic debt requires maintaining prudent current account balances and ensuring an appropriate pace of debt reduction while pursuing the objective of raising the growth potential. Enhancing productivity prospects, notably via targeted investment and reforms supporting total factor productivity is needed at the overall euro area level but particularly in net-debtor countries as this is key both for the sustainability of debt stocks and to make relative competitiveness developments more supportive of rebalancing. Conversely, in net-creditor countries a further increase in public and private investment would enhance potential growth, make growth prospects in these countries less dependent upon foreign demand and support domestic demand, thus supporting the rebalancing of the euro area. In the current economic context, fiscal impulses in countries with large surpluses and a favourable fiscal position would also help overcoming the low-inflation, low-interest-rate environment and support nominal growth, thereby favouring deleveraging and the rebalancing of net-debtor positions.

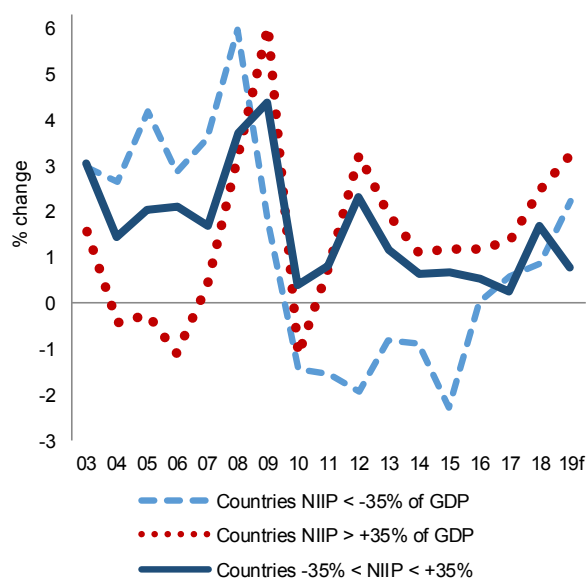
Graph 5: Unit labour cost growth across the euro area

Graph 6: Real effective exchange rates levels, based on GDP deflators

¹⁶ In 2019, the French tax credit for employment and competitiveness ("CICE") was replaced by a permanent cut in employers' social security contributions in the first quarter, implying a considerable drop in French labour costs observed in the change in the unit labour costs for the group of countries with intermediate NIIP in Graph 5.

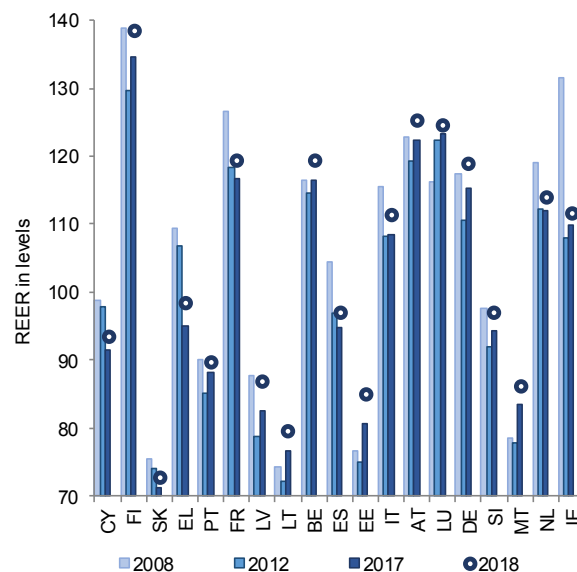
¹⁷ Graph 6 presents countries ordered according to current account.

¹⁸ The evidence is based on the share of agriculture, manufacturing, and trade, transport and communication services on total value added. The indicator does not take into account that services are becoming increasingly tradable and are accounting for a growing share of total value added.



Source: AMECO

Note: Countries with NIIP > +35% of GDP are DE, LU, NL, BE, MT. Countries with NIIP between 35% and -35% of GDP are FI, EE, IT, LT, FR, SI, AT. Remaining countries are in the NIIP < -35% of GDP group. The country split is based on NIIP average values in the 2016-2018 period. Net-creditor countries recorded an average current account surplus over the same period. Figures concern GDP-weighted averages for the three groups of countries.



Source: Commission services calculations on Eurostat and IMF data.

Note: The REER in levels is computed based on the ratio of GDP deflator on that of competitors, expressed in purchasing power parities (and assuming US=100). Country weights are the same as those used to construct REER indexes (42 competitors' group).

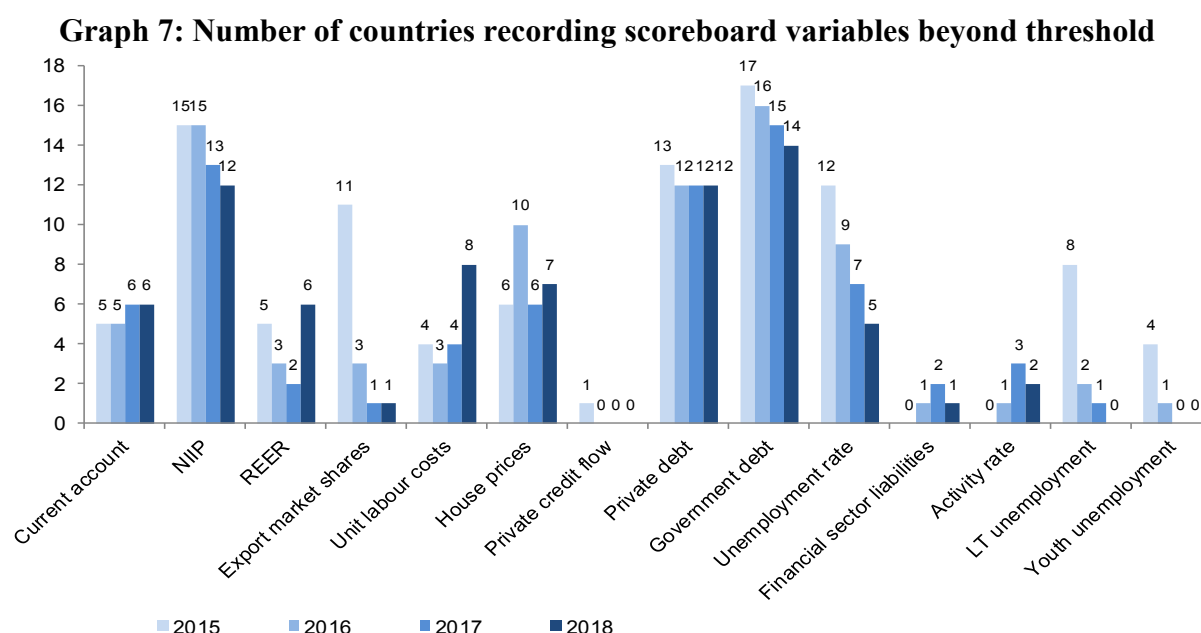
3. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS ACROSS COUNTRIES

The AMR builds on an economic reading of the MIP scoreboard of indicators, which provides a filtering device for detecting **prima-facie evidence of possible risks and vulnerabilities**. The scoreboard includes 14 indicators with indicative thresholds in the following areas: external positions, competitiveness, private debt, housing markets, the banking sector, and employment. It relies on actual data of good statistical quality to ensure data stability and cross-country consistency. Hence, the scoreboard used for this report reflects data up to 2018. In accordance with the MIP regulation (Regulation (EU) No 1176/2011), scoreboard values are not read mechanically in the assessments included in the AMR, but are instead subject to an economic reading that enables a deeper understanding of the overall economic context and taking into account country-specific considerations.¹⁹ A set of auxiliary indicators complements the reading of the scoreboard. More recent data and additional information, insights from assessment frameworks, as well as findings in existing IDRs and relevant analyses, as well as the Commission autumn 2019 forecast, are also taken into consideration in the AMR assessment.

Scoreboard data point to the emergence of possible issues relating to cost competitiveness and house price dynamics, on top of persistent high debt levels that are only gradually adjusting. Values in excess of threshold in the AMR scoreboard continue to be recorded with the highest

¹⁹ On the rationale underlying the construction of the AMR scoreboard and its reading see European Commission (2016), "The Macroeconomic Imbalance Procedure. Rationale, Process, Application: A Compendium", European Economy, Institutional Paper 039, November 2016.

frequency in the case of government debt, net international investment positions, and private debt (Graph 7).²⁰ The economic expansion and improved current account and fiscal balance positions have nevertheless helped to reduce net foreign liabilities and government debt as shares of GDP, implying a reduction in the number of Member States crossing the related scoreboard thresholds. Conversely, the number of cases beyond the threshold is unchanged for private debt, in light of loosened net saving positions offsetting the impact of growth on debt-to-GDP ratios. The economic expansion in some countries manifests itself also with fast-growing labour costs and house prices. The number of Member States with unit labour cost growth above the threshold more than doubled compared with previous scoreboard vintages, and more countries surpass the thresholds for the real effective exchange rate due to appreciations. House price dynamism of recent years is reflected in the marginal increase of the number of countries exceeding the relevant threshold recently. The cases of current account balances beyond the thresholds continue to mostly reflect surpluses. The continued job-rich economic expansion is reflected in fewer EU countries with high unemployment and in fewer concerns with youth and long-term unemployment and activity rates.



Source: Eurostat.

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

Current account positions in most EU Member States slightly moved downwards in 2018. Slowing trade, resilient domestic demand, and rising oil prices detracted from the current account balances of a majority of Member States. In most cases, current account balances remain above the levels that could be expected on the basis of country-specific economic fundamentals ("current account norms") and

²⁰ The detailed scoreboard indicators, together with the respective indicative thresholds, are displayed in Table 1.1 in annex; auxiliary indicators are displayed in Table 2.1. As explained in the note to Graph 9, the reading of the evolution of the scoreboard data is based on the data available at the time of each AMR. The cut-off date for data for this AMR was 25 October 2019.

above what is needed to correct large foreign liability positions (Graph 8).²¹ While the current account deteriorations that took place between 2017 and 2018 are often beyond what was implied only by cyclical factors (Graph 9), cyclical-adjusted current accounts generally suggest that external positions are stronger than the headline figures as output gaps are positive almost everywhere.²²

- **Only two Member States record current account deficits beyond the MIP scoreboard lower threshold.** Cyprus records the largest current account deficit in the EU according to 3-year average scoreboard data, which improved in 2018, although not to level that would ensure improvements in the NIIP at an appropriate pace.²³ The current account deficit of the United Kingdom is also beyond the scoreboard threshold. Romania recorded a visible current account deficit in 2018 alone, at -4.6% of GDP, in a marked deterioration from earlier years; such a reading is below norm and a good part of the deterioration is not warranted by the economic cycle.
- **Current accounts moved downward in a number of large net-debtor countries.** Current account outcomes narrowed in Greece, Portugal, and Spain, in 2018. Greece's current account deficit is beyond what can be explained by fundamentals and insufficient to correct the very negative NIIP towards prudent levels over a 10-year horizon.²⁴ In Portugal, the latest readings are below the level that would ensure a correction of the negative NIIP at an appropriate pace. In contrast, current account developments in Spain remain consistent with improving the NIIP at appropriate pace. Ireland's current account improved sharply in 2018, largely reflecting cross-border transactions by multinational corporations.
- **Four EU countries continued recording current account surpluses that exceeded the MIP scoreboard upper threshold.** That has been the case for Denmark, Germany, the Netherlands since the beginning of this decade, and for Malta more recently. In 2018, surpluses declined in Germany by 0.7 of a percentage point of GDP and marginally less in Denmark, while they were largely unchanged in Malta and the Netherlands. In the latter two countries, the dynamics of the current account are also driven by cross-border transactions linked to the activities of multinational corporations and of internationally-oriented service sectors that affect both the trade and income balances.
- **Large surpluses keep contributing to large positive NIIPs.** Except for Malta, current account surpluses above scoreboard threshold are also above levels justified by fundamentals (Graph 8). In

²¹ Current accounts in line with fundamentals ("current account norms") are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), "Methodologies for the assessment of current account benchmarks", European Economy, Discussion Paper 86/2018, for the description of the methodology for the computation of the fundamentals-based current account used in this AMR; the methodology is akin to S. Phillips et al. (2013), "The External Balance Assessment (EBA) Methodology", IMF Working Paper, 13/272.

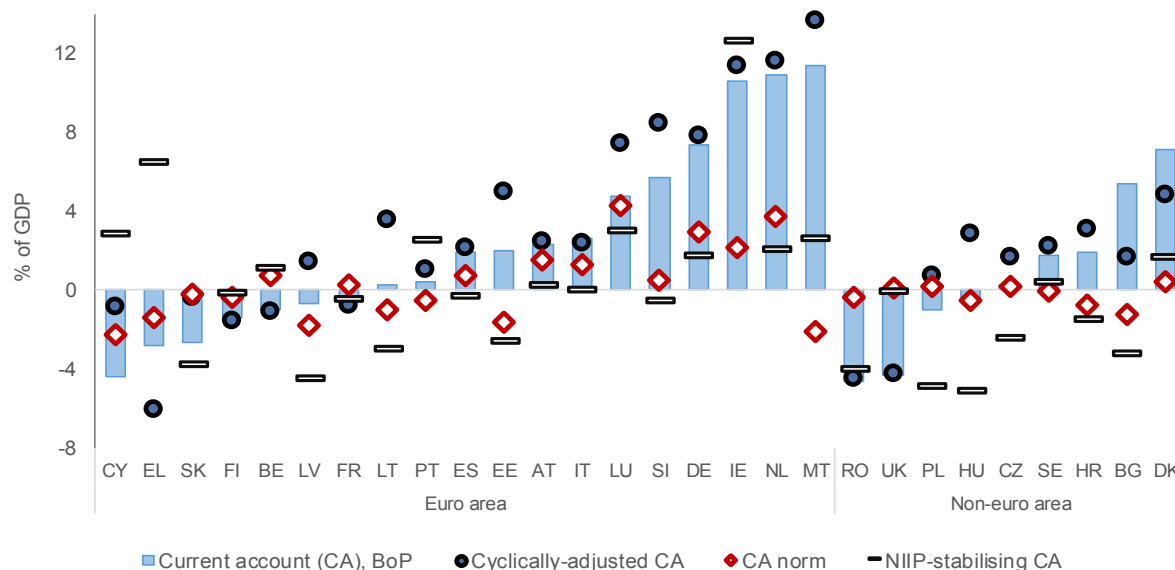
²² Cyclically-adjusted current account balances take into account the impact of the cycle by adjusting for the domestic output gap and that in trading partners, see M. Salto and A. Turrini (2010), "Comparing alternative methodologies for real exchange rate assessment", European Economy, Discussion Paper 427/2010.

²³ Data for Cyprus current account were revised since last year's AMR and now show a current account deficit within the lower threshold in the three years to 2017, which was not the case last year.

²⁴ For the methodologies for country-specific NIIP prudential thresholds see footnote 25. The gap between the actual current accounts and those required to stabilise the NIIP crucially depends on the time frame considered. For instance, the current account required to stabilise the NIIP of Greece above the -35% of GDP scoreboard threshold within a 20-year horizon would be a surplus close to 1% of GDP; see European Commission (2019), "Enhanced Surveillance Report: Greece, November 2019", European Economy, Institutional Paper 116, November 2019.

all cases, surpluses above scoreboard threshold are also above levels that would permit a stabilisation of the already largely NIIP at the current level over a 10-year horizon.

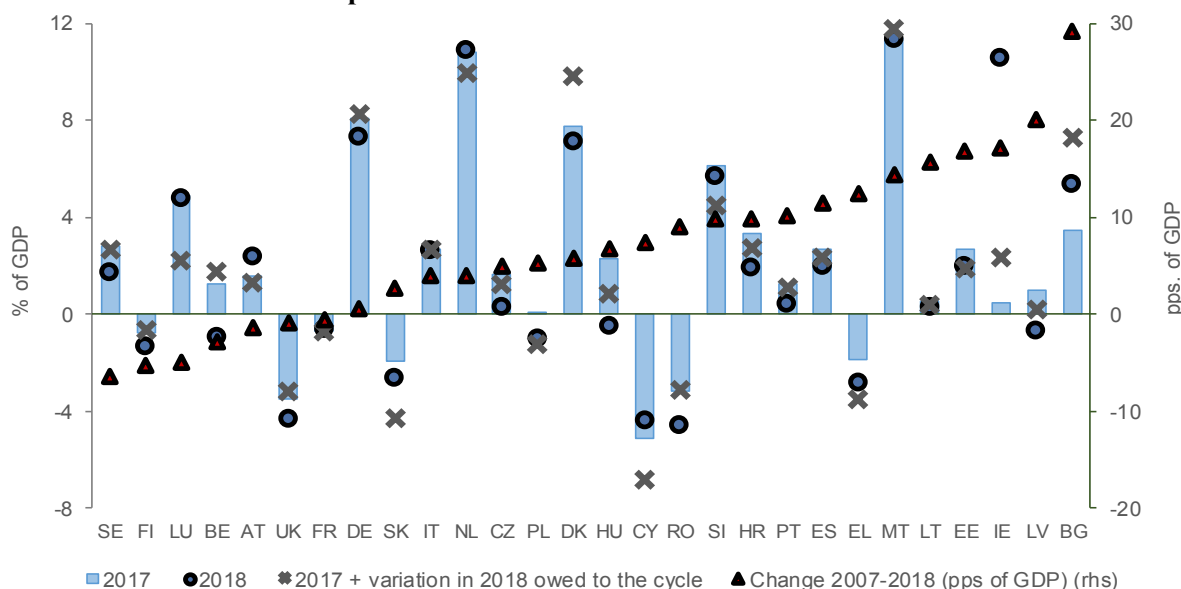
Graph 8: Current account balances and benchmarks in 2018



Source: Eurostat (BPM6 data) and Commission services calculations.

Note: Countries are ranked by current account balance in 2018. *Cyclically-adjusted current account balances*: see footnote 22. *Current account norms*: see footnote 21. The *NIIP-stabilising current account* benchmark is defined as the current account required to stabilise the NIIP at the current level over the next 10 years or, if the current NIIP is below its country-specific prudential threshold, is the current account required to reach that NIIP prudential threshold over the next 10 years (see footnote 25).

Graph 9: Evolution of current account balances



Source: Eurostat and Commission services calculations.

Note: Countries are ranked in increasing order of the variation in the current account in terms of GDP between 2007 and 2018. The *variation owed to the cycle* is computed as the variation of the current account that is not accounted for by the variation of the cyclically-adjusted current account balance.

In 2018, NIIPs improved at faster pace in most Member States, but large stocks of negative external liabilities persist in a number of them. NIIP improvements continued in 2018 thanks to prudent current account positions, GDP growth and large positive valuation effects in a number of countries (Graphs 10 and 11). Yet NIIPs remain largely negative in a number of EU countries. In 2018, 12 Member States recorded NIIPs worse than the scoreboard threshold of -35% of GDP, one fewer than in 2017. In countries with largely negative NIIPs, values are below what could be justified by fundamentals ("NIIP norms"), and in some cases below the prudential thresholds.²⁵ In some countries, the stock of foreign liabilities is large also when computed net of FDI and other non-defaultable instruments (NENDI).²⁶

- Some euro area countries continue to have **largely negative NIIPs** below -100% of GDP, such as Cyprus, Greece, Ireland, and Portugal. In these countries, NIIPs are well below benchmarks, both NIIP norms and prudential thresholds. In Cyprus and Ireland, NIIP levels reflect also the relevance of balance sheets of multinational corporations and cross-border corporate financial relations. These four countries, together with Spain, show a strong incidence of debt liabilities in their NIIPs as indicated by the very negative NIIP excluding non-defaultable instruments (NENDI). In Greece, the large external public debt, often at highly concessional terms, accounts for the bulk of the NIIP.²⁷ A large share of the NIIP of Cyprus is linked to the balance sheet positions of non-financial, ship-owning special-purpose vehicles.
- In countries with **more moderately negative NIIPs** but still worse than -35% of GDP, the NIIPs also tend to be below what is expected from country-specific fundamentals. That was the case for Bulgaria, Croatia, Hungary, Latvia, Poland, Romania, and Slovakia. In a few cases, they are also worse than the prudential thresholds. However, as many of these central and eastern European and Baltic countries are large recipients of FDI, the NIIP improves considerably if computed net of non-defaultable instruments (NENDI).²⁸ Other EU countries record negative NIIPs above -35% of GDP but below the respective norms (Czechia, Estonia, Lithuania, and Slovenia), also in this case largely reflecting inward FDI stocks. Within this group, France stands out for the large relevance of defaultable instruments for its negative NIIP.

²⁵ NIIP in line with fundamentals ("NIIP norms") are obtained as the cumulation over time of current account norms (see also footnote 21). NIIP prudential thresholds are determined from the maximisation of the signal power in predicting a balance of payment crisis, taking into account country-specific information summarised by per-capita income. For the methodology for the computation of NIIP stocks in line with fundamentals see A. Turrini and S. Zeugner (2019), "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper 097/2019.

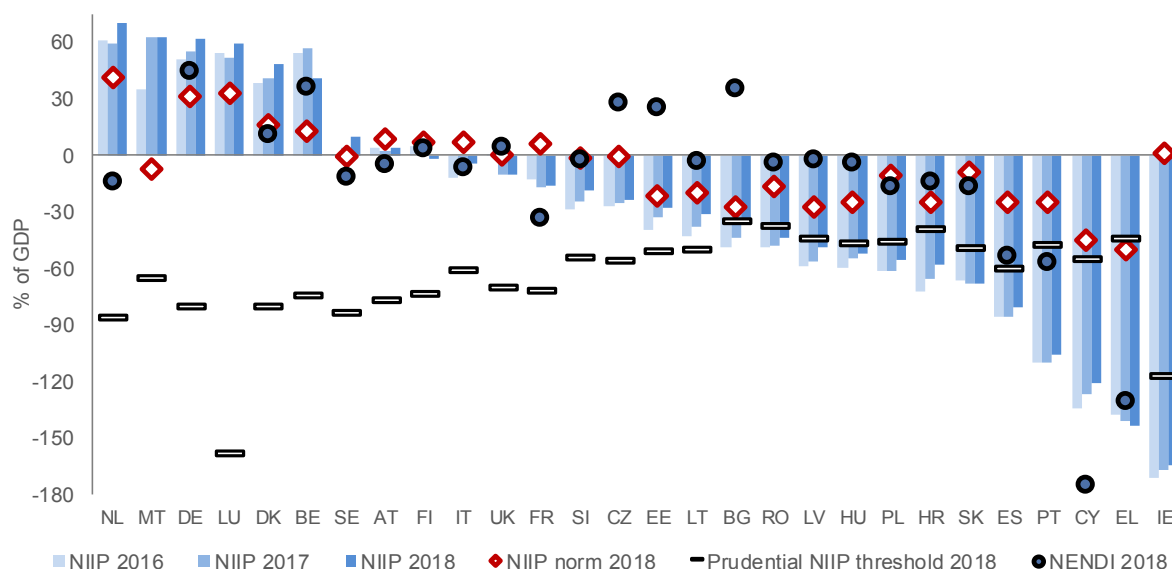
²⁶ NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default. See also European Commission, "Envisaged revision of selected auxiliary indicators of the MIP scoreboard", Technical note; https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/scoreboard_en.

²⁷ Looking at the data by institutional sectors, government NIIP accounts for the whole of the very negative NIIP in Greece – as public debt is largely owned by foreigners, crucially including official lenders – while the rest of the economy, i.e., households, non-financial and financial corporations, including Monetary Financial Institutions, posts a positive NIIP. In Cyprus, Portugal, and Spain, the government's NIIP accounts for a large share of the economy's NIIP but the rest of the economy still shows a clearly negative NIIP.

²⁸ Current account developments are consistent with stability of the external position for these countries, except Romania, where the expected further current account deterioration is likely to lead also to a worsening of the NIIP.

- Most of the **large positive NIIPs** edged up further in 2018. Germany, Luxembourg, Malta, and the Netherlands record positive NIIPs at or over 60% of GDP, and Denmark at close to 50% of GDP.²⁹ That has reflected the persistence of large current account surpluses for a number of years, which has led to the accumulation of a large net asset position vis-à-vis the rest of the world. Instead, Belgium recorded a fall in its very positive NIIP on the back of adverse valuation effects. In all those cases, NIIPs readings are visibly above the respective norms, i.e. well beyond what could be justified by or expected on the basis of country-specific fundamentals.

Graph 10: Net international investment positions (NIIPs) and benchmarks in 2018

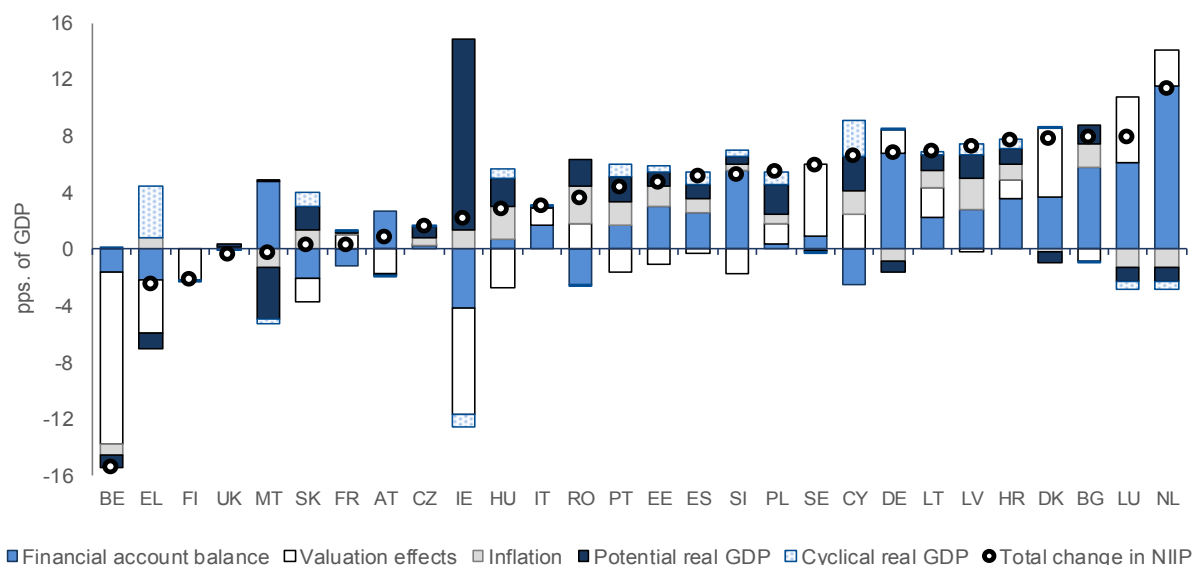


Source: Eurostat (BPM6, ESA10), Commission services calculations

Note: values for the NENDI for Ireland, Luxembourg, and Malta are off-scale. Countries are presented in decreasing order of the NIIP-to-GDP ratio in 2018. NENDI is the NIIP excluding non-defaultable instruments. For the concepts of NIIP norm and NIIP prudential threshold, see footnote 25.

²⁹ The relevance of the NENDI varies considerably across this group of countries, reflecting also the relevance of their financial centres, like in Luxembourg and Malta, or the external debt liabilities of banks and multinationals' headquarters as in the Netherlands.

Graph 11: Net international investment positions (NIIPs) dynamics in 2018



Source: Eurostat, Commission services calculations

Note: Countries are presented in increasing order of the variation of the NIIP-to-GDP ratio in 2018. The graph presents a breakdown of the year-on-year evolution of the NIIP-to-GDP ratio into five components: the financial account balance, which should be equal to the sum of the current and capital account balances; potential and cyclical real GDP growth; inflation; and, valuation changes. The cyclical component of GDP growth is computed as the difference between actual and potential growth.

Unit labour costs (ULCs) are growing at an accelerated pace in a number of EU Member States.

In 2018, the scoreboard shows ULC growth above threshold in 8 countries, twice compared to previous years. The ULC acceleration started around 2013, first in the Baltic economies, somewhat later in a number of central and eastern European countries, with some signs of acceleration becoming visible also across the euro area. Forecast data for 2019 suggest some moderation of ULC growth in countries where cost competitiveness losses in recent years were more substantial, but there also cases where ULC growth seems to edging further up (Graph 12).

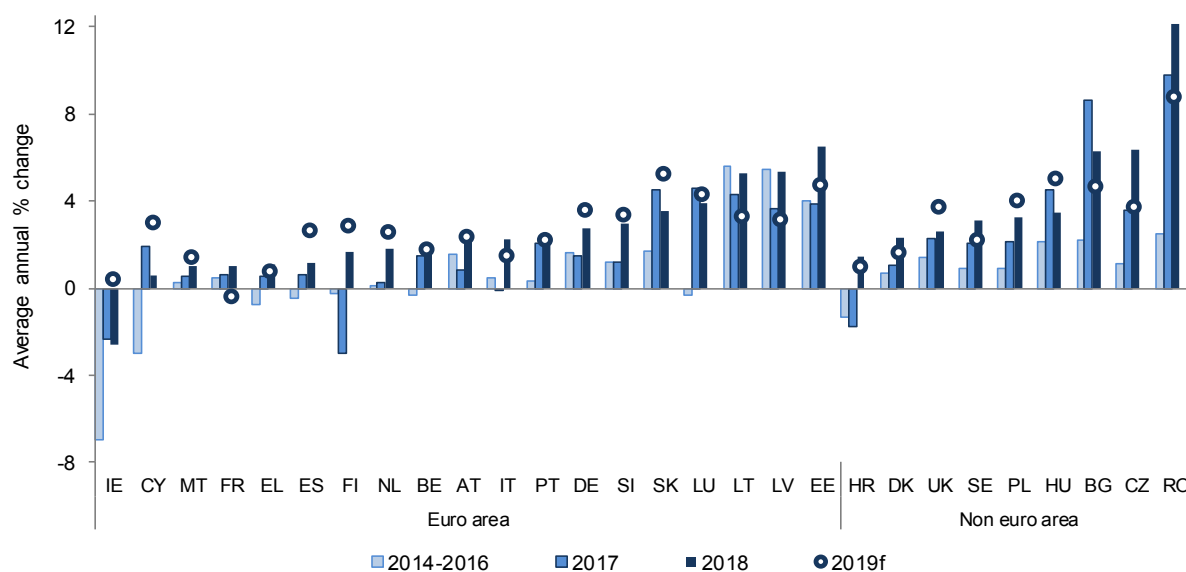
- **ULC accelerations have been observed in a growing number of Member States.** ULC growth has been especially strong in some central and eastern European and Baltic countries, notably Romania and also Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, and Slovakia. In all those countries the scoreboard shows ULC growth above threshold. While for most of them, some deceleration of ULC is expected in 2019, ULC are expected to accelerate further in Hungary and Slovakia in the current year. ULC growth remained relatively moderate, albeit higher than in earlier years, in euro area net-debtor countries, notably Cyprus, Greece, and Spain. Portugal recorded ULC growth above the euro area average. ULC eventually edged up somewhat also in large net-creditors countries. Germany recorded the strongest acceleration of ULC among the large euro area economies.
- **Strong ULC growth is largely the result of resuming wage growth amid labour market tightening.** In 2018, nominal wage growth is the most important factor accounting for ULC growth (Graph 13). Since the economic recovery, employment growth and falling unemployment rates have been followed by accelerating wage growth, reflecting Phillips' curve dynamics. However, since the recovery, real wage growth was below labour productivity growth until 2017, with a

reversal taking place only since 2018. Across countries, ULC growth tends to be stronger where unemployment is the lowest, with skill shortages, labour supply bottlenecks, and catching up dynamics playing also a role especially in central and eastern Europe.³⁰ The timings of ULC accelerations also reflects those of labour market improvements, with countries that experienced earlier accelerations in ULCs being those that were less concerned by the recessions linked to the 2011 euro area debt crisis and where unemployment started falling earlier.

- **Sluggish labour productivity plays a growing role in the ULC accelerations.** Falling labour productivity growth is behind a considerable fraction of the acceleration of ULCs between 2017 and 2018. Labour productivity growth resumed in most EU countries with the economic recovery after the marked slowdown in the years around the deep of the financial crisis (Graph 14). The recovery in labour productivity was mainly associated with total factor productivity (TFP) growth, while capital deepening has contributed less to labour productivity growth compared with the pre-crisis period. The latter reflects average capital per worker growing at low pace or falling on account of the strong employment growth as well as of weak investment. In recent years, labour productivity has been growing at rates below those recorded in the pre-crisis period, due both to more moderate TFP growth and weaker capital deepening.
- **The pattern of ULC growth is increasingly delinked from rebalancing needs.** In 2018, ULCs edged up across euro area countries with only little differentiation between net-creditors and net-debtor countries. That was in contrast with post-crisis years, where ULCs exhibited a more marked acceleration in net-creditors countries. As labour markets gradually started tightening also in countries that underwent current account reversals, labour costs started rising also in these countries, and the gap vis-à-vis net-creditor countries started narrowing (see also section 2). Going forward, as it is in net-debtor countries where room for further labour market tightening is larger, competitiveness dynamics could become increasingly less supportive of rebalancing because both relatively stronger wage growth and more contained productivity growth on account of a weakening contribution from capital deepening.

³⁰ E.g., G. Brunello and P. Wruuck, "Skill mismatch in Europe: A survey of the literature", IZA Discussion Paper Series 12346, 2019; A. Kiss and A. Vandeplas, "Measuring skills mismatch. DG EMPL Analytical webnote 7/2015, European Commission, 2015; European Commission (2018), Labour Market and Wage Developments in Europe; Annual Reviews 2018 and 2019.

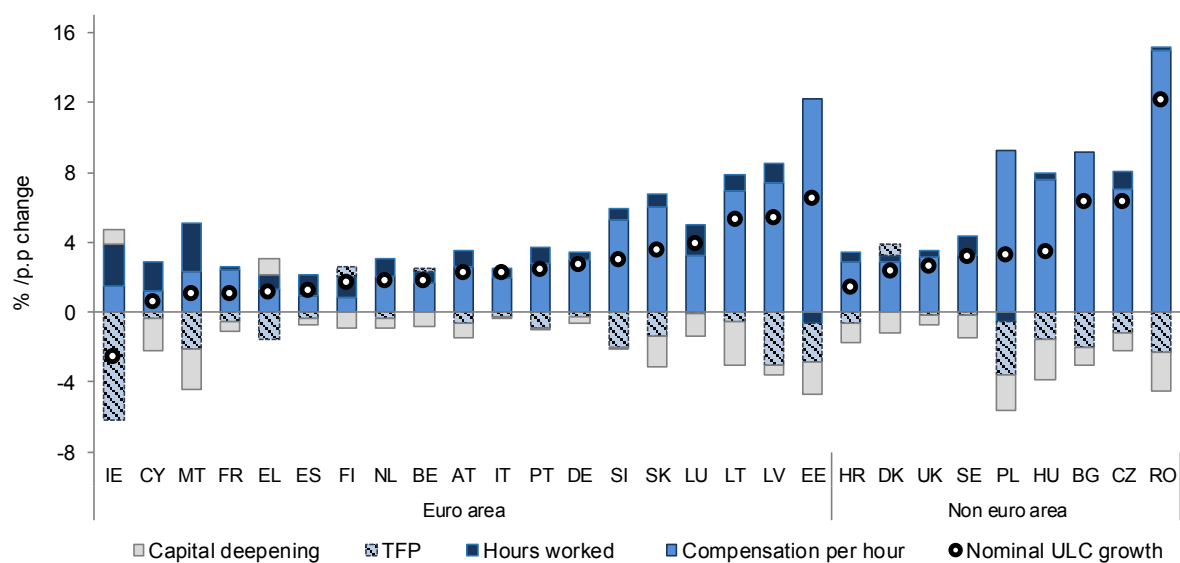
Graph 12: Unit labour cost growth in recent years



Source: AMECO; 2019 data come from the European Commission autumn 2019 economic forecast.

Note: Countries are presented in increasing order of ULC growth in 2018.

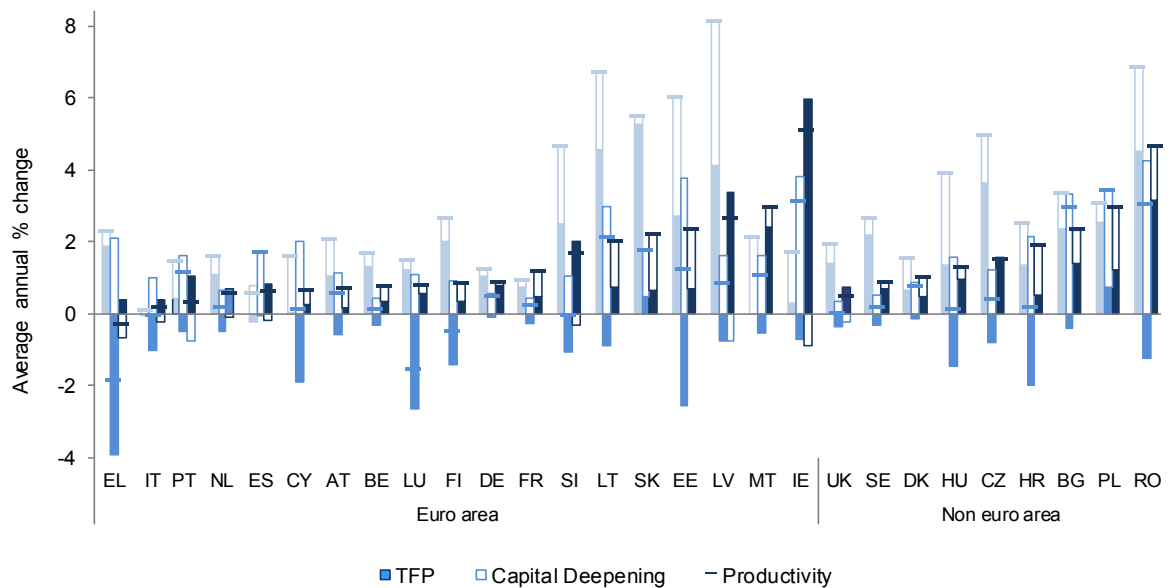
Graph 13: Growth in unit labour cost breakdown, 2018



Source: AMECO and Commission services calculations

Note: Countries are presented in increasing order of ULC growth in 2018. The decomposition is based on the standard breakdown of unit labour cost growth into nominal hourly compensation and labour productivity, the latter being further broken down into the contribution of hours worked, total factor productivity and capital accumulation using a standard growth accounting framework.

Graph 14: Productivity growth breakdown, 2002-2018



Source: AMECO

Note: Labour productivity measured on the basis of GDP per person employed. Data for productivity and its subcomponents (total factor productivity (TFP) and capital deepening) refer to three periods as follows from left to right: 2002-2007 (light blue bars and marker), 2007-2012 (medium blue) and 2012-2018 (dark blue).

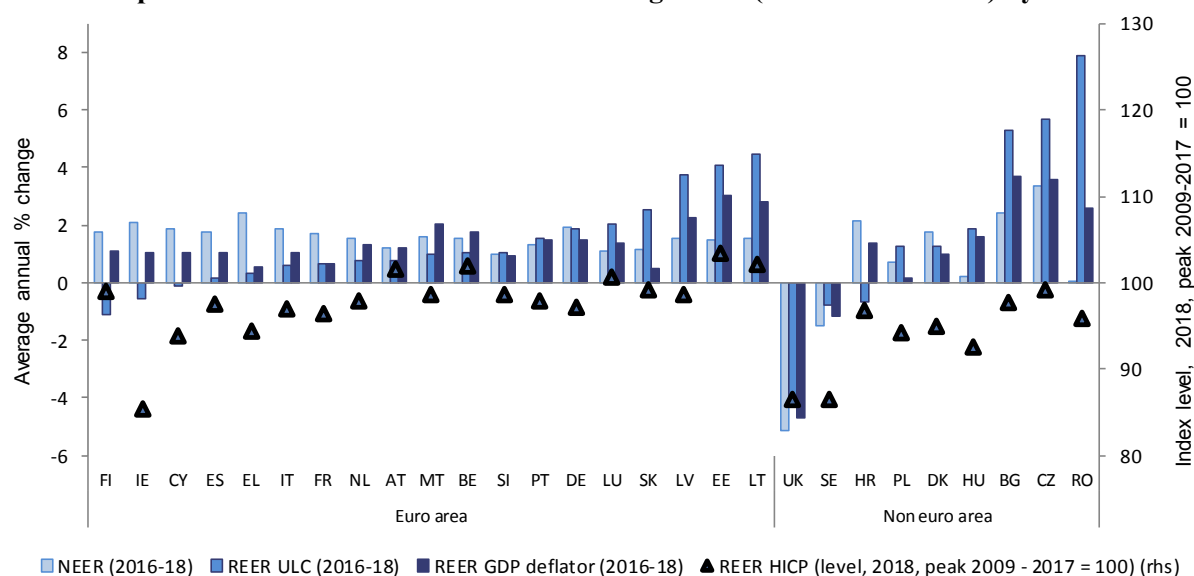
Cost competitiveness losses started being reflected also into real exchange rate (REER) measures, partly reflecting nominal appreciations. Until recently, ULC growth was only marginally reflected in appreciating ULC-based REERs, the main reason being the relatively strong growth in cost and prices in non-EU partner countries and the euro depreciation that took place around the turn of the decade and in 2015. More recently, ULC-based REERs started exhibiting a deterioration, partly captured also by REER measures built from different deflators (GDP or consumption) because of the sustained ULC growth and an appreciating euro between 2016 and 2018. This has led in 2018 to a higher number of Member States for which the scoreboard indicates REER growth beyond the threshold. Currently, only one Member State is below the lower threshold on account of depreciation (the United Kingdom) while 5 other exceeded the threshold for appreciations (Belgium, Czechia, Estonia, Germany, and Lithuania).

- **ULC-based REERs are growing in a majority of Member States and accelerating as compared with recent years.** A number of central and eastern European countries exhibit the strongest growth since 2016, notably those outside the euro area, but considerable growth is observed also in a number of euro area countries, especially the Baltics but also Germany, Luxembourg, Portugal, and Slovakia (Graph 15).
- **Nominal appreciations, notably of the euro, accounted for part of the real appreciations recorded between 2016 and 2018.** Such tendency has however stopped and slightly reversed in 2019. Outside the euro area, Bulgaria and Czechia had the strongest appreciations of nominal effective exchange rates (NEER) between 2016 and 2018, while depreciations took place in Sweden and the United Kingdom.
- **Some price-cost margin compression may have been taking place,** as ULC-based REER appreciated generally more than REERs based on the GDP of HICP deflator. Substantial gaps between REERs based on ULC and GDP deflators were observed especially in Bulgaria, Czechia,

Latvia, Lithuania, Romania, and Slovakia.³¹ Despite muted inflation dynamics, owing to nominal appreciations, **most EU countries have recorded competitiveness losses as measured by the HICP-based REER.**

- Despite those recent losses, **in most EU countries, the current competitiveness position remains more favourable than before the crisis** as the HICP-based REER level often lies below the one recorded at recent peaks. Yet in some countries, notably Austria, Belgium, Estonia and Lithuania, current HICP-based REER figures are above recent peaks, reflecting protracted appreciations.
- Real depreciations tend to coincide with a reduction of the relative price of non-tradables, and an **increased share of tradables in the economy**, improving the potential for export-led growth dynamics. The data often confirm that pattern, which nevertheless appears to be **slowing down** or even reverting in a number of EU countries, notably the Baltics (Graph 16).

Graph 15: Nominal and real effective exchange rates (NEER and REER) dynamics

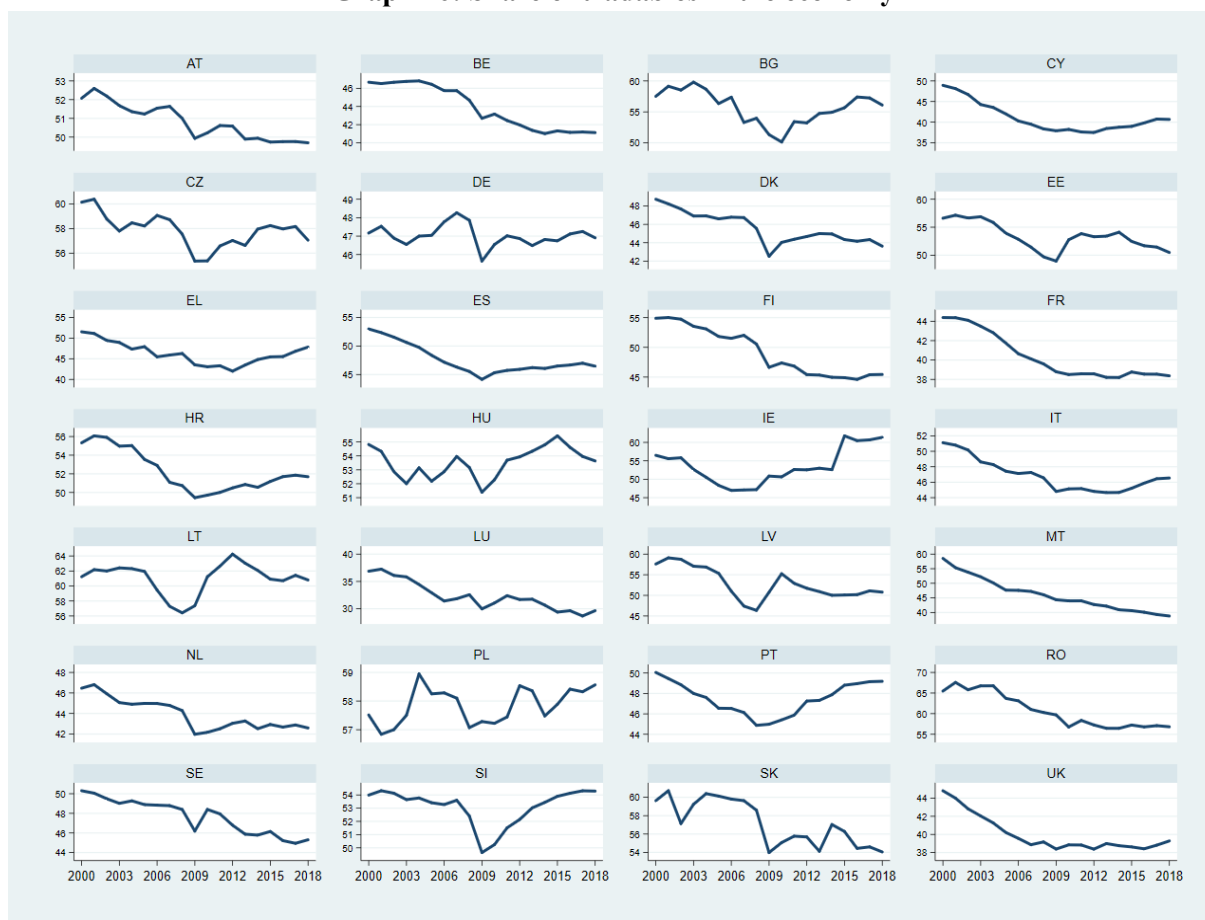


Source: AMECO

Note: Countries are presented in increasing order of the average annual variation of the Real Effective Exchange Rate (REER) based on ULC growth over the years 2016 to 2018. The REERs based on ULC and on the GDP deflator and the Nominal Effective Exchange Rate (NEER) are computed vis-à-vis 37 trading partners, the one based on the harmonised index of consumer prices (HICP) is computed vis-à-vis 42 trading partners.

³¹ While margin compression prevents cost competitiveness to affect the terms of trade, thereby containing the impact on trade flows in industries characterised by product differentiation and pricing-to-market, persistent reduced profitability would over time imply a shrinking tradable sector.

Graph 16: Share of tradables in the economy



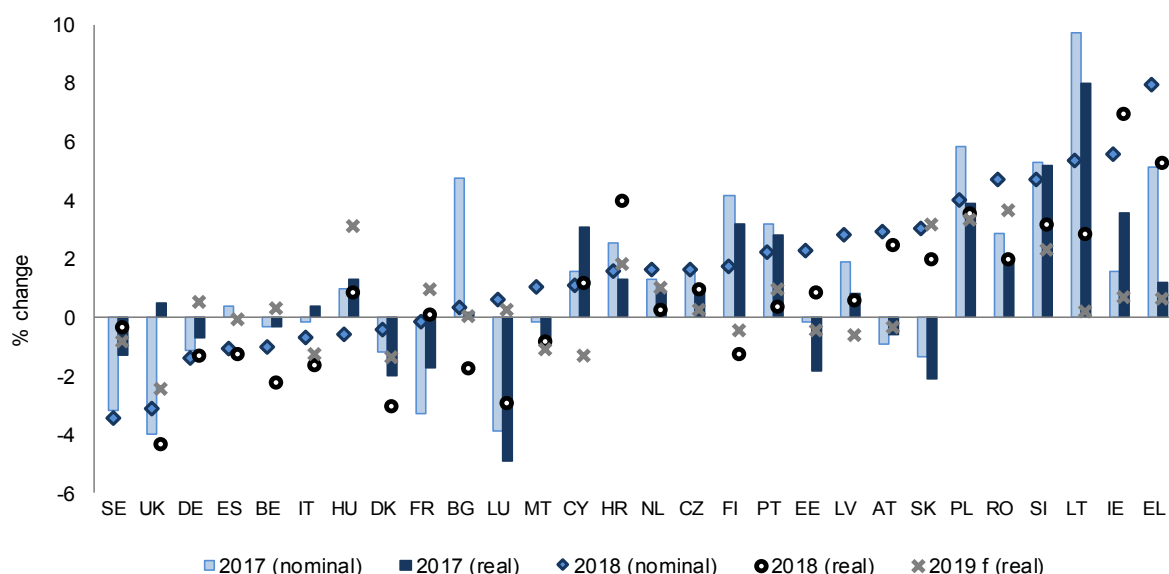
Source: AMECO

Note: the share of tradables in the economy (agriculture, manufacturing, and trade, transport and communication services) is computed as the share of value added in tradables in the economy's total value added (%).

Export market share grew in most Member States in 2018. The cumulated export market share changes over 5 years reported in the scoreboard show positive values in most EU countries. Only in one Member State (Sweden) losses beyond the scoreboard threshold were recorded. Recent data on annual basis point to generally positive export market share growth rates (Graph 17).

- Recent market share gains for EU Member States are still partly linked to relatively strong export demand from areas with close trade links with EU countries. The recent REER depreciations may have also played a role. Market shares for EU countries fell over the post-crisis years, and started improving with the rebound in intra-EU export demand. More recently, the **slowing down of trade in a number of emerging economies** compared with intra-EU trade is likely to account for the growth in export market share in EU countries in the most recent years. This is confirmed by more limited export market share gains measured against OECD countries (Table 2.1 in annex). Because of appreciating REERs, export market share gains appear more moderate when measured in real terms.
- In 2018, central and eastern European Member States recorded the strongest export market share gains but often with considerable decelerations.** Some net-creditor countries including Germany are among those recording losses. Among net-debtor countries, export market shares have declined in Spain and Bulgaria, and are decelerating in Portugal, while improvements are recorded in Greece (with the strongest gain recorded in 2018), Romania, and Cyprus.

Graph 17: Changes in export market shares



Source: Eurostat, Commission services calculations.

Note: Countries are presented in increasing order of the annual variation of the nominal export market shares in 2018. Nominal export market shares are calculated by dividing the exports of a country at current prices by world exports also at current prices. Real export market shares growth is calculated by subtracting the growth rate of world exports in volumes from the country's growth rate in volumes.

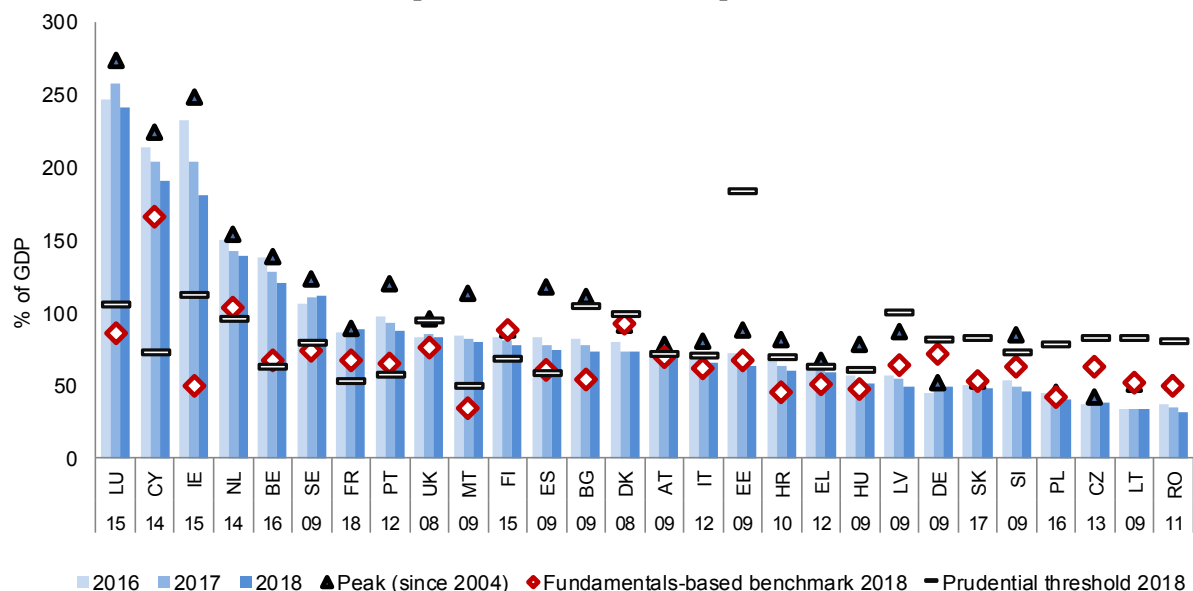
Private sector debt ratios remain elevated in a number of Member States according to available benchmarks.

- **Twelve Member States exceeded the scoreboard threshold for private debt in 2018, the same number as in 2016 and 2017.** Private debt ratios exceed 200% of GDP in Luxembourg, Cyprus, the Netherlands, and Ireland. Debt figures in those countries are influenced by intra-company cross-border transactions notably linked with the activity of multinational corporations and special purpose vehicles. Private debt-GDP ratios in Denmark and Sweden are at or around 200% of GDP; in Belgium, France, Portugal, and the United Kingdom, they are close to or above 150% of GDP.
- In Cyprus, France, the Netherlands, Portugal, Spain, and Sweden **both households and non-financial corporations (NFCs)** contribute to the large private sector debt ratios (Graphs 18 and 19). In Ireland and Luxembourg, **corporations'** high indebtedness drive the large stocks of private debt; in Denmark, Finland, and the United Kingdom it is rather **households'** debt.
- **Differences in the stock of private debt across countries** are largely explained by differences in fundamental factors justifying the accumulation of debt, including prospects for growth and investment, and financial development. An assessment of debt levels should thereby take into account those factors, as well as other elements affecting risks posed by high debt from a forward-looking perspective.³² On the basis of 2018 data, all countries with private debt above the

³² Those factors are taken into account in country-specific benchmarks developed by the European Commission in cooperation with the EPC LIME Working Group (European Commission, "Benchmarks for the assessment of private debt", Note for the Economic Policy Committee, ARES (2017) 4970814) and subsequent updates. *Fundamentals-based benchmarks* allow assessing private debt against values that can be explained on the basis of economic fundamentals, and are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. *Prudential thresholds* represent the debt level beyond which the probability of a banking crisis is relatively high; those levels are based on the maximisation of the signal power in

scoreboard threshold are also above their country-specific prudential and fundamentals-based benchmarks.

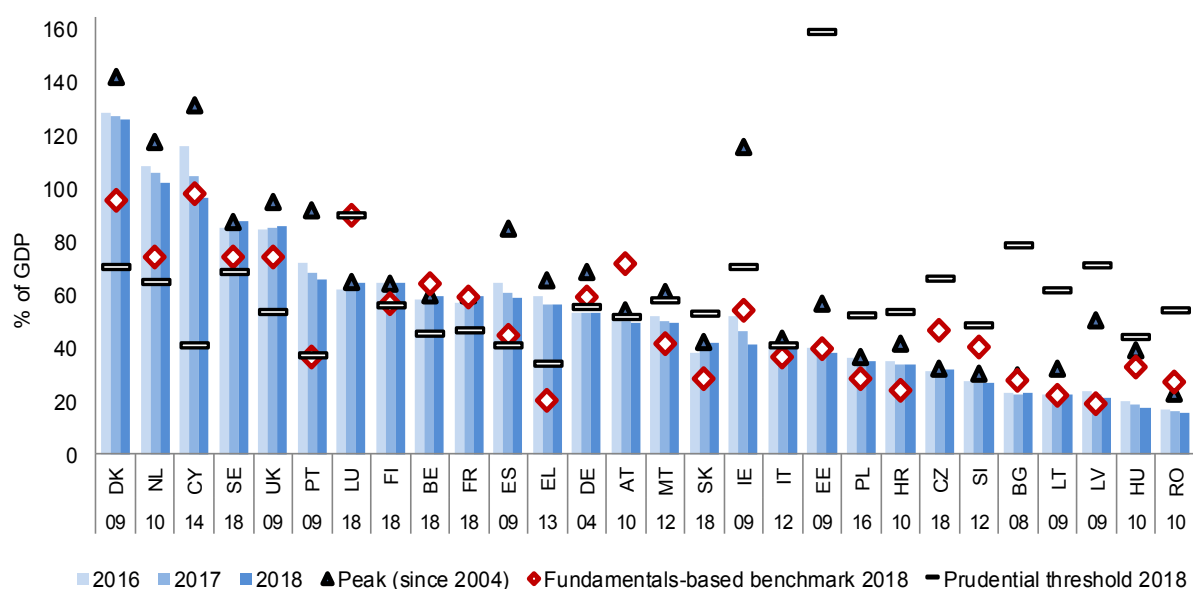
Graph 18: Non-financial corporations debt



Sources: Eurostat non-consolidated quarterly sectoral accounts, Commission services calculations.

Notes: Countries are presented in decreasing order of the NFCs debt-to-GDP ratio in 2018. Numbers below the country codes indicate the year when that debt ratio peaked.

Graph 19: Households debt



Sources: Eurostat non-consolidated quarterly sectoral accounts, Commission services calculations.

Notes: Countries are presented in decreasing order of the households debt-to-GDP ratio in 2018. Numbers below the country codes indicate the year when that debt ratio peaked.

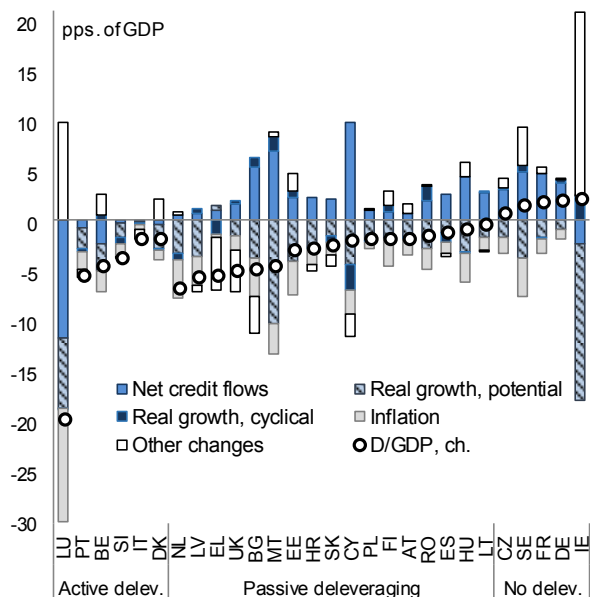
predicting banking crises by minimising the probability of missed crisis and of false alerts and incorporating country-specific information on bank capitalisation, government debt, level of economic development.

Private sector deleveraging is taking place mainly on the back of nominal GDP growth, at slower pace, and in some cases high debt is growing again rather than falling. In past years, NFC and household debt in high-debt countries such as Cyprus, Ireland, Portugal, and Spain declined by at least 25 percentage points of GDP from their peaks (Graphs 18 and 19). Estonia, Hungary, Latvia, and Slovenia also recorded marked declines, especially in corporate debt ratios. In the latest years, the rate at which debt ratios have been falling has declined. This is more evident in the case of household debt. While most EU economies have continued witnessing falling debt ratios, some re-leveraging has also taken place, especially by households.

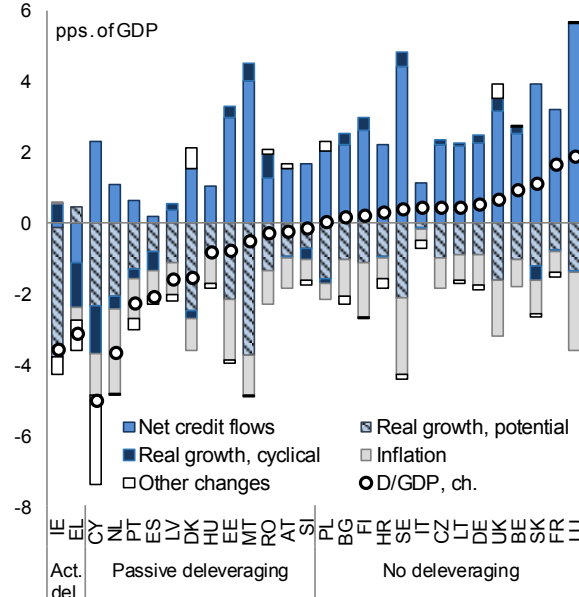
- **Deleveraging increasingly relies on nominal GDP growth.** Private sector credit flows remain moderate and no Member State exceeded the scoreboard threshold for this variable in 2018. Nominal GDP growth over the past years has allowed a number of countries to start entering into a mode of "passive deleveraging", i.e., falling debt-GDP ratios despite positive credit flows. Continued GDP growth has loosened the pressure to deleverage "actively", i.e., thanks to falls in the nominal debt levels. Indeed, fewer countries are displaying negative credit flows either to corporations or to households compared with 2017 (Graphs 20 and 21). However, as the economic cycle has peaked, the contribution of the cyclical GDP upswing is becoming more limited or even reversing, implying that going forward the prospects for further passive deleveraging will crucially depend on potential GDP growth.
- Concerning **corporate debt**, deleveraging has continued in most EU countries, relying increasingly on GDP growth. Between the first quarter of 2018 and the first quarter of 2019, NFCs active deleveraging took place only in Belgium, Denmark, Italy, Luxembourg, Portugal, and Slovenia (Graph 20, which is based on non-consolidated data). In Cyprus, Malta, and Bulgaria net credit flows to the corporate sector exceeded 5% of GDP, despite already high NFC debt. Somewhat dynamic credit flows were at the basis of rising NFC debt in France, Germany, and Sweden. In fact, France and Sweden have been leveraging further despite recording NFC debt above benchmarks.³³
- Regarding **households debt**, deleveraging has slowed down more markedly. In the United Kingdom, Sweden, Belgium, and France, household debt as a share of GDP grew in 2018 despite being at relatively high levels (close to or above benchmarks). In few Member States only (Greece and Ireland) active deleveraging is observed (Graph 21). Where deleveraging took place, it happened at reduced pace, particularly in Cyprus, Portugal, and Spain.

³³ In Ireland, net credit flows were negative and nominal GDP growth favourable, but positive valuation changes outweighed these effects rendering the deleveraging (in non-consolidated terms) unsuccessful in the period 2018Q1-2019Q1, possibly reflecting the activity of multinational enterprises.

Graph 20: Decomposition of the change in NFC debt-to-GDP (2018 Q1 - 2019 Q1)



Graph 21: Decomposition of the change in household debt-to-GDP (2018 Q1 - 2019 Q1)



Sources: Eurostat non-consolidated quarterly sector accounts, Commission services calculations.

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

Conditions in the EU banking sector have improved considerably over the past years and have broadly stabilised. The banking sector remains challenged especially by low levels of profitability and large stocks of non-performing loans (NPLs) in a number of Member States. TIER 1 capital ratios have stopped growing after having reached levels above regulatory requirements in all Member States, with substantial variation across countries. Returns on equity for the banking sector recovered significantly over past years but improvements have weakened more recently. A few countries, in particular, in Greece, Italy, and Portugal (Graphs 22 and 23), are challenged by a combination of relatively low profitability rates, capitalisations ratios below average and relatively high NPL ratios.

- **The growth in financial sector liabilities remain limited, well below the scoreboard threshold,** except for Finland. The growth in financial sector liabilities slightly decelerated in 2018 as compared with 2017 in a majority of Member States.³⁴ Nonetheless, bank credit flows in 2018 grew at a slightly higher pace as compared with 2017 notably for credit to households, and stabilised over the first months of 2019 amid an incipient tightening of lending conditions.³⁵
- **Capitalisation ratios stabilised in most Member States, while returns on equity somehow worsened in a number of cases in 2018.** Returns on equity remained negative in Greece and Portugal in 2018, while turned positive in Cyprus. Bank equity valuations grew over 2017, while during 2018 and most of 2019 bank equity valuations have declined, despite a positive performance

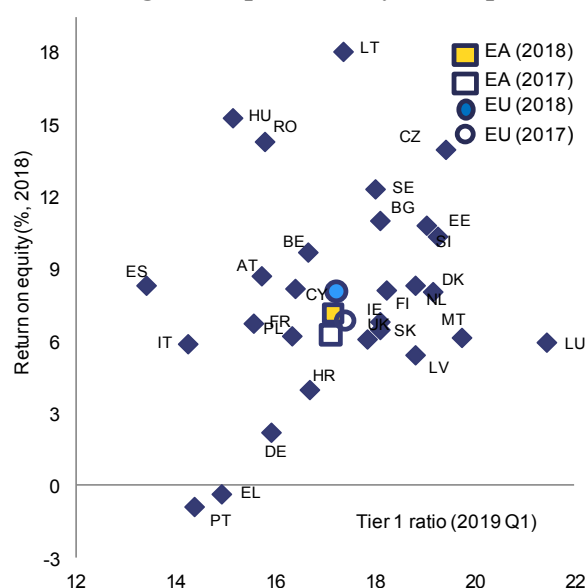
³⁴ This increase in Finland in 2018 coincided with one bank moving its headquarters from Sweden to Finland.

³⁵ As reported by the euro area bank lending survey, see ECB, Economic Bulletin, August 2019.

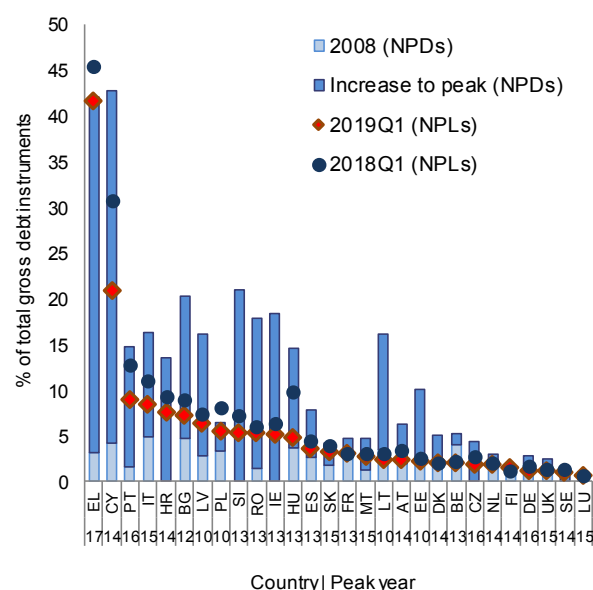
of overall European stock market indexes, reflecting among other factors, revised market views on the profitability prospects for the sector.

- **Some EU Member States stand out with a combination of relatively low profitability and capitalisation ratios, as well as high NPL ratios.**³⁶ In Greece, the NPL ratio is still above 40%. Cyprus has recorded considerable improvements in its the NPL ratio, mainly as result of loan sales and the wind-down of a large bank in 2018, and profitability turned positive. In Portugal and Italy the NPL ratio has declined markedly since 2016 and latest data point to further, though more moderate, reductions in 2018. The NPL ratio has fallen below 10% in both countries. Bulgaria, Croatia, Hungary, Ireland, Romania, and Slovenia recorded declines in their above-EU-average NPLs ratios over 2018.
- **The current economic outlook characterised by low-for-long interest rates is arising further challenges.** The decline of interest rates is being felt mostly at longer maturities, which leads to a flattening of yield curves and further compression of interest rate margins. Such flattening hampers maturity transformation by banks possibly weighing on their profitability. As the low-yield environment concerns especially low-risk financial assets, it could strain in particular the profitability and balance sheet of non-bank financial institutions with asset portfolios largely invested in low risk assets, such as insurance companies, notably the life-insurance subsector, and pension funds.³⁷

Graph 22:
Banking sector profitability and capital



Graph 23: Non-performing loans



³⁶ NPLs in the set of the scoreboard auxiliary indicators is defined as total gross NPLs and advances as percentage of total gross loans and advances (gross carrying amount), for the reporting sector "domestic banking groups and stand-alone banks, foreign controlled subsidiaries and foreign controlled branches, all institutions". Values are provided in Table 2.1 in annex. Harmonised data on NPL ratios are available only since 2014. Thus, for the data concerning 2008 and the "increase to peak", Graph 23 displays data for the ratio of gross non-performing debt instruments (NPDs) over total gross debt instruments, which is available in longer time series, and that refers, besides loans, also to other debt instruments held by the banking sector. The latter is typically slightly lower than NPL ratios, much because the denominator is larger, i.e., total gross debt instruments are larger than total loans. The maximum difference between the two ratios currently amounts to 4 percentage points (for Greece), while for most countries it is below 1 p.p.

³⁷ ECB, Financial Stability Review, May 2019.

Source: Data on gross non-performing debt instruments (NPDs) for 2008 are unavailable for Croatia, Czechia, Ireland, Slovenia, and Sweden.

Note: On Graph 23, data concerning 2008 and the "increase to peak" refer to the ratio of gross non-performing debt instruments (NPDs) over total gross debt instruments; NPL ratios are reported for 2018Q1 and 2019Q1; numbers below the country codes indicate the year when NPDs peaked.

House prices continued growing at high rates in 2018, but price dynamics cooled where evidence of overvaluation is stronger. The acceleration of house price growth is bringing a growing number of housing markets close or above their pre-crisis peaks (Graph 26). In 2018, 7 Member States showed real house price growth above the scoreboard threshold (Czechia, Hungary, Ireland, Latvia, the Netherlands, Portugal, and Slovenia), one more compared with 2017. House price growth was particularly strong in EU countries that so far have shown only limited or no evidence of overvalued house prices, while a slowdown is observed in countries characterised by stronger evidence of overvaluation. Data up to the second quarter of 2019 suggest that the scoreboard threshold may be surpassed this year by Croatia, Czechia, Hungary, Poland, and Portugal if those patterns continue into the second half of the year. In the first half of this year, and in comparison with 2018, house price growth accelerations stood out in Croatia, Cyprus, and Sweden, and decelerations in Denmark, Ireland, Latvia, Romania, and Slovenia.

- **Part of the acceleration in house prices is linked to economic fundamentals.** House price growth started resuming on the back of the economic recovery started in 2013 and the reduction of interest rates. In this respect, it can be explained by economic fundamentals.³⁸ Despite accelerating, the growth in new mortgage credit had instead so far no major autonomous role in driving prices, unlike it was the case in the pre-crisis period. It could however contribute to the persistence of ongoing house price accelerations.
- **Strong house price growth has implications for valuation levels.** In Hungary, Ireland, Latvia, the Netherlands, Portugal, and Slovenia, real house price growth was already high in 2017 and further accelerated in 2018 (Graph 24 and Graph 25, upper right quadrant). Protracted high growth in a number of countries is gradually increasing overvaluation risks: the number of EU countries assessed to be characterised by overvalued house prices has been rising over the past years. Evidence of overvaluation (as measured by a growing valuations gap) has lately become stronger in countries such as Germany or Portugal. House prices are at or above peak levels since mid-2000s in a number of countries (Austria, Belgium, Czechia, Germany, Luxembourg, Malta, Portugal; Graph 26). House price levels in a number of countries are hitting affordability constraints, as revealed by the ratio between house price levels and per capita disposable income. Estimates reveal that in about half of the EU countries more than 10 years of income are necessary to purchase a 100

³⁸ House price benchmarks allow to gauge the extent of overvaluation or undervaluation of house prices based on country-specific characteristics. Synthetic valuations gaps are based on the gap obtained from different benchmarks: (i) price-to-income deviation with respect to its long-term average; (ii) price-to-rent deviation from its long-term average; (iii) deviation from regressions-based benchmarks taking into account demand and supply economic fundamentals (see N. Philipponnet and A. Turrini (2017), "Assessing House Price Developments in the EU", European Commission Discussion Paper 048, May 2017). In the computation of the regression-based benchmarks, cyclical explanatory variables are HP filtered to contain their volatility.

square meter dwelling.³⁹ Similarly, one in ten Europeans live in a household that spent 40% or more of its income on housing in 2017.⁴⁰

- **House prices decelerated somewhat in a number of countries with evidence of overvaluation and high household debt, and a downward correction in the Swedish housing market has started.** Recent house price growth rates have tended to be lower the higher the extent of the overvaluation. Such pattern, which was not visible in previous years, is clearly discernible in 2018 for countries with house prices estimated to be overvalued. In 2018, Austria, Belgium, France, and the United Kingdom stood out for the combination by different degrees of overvalued house prices, high household debt, but also house prices growing less in 2018 than in 2017 (Graph 25). Such decelerations could reflect affordability constraints, a recovery in housing supply, and policies put in place at country level, including in the macro-prudential field.⁴¹ In addition, in Sweden, house prices, fell in 2018 on an annual basis both in nominal and real terms, but data for the first two quarters of 2019 point to some stabilisation. In contrast, no adjustment has taken place in Luxembourg, where vulnerabilities and risks of overvaluation continued growing.
- **In a number of Member States, overvalued house prices coexist with large household debt levels.** This is notably the case in Denmark, Luxembourg, Sweden, and the United Kingdom. The Netherlands is marked by very high household debt and high price levels with respect to income. The growth of the mortgage stock in 2018 was particularly rapid in Bulgaria, Romania, and Slovakia (above 10% over the previous year), and Austria, Belgium, Czechia, Estonia, France, Hungary, Lithuania, Luxembourg, and Malta (above 5% over the previous year). In some cases, strong growth took place starting from relatively high levels, such as Belgium or France. The picture changes somehow when considering the change in debt associated with new mortgages only, i.e. excluding the impact of repayments (Graph 27). The cross-country relation between house price and new mortgage flows appears weak, with no clear indication that prices grow faster where new mortgages are more abundant. This suggests that credit has so far not played a key role in driving accelerations in house prices.⁴² Yet, in a number of countries, strong house price growth has been associated with strong mortgage growth, notably in Slovakia, Luxembourg, Germany, and the Netherlands.

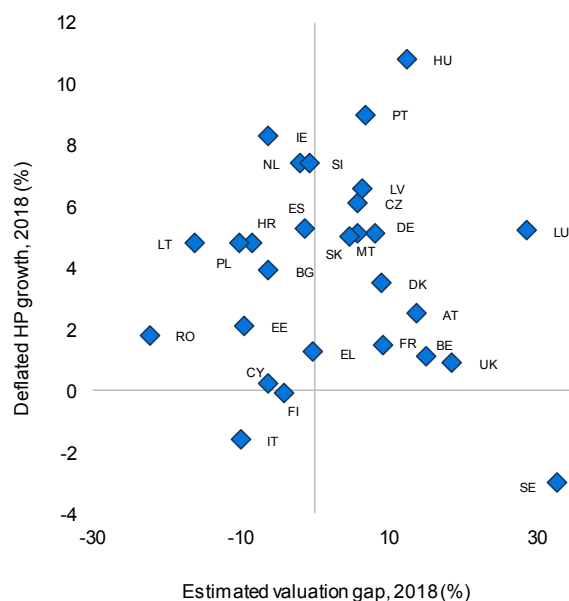
³⁹ Price level estimates are obtained on the basis of national account and census data or, when not available, information published on real estate agents websites. See J. C. Bricongne et al. (2019), "Assessing House Prices: Insights from 'Houselev', a Dataset of Price Level Estimates", European Economy, Discussion Paper No. 101, July 2019.

⁴⁰ European Commission (2019), Employment and Social Developments in Europe, Annual Review 2019, Chapter 4.

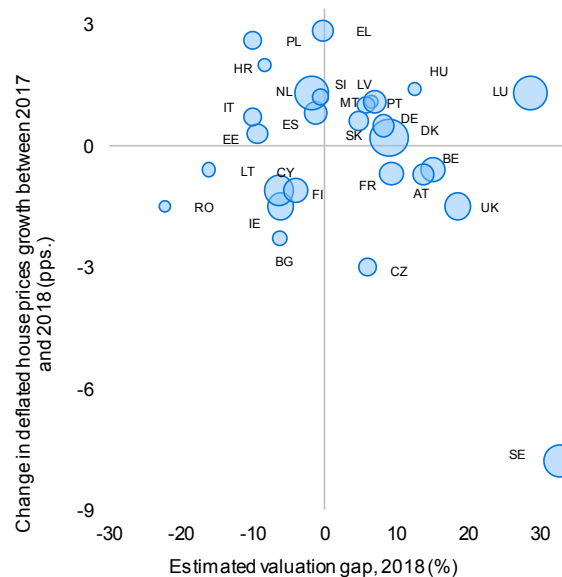
⁴¹ Construction investment has been growing at faster rates since 2015 across the EU, with highest growth rates observed where house price growth is stronger. Building permits are also on the rise in a majority of EU countries. A number of macro-prudential policies recently put in place across the EU could have affected the speed at which house prices have been growing. This is the case especially for caps to loan-to-value ratios and debt service-to-income ratios. Housing taxation has been reformed in recent years in a number of EU Member States notably with a view to contain the extent of mortgage tax relief.

⁴² In most euro area countries, house price accelerations taking place after the crisis predated the acceleration in mortgage growth. See, e.g., European Commission, "Euro-area housing markets: Ongoing trends, challenges, and policy responses", note to the Economic Policy committee - Euro Area, Ares(2019)922432, February 2019; and European Commission, "Euro-area housing markets: Ongoing trends, challenges, and policy responses", technical note to the Eurogroup, February 2019: <https://www.consilium.europa.eu/media/38387/housing-note-eg-26-02-2019-technical-note.pdf>

Graph 24: House prices changes and valuation gaps in 2018



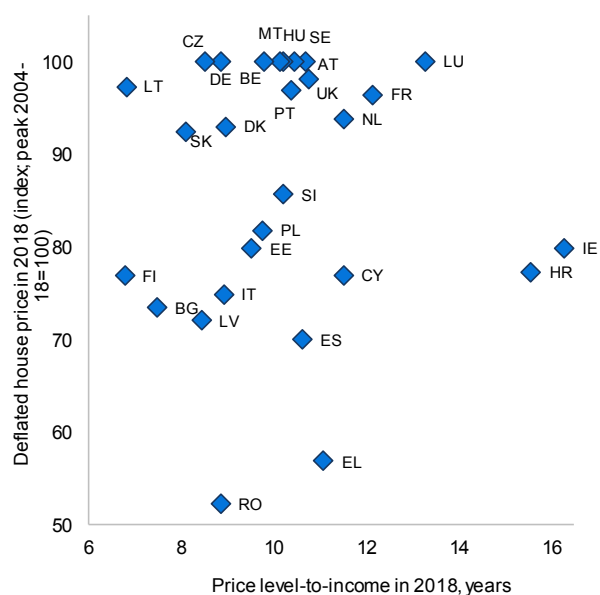
Graph 25: Valuation gaps, changes in price growth between 2017 and 2018, and household debt (% of households income)



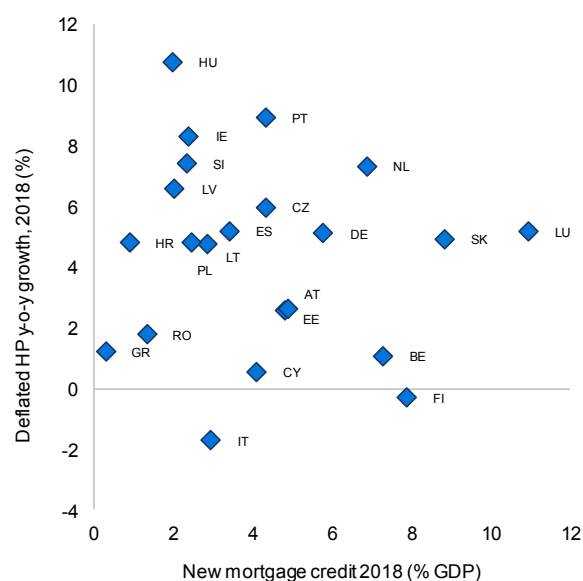
Source: Eurostat and Commission services calculations.

Note: the overvaluation gap is estimated as an average of three metrics: the deviations in the price-to-income and the price-to-rent ratios from their long-run averages, and the results from a fundamental model of valuation gaps; see footnote 38. The size of the bubbles in Graph 25 corresponds to the ratio of households' debt in terms of households' gross disposable income (GDI). For Croatia, data for households' GDI after 2012 are not available and are extrapolated on the basis of the economy's GDI growth; households' GDI data for Malta are missing and are proxied by 56% of Gross National Income.

Graph 26: House price levels as compared with incomes and real house price indexes compared with peaks, 2018



Graph 27: House price growth and new mortgage credit in 2018



Source: Eurostat and Commission services calculations.

Note: Data for six countries on new mortgage credit are missing (Bulgaria, Denmark, France, Malta, Sweden, and the United Kingdom). Price levels-to-income levels are measured as the ratio between the price of a 100 square meter dwelling in and average household disposable income. Data for household GDI per capita after 2012 are not

available for Croatia, and are extrapolated on the basis of the economy's GDI growth; for Malta, households' GDI data are missing and are proxied by 56% of Gross National Income.

Government debt ratios have declined further in most of the EU, but not in a few Member States where they are the highest. Debt ratios exceeded the scoreboard threshold in 14 Member States in 2018, from 15 in 2017. Belgium, Cyprus, Greece, Italy, and Portugal display debt at or exceeding 100% of GDP, and France and Spain are just below that mark. For seven cases (Belgium, Cyprus, France, Ireland, Portugal, Spain, and the United Kingdom) government debt in excess of 60% of GDP combines with private sector indebtedness in excess of the respective scoreboard threshold. In 2018, government debt ratios declined further, but often somewhat less than in the previous year reflecting some loosening of budgetary positions and already some cooling of nominal GDP growth. Yet some of the highest public debt ratios did not improve or even edged up further in 2018: government debt was unchanged in France and increased in Cyprus, Greece, and Italy. While that was in some cases due to exceptionally large debt-increasing stock-flow adjustments, it reflects a lack of fiscal consolidation in others. Government bond yields have nevertheless declined and compressed further also in the course of 2019 even for the most indebted sovereign borrowers and all-time troughs kept being reached. Going forward, debt ratios are forecast to grow throughout 2019 to 2021 especially in Romania, but also Italy, and to a lesser extent in Finland and France, while receding somewhat less than recently in most of the other EU countries.

Box 1: Employment and social developments

In 2018, improvements in the EU labour markets continued despite the slowdown in economic activity in the second half of the year. Employment has grown further in the EU and set a new record in the number of persons employed. Unemployment has been declining in all EU Member States, especially where it is high, contributing to less disparity across countries, although joblessness remains high in a number of them. Improvements slowed in the first half of 2019, potentially also reflecting smaller remaining labour reserves. The recovery also contributed to improvements in most poverty indicators but the social situation remains a concern in some Member States. Since 2008, the risk of poverty and social exclusion has decreased in most of the EU (7 million people less compared with 2008; some 13 million compared with 2012), as well as severe material deprivation, especially in central and eastern European countries with a high initial level. However, relative poverty risk is still above pre-crisis levels in many Member States. Overall, the unwinding of severe macroeconomic fragilities has had a toll on the employment and social situations of the countries concerned. In particular, Member States facing excessive imbalances continued to be marked by weaker employment situation and social developments; the situation of the countries with imbalances is somewhat more diverse reflecting much also the different nature of the imbalances and their severity.

In 2018, the unemployment rate decreased further in all Member States but remains high in some of them. Improvements were the strongest in countries with high levels of unemployment (reductions of more than 2 percentage points in Croatia, Cyprus, and Greece). Nevertheless, in 2018 five Member States (Greece, Spain, Croatia, Cyprus, and Italy) still exceeded the MIP scoreboard indicator threshold of an average 10% over the past 3 years. In 2018, unemployment rates were significantly below the peaks reached in 2013 by about 4 percentage points, but still higher than in 2008 in around half of the Member States. Unemployment rates continued to decrease in the first half of 2019, down to 6.3% and 7.5% in 2019-Q3 in the EU and the euro area respectively.

Employment rates improved further in all Member States. The EU employment rate (20-64 years old) recorded its highest rate in 2018 at 73.2% (72.0% in the euro area) and kept increasing in the second quarter of 2019 up to a record 73.9%, well above the pre-crisis peak of 70.2% recorded in 2008. The highest increase in headcount employment with respect to 2017 was registered in Malta (5.4%), followed by Cyprus (4.1%), Luxembourg (3.7%), and Ireland (3.2%), while the lowest increases were observed in Poland (0.3%), Romania (0.2%), and Italy (0.9%).

Activity rates continued to increase nearly everywhere in the EU. Only two countries registered a declining activity rate (15-64 years old) over the last three years: Croatia and Spain, and in both cases it exceeded the scoreboard threshold of -0.2 (-0.6 percentage points in both cases). On aggregate, in 2018 for the EU and the euro area activity rates set record highs at 73.7% and 73.4% respectively, about 3.5 and 2.5 percentage points above the pre-crisis levels, mostly driven by increasing labour market participation by older workers and women.

Long-term and youth unemployment improved more strongly than the rest of the labour market but remain elevated in a number of EU countries. Long-term unemployment decreased in all Member States in 2018 and all countries recorded lower rates than three years earlier. The highest rates of long-term unemployment were observed in Greece (13.6%), Spain (6.4%), Italy (6.2%), and Slovakia (4%) but all except Italy, recorded significant drops compared to 2015 (around 5 percentage points in Spain, 4.6 pp in Greece, and 3.6 pp in Slovakia). The youth unemployment rate fell in all EU countries in the three years to 2018. Falls of 10 percentage points or more over that period were recorded in Croatia, Cyprus, Portugal, Slovakia, and Spain. Yet the youth unemployment rate is still

above 30% in Greece, Italy, and Spain. At the same time, 9.6% of young people (15-24 years) in the EU in 2018 were neither in employment nor in education and training (NEET). Furthermore, several Member States (Bulgaria, Croatia, Cyprus, Greece, Italy, Romania, and Spain) record rates above 12%.

Poverty and social exclusion declined further but remains elevated in a number of Member States. The share of people at risk of poverty or social exclusion (AROPE) decreased further in the EU to 21.9% in 2018. This is about 3 percentage points below the peak observed in 2012.⁴³ While most countries recorded decreases in the three years to 2018, Estonia, Luxembourg, the United Kingdom, and the Netherlands recorded increases, albeit in some cases (the Netherlands and Luxembourg) from comparatively low levels. Despite a significant drop in the level of the AROPE rate from nearly 39% to 32.8%, Bulgaria continues recording the highest level in the EU, followed by Romania and Greece, with both cases over 30%, and Latvia and Lithuania just below that mark. The lowest AROPE rates are recorded in Czechia (12.2%), followed by Slovenia (16.2%), Slovakia (16.3%), Finland (16.5%), and the Netherlands (16.8%). Despite those overall positive developments in poverty and social exclusion, some of its components show different evolutions, which is a source of concern in some EU countries, notably:

- The share of people at risk of poverty (AROP) has increased in one third of the Member States in recent years: the largest increases over a three-year period were recorded in Luxembourg (3 percentage points), the United Kingdom (2.3 pp), the Netherlands (1.7 pp), and Belgium (1.5 pp), while a significant decrease was recorded in Greece, Hungary, Poland, and Portugal, always between 2 and 3 pps.
- In contrast, severe material deprivation (SMD) declined over a 3-year period (and also in 2018) in most EU Member States; over a three-year period it declined by more than 13 percentage points in Bulgaria while Croatia, Cyprus, Greece, Hungary, Latvia, Malta, and Romania recorded drops of 5 percentage points or more.
- Finally, the recovery brought a decline in the share of people (under 60) living in households with very low work intensity in almost all EU countries, except in Luxembourg and Sweden where that share increased, and in Finland where it remained stable in the three years to 2018. In parallel, in-work poverty slightly increased to 9.5% in 2018 for the EU as a whole and remains close to the peak of 9.6% in 2016.

⁴³ The indicator *At risk of poverty or social exclusion (AROPE)* corresponds to the share of persons who are vulnerable according to at least one of three social indicators: (1) *At risk-of-poverty (AROP)*, which measures monetary poverty relative to the national income distribution and is calculated as the share of persons with disposable income (adjusted for household composition) below 60% of the national median; (2) *Severe material deprivation (SMD)*, which covers indicators related to a lack of resources, and represents the share of people experiencing at least 4 out of 9 deprivations items, based on the inability to afford some specific types of expenses; (3) *People living in households with very low work intensity* are those aged 0-59 living in households in which adults (aged 18-59) worked less than 20% of their total work potential during the past year. The income reference period for the data behind these measures is a fixed 12-month period, such as the previous calendar or tax year to which the data refer for all countries, except the United Kingdom for which the income reference period is the current year and Ireland for which the survey is continuous and income is collected for the last twelve months.

4. SUMMARY OF MAIN CHALLENGES AND SURVEILLANCE IMPLICATIONS

Rebalancing within the euro area is still incomplete, while rebalancing of both current account deficits and surpluses is pressing in the current economic context and would be beneficial for all Member States. Whereas most large current account deficits have been corrected, large surpluses persist in a number of euro area countries. The euro area position has gradually moved to a surplus which has started to slightly narrow mainly in light of reduced foreign export demand. Stock imbalances have started adjusting but remain substantial, with some euro area countries still displaying largely negative NIIP positions while other recording largely positive and growing NIIPs. Unit labour costs have been growing at a faster pace in net-creditor countries compared to net-debtor ones, thus reversing the patterns observed before the financial crisis. That trend persists, but has weakened compared with the earlier post-crisis years as tighter labour markets in net-debtor countries lead to higher wage growth against a backdrop of sluggish productivity while wage upswings in net creditors have been limited even after years of low unemployment. Symmetric rebalancing of current account positions would contribute to overcome the current low-inflation, low-interest-rate environment while supporting nominal growth, thereby supporting deleveraging and the rebalancing of net-debtor positions.

Overall, challenges are present in a number of Member States, for different reasons and to a different extent. The degree of severity of the challenges for macroeconomic stability varies significantly across Member States, depending on the nature and extent of vulnerabilities and unsustainable trends, and the way they interact with each other. The main sources of potential imbalances combine according to a number of typologies summarised as follows:

- A number of Member States continue to be mainly affected by *multiple and interconnected stock vulnerabilities*. This is typically the case for those countries that were hit by boom-bust credit cycles coupled with current account reversals that also had implications for the banking sector and for government debt.
 - In the case of Cyprus and Greece, elevated debt stocks, and large negative net international investment positions are coupled with remaining challenges for the financial sector, although improvements on the front of NPLs and profitability are observed in Cyprus and the decline in NPLs has accelerated in Greece since 2018 but levels remain very high. In the case of Greece, potential output growth is low in a context of high (although declining) unemployment.
 - In Croatia, Ireland, Portugal, and Spain, vulnerabilities stemming from stock legacy issues are also significant, multiple, and interconnected. In Bulgaria, corporate indebtedness is coupled with a past of lingering issues with the financial sector that are being addressed by policy. In those countries, stock-related imbalances have been receding on the back of resumed nominal growth, associated in some cases with the re-emergence of strong growth in house prices (in Ireland, and more recently in Portugal), as well as resuming ULC growth and stalling competitiveness gains in Portugal and Spain and strong ULC increases in Bulgaria.
- In a few Member States, vulnerabilities are mainly linked to *large stocks of general government debt* coupled with concerns relating to *potential output growth* and *competitiveness*. This is particularly the case for Italy, where vulnerabilities are also linked to the banking sector and the large but rapidly declining stock of NPLs, and in a context of weak labour market performance. Belgium and France mainly face a high general government debt and potential growth issues amidst also compressed competitiveness. In France, a relatively high stock of private debt is on the rise. In Belgium, a relatively high and growing stock of household debt is coupled with possibly overvalued house prices; the external position remains solid but has weakened somewhat recently.

- Some Member States are characterised by *large and persistent current account surpluses* that also reflect, to a varying degree, subdued private consumption and investment, in excess of what economic fundamentals would justify. This is the case notably for Germany and the Netherlands. In the Netherlands, a large surplus is coupled with a high stock of household debt and strong house price growth; house price pressures have been noted recently also in Germany but debt levels therein are comparatively low. The large and persistent surpluses may reflect forgone growth and domestic investment opportunities, which bear consequences for the rest of the euro area in a context of protracted below-target inflation and weakening foreign demand.
- In some Member States, *developments in price or cost variables show potential signs of overheating, particularly as regards the housing market or the labour market.*
 - In Sweden, and to a lesser extent in Austria, Denmark, Luxembourg, and the United Kingdom, sustained house price growth has been observed in recent years in a context of possible overvaluation gaps and significant levels of household debt. Recent evidence points towards some downward adjustment in terms of prices and overvaluations in Sweden, and to house price decelerations in the other cases (except Luxembourg). Stronger but more recent house price growth is coupled with more limited evidence of overvaluation in Czechia, Hungary, Latvia, Slovakia, and Slovenia, which in the cases of Czechia and Slovakia has been observed together with continued mortgage borrowing and rising debts by households. Finland does not seem marked by strong house price growth or possible overvaluation but by high and rising household debt.
 - In Czechia, Estonia, Hungary, Latvia, Lithuania, Slovakia, and Romania, labour costs continue to grow at a relatively strong pace while price competitiveness is edging down. In recent years, strong ULC growth have been coupled with a marked reduction of the current account surplus in Hungary, and a contained but persistent current account deficit in Slovakia. In the case of Romania, a protracted very strong growth in ULCs is recorded against the background of a further worsening current account balance deficit and expansionary fiscal policies.

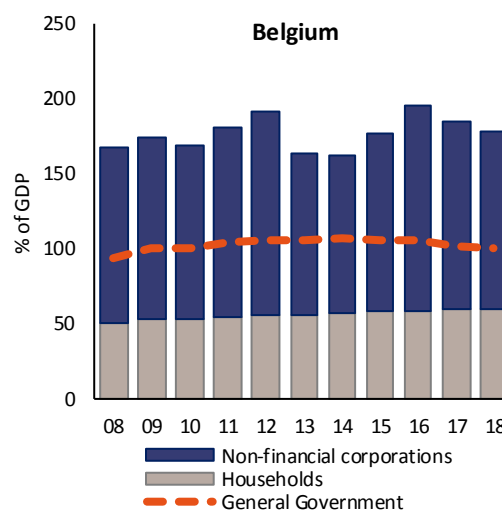
Overall, IDRs are warranted for 13 Member States: Bulgaria, Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, and Sweden. All those Member States were subject to an IDR in the previous annual cycle of MIP surveillance, and were considered to be experiencing imbalances or excessive imbalances. The new IDRs will help going deeper into the analysis of those challenges and assessing policy needs. In particular, forthcoming IDRs will be prepared to assess if those imbalances are aggravating or are under correction, with the view to update existing assessments. This AMR points also to the possible building up of risks in a number of other Member States that, on the basis of current information, do not seem to warrant an IDR at this stage but nonetheless still justify a close monitoring notably in the upcoming country reports. Those risks concern notably developments related to competitiveness (Czechia, Estonia, Hungary, Latvia, Lithuania, and Slovakia) and to housing prices and housing markets and household debt developments (Austria, Belgium, Czechia, Denmark, Finland, Hungary, Luxembourg, Slovakia, Slovenia, and United Kingdom).

5. IMBALANCES, RISKS AND ADJUSTMENT: MEMBER STATE SPECIFIC COMMENTARIES

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

The current account recorded a limited deficit in 2018 while the positive net international investment position is elevated. Although productivity growth is low, the rise in unit labour costs remained contained as wage increases has been moderate. The three-year change in the real effective exchange rate has further appreciated and exceeded the threshold although the one-year change showed only a modest acceleration. Export market shares have been broadly stable. The high corporate debt to GDP ratio, though figures are inflated by widespread cross-country intra-group lending is decreasing. Household debt, mostly mortgage related, is relatively high and growing while real house prices kept increasing at moderate pace in recent years and there are signs of potential overvaluation. Government debt is high and is decreasing only slowly. Job creation continued to be positive and the unemployment rate dropped to a record low. The inactivity rate is high.

Graph A1: *Debt across sectors in the economy*



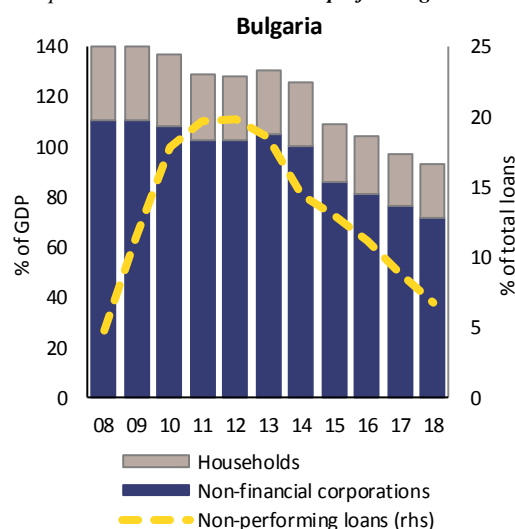
Source: Eurostat

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

Bulgaria: In February 2019, the Commission concluded that Bulgaria was experiencing *imbalances* in particular related to vulnerabilities in the financial sector coupled with high indebtedness and non-performing loans in the corporate sector. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP) and nominal unit labour cost growth.

The external position of the economy strengthened further with a widening current account surplus and a rapidly improving negative net international investment position that is approaching the threshold. While there have been cumulated gains in export market shares, a tight labour market and skill shortages have pushed up wage growth. As a result, unit labour costs growth is significantly beyond the threshold which warrants attention. In the context of favourable economic and financing conditions, the banking sector strengthened its capital and liquidity ratios overall. Credit growth is strong and is fully financed by expansion of the deposit base. Non-performing loans continue

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



Source: Eurostat and ECB

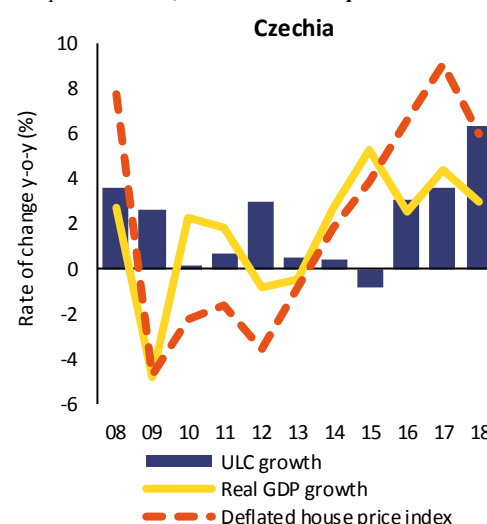
to decline, but remain comparatively high for non-financial enterprises and in domestically owned banks. A number of measures have been and are being introduced to strengthen banking and non-banking supervision. However, some challenges and vulnerabilities remain related to capital shortfalls in some banking institutions and pending concerns in the insurance sector. Corporate debt is still relatively high, although it has decreased substantially. Government debt is low and falling. House prices continued to rise, albeit at a slower pace and in line with fundamentals. Mortgage credit and building permits picked up strongly and warrant close attention to future developments. Unemployment dropped to very low levels and the activity rate, although relatively low, continues increasing.

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

Czechia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Czechia. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely real effective exchange rate, nominal unit labour cost growth and real house price growth.

The current account balance shows a small but decreasing surplus while the negative net international investment position continued to narrow. The end of the exchange rate commitment in April 2017 led to an appreciation of the real effective exchange rate, particularly in 2018. Nominal unit labour costs have increased significantly, on the back of strong wage rises and acute labour market shortages although a deceleration is expected looking forward. So far there have been gains of export market shares. At the same time, the country is exposed to risks relating to the trade policy environment and the possible disruption of global value chains. Real house price growth has remained high but with a deceleration in 2018 compared to 2017. Furthermore, private sector debt including household debt is relatively low. The banking sector is very robust, with a very low rate of non-performing loans. Government debt continues to decrease as the government budget has been in surplus since 2016. The unemployment rate decreased further, as the labour market remains very tight.

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



Source: Eurostat

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

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

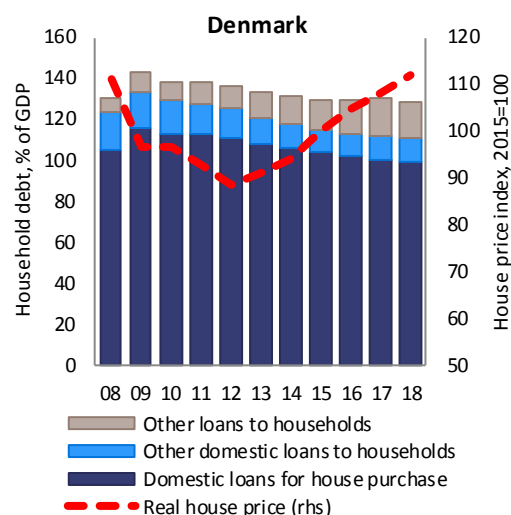
The current account balance continues to show large, albeit narrowing, surpluses. The current account surplus narrowed recently as corporates saved less and invested more domestically. Consecutive surpluses have led to a strongly positive net international investment position, generating positive net primary income, which in turn reinforces the positive current account balance. Productivity growth has been muted, weighing on cost competitiveness indicators and there has been some limited losses of export market shares. Household saving has increased reflecting deleveraging needs and macro-prudential policy measures to restrict risky loan taking. At the same time, debt build up continues to be supported by low financing costs and a benign tax treatment. Overall, household debt remains the highest in the EU as a percentage of GDP despite some slow deleveraging trends. Corporate indebtedness, on the other hand, is moderate. Real house prices are increasing at a continuous although moderate pace while valuation indicators indicate some overvaluation. The labour market continues improving and employment growth remains solid. Labour shortages are widespread but have recently eased, moderating the upward pressure on wages.

Overall, the economic reading highlights issues linked to external surplus and the high household debt including the housing sector although risks appear contained. Therefore, the Commission will not at this stage carry out further in-depth analysis in the context of the MIP.

Germany: In February 2019, the Commission concluded that Germany was experiencing *macroeconomic imbalances*, in particular related to its large current account surplus reflecting subdued investment relative to saving, both in the private and public sector. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the current account balance, the real effective exchange rate and government debt.

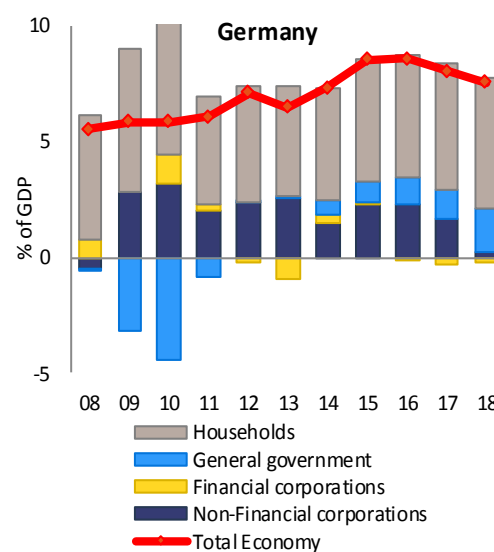
The current account continues to be in very large surplus although narrowing somewhat in 2018. As foreign trade weakened, there is a shift towards more domestic demand-driven growth. Accordingly, the current account surplus is expected to continue narrowing, but to remain at a high level and lead to further increases in the already large net international investment position. The weakness in productivity growth contributed to the increase of unit labour

Graph A4: *Household debt and house price index*



Source: Eurostat and ECB

Graph A5: *Net lending/borrowing by sector*



Source: Eurostat

costs and the real effective exchange rate continued to appreciate. Nominal compensation growth has picked up, also due to one-off policy effects, in a context of a tight labour market and is expected to moderate in the near term. Export growth decelerated markedly in 2018, accompanied by limited losses in export market shares on an annual basis. Real house prices and construction costs have been increasing and warrant attention, also with respect to regional disparities in prices and availability of housing. Housing investment continues to rise, but it is still lagging behind housing needs in metropolitan areas. Credit growth is gradually strengthening. Government debt continued to decrease and is expected to fall below the threshold of 60% of GDP by 2019. At the same time, the sizeable public investment backlog remains though investment has increased for some years. Overall unemployment, as well as youth and long-term unemployment is historically very low, even if further improvements of the labour market situation halted.

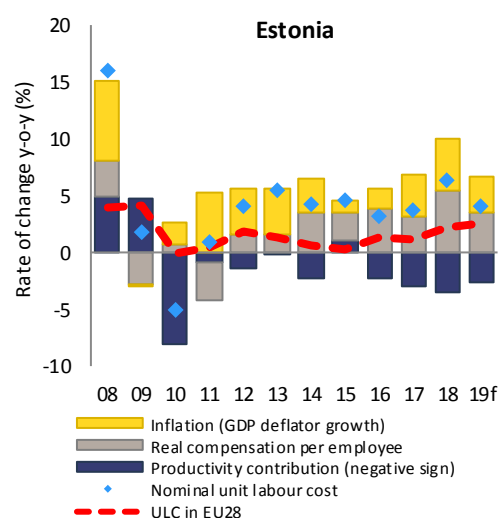
Overall, the economic reading highlights issues relating to the persistent surplus of savings over investment, reflected in the high but gradually declining current account surplus, underlining the need for continued rebalancing. Therefore, the Commission finds it useful, also taking into account the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

Estonia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Estonia. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the real effective exchange rate and the nominal unit labour cost growth.

The current account balance shows a stable surplus while the negative net international investment position improved. The real effective exchange rate appreciation accelerated in 2018 pushing the indicator beyond the threshold. Unit labour cost growth has also further accelerated driven by domestic price and wage pressures, in particular in the public sector, reflecting the tight labour market. There have been small cumulated gains in export market shares. Public and private sector borrowing and debt levels are relatively low. Moreover, private sector debt has continued falling, reflecting remaining deleveraging dynamics. Real house price growth has slowed to moderate levels. The tight labour market is reflected in a relatively low unemployment level and a very high activity rate in EU perspective.

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

Graph A6: *Decomposition of unit labour cost*



Source: Commission services

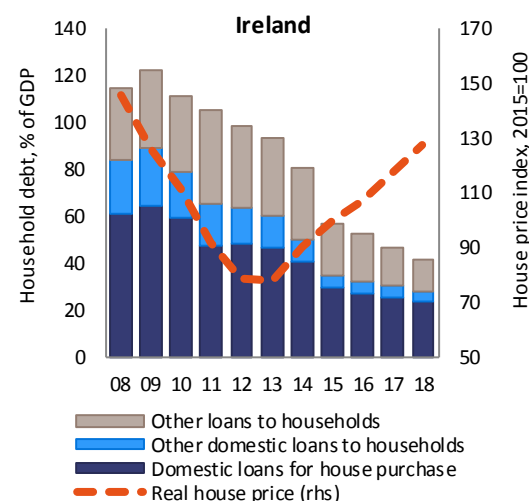
Ireland: In February 2019, the Commission concluded that Ireland was experiencing *macroeconomic imbalances*, in particular involving vulnerabilities from large stocks of public and private debt and net external liabilities. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), private debt, public debt as well as real house price growth.

The current account went from a broadly balanced position in 2017 to a large surplus in 2018. This large swing mainly reflects activities of multinational firms. A modified current account balance measure, which better reflects domestic economic activity, suggests a smaller surplus in 2018. The NIIP remains highly negative, also due to the activities of multinational companies and a large financial offshore centre with limited connections to the domestic economy. On the back of strong economic growth, the ratio of public debt to GDP is falling but the level of debt remains high. Private debt is still very high, although it has continued to decline. Households have continued reducing their debt and Irish banks have lowered their exposures to domestic companies, suggesting continued corporate deleveraging. While real house price growth continued in 2018 it decelerated significantly during the year. However, housing affordability remains a concern. The non-performing loans ratio has been steadily declining over the last years and banks are well capitalised, but provisioning levels are relatively low. Banks' profitability, albeit still subdued, is improving gradually. Unemployment keeps decreasing and is approaching pre-crisis levels.

Overall, the economic reading of the scoreboard highlights issues related to the volatility of the external position and the stock of private and public debt as well as the housing market. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

Greece: In February 2019, the Commission concluded that Greece was experiencing *excessive macroeconomic imbalances*, in particular involving high government indebtedness, a negative external position and a high share of non-performing loans, in a context of high, although declining, unemployment and low potential growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), the general government gross debt, as well as the unemployment rate.

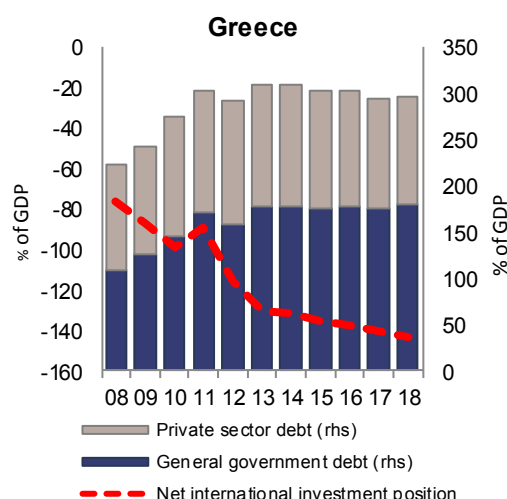
Graph A7: *Household debt and house price index*



Source: Eurostat and ECB

Greece's deeply negative external asset position largely consists of net debt liabilities, in particular external public debt, which is held mostly by official-sector creditors in highly concessional terms. Moderate nominal GDP growth and a negative current account balance that widened in 2018, are preventing the high stock of net external liabilities from adjusting at a faster rate. Nominal unit labour costs showed positive growth in 2018 in the context of flat labour productivity growth. Wage increases led to a further increase in the real effective exchange rate while there were gains of export market shares in 2018 for a second year in a row. Public debt is very high, although it is projected to gradually decline in the next years while its sustainability is underpinned by the debt relief measures that were agreed by European partners in 2018. Real house prices started to pick up in 2018 following a decade of price declines. Private sector credit growth is negative as deleveraging continues, while the high stock of non-performing loans is slowly unwinding. Unemployment is declining but remains very high, notably the long-term and youth unemployment.

Graph A8: NIIP, private debt and government debt



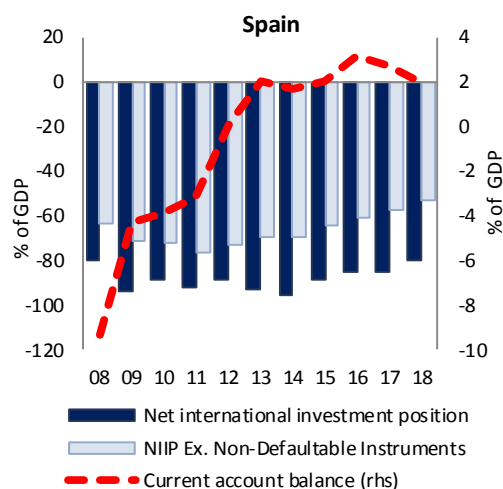
Source: Eurostat

Overall, the economic reading highlights issues linked to the high public debt, the negative international investment position, and the high stock of non-performing loans, all in a context of high unemployment, low productivity growth and sluggish investment activity. Therefore, the Commission finds it useful, also taking into account the identification of excessive imbalances in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Spain: In February 2019, the Commission concluded that Spain was experiencing *macroeconomic imbalances*, relating to high levels of external and internal debt, both private and public, in a context of high unemployment. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), the government debt ratio, private debt, the unemployment rate as well as the decline in the activity rate.

The current account position has been continuously in surplus although it narrowed in 2018. The negative NIIP has kept improving but remains very high. Nominal unit labour costs have marginally increased in a context of close to zero productivity growth. Relative gains in cost competitiveness have been the main source of competitiveness gains since the crises. Despite some weakening in 2018, partly due to transitory factors, exports have grown moderately, and export market shares have remained broadly stable. Private sector debt continued to decline throughout 2018 but deleveraging needs remain. The decline in corporate debt to GDP ratio continued, but has slowed down due to slighty positive growth in new credit. For households, debt to GDP has continued to

Graph A9: NIIP and CA balance



Source: Commission services

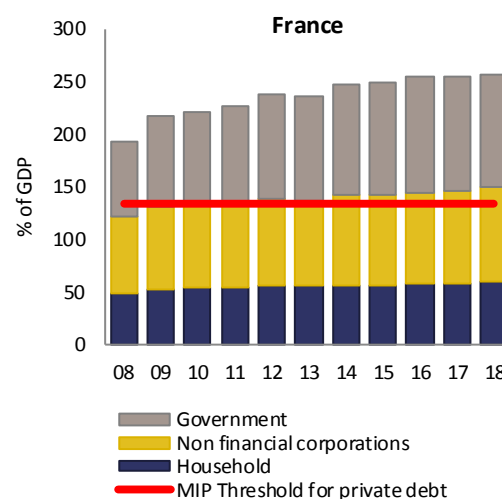
decline although credit growth turned positive in 2018. Real house prices have continued to increase and undervaluation seems to be coming to an end. In recent years, strong economic growth has been the main driver of the reduction in the general government deficit but the persistent deficits imply that the still high government debt ratio is only slowly decreasing. Unemployment has been declining rapidly, but is very high and above pre-crisis levels, especially among youth and unskilled workers.

Overall, the economic reading highlights issues relating to external sustainability, private and public debt, in the context of high unemployment and weak productivity growth. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

France: In February 2019, the Commission concluded that France was experiencing *macroeconomic imbalances* in particular involving high public debt and weak competitiveness dynamics in a context of low productivity growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely general government and private sector debt.

The current account records a contained and stable deficit while the net international investment position is mildly negative. Export market shares remained stable in 2018, both on a yearly basis and based on the five-year indicator. The growth in unit labour costs has been contained and below the euro area average although labour productivity growth is low. Government debt stabilised at a record high level in 2018, confirming that fiscal space to respond to future shocks is limited. Private credit flows remained relatively dynamic so that the high private sector debt-to-GDP ratio slightly increased. Non-financial companies' debt was above the level suggested by fundamentals while households' indebtedness was more contained. Real house prices have increased at moderate but steady pace in recent years and signs of potential overvaluation remain. The banking sector appears resilient but the combination of high public and private debt ratios may induce risks. Moreover, the prevailing low interest rates may weigh on banks' profitability. The unemployment rate has declined further and is now below the threshold. Long-term and youth unemployment kept improving.

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



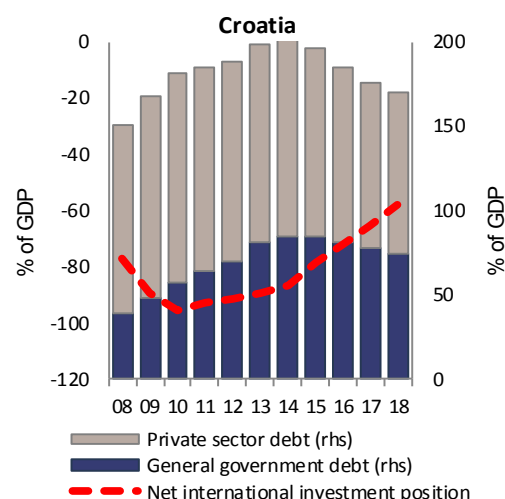
Source: Eurostat

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

Croatia: In February 2019, the Commission concluded that Croatia was experiencing *macroeconomic imbalances*, relating to high levels of public, private and external debt in a context of low potential growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), public debt, the unemployment rate and the decline in the activity rate.

The negative NIIP has significantly narrowed in line with continuous current account surpluses but remains large. Unit labour costs growth turned positive in 2018 as labour productivity growth was very low. There have been continuous gains in export market shares since 2013 but they are declining. Government debt is high but on a downward trend, supported by small fiscal surpluses. Household and corporate debt continues to fall, but remain relatively high. In general, a substantial share of debt is denominated in foreign currency, generating exchange rate risks. While subdued credit growth contributes to the reduction in private debt levels, the increased use of general-purpose cash loans among households raises concerns. At the same time, the financial sector is burdened by high, although declining, levels of non-performing loans and some foreign currency exposure. The unemployment rate has been falling rapidly but remains relatively high. The activity rate is persistently low, while the working age population shrinks. This, compounded by low productivity growth, especially for a catching-up economy, hampers potential growth.

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



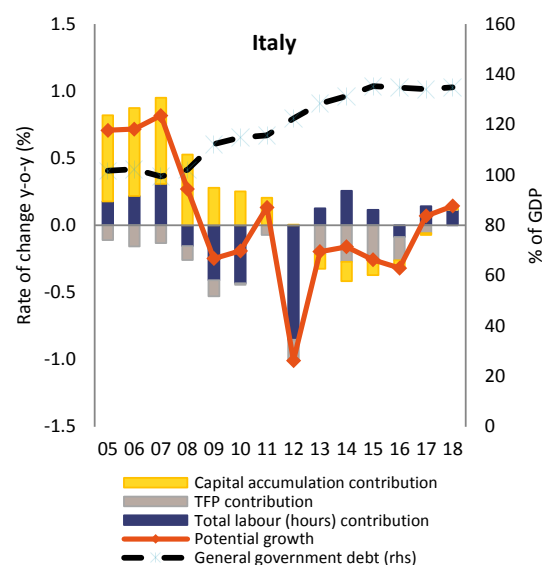
Source: Eurostat

Overall, the economic reading highlights issues relating to the stock of external liabilities, public and private debt, and high NPLs in a context of still high unemployment and low productivity growth. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

Italy: In February 2019, the Commission concluded that Italy was experiencing *excessive macroeconomic imbalances*, in particular involving risks stemming from the very high public debt and protracted weak productivity growth in a context of still high non-performing loans (NPLs) and high unemployment. In the updated scoreboard, government debt and the unemployment rate still exceed the indicative threshold.

The external position is stable as the net international investment position is close to balance and the current account is in surplus. Part of the current account surplus is related to subdued domestic demand and low wage growth. Stagnant productivity growth weighs on non-cost competitiveness and potential GDP growth, which in turn hampers public debt deleveraging. Low productivity growth is due to low investment and

Graph A.12: *Potential growth and public debt*



Source: Commission services

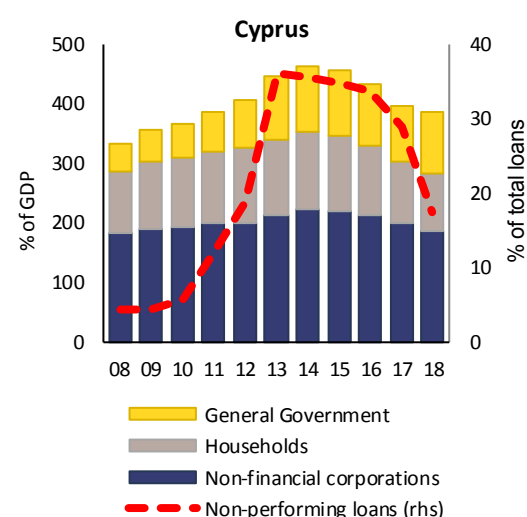
innovation levels, a non-supportive business environment, financing constraints, lack of high-skilled people, as well as to sectoral shifts. Unit labour cost growth is contained and export market shares broadly stable. The government debt-to-GDP ratio increased in 2018 and risks to further increase in 2019 due to the weak economic outlook and a worsening primary balance. On the positive side, sovereign yields have gone down substantially. Banks' balance sheet repair has substantially progressed as the non-performing loan stock has fallen, but lending to non-financial firms remains weak. Financial sector vulnerabilities remain, in particular for small and medium banks, which still hold large legacy stocks of non-performing loans and are more exposed to sovereign risk than larger ones. Unemployment and employment levels have evolved favourably. However, the unemployment level, in particular for young people and the long-term unemployed remain high, while labour market participation, especially of women remains low, with risks for future employability and growth.

Overall, the economic reading highlights issues relating to the high level of public debt, weak productivity growth and labour market performance and banking sector vulnerabilities, contributing to low potential growth which in turn hamper public debt deleveraging. Therefore, the Commission finds it opportune, also taking into account the identification of excessive imbalances in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

Cyprus: In February 2019, the Commission concluded that Cyprus was experiencing *excessive macroeconomic imbalances* in particular involving a very high share of non-performing loans, high stocks of private, public, and external debt in a context of still relatively high unemployment and weak potential growth. In the updated scoreboard, a number of indicators remain beyond the indicative thresholds, namely the current account balance, the net international investment position (NIIP), private sector debt, government debt and the unemployment rate.

The current account deficit remained significantly negative in 2018, reflecting strong domestic demand and negative savings among households. The dynamics of the current account is not conducive to ensure a prudent net international investment position, even taking into account the presence of special purpose entities. Unit labour cost growth has been contained while export market shares are stable in 2018. Private debt is among the highest in the EU both for households and corporates and credit flows remain positive. The ratio of non-performing loans in the banking sector declined significantly in 2018, but remains very high. The government support in the sale of the Cyprus Cooperative Bank had a one-off increasing impact on public debt in 2018. Looking forward, public debt is expected to resume its declining path on the back of a continued supportive fiscal performance. Unemployment keeps falling and is expected to continue contracting amid strong economic growth.

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



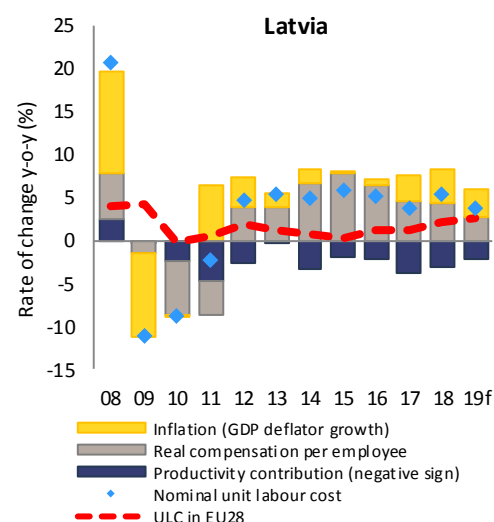
Source: Eurostat and ECB

Overall, the economic reading highlights issues relating to external debt sustainability, public and private debt and vulnerabilities in the financial sector. Therefore, the Commission finds it useful, also taking into account the identification of excessive imbalances in February, 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 above the indicative threshold, namely the net international investment position (NIIP), unit labour cost growth, and real house price growth.

The current account fell back into a small deficit in 2018 but the negative NIIP, mainly reflecting government debt and FDI, continued to improve relatively rapidly. Cost competitiveness indicators seems to weaken as the real effective exchange rate appreciated and unit labour costs continued to grow relatively strongly driven by steady wage growth. The pressure on wages is expected to persist due to the shrinking labour force. Meanwhile, export market share growth has slowed but cumulated gains remain positive. Real house price growth is dynamic and accelerated somewhat in 2018, warranting attention to pressures in the housing market even if there are yet no clear signs of house market overvaluation. Private debt deleveraging continues as credit growth remains subdued while public debt is low and declining moderately. On the labour market side, unemployment moves further downwards and the activity rate have kept increasing.

Graph A14: *Decomposition of unit labour cost*



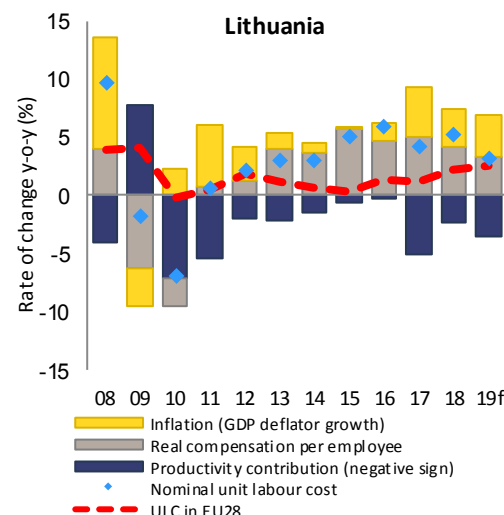
Source: Commission services

Overall, the economic reading highlights issues relating to labour supply pressures and cost competitiveness, but risks appear contained. The Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

Lithuania: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Lithuania. In the updated scoreboard, a number of indicators are above the indicative threshold, namely the real exchange rate and nominal unit labour cost growth.

The current account is broadly in balance while the NIIP, reflecting mainly government debt and FDI, has continued to improve and is now within the threshold. Unit labour costs has continued to grow at relatively high rates driven by high wage growth reflecting a tight labour market and some regulatory changes, including a relatively fast increase in the minimum wages since 2016. In addition, the real effective exchange rate appreciated relatively strongly in 2018 moving beyond the threshold. Going forward, however, risks seem mitigated because nominal wage growth is moderating while productivity growth remains healthy. Gains in export market shares have continued at a solid pace. Public and private debt levels continue to be relatively low and stable with positive credit growth. Real house price increases have

Graph A15: *Decomposition of unit labour cost*



Source: Commission services

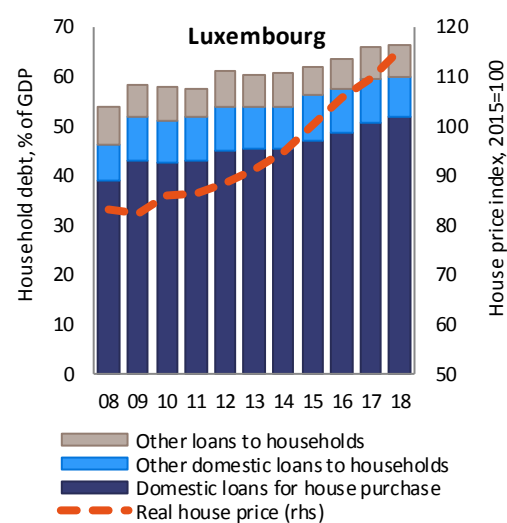
been pronounced but remain within the scoreboard threshold. Unemployment remains low.

Overall, the economic reading highlights issues relating to cost competitiveness, but risks appear contained at this stage. 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 private sector debt is beyond the indicative threshold.

The external position is characterised by broadly stable current account surpluses and a positive net international investment position. Cumulated gains in export market shares have narrowed while unit labour cost growth has been relatively strong. For many consecutive years, real house prices have continued to grow at a relatively high rate and warrant close attention. House price growth is underpinned by the dynamic labour market combined with the sizeable net migration flows and favourable financing conditions, while supply has remained relatively constrained. The high corporate indebtedness is mostly related to cross-border intracompany loans. Household debt, which is mostly mortgage debt, has reached relatively high levels reflecting the increase in house prices. Risks for financial stability are mitigated by the soundness of the banking sector. Furthermore, the labour market is robust with strong job creation and unemployment stabilising at relatively low levels. Public debt remains very low.

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



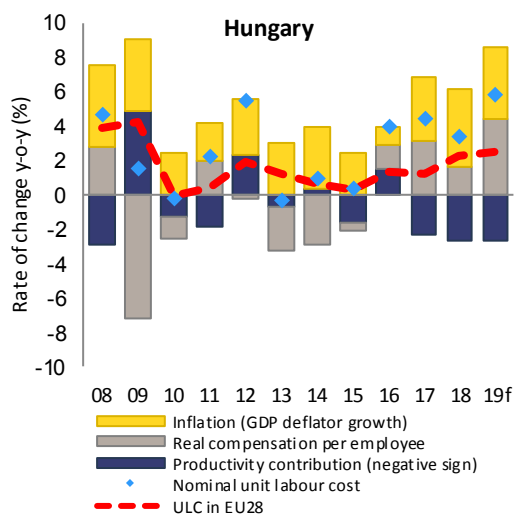
Source: Eurostat and ECB

Overall, the economic reading points mainly to issues related to increasing housing prices and household debt although risks appear contained at this stage. 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 for Hungary. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), unit labour cost growth, real house price growth and government debt.

The negative NIIP shows sustained improvement but the current account surplus is being eroded due to strong import growth. Risks from domestic demand pressures warrant attention. Unit labour cost growth has been very dynamic, as productivity growth lags behind substantial wage rises, driven by the tight labour market and administrative measures. Appreciation of the real

Graph A17: **Decomposition of unit labour cost**



Source: Commission services

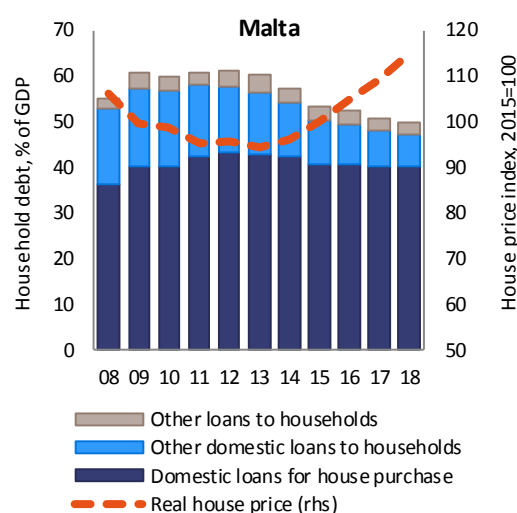
effective exchange rate has been mitigated so far by a gradual nominal currency depreciation. Still, temporary disruptions in the automotive industry and its value chain stalled the growth of the export market share in recent years and the large role of this sector may represent a risk over the longer term. Real house prices continued to grow rapidly. New lending volumes are increasing, but private debt as a percentage of GDP continues to decrease because of the gradual amortisation of previously accumulated stocks. Government debt is declining only slowly due to the pro-cyclical fiscal stance in recent years. Unemployment decreased further in 2018 as the labour market remains tight.

Overall, the economic reading highlights issues relating to unit labour costs, the housing market and possible risks from the exposure to the automotive industry. However, short-term risks appear contained. Therefore, the Commission will keep monitoring the situation but does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

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

The current account surplus remained very elevated in 2018 similar to the level seen in 2017. The net international investment position declined marginally, but remains strongly positive reflecting the presence of internationally-oriented financial business and online gaming activity. Moderate wage developments are the main factor behind the continued subdued nominal unit labour cost growth. The real effective exchange rate appreciated slightly. Private sector debt continued to decrease in 2018, underpinned mainly by strong nominal GDP growth. While credit flow to the non-financial sector is expanding, credit to households was broadly stable until 2018. The government debt-to-GDP ratio continued to decline. The steady increases in house prices accelerated slightly in 2018, while there are not yet consistent signs of overvaluation. Financial sector liabilities declined in 2018 and there are no evident signs of fragility in the banking sector given the existing capital buffers. The labour market continues to perform well, with declining unemployment, including long-term unemployment, and increasing activity rates.

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



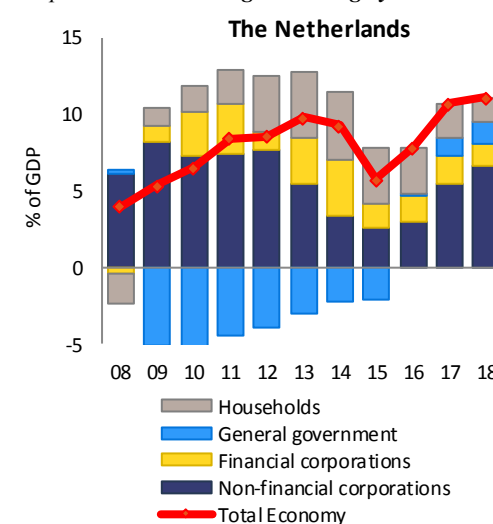
Source: Eurostat and ECB

Overall, the economic reading points to a very elevated current account balance and relatively dynamic house price growth, while risks appear contained at this stage. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

The Netherlands: In February 2019, the Commission concluded that the Netherlands was experiencing *macroeconomic imbalances*, in particular involving a high stock of private debt and the large current account surplus. In the updated scoreboard a number of indicators are beyond the indicative threshold, namely the current account balance, private sector debt and real house price growth.

The current account surplus is very high and remains well above the scoreboard threshold. All economic sectors – household, government and corporate – contribute to the surplus. The increase in recent years was mainly driven by non-financial corporations, with a savings surplus related to relatively high corporate profitability and a comparatively low domestic investment rate. Unit labour cost growth has been contained as wage growth has picked up but remains moderate while productivity growth has stalled. Private debt as a share of GDP continues to gradually decline, but remains well above the scoreboard threshold. The high level of corporate debt is principally driven by the intra-group debt of multinationals. In particular household debt is very high, mainly linked to a generous tax treatment of mortgages on owner-occupied homes and a sub-optimally functioning

Graph A19: Net lending/borrowing by sector



Source: Eurostat

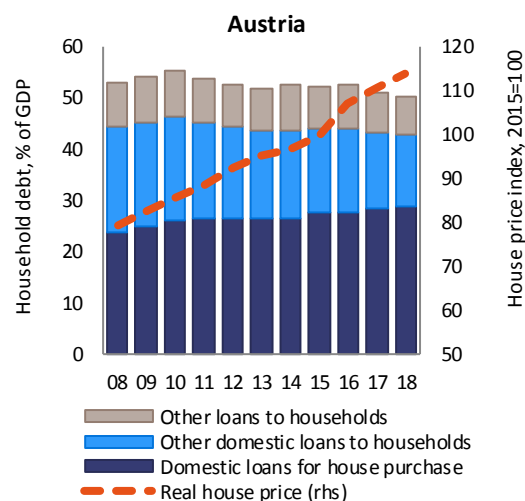
rental market. While household debt as a share of GDP is on a decreasing trend, nominal debt continued to grow in 2018 as the strong housing market recovery accelerated further. As a result, real house price growth increased in 2018 and reached a level beyond the scoreboard threshold. The government debt ratio is relatively low and falling. Unemployment has also reduced with strong employment growth.

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

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

The current account surplus remained moderate and broadly stable in 2018 and the net international investment position remained marginally positive. There were some gains in export market shares. Unit labour cost increased as wages grew more strongly than labour productivity but remained overall relatively contained. Real house prices continued their upward trend but growth decelerated further. While this warrant monitoring, the price increase does not appear to be credit-driven. Meanwhile, both corporate and household debt ratios are continuing to decrease. Government debt

Graph A20: Household debt and house price index



Source: Eurostat and ECB

continued also its downward path on the back of strong economic growth and the ongoing asset wind-down from nationalised financial institutions. The banking sector situation improved further also linked to the recovery in neighbouring countries. In these favourable economic conditions and with strong employment growth, the unemployment rate decreased notably.

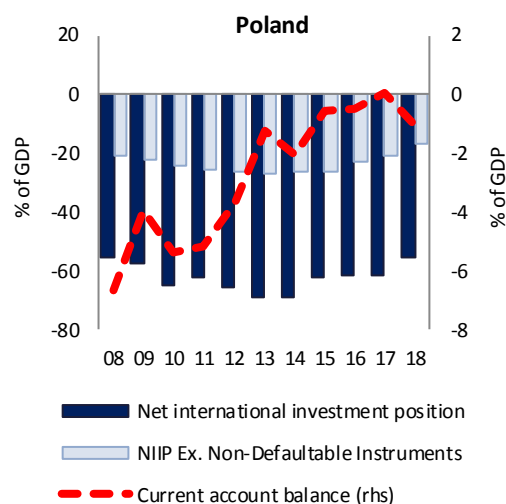
Overall, the economic reading highlights issues relating to the housing sector, but risks appear contained. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

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

The current account balance turned from a small surplus in 2017 to a slight deficit in 2018, while the negative NIIP narrowed visibly, yet remaining beyond the threshold. External vulnerabilities remain contained, given that foreign direct investment accounts for a major part of foreign liabilities. Further gains in export market shares were recorded in 2018. Nominal unit labour costs increased at a modest pace, as robust wage hikes were counter balanced by strong productivity growth. The growth of house prices strengthened in 2018, remaining below, but close to the threshold. The private sector debt-to-GDP ratio is broadly stable in 2018. General government debt, measured as percentage of GDP, decreased further from already relatively low levels on the back of fast nominal GDP growth and a low headline deficit. The banking sector is relatively well capitalised, liquid and profitable, although the declining but still sizeable stock of foreign-currency denominated loans remains a vulnerability. The favourable labour market situation continued, resulting in a further decline in the unemployment rate to a very low level.

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

Graph A21: NIIP and CA balance

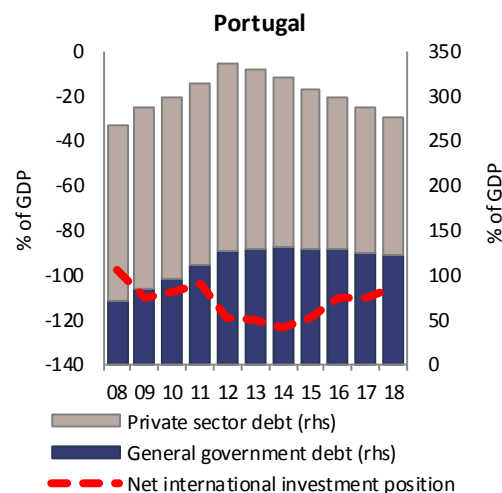


Source: Commission services

Portugal: In February 2019, the Commission concluded that Portugal was experiencing *macroeconomic imbalances*, in particular involving the large stocks of net external liabilities, private and public debt, and a high share of non-performing loans in a context of low productivity growth. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the net international investment position (NIIP), government debt, private debt, and real house price growth.

The external position is vulnerable as the NIIP is deeply negative and the pace of adjustment is very slow while the current account balance has deteriorated. Price competitiveness has deteriorated slightly over recent years due to the increase in unit labour costs while exporters continue to gain market shares, albeit at a slowing pace. Labour productivity remains low and is projected to improve only marginally in the coming years, hampering catching-up with more advanced euro area economies. Private sector debt deleveraging continues although debt levels are relatively high both for corporates and households. Government debt, while still very high, is projected to retain a gradual downward path. The banking sector is becoming more resilient although the stock of non-performing loans remains a concern notwithstanding its substantial decline in 2017 and 2018. House prices keep growing strongly and have accelerated, particularly in market segments affected by tourism-related activities. However, the mortgage stock is broadly stable and construction activities are gradually catching up with demand. The labour market has continued to improve and the unemployment rate is now within the threshold.

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



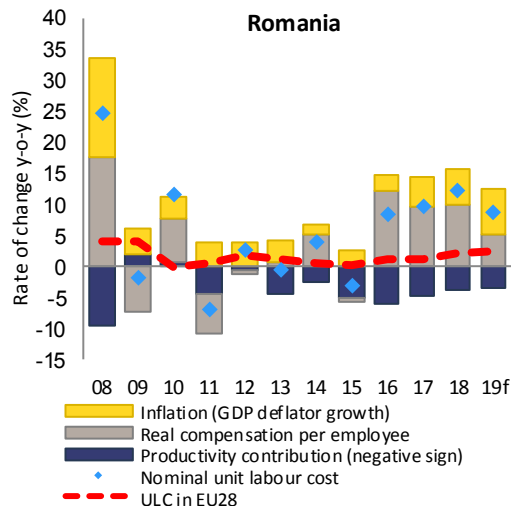
Source: Eurostat

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

Romania: In February 2019, the Commission concluded that Romania was experiencing *macroeconomic imbalances*, in particular involving risk of cost competitiveness losses, a continued deterioration of the external position and risks to financial stability. In the updated scoreboard, two indicators are beyond the threshold, namely the net international investment position (NIIP) and nominal unit labour cost growth.

The large current account deficit continued to widen in 2018 driven by high import and slowing export growth. The negative NIIP, which consists mostly of FDI, improved in 2018 on the back of strong nominal GDP growth. Exports continued to perform well in 2018, with further gains in export market shares. Unit labour cost growth accelerated sharply in 2018 due to strong wage

Graph A23: *Decomposition of unit labour cost*



Source: Commission services

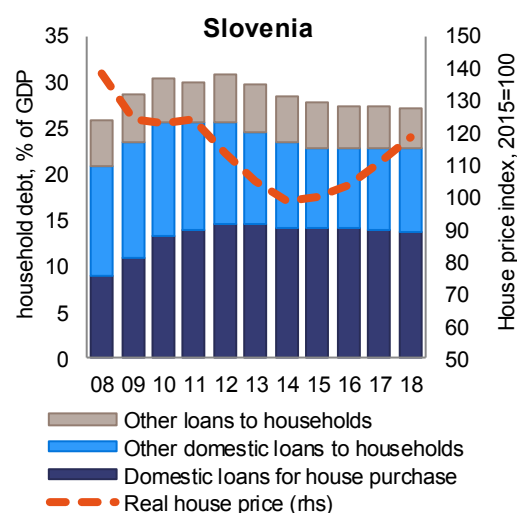
growth, particularly in the public sector. Past evidence suggests that public wage growth is likely to spill over to the private sector, which could trigger cost competitiveness losses. Private debt is low and continued to decrease, while credit growth to the private sector is subdued. The business environment is affected by frequent and unpredictable legislative changes often adopted without impact assessment or stakeholder consultation. Government debt, as a percentage of GDP, is relatively low but is no longer decreasing. In the housing market, real house price growth continued to decelerate in 2018 and remains moderate. Banks are well capitalized and liquid. Risks to financial stability stemming from past legislation appear to have abated, although policy and legislative instability remains a concern. The declining unemployment rate in 2018 reflects the continued tightening of the labour market, while the activity rate, although at very low levels, continued to improve.

Overall, the economic reading highlights issues relating to strongly increasing unit labour costs and the deteriorating external position. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

Slovenia: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Slovenia. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely the public sector debt and house price growth.

The current account continues to show a strong surplus contributing to a further narrowing of the negative net international investment position. Wage increases have been relatively low and labour productivity has improved, resulting in contained unit labour cost growth while gains in export market shares have continued. Private sector debt is relatively low and falling. Private sector credit growth turned positive in 2017 but remains muted. Investment is below the EU average, particularly regarding residential construction. House price growth remains high in a context of supply shortages, which warrant attention. Although government debt-to-GDP ratio is high, it is on a clear downward trend. However, projected ageing costs put pressure on medium and long-term fiscal sustainability. The banking sector is stable and the share of non-performing loans continues its downward trend. Regarding the labour market, unemployment keeps falling, with the activity rate at a previously unseen high.

Graph A24: **Household debt and house price index**



Source: Eurostat and ECB

Overall, the economic reading highlights issues relating mainly to fiscal sustainability and house price growth, although risks seem contained at this stage. Therefore, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

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

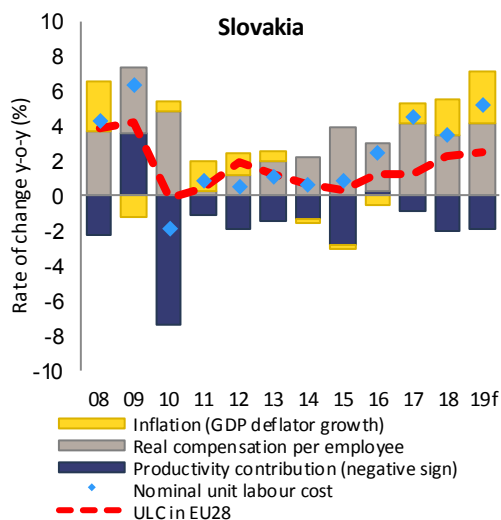
The current account deficit widened somewhat in 2018 but remains moderate. The NIIP is strongly negative but stable, while risks are limited in view of the large inward FDI stocks which stem from the expanding automotive industry and the financial sector. Still, temporary disruptions in the automotive industry and the large role of this sector may represent a risk over the longer term. Export market shares showed some gains and the real effective exchange rate appreciated slightly after years of moderation. Nominal unit labour cost growth accelerated markedly, driven by strong wage growth in the context of a very tight labour market and significant labour shortages and is now beyond the threshold. House prices rose noticeably in 2018 although an overvaluation is not yet evident. The buoyant housing market has contributed to a continued rise in the household debt although from relatively low levels. The largely foreign-owned banking sector is well-capitalised. Further declines in total and long-term unemployment rates have been accompanied by increases in the participation rate.

Overall, the economic reading highlights potential issues relating to external sustainability, domestic wage pressures and possible risks from the exposure to the automotive industry. However, short-term risks appear contained. Therefore, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.

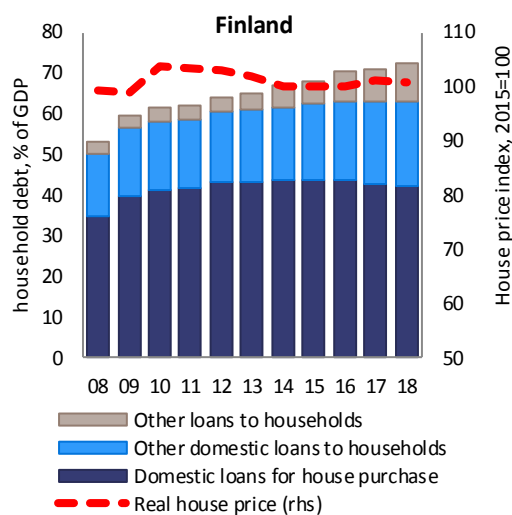
Finland: In the previous round of the MIP, *no macroeconomic imbalances* were identified in Finland. In the updated scoreboard, a number of indicators are beyond the indicative threshold, namely private sector debt and the change in total financial sector liabilities.

The current account deficit widened in 2018 as the trade balance reverted to negative values while the net international investment position is balanced. Export market shares recovered for a third year in a row, narrowing down cumulated losses. Unit labour costs recorded positive growth in 2018 and the real effective exchange rate appreciated slightly but developments are overall contained. Government debt came down further as GDP growth outpaced debt growth and it is now within the threshold. Private debt remains high but decreases slowly. Favourable credit conditions and low interest rates continue to support private credit growth although credit growth decreased in 2018. Household debt to GDP is relatively high and remains on a mild upward path. Real house prices were stable in 2018.

Graph A25: *Decomposition of unit labour cost*



Graph A26: *Household debt and house price index*



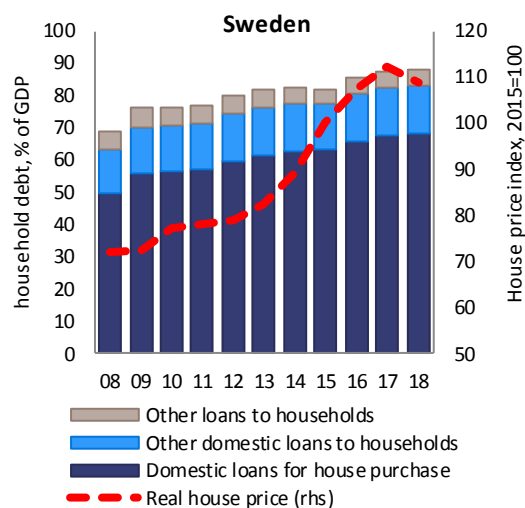
Muted mortgage growth and the declining number of new building permits reduce risks to the sustainability of the household sector debt. The financial sector is well capitalised, limiting risks to financial stability. The large increase in total assets and liabilities of the banking sector at the end of 2018 is the reflection of one bank moving its headquarters from Sweden to Finland. While both employment and unemployment strongly improved in 2018, further improvement will likely be slower. The long-term and youth unemployment rates came down in 2018.

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

Sweden: In February 2019, the Commission concluded that Sweden was experiencing *macroeconomic imbalances*, in particular involving overvalued house price levels coupled with a continued rise in household debt. In the updated scoreboard, a number of indicators are beyond the threshold namely, private sector debt and export market shares.

The trend of a narrowing current account surplus continued in 2018 while the NIIP increased and is now clearly in positive territory. Export market share losses rose in 2018 and the indicator is now beyond the threshold. Nominal unit labour cost growth has accelerated while the real effective exchange rate has depreciated due to the Krona depreciation. Private sector debt is high with household debt linked to mortgages as the main driver. In 2018, household debt further increased slightly. House prices fell at the end of 2017 but remained flat over 2018, overall implying negative growth in 2018 on an annual basis, and are overall very high with indications of overvaluation. House prices and household indebtedness imply macro-stability risks and are being pushed up by the favourable tax treatment of home ownership, very low mortgage interest rates and specific features in the mortgage market as well as supply side restrictions implying risks for macroeconomic stability. Risks in the banking system appear contained, as asset quality and profitability remain high and household finances are generally strong, while macro-prudential policy has been tightened. In 2018, the labour market improved further and unemployment declined, but recent developments indicate a weakening.

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



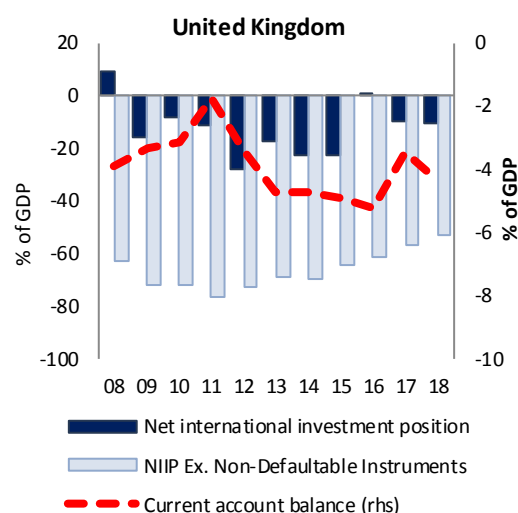
Source: Eurostat and ECB

Overall, the economic reading highlights issues relating to high private debt and the housing sector. Therefore, the Commission finds it opportune, also taking into account the identification of imbalances in February, 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, the real effective exchange rate, private sector debt and government debt.

The already-large current account deficit widened in 2018, which gives rise to sizeable external financing needs. A large deficit in goods trade and smaller deficits in transfers and investment income were only partially offset by a surplus in services trade. Notwithstanding persistent external deficits, the net international investment position is close to balance, also helped by the sterling depreciation in 2016. However, the net trade response to the depreciating real effective exchange rate and associated improved price competitiveness has been disappointing and there has been recent export market share losses. The private sector debt-to-GDP ratio has bottomed out at a high level, following a period of moderate post-crisis deleveraging. In particular, household debt remains high and continues to warrant close monitoring. Real house prices have flattened off, though at a high level. Government debt is high and broadly stable. Strong employment growth continued to be accompanied by low unemployment, but investment and labour productivity are weak.

Graph A28: *NIIP and CA balance*



Source: Commission services

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

Table 1.1: MIP Scoreboard 2018

Year2018	External imbalances and competitiveness					Internal imbalances						Employment indicators ¹		
	Current account balance - % of GDP (3 year average)	Net international investment position (% of GDP)	Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	Export market share - % of world exports (5 year % change)	Nominal unit labour cost index (2010=100) (3 year % change)	House price index (2015=100), deflated (1 year % change)	Private sector credit flow, consolidated (% of GDP)	Private sector debt, consolidated (% of GDP)	General government gross debt (% of GDP)	Unemployment rate (3 year average)	Total financial sector liabilities, non-consolidated (1 year % change)	Activity rate - % of total population aged 15-64 (3 year change in pp)	Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)
Thresholds	-4/6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	0.3	41.3	6.9	-1.5	3.7	1.0	0.8	178.5	100.0	7.0b	-2.9	1.0	-1.5	-6.3
BG	4.0	-35.2	3.9	13.4	18.3p	4.5	3.9	95.0	22.3	6.3	6.8	2.2	-2.6	-8.9
CZ	1.2	-23.5	11.0	11.9	13.5	6.1p	5.3	70.7	32.6	3.0	7.4	2.6	-1.7	-5.9
DK	7.5	48.5	2.6	-1.5	4.0	3.5	2.4	199.4	34.2	5.6	-4.7	0.9	-0.6	-1.6
DE	8.0	62.0	5.3	3.1	5.6	5.1	6.6	102.4	61.9	3.8	2.0	1.0	-0.6	-1.0
EE	2.1	-27.7	7.7	0.8	14.3	2.1	3.7	101.5	8.4	6.0	6.9	2.4	-1.1	-1.2
IE	2.3	-165.0	2.3	77.4	-2.8	8.3	-7.8	223.2	63.6	7.0	5.1	0.8	-3.2	-6.4
EL	-2.2	-143.3	3.6	6.9	1.4p	1.3e	-1.1p	115.3p	181.2	21.5	-5.0	0.4	-4.6	-9.9
ES	2.6	-80.4	4.1	4.6	0.7p	5.3	0.4p	133.5p	97.6	17.4	-2.2	-0.6	-5.0	-14.0
FR	-0.6	-16.4	4.5	-0.2	2.4p	1.5	7.9p	148.9p	98.4	9.5	1.6	0.6	-0.8	-4.0
HR	2.4	-57.9	4.2	22.9	-2.4d	4.6	2.3p	94.0p	74.8	10.9	4.6	-0.6	-6.8	-18.9
IT	2.6	-4.7	3.3	0.3	2.7	-1.6	1.6	107.0	134.8	11.2	-0.1	1.6	-0.7	-8.1
CY	-4.6	-120.8	1.8	16.6	-0.4p	0.2	8.4p	282.6p	100.6	10.8	0.3	1.1	-4.1	-12.6
LV	0.6	-49.0	4.9	8.6	14.7	6.6	-0.2	70.3	36.4	8.6	-3.0	2.0	-1.4	-4.1
LT	-0.1	-31.0	6.4	3.5	16.5	4.6	4.3	56.4	34.1	7.1	8.2	3.2	-1.9	-5.2
LU	4.9	59.8	3.3	10.7	7.9	4.9	-0.5	306.5	21.0	5.8	-2.0	0.2b	-0.5	-2.5
HU	2.1	-52.0	2.0	8.4	12.4	10.9	4.3	69.3	70.2	4.3	-9.2	3.3	-1.7	-7.1
MT	8.9	62.7	4.9	24.0	3.2	5.1p	7.5	129.8	45.8	4.1	2.3	5.9	-1.3	-2.5
NL	9.9	70.7	3.2	1.7	3.0p	7.4	4.5p	241.6p	52.4	4.9	-3.3p	0.7	-1.6	-4.1
AT	2.2	3.7	4.8	3.9	4.7	2.5	3.9	121.0	74.0	5.5	1.7	1.3	-0.3	-1.2
PL	-0.5	-55.8	0.1	25.8	8.1p	4.9	3.4	76.1	48.9	5.0	3.0	2.0	-2.0	-9.1
PT	0.9	-105.6	3.1	9.4	5.3p	8.9	-0.1p	154.3p	122.2	9.1	0.7	1.7	-4.1	-11.7
RO	-3.3	-44.1	-0.7	23.7	33.6p	1.8	1.9p	47.8p	35.0	5.0	3.3	1.7	-1.2	-5.5
SI	5.5	-18.9	2.0	20.4	6.1	7.4	1.3	72.8	70.4	6.6	4.1	3.2	-2.5	-7.5
SK	-2.4	-68.1	2.5	3.2	10.9	5.0	2.0	90.9	49.4	8.1	8.9e	1.5	-3.6	-11.6
FI	-1.4	-2.0	3.0	-3.0	-2.6	-0.2	1.6	142.1	59.0	8.3	19.9	2.1	-0.7	-5.4
SE	2.8	10.3	-4.0	-6.3	7.4	-3.0	9.0	200.0	38.8	6.6	-2.9	1.2	-0.3	-3.6
UK	-4.3	-10.5	-13.0	-3.8	7.8	0.7	5.3	169.1	85.9	4.4	-0.6	1.0	-0.5	-3.3

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

1) For the employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. 4) Unemployment rate for BE: revision in the survey methodology. 5) In Total financial sector liabilities for SK, derivatives are estimated.

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

Table 2.1: Auxiliary indicators, 2018

Year 2018	Real GDP (1 year % change)	Gross fixed capital formation (% of GDP)	Gross domestic expenditure on R&D (% of GDP)	Current plus capital account (Net lending- borrowing) (% of GDP)	Net international investment position excluding non-defaultable instruments (% of GDP)	Foreign direct investment in the reporting economy - flows (% of GDP)	Foreign direct investment in the reporting economy - stocks (% of GDP)	Net trade balance of energy products (% of GDP)	Real effective exchange rate - Euro Area trading partners (3 year % change)	Export performance against advanced economies (5 year % change)	Terms of trade (5 year % change)	Export market share in volume (1 year % change)	Labour productivity (1 year % change)	Gross non-performing loans of domestic and foreign entities (% of gross loans)	Unit labour cost performance relative to EA (10 year % change)	House price index (2015=100) - nominal (3 year % change)	Residential construction (% of GDP)	Household debt, consolidated (incl. NPISH, % of GDP)	Consolidated banking leverage, domestic and foreign entities (total assets/total equity)
BE	1.5	23.8	na	-1.0	36.6	-11.8	170.1	-3.5	2.8	-3.4	0.3	-2.2	0.1	2.3p	0.7	9.4p	5.8	60.9	13.1p
BG	3.1	18.8	0.8p	6.4	35.4	1.9	82.3	-3.4	-1.1	11.1	7.5	-1.7	3.2p	7.7p	43.3	24.0	2.7	23.4	7.5p
CZ	3.0	25.5	1.9p	0.6	28.3	3.5	77.5	-2.9	7.6	9.7	1.9	1.0	1.6	2.1p	5.0	30.0p	4.0	32.3	12.5p
DK	1.5	22.4	3.1p	7.1	11.0	0.3	55.5	-0.2	-1.8	-3.5	1.6	-3.0	-0.3	2.3p	-2.2	14.8	4.8	126.4	16.4p
DE	1.5	21.2	3.1e	7.4	44.7	2.7	44.7	-2.0	0.4	1.1	3.5	-1.3	0.2	1.4p	11.4	21.7	6.3	53.6	13.9p
EE	4.8	23.9	1.4p	3.4	25.7	3.8	92.7	-1.0	4.1	-1.3	4.3	0.9	3.5	1.3p	16.2	17.1	4.6	38.9	6.9p
IE	8.2	23.4	1.2	-5.8	-251.7	16.8	466.2	-1.4	-3.0	73.8	-0.5	7.0	4.8	5.5p	-42.0	31.4	2.4	41.7	6.7p
EL	1.9p	11.1p	1.2p	-2.6	-130.6	1.8	18.5	-2.4p	-1.5	4.7	3.6p	5.3p	0.2p	41.6p	-15.1	-1.9e	0.7p	56.5	11.5p
ES	2.4p	19.4p	na	2.4	-53.6	3.4	65.4	-2.1p	-0.2	2.5	-2.3p	-1.2p	0.1p	3.7p	-14.5	18.6	5.3p	59.0	13.6p
FR	1.7p	22.9p	na	-0.6	-33.0	2.2	45.8	-1.9p	-0.1	-2.2	2.8p	0.1p	0.7p	2.7p	-0.3	7.2	6.4p	60.0	15.3p
HR	2.6p	20.1p	na	3.3	-13.7	1.9	48.1	-3.2p	1.2	20.5	1.8p	4.0p	0.8d	7.3p	-15.5	11.1	na	34.2	7.5p
IT	0.8	17.7	na	2.6	-6.2	1.9	27.3	-2.3	-1.3	-1.7	6.0	-1.6	-0.1	8.4p	-1.2	-1.4	4.2	41.0	13.1p
CY	4.1p	19.1p	na	-3.8	-175.0	22.2	1890.1	-4.2p	-3.2	14.2	1.4p	1.2p	0.0p	20.2p	-9.7	4.4	5.8p	97.0	14.1p
LV	4.6	22.5	0.6p	1.1	-2.4	1.3	55.5	-3.4	1.3	6.5	5.0	0.6	3.0	5.3p	-4.4	29.3	2.2	20.8	7.8p
LT	3.6	20.5	0.9p	1.8	-2.7	2.7	43.4	-4.0	3.0	1.4	4.5	2.9	2.2	2.6p	7.9	23.2	2.7	22.9	10.4p
LU	3.1	16.8	na	6.1	-3523.8	-722.2	7466.2	-3.3	0.4	8.5	-0.2	-2.9	-0.6	0.8p	13.4	19.9	3.8	66.3	14.6p
HU	5.1	25.2	1.5	2.1	-4.2	-43.8	163.1	-3.8	-1.0	6.3	0.3	0.9	2.7	5.3p	9.1	45.5	3.0	18.0	9.4p
MT	6.8	19.0	0.6	12.3	248.0	32.2	1568.6	-8.5	0.3	21.5	2.0	-0.8	1.3	3.1p	4.5	17.5p	5.2	49.4	12.1p
NL	2.6p	20.3p	na	10.8	-14.0	-27.3	581.8	-1.5p	-0.8	-0.4	1.1p	0.3p	0.1p	1.9p	-1.8	23.6	4.8p	102.4p	16.1p
AT	2.4	23.9	3.2p	2.3	-5.0	0.9	67.4	-2.5	1.7	1.8	1.5	2.5	0.7	2.6p	4.7	19.6	4.5	49.6	11.4p
PL	5.1	18.2	1.2p	1.1	-16.9	2.8	47.8	-2.8	-3.0	23.2	3.8	3.6	4.8p	6.2p	-0.1	12.7	2.0	35.1	9.3p
PT	2.4p	17.6p	1.4p	1.4	-57.1	2.7	79.0	-2.5p	-0.3	7.2	4.8p	0.4p	0.1p	9.4p	-6.6	29.0	3.0p	66.9	11.0p
RO	4.0p	21.2p	na	-3.4	-3.9	3.1	44.0	-1.6p	-4.1	21.2	5.3p	2.0p	3.7p	5.3p	25.9	18.6	3.5p	16.0	9.3p
SI	4.1	19.2	2.0p	5.2	-1.9	2.8	39.1	-2.9	-0.4	18.0	2.6	3.2	0.9	6.0p	-0.3	22.5	2.1	27.0	8.2p
SK	4.0	21.2	0.8	-1.3	-16.5	2.4	69.2	-4.1	-0.4	1.1	-1.7	2.0	2.0	3.2p	3.9	21.3	3.4	42.1	9.5p
FI	1.7	23.7	2.8	-1.3	3.9	-1.9	48.9	-2.0	-1.4	-5.0	3.4	-1.2	-0.9	1.5p	1.9	2.9	7.3	65.4	16.1p
SE	2.3	25.9	3.3	1.7	-11.4	1.6	81.1	-1.3	-7.6	-8.2	-1.1	-0.3	0.4	1.0p	6.2	14.4	5.4	87.9	18.8p
UK	1.4	17.0	na	-4.5	4.9	1.3	83.9	-0.7	-16.2	-5.7	3.3	-4.3	0.2	1.2p	7.8	15.4	3.8	87.2	15.3p

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

1) Official transmission deadline for 2018 data on Gross domestic expenditure on R&D is 31 October 2019 while data were extracted on 25 October 2019. 2) House price index e = estimate by NCB for EL. 3) Labour productivity for HR d: employment data use national concept instead of domestic concept.

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

Table 2.1 (continued): Auxiliary indicators, 2018

Year 2018	Employment rate (1 year % change)	Activity rate - % of total population aged 15-64 (%)	Long-term unemployment rate - % of active population aged 15-74 (%)	Youth unemployment rate - % of active population aged 15-24 (%)	Young people neither in employment nor in education and training - % of total population aged 15-24		People at risk of poverty or social exclusion - % of total population		People at risk of poverty after social transfers - % of total population		Severely materially deprived people - % of total population		People living in households with very low work intensity - % of total population aged 0- 59	
					%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp
BE	1.4	68.6	2.9	15.8	9.2	-3.0	19.8	-1.3	16.4	1.5	4.9	-0.9	12.1	-2.8
BG	-0.1p	71.5	3.0	12.7	15.0	-4.3	32.8	-8.5	22.0	0.0	20.9	-13.3	9.0	-2.6
CZ	1.3	76.6	0.7	6.7	5.6	-1.9	12.2	-1.8	9.6	-0.1	2.8	-2.8	4.5	-2.3
DK	1.8	79.4	1.1	10.5	6.8	0.6	17.4	-0.3	12.7	0.5	3.4	-0.3	11.1	-0.5
DE	1.4	78.6	1.4	6.2	5.9	-0.3	18.7	-1.3	16.0	-0.7	3.1	-1.3	8.1	-1.7
EE	1.2	79.1	1.3	11.9	9.8	-1.0	24.4	0.2	21.9	0.3	3.8	-0.7	5.2	-1.4
IE	3.2	72.9	2.1	13.8	10.1	-4.2	na	na	na	na	na	na	na	na
EL	1.7p	68.2	13.6	39.9	14.1	-3.1	31.8	-3.9	18.5	-2.9	16.7	-5.5	14.6	-2.2
ES	2.2p	73.7	6.4	34.3	12.4	-3.2	26.1	-2.5	21.5	-0.6	5.4	-1.0	10.7	-4.7
FR	1.0p	71.9	3.8	20.7	11.1	-0.9	17.4	-0.3	13.4	-0.2	4.7	0.2	8.0	-0.6
HR	1.8d	66.3	3.4	23.4	13.6	-4.5	24.8	-4.3	19.3	-0.7	8.6	-5.1	11.2	-3.2
IT	0.9	65.6	6.2	32.2	19.2	-2.2	27.3	-1.4	20.3	0.4	8.5	-3.0	11.3	-0.4
CY	4.1p	75.0	2.7	20.2	13.2	-2.1	23.9	-5.0	15.4	-0.8	10.2	-5.2	8.6	-2.3
LV	1.6	77.7	3.1	12.2	7.8	-2.7	28.4	-2.5	23.3	0.8	9.5	-6.9	7.6	-0.2
LT	1.4	77.3	2.0	11.1	8.0	-1.2	28.3	-1.0	22.9	0.7	11.1	-2.8	9.0	-0.2
LU	3.7	71.1	1.4	14.1	5.3	-0.9b	21.9	3.4	18.3	3.0	1.3	-0.7	8.3	2.6
HU	2.4	71.9	1.4	10.2	10.7	-0.9b	19.6	-8.6	12.8	-2.1	10.1	-9.3	5.7	-3.7
MT	5.4	74.7	1.1	9.1	7.3	-3.2	19.0	-4.0	16.8	0.2	3.0	-5.5	5.5	-3.7
NL	2.5p	80.3	1.4	7.2	4.2	-0.5	16.7	0.3	13.3	1.7	2.4	-0.2	8.6	-1.6
AT	1.7	76.8	1.4	9.4	6.8	-0.7	17.5	-0.8	14.3	0.4	2.8	-0.8	7.3	-0.9
PL	0.3p	70.1	1.0	11.7	8.7b	-2.3b	18.9	-4.5	14.8	-2.8	4.7	-3.4	5.6	-1.3
PT	2.3p	75.1	3.1	20.3	8.4	-2.9	21.6	-5.0	17.3	-2.2	6.0	-3.6	7.2	-3.7
RO	0.2p	67.8	1.8	16.2	14.5	-3.6	32.5	-4.9	23.5	-1.9	16.8	-5.9	7.4	-0.5
SI	3.2	75.0	2.2	8.8	6.6	-2.9	16.2	-3.0	13.3	-1.0	3.7	-2.1	5.4	-2.0
SK	2.0	72.4	4.0	14.9	10.2	-3.5	na	na	na	na	na	na	na	na
FI	2.6	77.9	1.6	17.0	8.5	-2.1	16.5	-0.3	12.0	-0.4	2.8	0.6	10.8	0.0
SE	1.9	82.9	1.2	16.8	6.1	-0.6	18.0	-0.6	16.4	0.1	1.6	0.5	9.1	0.4
UK	1.2	77.9	1.1	11.3	10.4	-0.7	na	na	na	na	4.6p	-1.5p	na	na

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

1) Employment rate for HR, d: employment data use national concept instead of domestic concept. 2) Young people neither in employment nor in education and training for PL: changes in the weighting procedure. 3) Official transmission deadline for 2018 data for the Income and Living Conditions (EU-SILC) indicators is 30 November 2019 while data were extracted on 25 October 2019.

Source: European Commission, Eurostat