



European
Commission

ISSN 2443-8014 (online)

European Economic Forecast

Spring 2022

INSTITUTIONAL PAPER 173 | MAY 2022

EUROPEAN ECONOMY



*Economic and
Financial Affairs*

European Economy Institutional Papers are important reports analysing the economic situation and economic developments prepared by the European Commission's Directorate-General for Economic and Financial Affairs, which serve to underpin economic policy-making by the European Commission, the Council of the European Union and the European Parliament.

DISCLAIMER

The views expressed in unofficial documents do not necessarily represent the views of the European Commission.

LEGAL NOTICE

Neither the European Commission nor any person acting on behalf of the European Commission is responsible for the use that might be made of the information contained in this publication.

This paper exists in English only and can be downloaded from
https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

Luxembourg: Publications Office of the European Union, 2022

PDF ISBN 978-92-76-43942-4 ISSN 2443-8014 doi:10.2765/897128 KC-BC-22-010-EN-N

© European Union, 2022

Reuse is authorised provided the source is acknowledged. The reuse policy of European Commission documents is regulated by Decision 2011/833/EU (OJ L 330, 14.12.2011, p. 39). For any use or reproduction of material that is not under the EU copyright, permission must be sought directly from the copyright holders.

CREDIT

Cover photography: © iStock.com/kwasny221

European Economic Forecast

Spring 2022

ABBREVIATIONS

Countries and regions

EU	European Union
EA	Euro area
BE	Belgium
BG	Bulgaria
CZ	Czechia
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	The Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom
CN	China
JP	Japan
US	United States of America
AE	Advanced economy
EFTA	European Free Trade Association
EME	Emerging markets economy
EMU	Economic and Monetary Union
MENA	Middle East and North Africa
ROW	Rest of the World

Economic variables and institutions

CPB	Netherlands Bureau for Economic Policy Analysis
CPI	Consumer price index
ECB	European Central Bank
EUI	Economic Uncertainty Indicator
ESI	Economic Sentiment Indicator
GDP	Gross Domestic Product
GNI	Gross National Income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund

OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index

Other abbreviations

APP	Asset Purchase Programme
BCS	Joint Harmonised EU Programme of Business and Consumer Surveys
COVID-19	Coronavirus disease 2019
FIGARO	Full international and global accounts for research in input-output analysis
GFC	Global Financial Crisis
GM	European Commission's Global Multi-country model
HEM	Hypothetical extraction method
NACE	Statistical classification of economic activities in the European Community
NGEU	Next Generation EU
NLG	Natural Liquefied Gas
PEPP	Pandemic Emergency Purchase Programme
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
SME	Small and medium-sized enterprise
SURE	European instrument for temporary Support to mitigate Unemployment Risks in an Emergency
TTF	Title Transfer Facility
TLTRO III	Targeted longer-term refinancing operations
VAT	Value-added tax

Graphs/Tables/Units

bbl	Barrel
bn	Billion
bp. /bps.	Basis point / points
euro/MWh	Euro per megawatt hour
lhs	Left hand scale
mn	Million
pp. / pps.	Percentage point / points
pt. / pts.	Point / points
Q	Quarter
q-o-q%	Quarter-on-quarter percentage change
rhs	Right hand scale
tr	Trillions
y-o-y%	Year-on-year percentage change

Currencies

EUR	Euro
ECU	European currency unit
BGN	Bulgarian lev
CZK	Czech koruna
DKK	Danish krone
GBP	Pound sterling
HUF	Hungarian forint
HRK	Croatian kuna
ISK	Icelandic krona
MKD	Macedonian denar
NOK	Norwegian krone
PLN	Polish zloty
RON	New Romanian leu

RSD	Serbian dinar
SEK	Swedish krona
CHF	Swiss franc
JPY	Japanese yen
RMB	Renminbi
TRY	Turkish lira
USD	US dollar

CONTENTS

Executive Summary	1
PART I: Economic outlook for EA and EU	7
1. Setting the scene	9
2. Economic outlook	17
2.1. International environment	17
2.2. Financial conditions	21
2.3. The growth outlook	24
2.4. Labour market	33
2.5. Inflation	38
2.6. Current account	42
2.7. Public finances and policy stance	44
3. Risks	49
4. Special issue: Alternative scenarios on the economic outlook	51
5. Boxes	57
PART II: Prospects by individual economy	59
Euro Area Member States	61
1. Belgium	62
2. Germany	64
3. Estonia	66
4. Ireland	68
5. Greece	70
6. Spain	72
7. France	74
8. Italy	76
9. Cyprus	78
10. Latvia	80
11. Lithuania	82
12. Luxembourg	84
13. Malta	86
14. The Netherlands	88
15. Austria	90
16. Portugal	92
17. Slovenia	94
18. Slovakia	96
19. Finland	98
Non-EA Member States	101
20. Bulgaria	102
21. Czechia	104
22. Denmark	106
23. Croatia	108
24. Hungary	110
25. Poland	112

26. Romania	114
27. Sweden	116
Candidate Countries	119
28. Albania	120
29. Montenegro	122
30. North Macedonia	124
31. Serbia	126
32. Turkey	128
Other non-EU Countries	131
33. The United Kingdom	132
34. The United States	134
35. Japan	136
36. China	138
37. EFTA	140
38. Russian Federation	143
Statistical Annex	147
Previous European Economic Forecasts	183

LIST OF TABLES

1. Overview - the spring 2022 forecast	1
I.1.1. Economic impact of the Russian invasion of Ukraine on the EU	10
I.2.1. International environment	18
I.2.2. Composition of growth - EU	29
I.2.3. Composition of growth - euro area	31
I.2.4. Labour market outlook - euro area and EU	38
I.2.5. Inflation outlook - euro area and EU	41
I.2.6. General Government budgetary position - euro area and EU	45
I.4.1. Specification of alternative scenarios	53

LIST OF GRAPHS

I.2.1. Growth in global GDP and global PMIs	17
I.2.2a. Energy commodities' prices	18
I.2.2b. Basic metals' prices	18
I.2.2c. Agricultural commodities' prices	18
I.2.3. World import volumes	20
I.2.4. Changes in contribution to global non-EU import growth: Spring 2022 vs. Winter 2022 Forecast	21
I.2.5. Global financial conditions	21
I.2.6. Yield curves in the US and the euro area	21
I.2.7. Financial conditions' indicators	22
I.2.8. Spreads to the German bund yield, 10-year maturity	23
I.2.9. Euro area corporate bond spreads, 5-year maturity	23
I.2.10. Stock market performance	24
I.2.11. Current pandemic trends, EU	24
I.2.12. Mobility and stringency of restrictions, EU composite	25

I.2.13.	GDP demand-side components, EU	26
I.2.14.	Gross value added in main sectors, EU	26
I.2.15.	European Commission Consumer Surveys, gap between future and current expectations	27
I.2.16.	Real GDP growth path, EU	30
I.2.17.	March/April 2022 investment survey results, EU	30
I.2.18.	Investment breakdown and investment rates since 2019, EU excluding IE	31
I.2.19.	Consumers' assessment of the past and future general economic situation, EU	31
I.2.20.	Households' income, demand and savings	32
I.2.21.	Exports and external demand breakdown	32
I.2.22.	Real GDP growth, EU and Member States, 2021-2023	33
I.2.23.	Employment in the EU	33
I.2.24.	Unemployment rates in the EU	38
I.2.25.	Inflation dispersion across Member States	39
I.2.26.	Increase in food and food input prices	40
I.2.27.	Pass-through of food prices along the supply chain in the EU	40
I.2.28.	Inflation breakdown, EU	41
I.2.29.	Inflation expectations derived from implied forward inflation-linked swap rates	42
I.2.30.	Current-account balance, EU	43
I.2.31.	Change in terms of goods' trade vs. change in current account balance, EU, 1996-2023	43
I.2.32.	Change of terms of goods' trade in 2022 vs. change of goods' balance in 2022, Member States	43
I.2.33.	Importance of tourism vs. changes in the services trade balance, 2021-2023	44
I.2.34.	Budget balance in Member States, 2021-2023	44
I.2.35.	Drivers of the change in the government balance, EU	45
I.2.36.	Expenditure and revenue developments, EU	45
I.2.37.	Public investment in the EU, 2019 and 2023	46
I.2.38.	Debt developments, EA	46
I.2.39.	General government debt developments	47
I.2.40.	Fiscal stance in the EU and the euro area	47
I.4.1.	Euro area private consumption deflator growth, deviations from trend	52
I.4.2.	Euro area real GDP growth, deviations from trend	52
I.4.3.	Real GDP growth rates across scenarios, euro area	53
I.4.4.	Inflation rates across scenarios, euro area	54
I.4.5.	Drivers of real GDP growth	54
I.4.6.	Drivers of inflation	54

LIST OF BOXES

I.1.1.	Key assumptions concerning the forecast	13
I.2.1.	Carry-over effects and the annual growth forecast for 2022	28
I.2.2.	Member States' vulnerability matrix	34
I.5.1.	Some technical elements behind the forecast	57

FOREWORD

Russia's invasion of Ukraine is causing untold suffering and destruction. It is also weighing on Europe's economy. The shocks unleashed by the war are exacerbating pre-existing headwinds to growth in the EU, which were not long ago set to subside. Further upward pressures on commodity prices, renewed disruptions in logistics and global value chains, increased uncertainty and an accelerated tightening in financial conditions force a significant downgrade of the EU growth outlook, while inflation is now expected to be higher, broader and more persistent.

Output is nevertheless projected to keep expanding throughout the forecast horizon, thanks to fading pandemic-related containment measures and the tailwinds of the strong policy action taken during the pandemic. A record strong and still improving labour market and a gradual normalisation of savings behaviour are set to offset rising cost of living and prop up private consumption. Investment is expected to benefit from the full deployment of the Recovery and Resilience Facility. Towards the end of the forecast horizon, price pressures are expected to fade, setting headline inflation on a declining path of convergence towards – though still above – target.

The uncertainty around the baseline scenario is extreme and the balance of risks is skewed heavily towards unfavourable outcomes. An escalation of the war, a sudden stop of energy deliveries, or a further deceleration of economic activity in the US and China, could result in a much grimmer outlook.

Faced with a shock that largely weighs on the supply side of the economy, Member States will have to recalibrate their policy tools deployed during the pandemic. Over the past couple of years, fiscal firepower was successfully mobilised to support aggregate demand and stabilise employment, thereby also safeguarding price stability in face of deflationary pressures. Today, interventions should primarily focus on accelerating structural changes, while protecting the most vulnerable segments of society against the impact of higher energy prices. Importantly, the powerful instrument deployed by the EU to support the economic recovery in the aftermath of the pandemic shock can still be counted upon to face this new challenge. The timely implementation of the investment and reform pillars of the RRF is as relevant as ever to reduce fossil fuel dependency from Russia and enhance the long-term growth potential of the EU economy.



Maarten Verwey
Director General
Economic and Financial Affairs

RUSSIAN INVASION TESTS EU ECONOMIC RESILIENCE

EXECUTIVE SUMMARY

Almost two years after the start of the pandemic, Russia's war against Ukraine poses new challenges to the EU economy.

Despite entering the year on a weak note, the outlook for the EU economy before the outbreak of the war was for a prolonged and robust expansionary phase. The pandemic situation was improving, while most of the headwinds posed by logistic and supply bottlenecks and pressures on the price of energy and other commodities were expected to fade in the course of this year. Economic activity would continue to be supported by an improving labour market, large accumulated savings, favourable financing conditions and the deployment of the Recovery and Resilience Facility (RRF). The war has changed the picture, by bringing renewed disruptions in global supply, fuelling further commodity price pressures and heightening uncertainty. The EU is first in line among advanced economies to take a hit, due to its geographical proximity to Russia and Ukraine, heavy reliance on imported fossil fuels, especially from Russia, and high integration in global value chains. Large inflows of people fleeing the war – as many as 5 million in the first 10 weeks since the start of the war – pose a further organisational and coordination challenge for the EU.

Table 1:

Overview - the spring 2022 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Belgium	6.2	2.0	1.8	3.2	7.8	1.9	6.3	5.8	5.6	0.6	-1.1	-0.6	-5.5	-5.0	-4.4
Germany	2.9	1.6	2.4	3.2	6.5	3.1	3.6	3.3	3.2	7.2	6.1	6.5	-3.7	-2.5	-1.0
Estonia	8.3	1.0	2.4	4.5	11.2	2.5	6.2	6.8	6.9	-0.7	1.3	2.3	-2.4	-4.4	-3.7
Ireland	13.5	5.4	4.4	2.4	6.1	3.1	6.2	4.6	5.0	14.3	12.8	13.1	-1.9	-0.5	0.4
Greece	8.3	3.5	3.1	0.6	6.3	1.9	14.7	13.7	13.1	-8.3	-8.4	-6.4	-7.4	-4.3	-1.0
Spain	5.1	4.0	3.4	3.0	6.3	1.8	14.8	13.4	13.0	1.0	1.8	2.1	-6.9	-4.9	-4.4
France	7.0	3.1	1.8	2.1	4.9	3.1	7.9	7.6	7.6	-2.4	-3.0	-2.0	-6.5	-4.6	-3.2
Italy	6.6	2.4	1.9	1.9	5.9	2.3	9.5	9.5	8.9	2.5	1.2	1.6	-7.2	-5.5	-4.3
Cyprus	5.5	2.3	3.5	2.3	5.2	2.7	7.5	7.8	7.3	-7.2	-8.8	-7.2	-1.7	-0.3	-0.2
Latvia	4.5	2.0	2.9	3.2	9.4	3.5	7.6	7.3	7.1	-0.5	-3.9	-3.2	-7.3	-7.2	-3.0
Lithuania	5.0	1.7	2.6	4.6	12.5	3.0	7.1	7.2	7.2	2.0	-1.8	-2.1	-1.0	-4.6	-2.3
Luxembourg	6.9	2.2	2.7	3.5	6.8	2.3	5.3	5.2	5.1	7.5	5.9	5.5	0.9	-0.1	0.1
Malta	9.4	4.2	4.0	0.7	4.5	2.6	3.5	3.6	3.6	4.1	1.9	1.9	-8.0	-5.6	-4.6
Netherlands	5.0	3.3	1.6	2.8	7.4	2.7	4.2	4.0	4.2	9.5	8.7	8.7	-2.5	-2.7	-2.1
Austria	4.5	3.9	1.9	2.8	6.0	3.0	6.2	5.0	4.8	-0.5	-1.0	-0.8	-5.9	-3.1	-1.5
Portugal	4.9	5.8	2.7	0.9	4.4	1.9	6.6	5.7	5.5	-1.1	-1.7	-0.7	-2.8	-1.9	-1.0
Slovenia	8.1	3.7	3.1	2.0	6.1	3.3	4.8	4.8	4.6	4.4	1.7	2.6	-5.2	-4.3	-3.4
Slovakia	3.0	2.3	3.6	2.8	9.8	6.8	6.8	6.7	6.3	-2.4	-4.3	-4.1	-6.2	-3.6	-2.6
Finland	3.5	1.6	1.7	2.1	4.5	2.3	7.7	7.2	6.9	0.7	0.2	0.4	-2.6	-2.2	-1.7
Euro area	5.4	2.7	2.3	2.6	6.1	2.7	7.7	7.3	7.0	3.2	2.4	2.9	-5.1	-3.7	-2.5
Bulgaria	4.2	2.1	3.1	2.8	11.9	5.0	5.3	5.4	5.3	-1.1	-1.8	-1.8	-4.1	-3.7	-2.4
Czechia	3.3	1.9	2.7	3.3	11.7	4.5	2.8	2.6	2.6	-2.3	-3.7	-3.8	-5.9	-4.3	-3.9
Denmark	4.7	2.6	1.8	1.9	5.1	2.7	5.1	4.8	4.7	8.3	7.8	7.7	2.3	0.9	0.6
Croatia	10.2	3.4	3.0	2.7	6.1	2.8	7.6	6.3	6.0	3.3	1.7	0.3	-2.9	-2.3	-1.8
Hungary	7.1	3.6	2.6	5.2	9.0	4.1	4.1	3.8	4.0	-2.9	-5.5	-3.5	-6.8	-6.0	-4.9
Poland	5.9	3.7	3.0	5.2	11.6	7.3	3.4	4.1	3.9	1.6	-0.5	-0.2	-1.9	-4.0	-4.4
Romania	5.9	2.6	3.6	4.1	8.9	5.1	5.6	5.5	5.3	-7.0	-7.5	-7.3	-7.1	-7.5	-6.3
Sweden	4.8	2.3	1.4	2.7	5.3	3.0	8.8	7.8	7.0	5.5	4.8	5.8	-0.2	-0.5	0.5
EU	5.4	2.7	2.3	2.9	6.8	3.2	7.0	6.7	6.5	3.0	2.1	2.6	-4.7	-3.6	-2.5
United Kingdom	7.4	3.4	1.6	2.5	7.0	3.6	4.5	4.0	4.0	-2.6	-4.6	-4.9	-8.3	-3.9	-2.3
China	8.1	4.6	5.0	:	:	:	:	:	:	2.1	1.6	1.1	:	:	:
Japan	1.7	1.9	1.8	-0.2	1.6	1.5	2.8	2.7	2.6	3.4	2.5	2.6	-7.6	-6.5	-4.1
United States	5.7	2.9	2.3	4.7	7.3	3.1	5.4	3.6	3.5	-3.6	-3.9	-3.4	-11.7	-5.7	-4.9
World	5.8	3.2	3.5	:	:	:	:	:	:	:	:	:	:	:	:

Against extreme uncertainty around the unfolding of the geopolitical situation, this forecast is underpinned by strong working assumptions.

The ad-hoc assumptions underpinning the forecast are summarised in Box I.1.1. They concern the duration and intensity of the geopolitical tensions, as well as the size, distribution, labour market integration and budgetary impact of the inflows of people fleeing the war in Ukraine. In particular, it is assumed that geopolitical tensions do not normalise before the end of the forecast horizon. Furthermore, while COVID-19 has significantly relaxed its grip on the EU economy, this is not the case in other parts of the world and risks of a resurgence of serious cases cannot be ruled out. The forecast rests on the assumption that COVID-19 will not pose significant disruptions to economic activity in the EU over the forecast horizon. However, the EU economy remains indirectly exposed to pandemic developments in other regions.

The outlook in the EU is now for lower growth and higher inflation, especially for 2022.

Real GDP growth in both the EU and the euro area is now expected at 2.7% in 2022 and 2.3% in 2023, down from 4.0% and 2.8% (2.7% in the euro area), respectively, in the Winter 2022 interim forecast (WiF). The downgrade for 2022 must be read against the background of the growth momentum gathered by the economy in spring and summer last year, which adds around 2 percentage points to the annual growth rate for this year (see Box I.2.1.). Output growth within the year has been reduced from 2.1% to just 0.8%. These revised growth projections imply slower convergence to the output level that the economy would have attained in the absence of the pandemic shock – based on an extrapolation of the growth outlook from the last forecast preceding the pandemic. In turn, the projection for inflation has been revised up significantly. In the EU, HICP inflation is now expected to average an all-time high of 6.8% in 2022, before declining to 3.2% in 2023. In the euro area, inflation is projected at 6.1% in 2022 and 2.7% in 2023. This compares with 3.5% and 1.7%, respectively, in the WiF.

The main hit to the global and EU economies comes through higher energy prices.

Energy commodity prices had already increased substantially before Russia's invasion, from the lows achieved during the pandemic. As supply struggled to keep up with the strong synchronised rebound in global activity, they surged well above pre-pandemic levels. In Europe, in particular, gas and electricity have been trading at record prices since autumn last year. Given the importance of Russia as a major exporter of fossil fuels, uncertainty about supply in the aftermath of the war has brought renewed upward pressures on energy commodity prices, amidst heightened volatility. The forecast uses the indications coming from markets' futures curves to project energy inflation, and does not factor in large-scale interruptions in the supply of oil and gas commodities, as by its cut-off date, there were no such supply stoppages. The model-based scenario analyses presented in Chapter 4 highlights the importance of developments in energy markets for the euro area. In the severe scenario of an outright cut in gas supply, GDP growth rates would be around 2½ and 1pps. below the forecast baseline in 2022 and 2023, respectively, while inflation would increase 3 pps. in 2022 and more than 1 pps. in 2023 above. The euro area economy would still manage positive annual growth rates in both forecast years, but in 2022 economic output would contract on a quarterly basis.

Pressure on prices is broadening beyond energy...

Rising input costs, notably for energy and fertilisers, had already started to put food commodity prices under pressure late last year. By putting at risk the production and export of grains, oil seeds and other agricultural commodities, for which Ukraine and Russia are key exporters, the war has intensified the pressures. Similar concerns pushed up the price of some industrial metals (e.g. nickel and copper), as well as neon gas (a key input for semiconductors). Furthermore, fresh disruptions in logistics and global supply chains are also adding price pressures across a wide range of industrial goods. Finally, notwithstanding a projected reduction in wholesale energy prices over the forecast horizon, accrued increases are set to keep passing through to a broad range of goods and services. Consequently, core inflation (i.e. inflation netted out of the more volatile energy and food prices) is set to be above 3% in both the euro area and the EU as a whole over the forecast horizon.

... curtailing households' purchasing power, but a combination of factors support a further recovery in consumption.

Higher energy and food prices reduce households' purchasing power, especially for lower income families who spend a higher fraction of their income on these items. Consumption growth paused in the first quarter of the year, amidst reinstated pandemic restrictions and inflation surprises. As of the second quarter, reopening dynamics prop up consumption of services, with gradually fading vigour. A strong and still improving labour market, government measures to offset high energy prices and normalisation of households' saving behaviour push the volume of consumption slightly above its pre-pandemic level by the end of this year, and support a further expansion thereafter. In a context of high inflation and falling purchasing power, households devote a larger fraction of their disposable income to consumption: the savings rate is thus projected to fall in the EU from 17% last year to 13.8% in 2022 and 12.5% in 2023, broadly the same rate recorded in 2019. The large amount of accumulated savings could allow for a faster recovery of consumption, but amid heightened uncertainty and lower confidence, households may be reluctant to dig deeper into their savings. Finally, a further push to consumption would come from people fleeing the war, who are expected to spend part of the social transfers granted to them by the host countries.

Investment growth is held back by rising costs and heightened uncertainty...

The inability of firms to fully pass on higher production costs to consumers is set to squeeze corporate profit margins. Heightened uncertainty around the unfolding of the geopolitical situation and its impact on the demand outlook are set to weigh on companies' investment decisions and delay the realisation of investment plans. Moreover, as the strengthening of inflationary pressures has accelerated the pace of monetary policy normalisation, financial conditions are tightening, further increasing the cost of financing for firms. Finally, material shortages continue constraining investment from the supply side.

... but is supported by the RFF and the need for frontloaded energy saving investment.

At the same time, capital utilisation rates remain at record highs, while the full deployment of the RRF and the needed frontloading of energy-saving investment in the context of REPower EU is set to support construction and equipment investment. Overall, the outlook for investment in the EU is subdued, as it is projected to grow by only 3.1% in 2022 – much of which (2 pps.) is being carried over from the rebound in investment in 2021. In 2023, investment is expected to recover momentum and expand by 3.6%.

The outlook for external demand also weakens.

The collapse of import demand in the EU's Eastern neighbourhood weighs on EU exports, especially for those Member States with deeper trade relations with the region. Also, demand from the rest of the world is negatively affected by war-induced surges in commodity prices, disruptions in global trade and tightening global financing conditions. The growth forecast for the global economy in 2022 has been downgraded by more than 1 percentage point compared to the previous forecast. Strict COVID-19 containment measures applied in parts of China are contributing to the weaker economic outlook for emerging Asia, with impact set to reverberate globally through additional bottlenecks in manufacturing. The deterioration of the global growth outlook is shaving off a significant fraction of the previously expected growth in external demand. Following a very strong rebound recorded in 2021, the volume of global (excl. the EU) imports of goods and services is now forecast to grow by 4.9% and 4.3% in 2022 and 2023, respectively.

The labour market entered the new crisis on a strong footing and is expected to improve slightly further.

Last year, the EU economy created more than 5.2 million jobs and attracted nearly 3.5 million more people into the labour market. With unemployment rates at record-low levels, a rapid increase in unfilled vacancies and a growing share of managers reporting labour shortages as a factor limiting their production, labour markets in the EU have tightened. This strong performance was broad-based across countries, sectors and socio-economic groups, with the exception of the low skilled who are still lagging behind. Still, total hours worked and hours worked per employee in the fourth quarter of last year remained below their pre-pandemic levels in the EU and most Member States. Job creation is expected to ease markedly this year, amidst signs of attenuating labour shortages. Unemployment rates are forecast to decline further, to 6.7% this year and 6.5% in 2023 in the EU. People fleeing the war in Ukraine to the EU are expected to enter labour markets gradually, with tangible effects only from next year.

Growth of compensation of employees per head is expected to lag behind inflation this year.

In the EU, compensation of employees per head is forecast to increase by 3.9% this year and 3.6% the next. As in 2021, these growth rates are well above those recorded in previous years, but fall short of the surge in inflation. Consequently, this year real wages are expected to decline, before increasing moderately next year. Against the background of soaring production costs and increased economic uncertainty, concerns about job security rather than pay increases are likely to continue to have the upper hand in wage deals. Real household disposable income is set decrease by 2.8% in 2022, despite increased social spending to support people fleeing the war and transfers to offset high energy prices. In 2023 it is set to recover by around 1% in 2023.

General government deficits continue declining in 2022 and 2023, despite energy-related measures and humanitarian assistance.

From 4.7% of GDP in 2021, the general government deficit in the EU is forecast to fall to 3.6% of GDP in 2022, as temporary measures taken in response to COVID-19 continue to be unwound and economic expansion improves the cyclical components of the budget. These deficit-decreasing factors are set to override the additional costs of measures to mitigate the impact of high energy prices (0.6% of GDP for the EU) and to deal with the humanitarian crisis following the invasion of Ukraine by Russia (0.1 % of GDP). The further drop in the deficit to 2.5% in the EU in 2023 is driven by the complete phasing out of temporary COVID-related measures, the expected unwinding of the

energy-related measures and a still increasing cyclical component. Overall, these developments imply a supportive stance in 2022, followed by normalisation in 2023. The debt-to-GDP ratio for the EU as a whole is set to decline to 85% of GDP by 2023, remaining above the pre-COVID-19 crisis level.

The balance of risks surrounding the forecast is skewed towards adverse outcomes.

The unprecedented nature and size of the shocks ushered in by the war make the baseline projections presented in this forecast subject to considerable uncertainty. The realisation of the key working assumptions underpinning them – regarding the evolution of the geopolitical situation and its reverberations in e.g. commodity markets and trade – is subject to high risks. Namely, further increases of import prices could strengthen the stagflationary forces unleashed by the war. Greater than expected second round effects could amplify them. In addition, strong inflationary pressures could lead to tighter financial conditions than those underpinning the forecast, with negative impact on domestic demand and strains on public budgets and the banking sector. A stronger-than-expected deceleration of economic activity in the US and China would further dent growth in the EU. Finally, COVID-19 remains a risk factor. At the same time, private consumption could prove more resilient to increasing prices if households were to use more of their savings for consumption. Investments fostered by the RRF could generate a stronger impulse to activity through e.g. stronger cross-sector and cross-country spillovers. Finally, an accelerated reduction of fossil fuel dependency and green transition could reduce the negative impact of high energy prices faster than assumed.

PART I

Economic outlook for EA and EU

1. SETTING THE SCENE

The Russian invasion of Ukraine forces a reassessment of the EU and global economic outlook.

At a time when the world economy was just shaking off the pandemic shock, the shocks unleashed by the war are reverberating across the globe, bringing renewed disruptions to global supply, fuelling further commodity price pressures, tightening financial conditions and dampening consumers' and firms' confidence, (see Table I.1.1). The collapse of demand from small, but not insignificant, trading partners in the East of the EU, inevitably places an additional strain on the EU economy, as do Russia's restrictions to its exports of some key raw materials to the EU. Supporting the large flows of people fleeing Ukraine is also a big organisational and coordination challenge for the EU, though the inflow of additional workforce could also bring relief to increasingly tight labour markets. Beyond these immediate consequences, Russia's war of aggression against Ukraine is leading to a decoupling from Russia, with consequences that are difficult to fully apprehend at this stage. This Chapter describes the channels through which the war affects the EU and global economy and the resulting policy challenges. Chapter 2 analyses how these channels are projected to impact the EU economies. Chapter 3 and 4 discuss the risks to the forecast and the implications of their materialisation through scenario analysis.

The reassessment of the EU economic outlook has to rely on strong working assumptions.

The unprecedented nature and size of the new shocks make projections subject to considerable uncertainty, concerning the evolution of the geopolitical situation, but also the interaction of its effects on the economy. Furthermore, while COVID-19 has significantly relaxed its grip on the EU economy, a resurgence of serious cases cannot be ruled out. The recent drastic pandemic containment measures applied in parts of China show that the challenges from the pandemic persist. The Spring 2022 Forecast is therefore underpinned by a number of crucial assumptions on the duration and intensity of the geopolitical tensions; the size, distribution, labour market integration and fiscal costs of the inflow of people fleeing Ukraine; and the

impact of the pandemic over the forecast horizon. These assumptions are set out in detail in Box I.1.1.

The war exacerbates pre-existing headwinds to economic expansion in the EU, previously expected to subside.

The robust rebound in economic activity that started in spring last year brought the EU economy back to its pre-pandemic output level in the third quarter of 2021. As the economy moved from recovery into expansion, the growth momentum was further dampened by intensifying headwinds. The resurgence of the pandemic prompted the reinstatement of restrictions, though generally of a milder or more targeted nature than in previous waves. Persistent logistic and supply bottlenecks weighed on production, as did the elevated prices of energy and other commodities, and labour shortages in many EU countries. However, economic activity looked set to regain traction as the strain on the economy caused by the new wave of infections was expected to be short lived, supply conditions were set to normalise and inflationary pressures to moderate. A continuously improving labour market, large accumulated household savings, favourable financing conditions and the full deployment of the Recovery and Resilience Facility (RRF) were expected to sustain a prolonged and robust expansionary phase. Russia's invasion of Ukraine has put Europe back into extraordinary economic uncertainty, exacerbating pre-existing challenges. Significantly higher energy, raw materials and food prices, together with aggravated supply disruptions are directly impacting European societies, affecting economic activity and dampening households' and firms' confidence.

The relaxation of pandemic restrictions lifts growth prospects for the service sector.

In the course of 2022, many of the remaining pandemic-related containment measures are expected to be gradually lifted. Though progressively fading out, this re-opening momentum is set to benefit the service sector, in particular contact-intensive services. Several survey indicators point to resilience or even improvement in confidence in services, compared to that in manufacturing, a sector

that is stressed by rising input costs and persistent supply bottlenecks. These dynamics mark a notable reversal of fortunes between service-driven economies and economies that feature a larger manufacturing sector.

The main impact of the war on the global and EU economy is through energy commodity prices.

Last year, the synchronised rebound in global activity led to a strong recovery in energy prices, from the low levels recorded during the pandemic. By the end of the year, however, energy prices were well above pre-pandemic levels as supply struggled to keep up with surging demand. In Europe, the situation was exacerbated by a number of idiosyncratic shocks, including unfavourable weather conditions hitting renewable energy generation and record low gas storage levels in European storing facilities. The war has triggered renewed upward pressures on energy commodity prices, given the importance of Russia as one of the world's largest exporters of fossil fuels. It has also generated heightened price volatility. Oil markets reacted to news of the withdrawal of important Western oil companies from Russia, the boycott of energy imports by some countries (e.g. the US and the UK), and the decisions of the US to release part of its oil reserves and of OPEC not to increase oil production. Upward price pressures and volatility in the European gas market were even larger, amid supply concerns.

Benefits of reducing the EU's energy dependency, especially on Russia, outweigh costs.

The current high energy prices highlight the need to strengthen energy security in the EU. In March, the Commission announced the REPowerEU plan,⁽¹⁾ with the goal to reduce EU demand for Russian gas by two thirds before the end of the year, and to gain independence from Russian fossil fuels by 2027. In the short-term, diversification away from Russia and fossil fuels more broadly will be costly. Diversification of supply sources and frontloading of investment to accelerate the green transition and reduce energy demand (e.g. energy efficiency) may add to cost pressures. In turn, rising energy prices increase

production costs and lower labour productivity (output per worker).⁽²⁾ However, these short-term cost pressures must be weighed against the costs of potential large-scale supply interruptions, especially at a juncture when high fossil fuel prices make alternative technologies cheaper.

The acceleration of decarbonisation will have implications for the EU economy in the longer term.

In the medium term, the substitution of fossil imports with less expensive renewable sources of energy will reverse the terms of trade shock that is currently hitting the EU economy. Capital investments to implement low-emission technologies and green innovation are expected to spur total factor productivity growth, though this effect is unlikely to play out already over the forecast horizon. At the same time, the accelerated transition to low-emission technologies may make skills in specific sectors increasingly obsolete.

Phasing out Russian fossil fuels imports could be complicated by gas supply shortages.

By the cut-off date of this forecast, the supply of oil and gas had not been disrupted by any large-scale interruption. However, the probability of the risk materialising was possibly already contributing to the high price pressures and volatility for these commodities. At the time of writing this report, the EU was discussing a sixth package of sanctions that would, among other measures, ban imports of Russian oil. With a few exceptions, sources of oil imports are assessed to be substitutable due to the relatively expandable production and flexible transportation modes of oil. Substituting Russian oil would be manageable for the majority of Member States, but could result in a further upward shift in prices. Gas supply relies on less flexible infrastructure. An outright cut in gas supply, either through import bans by the

⁽¹⁾ https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511

⁽²⁾ In a simplified growth model, re-sourcing of energy away from fossil sources translates into temporarily stronger capital stock depreciation (obsolescence of fuel-specific capital) and lower production efficiency (higher energy input costs). Acceleration of the exit from fossil fuels frontloads capital obsolescence and amplifies productivity losses from lower capital intensity. E.g., Bayer, Ch., Kriwoluzky, A., Seyrich, F., Stopp russischer Energieeinführen würde deutsche Wirtschaft spürbar treffen, Fiskalpolitik wäre in der Verantwortung, DIW aktuell 80, 2022.

Table I.1.1:

Economic impact of the Russian invasion of Ukraine on the EU

	Observed impact	Expected impact in 2022-2023 (Spring forecast)	Potential longer-term impact
Commodity markets	Surge in energy and food commodity prices, pushing up producer and retail prices Terms-of-trade deterioration Budgetary impact of mitigation policies	Dampened domestic demand Distributional impact (low income households most hit) Disruption in production processes Frontloaded investment in energy saving and renewables Broadening inflationary pressures	Sectoral reallocation away from energy-intensive sectors Accelerated decarbonisation
Global growth and trade	Slower global growth and external demand Higher costs of foreign trade Falling trade with region at war	Weaker global growth and slower external demand Unwinding of EU-RU integration	Partial reversal of globalisation gains
Supply chains and logistics	Renewed supply and logistic disruptions	Reorganisation of global supply chains / relocation of production Disruption in production processes	More important role for the EU's internal market More resilient production structures
Financial markets	Repricing of financial assets, tighter financing conditions Pressure on banks with RU exposure	Further normalisation of monetary conditions Increased market volatility	Fragmentation of payment system
Economic sentiment / uncertainty	Weaker business and consumer confidence Increased uncertainty	Lower private consumption and investment	Increased risk aversion
Inflow of people fleeing the war	Increased public spending for emergency support	Budgetary impact of support/to integration Progressive entry into the labour market Increase in consumption	More substantial increase in labour supply

EU or retaliatory measures by Russia, as has already been the case for Poland and Bulgaria, would result in a much more costly adjustment process. Chapter 4 presents the results of model-based scenario analyses. A severe scenario sheds light on the potential impact of a large-scale cut in gas supplies.

The prices of agricultural commodities and some industrial metals are also under intensified pressure. Climate change and rising prices of inputs, notably for energy and fertilisers, had already started to put food commodity prices under pressure. The Russian invasion of Ukraine has added a layer of instability to already tense markets and has generated uncertainty regarding supply, given that both countries are major exporters of grains, oilseeds and vegetable oils. This situation raises serious concerns about food security in developing and least developed countries that are dependent on food imports. The EU is largely self-sufficient for food, with a large surplus in trade of agri-food products. The EU single market can once again be

expected to prove its ability to absorb shocks.⁽³⁾ Nevertheless, there are concerns regarding affordability, due to high market prices and pipeline inflationary pressures. Finally, Russia, and to a lesser extent Ukraine, play key roles in the global production and export of raw materials such as neon, palladium, nickel, wood, ammonium nitrate and aluminium. War induced disruptions in the supply of these commodities compound with Russia's export bans on some raw materials, including timber.

The collapse of trade with Russia, Belarus and Ukraine adds to negative spillover effects on global demand. The size of the Russian economy is about 10% that of the EU and trade between the two is relatively small. The size of the economy of Ukraine is much smaller. This limits the macroeconomic impact of the disruptions to the trade of goods and services caused by the economic sanctions, the expected deterioration of the economic situation in Russia and Ukraine, and the unwinding of economic integration between the EU and Russia, either as a result of government

⁽³⁾ See Commission Communication: [Safeguarding food security-reinforcing resilience food systems.pdf](https://ec.europa.eu/economy_finance/safeguarding-food-security-reinforcing-resilience-food-systems.pdf) (europa.eu)

or corporates' action. Member States in Central and Eastern Europe are however expected to take a more significant hit, given their geographical proximity and historically closer commercial links to the conflict region. Also, with the exception of a few commodity exporters, demand from the rest of world will be negatively affected by the war-induced surge in commodity prices and the tightening of financial conditions in response to rising inflationary pressures.

Following signs of post-pandemic normalisation, the war is causing renewed stress on global logistics and value chains.

Shipping lines have suspended bookings of container transport with Russia. Air cargo capacity is hampered by the reciprocal ban on Russian and European air space. Rail lines connecting Asia and Europe are now less secure. Disruptions in logistics increase delivery times and push up global transport costs. Costs of foreign trade are also increasing due to a surge in risk premiums of insurance coverage and rising costs of financial transactions and litigation. All this, compounded with new disruptions in the supply of key inputs and raw materials, causes new disorders in global value chains and pushes further out the time horizon for a full normalisation of supply conditions. China's ultra-strict pandemic containment strategy is adding to these war-induced pressures. As a result, for example, several carmakers in the EU are cut off from the supply of key parts, including wire harnesses manufactured in Ukraine where assembly lines stopped. Similarly, Ukraine supplies about half of the neon gas used to produce semiconductor chips. Governments and large corporations are now scrambling to obtain alternative supplies.

The war may reverse some of the globalisation gains achieved over past decades. Some of the global supply disruptions described above are set to be permanent. In the EU and other advanced economies some reshoring efforts had already been gaining momentum after the outbreak of the pandemic. Following Russia's aggressive stance and the potential emergence of competing blocks of alliances, these efforts are likely to be intensified. These developments, however, will only play a marginal role over the forecast horizon. Yet, the risk of large scale deglobalisation has clearly increased. The

restructuring of global economic linkages could partially reverse globalisation gains, with fewer productivity gains from the international division of labour and less technology spillovers, as well as higher import prices and lower potential output.

The negative impact of deglobalisation may be partially offset by deepening the Single Market.

Whereas some targeted reshoring could deliver some benefits in terms of economic resilience, the prospect of deglobalisation is net negative for the EU. Having built much of its prosperity and its geopolitical influence on open trade and the attractiveness of its 450-million-strong market, the EU is set to lose more than other advanced economies from the progressive unwinding of global value chains and the fragmentation of trade. A renewed impetus in completing the Single Market, especially in the area of services, could offset some of the costs of deglobalisation.

The EU and global financial conditions are tightening as a result of valuation effects and changes in the monetary stance.

Although countries and market segments with a large financial exposure to Russia – including some non-euro area EU Member States – are likely to be significantly penalised, the EU financial system exposure to Russia and Ukraine is relatively small. The war has however led to increased market volatility, repricing of risks fall of stock indices and exacerbated inflationary pressures, leading to a faster and/or stronger monetary tightening than previously expected. Emerging market economies are additionally penalised by investors seeking safer havens. All this is resulting in a substantial tightening in global and EU financial conditions. Beyond these short-term movements, the war is set to result in a persistent upward shift in funding costs. In a context of heightened geopolitical tensions, markets are set to demand a higher return for a greater perceived policy risk of holding EU assets. Moreover, in an effort to limit potential vulnerabilities, some central banks could divest from current holdings in reserve currencies, including the euro, while a more fragmented payment infrastructure would increase transaction costs.

Box I.1.1: Key assumptions concerning the forecast

Given the high uncertainty over the unfolding of events, the Spring Forecast has to rely heavily on ad-hoc assumptions for forecasting purposes. For the customary technical assumptions underpinning the forecast, see Box I.5.1.

Russian invasion of Ukraine and geopolitical tensions.

The magnitude of the economic impact of the war is highly uncertain and depends crucially on its duration. The central scenario for the forecast of the global and EU economies assumes that geopolitical tensions will not normalise before the end of the forecast horizon. All sanctions against Russia stipulated until the cut-off date of the forecast⁽¹⁾, including those already implemented after Russia's annexation of Crimea in 2014⁽²⁾, are assumed to remain in place throughout the forecast horizon. For Ukraine, a specific working assumption is made that economic activity remains unchanged in 2023 compared to 2022.⁽³⁾

People fleeing the war in Ukraine to the EU.

Assumptions on people fleeing Ukraine concern: cumulative net inflows into the EU in 2022 and 2023; their distribution across Member States; their integration in the labour market; and the associated fiscal costs for Member States. In a nutshell:

- The number of people fleeing the war in Ukraine to the EU would gradually reach 6

million by the end of 2022, and stay stable over 2023.

- Their geographical distribution is projected using four determinants with equal weights: (1) the distribution of Ukrainian immigrants in the EU in 2021; (2) the distribution of flows of Ukrainian immigrants by country over recent years (2015-20); (3) the relative population of Member States; and (4) the actual distribution of people fleeing Ukraine across the EU as of March 23 2022 (as estimated by DG HOME based on information provided by Member States).
- The employment rate of those arriving from Ukraine who are of working age increases from 8% (on average) in 2022 to 20% (on average) in 2023.
- Gross annual fiscal costs per person have been estimated based on EUROMOD, the tax-benefit microsimulation tool for the EU, for each Member State.⁽⁴⁾ Fiscal estimates take into account that some of those arriving will take up work and that labour market behavior of Ukrainian nationals may resemble that of EU mobile workers.

The COVID-19 pandemic.

Overall, as in the Winter 2022 interim Forecast, the Spring Forecast assumes that the pandemic will not cause any major disruptions in the EU economy over the forecast horizon. However, absenteeism could continue to weigh on production for a few more months and uncertainty over the future evolution of the pandemic, including possible new shocks to labour supply, remains significant. For China, it is assumed that the current “dynamic Zero-COVID” policy is continued throughout the forecast horizon.

⁽¹⁾ For the EU, these sanctions are reported by the [Council](#). For non-EU sanctions, the [Brookings Sanctions Tracker](#) provides detailed information.

⁽²⁾ Sanctions already implemented after Russia's annexation of Crimea in 2014 have an end date (currently extended until June 2022), which is assumed to be extended at least until the end of the forecast horizon.

⁽³⁾ Note that the IMF also assumes sanctions to remain in place over the forecast horizon of the WEO. Staff expect a contraction in Ukraine's GDP in the order of 35% but did not produce a forecast for Ukraine for 2023. The ECB assumed that (i) there would be no further escalation of the war; (ii) over time there will be a resolution of the conflict but has not specified when this resolution would take place. Finally, no assumption was made on refugees. Forecasts for Ukraine by professional forecasters included in the March 2022 report of Consensus Economics vary markedly (e.g. GDP growth in 2022 between -15.0% and -46.5%, and in 2023 between -6.5% and +70%).

⁽⁴⁾ Calculations are based on the methodology described by Christl M., Bélanger A., Conte A., Mazza J. & Narazani E. (2021), The fiscal impact of immigration in the EU, JRC Working Papers on Taxation and Structural Reforms No 01/2021, European Commission, Joint Research Centre, Seville.

Rapidly increasing prices are set to curtail households' real incomes. Higher energy and

food prices weigh on purchasing power, especially for lower income households that

spend a higher fraction of their income on these items. Moreover, high energy prices tend to be passed through to a broader array of intermediary inputs and eventually to consumer goods. The higher cost of energy and non-energy imports is affecting both firms and workers. Firms face the perspective of falling real margins, as most of them will not be able to pass-on higher production costs. Wage increases are therefore unlikely to fully compensate for the rising costs of living. This consideration has led many Member States to delay adjustments of retail energy prices and/or partially offset the increased energy bill of households and energy intensive firms with non-negligible budgetary effects.

Rising production and financing costs coupled with negative confidence effects are set to weigh on investment. The rising costs of energy and non-energy commodities, and disruption in supply chains increase companies' production costs, especially in manufacturing, transport and agriculture. The resulting compression in profit margins, coupled with tightening financing conditions and negative confidence effects is set delay corporate investment decisions.

Strong tailwinds still support the economy. Following large accumulation of savings during the pandemic, households may be keen to devote a larger fraction of their disposable income to consumption despite high uncertainty. A gradual convergence of the saving rate to pre-pandemic level would allow smoothening the inflationary shock and fuelling consumption, especially in a context in which containment measures no longer restrain spending on contact-intensive services. Moreover, an exceptionally strong labour market, with historically low unemployment rates and high participation rates, broadens the gains in labour income. Moving to investment, capacity utilisation remains at historically high levels and the full deployment of the RRF provides an incentive to firms and households for frontloading energy-saving equipment and construction investment.

Supporting large flows of people fleeing Ukraine is a challenge for the receiving Member States and the EU as a whole, but also provides opportunities. The immediate reception and protection needs of a large wave

of displaced persons from Ukraine pose a challenge for the organisational capacity of the receiving Member States, mainly the neighbouring ones, and generate costs. The activation of the Temporary Protection Directive for at least one year grants these persons the right to stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare. Over time, an increasing number of displaced persons is expected to start working, bringing relief to the EU's tight labour markets, and pushing down public spending.

The shocks unleashed by the war differ substantially from those of the pandemic, confronting policy makers with difficult policy trade-offs. First, the pandemic caused a deep contraction in economic activity and squeezed inflation well below central banks' target (and the euro area even recorded several months of falling average price level). For much of the past two years, monetary and fiscal policy moved in the same direction, protecting aggregate demand and employment, thereby safeguarding price stability. The Russian invasion of Ukraine has unleashed shocks that primarily weigh on supply, though with ripple effects on demand (through lower confidence and lower global demand). These supply shocks exert a drag on output growth while pushing inflation further up to rates never seen since the introduction of the single currency. In this context, macroeconomic policies have to tread a narrow line between keeping inflation in check and accommodating the expected decline in demand. Second, the pandemic was largely a temporary shock, especially as policy effectively limited its long-lasting effects. Policy response, especially at Member States, has aimed at preventing excessive dislocations, also through an extended use of job retention schemes. In contrast, the war has exacerbated a terms of trade shock for the EU economy, where the value of what it produces and exports is lower than the value of its imports. This trend is expected to continue in the foreseeable future as the war repercussions endure. At EU level, the objectives of the twin transition are therefore as relevant as ever. Member States, on their side, can accompany the adjustment process by frontloading investments and structural reforms that will reduce dependence on Russian imports of fossil fuels and eventually accelerate the

decarbonisation process while boosting productivity through digitalisation. In facing these new challenges, governments must pay renewed attention to distributional aspects.

While softening the impact of rising energy prices on vulnerable households and energy intensive industries, they have to preserve incentives to diminish energy consumption and ensure public finances remain on a track of long-term sustainability.

2. ECONOMIC OUTLOOK

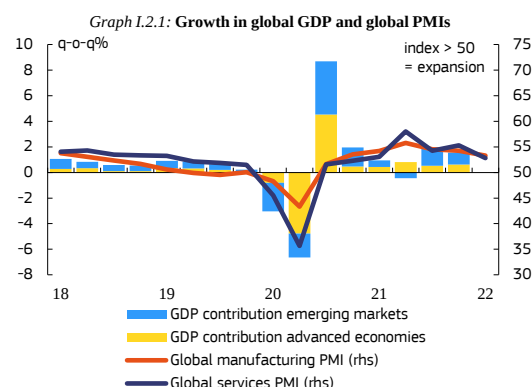
2.1. INTERNATIONAL ENVIRONMENT

The global economy retained positive momentum in late 2021, despite sharply rising inflation.

The global economy grew at around 1.8% quarter-on-quarter in 2021-Q4, a similar pace to the previous quarter (see Graph I.2.1). Among advanced economies (AEs), the US, Canada, UK, and Japan all saw a pick-up in growth as the Delta wave receded, while among emerging markets and developing economies (EMEs) there were strong outturns in China, Turkey, South Africa and Russia. The growth momentum continued to be weaker in Latin America though Brazil saw a return to positive growth in the fourth quarter. Overall, the global economy is expected to have grown by 5.7% in 2021, after contracting by 3.3% in 2020, with most G20 economies now having regained their pre-pandemic (end 2019) output levels, and several even surpassed them (e.g. China, US). Global trade in goods strengthened across both AEs and EMEs during the fourth quarter of 2021, and was around 9% above pre-pandemic (end 2019) levels at the end of 2021 (CPB data). Monthly data from the WTO also suggests that services trade is likely to have regained pre-pandemic levels in late 2021, though travel and tourism services remained subdued, notably in Asia. Total growth in global imports is estimated to have been 10.5% in 2021, after a fall of 8.4% in 2020. Global inflation rates rose throughout 2021 as strong demand for goods, rising energy costs, and pandemic-induced supply-side bottlenecks interacted. Labour markets in some advanced economies (e.g. US, Canada, UK) are now tight, with unemployment rates close to pre-pandemic levels.

The positive momentum carried over into early 2022, particularly in advanced economies. Global industrial production rose by 4% 3m-o-3m February. For advanced economies, the manufacturing PMI remained well in expansionary territory also in March. Services PMIs for many advanced economies were also strong in February and March, as the Omicron wave faded and restrictions were significantly relaxed. Manufacturing PMIs for EMEs were noticeably weaker, falling into

contractionary territory in February and March. In addition, the global services PMI for EMEs dropped very sharply in March to well below 50, largely reflecting the impact of COVID-linked lockdowns in China.



The Russian invasion of Ukraine has imparted a major shock to the global economy.

Aside from the direct impact on Ukraine and Russia, the disruption to supply of materials critical to industrial processes (e.g. palladium, neon) are adding to pandemic-induced logistic and supply bottlenecks. Meanwhile, global financial markets have seen sharp downward adjustments in equity prices, widening credit spreads, and a steep rise in bond yields, with higher inflation leading to expectations of an accelerated monetary tightening cycle. Higher commodity prices provide a windfall to commodity producers, but result in a substantial negative terms of trade shock elsewhere. Terms of trade deterioration further softens global demand and lowers growth potential, while adding to inflationary pressures.

Upside pressures to the price of energy and many non-energy commodities have intensified with the war in Ukraine.

In 2021, oil prices more than recovered from the pandemic-induced slump in spring 2020, on the back of rising global demand, low inventory levels and limited supply growth from OPEC+ as from autumn 2021. OPEC still has around 3 million bbl/d spare capacity, down from 9 mb/d in the middle of 2020 and 4.6 mb/d in December 2021, but mostly in Saudi Arabia

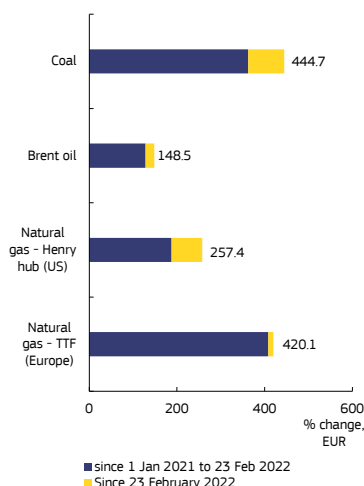
and the United Arab Emirates, both unwilling to raise production. Prices in early 2022 were close to their 2018 and 2019 average at around 70 USD/bbl, but are now forecast to be at 103.6 USD/bbl in 2022 and at 93.5 USD/bbl in 2023. Prices for natural gas have also increased sharply, particularly in Europe, with the average benchmark price in end-April 2022 up 420.1% for the European TTF vs. 148.5% for the US Henry Hub since the beginning of 2021 (see Graph I.2.2). Metal prices have also risen, reflecting long-term underinvestment and high energy prices that raise production costs, but also insecurity about Russia's future role as a supplier. Last, but not least, food prices have also increased, with both Russia and Ukraine being large exporters of wheat, oilseeds and vegetable oils, while droughts in South-America have additionally restricted supply.

The Russian invasion of Ukraine is creating fresh disruptions to global value chains and shifting trade towards less efficient routes. Recent indicators point to a renewed worsening of supply chain delays. Transport costs have also been increasing across all modes of transportation. The closure of Russian airspace has a critical impact on Europe-Asia freight routes and air fares between Asia and Europe increased by 30% during March. The airspace ban also affects trans-Pacific air routes, as the preferred route connecting North Asia to North America passes over Russian territory. The invasion has additionally led to the closure of shipping ports around the Black Sea, halting the cargo vessels in that area and adding to logistical logjams.

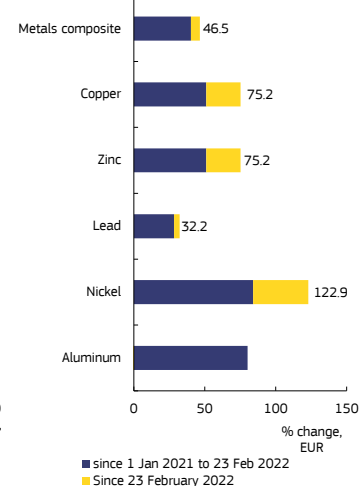
Furthermore, the major global shipping companies have suspended their shipments to Russia. These events are generating further pile-ups at origin ports in Europe and elsewhere, and increasing cargo volumes at regional hubs used in lieu of Russian destinations. Rail traffic is being diverted mainly to the "middle corridor" that runs through Kazakhstan, Azerbaijan and Georgia to Turkey. These alternative routes, however, take longer and will lead to longer delivery times, increases in shipping costs and some diversion from rail to sea shipping. The Russia-Ukraine war has had an immediate impact on trade flows, with the Kiel trade indicator registering a 2.8% decline in world trade between February and March.

Bottlenecks to global manufacturing caused by China's "dynamic" zero COVID-19 policy are adding to the disruptions from the war. The virulence of the Omicron variant led to a sharp spike in cases in early 2022 in the US, UK and South America in particular, which however receded rapidly in February. While the economic impact of the Omicron variant in Europe and the Americas has so far been limited, the impact in Asia has been more substantial. In China, the virus became widespread in March, with the incidence in Shanghai soaring to above 25,000 daily cases in April. The new virus outbreak together with the "dynamic" zero tolerance approach has led to generalised lockdowns across Chinese cities, including the key economic hubs of Shenzhen and Shanghai, adding to congestion and tightening supply bottlenecks.

Graph I.2.2a: Energy commodities' prices



Graph I.2.2b: Basic metals' prices



Graph I.2.2c: Agricultural commodities' prices

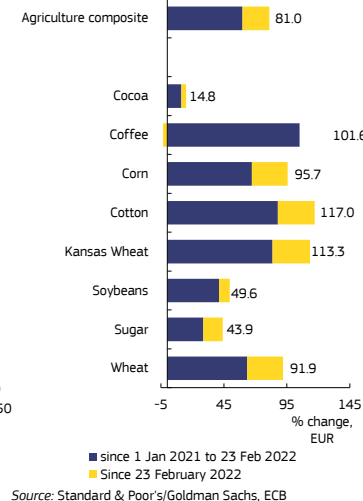


Table I.2. 1:

International environment

(Annual percentage change)

	(a)	2018	2019	2020	Spring 2022 forecast			Autumn 2021 forecast		
					2021	2022	2023	2021	2022	2023
Real GDP growth										
Japan	3.8	0.6	-0.2	-4.5	1.7	1.9	1.8	2.4	2.3	1.1
United Kingdom	2.3	1.7	1.7	-9.3	7.4	3.4	1.6	6.9	4.8	1.7
United States	15.7	2.9	2.3	-3.4	5.7	2.9	2.3	5.8	4.5	2.4
Emerging and developing Asia	33.4	6.3	5.2	-1.2	6.9	5.2	5.3	7.2	5.8	5.3
- China	18.6	6.7	6.0	2.2	8.1	4.6	5.0	7.9	5.3	5.3
- India	7.0	7.3	4.5	-6.6	8.3	7.4	6.5	9.0	7.8	6.0
Latin America	7.4	1.0	-0.3	-7.2	6.1	2.3	2.4	5.2	2.5	2.3
- Brazil	2.4	1.8	1.2	-3.9	4.6	0.7	1.5	4.9	2.1	2.3
MENA	5.6	1.1	1.6	-3.2	3.4	5.4	3.8	3.1	3.5	2.9
CIS	4.5	3.2	2.7	-2.8	4.7	-11.7	1.9	4.2	3.0	2.6
- Russia	3.1	2.8	2.0	-3.0	4.7	-10.4	1.5	3.9	2.6	2.2
Sub-Saharan Africa	3.3	2.5	2.5	-2.1	4.3	3.6	3.7	3.1	3.3	3.4
Candidate Countries	2.2	3.1	1.1	1.3	10.2	2.1	3.1	8.6	4.1	4.0
World	100.0	3.5	2.8	-3.3	5.8	3.2	3.5	5.7	4.5	3.5
Trade of goods and services, volumes										
World, import		4.2	0.9	-8.4	10.4	4.9	4.4	9.1	6.4	4.7
EU export market growth		4.0	2.4	-8.6	9.9	4.7	4.4	8.9	6.8	4.7

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2021. (b) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.

The growth outlook is therefore weaker for most economies, while global inflationary pressures are intensifying.

Global GDP is now expected to expand by 3.2% in 2022 and 3.5% in 2023. Advanced economies are set to grow by 2.8% in 2022 and 2.4% in 2023. EMEs are projected to grow by 3.6% in 2022 and 4.5% in 2023. For both advanced and emerging economies, this is a downgrade of more than 1 percentage point for 2022 compared to the Autumn Forecast. In that forecast, global inflationary pressures were expected to ease gradually throughout 2022 as supply-side bottlenecks would unwind, demand rotate back towards services in advanced economies, and energy prices moderate. Global inflation is now likely to move higher in the near term, peak later, and be more persistent.

The outlook for the US economy in 2022 has softened.

US GDP expanded by 5.7% in 2021, with a strong fourth quarter seeing unemployment falling back close to pre-pandemic levels at 3.9%. Output contracted in 2022-Q1, with net exports being the main drag on growth, but domestic demand continuing to expand at a robust rate. Price pressures have broadened, with CPI inflation reaching 8.5% y-o-y in March 2022. The US Federal Reserve raised rates by 0.25% in March, and has signaled further rate rises to come. While the US has limited direct economic exposure to Russia and Ukraine, the war will affect the US economy via the commodity price channel.

Continued strengthening of the US dollar would also weigh on exports and widen the trade deficit (to 3.7% of GDP in 2022). US GDP is now expected to expand by 2.9% in 2022 and 2.3% in 2023, while inflation is set to move up to 7.3% before retreating to 3.1% in 2023.

Among other advanced economies, the outlook shows significant variation.

UK GDP grew strongly in the last quarter of 2021, and momentum continued into early 2022 as pandemic restrictions were lifted. Higher energy prices and fiscal tightening are, however, expected to substantially erode disposable incomes in 2022, while business investment is set to remain sluggish despite generous temporary tax incentives. The UK is now expected to grow by 3.4% in 2022 and 1.6% in 2023, with inflation at 7.0% and 3.6% respectively. In Japan real GDP is now forecast to increase by 1.9% in 2022, with a significant drag from the Omicron variant in the first quarter of 2022, and to edge down to 1.8% growth in 2023 as the economy moves towards potential. Price pressures have increased in Japan, though headline inflation remains at relatively low levels compared to other advanced economies. It is expected to be 1.6% in 2022 and 1.5% in 2023 respectively, compared to a fall in prices of 0.2% in 2021. The spread of the virus has also affected activity in Korea, with GDP now set to expand by only 2.6% in 2022.

The Chinese economy significantly slowed in the second half of 2021 and 2022-Q1 and now faces a bleaker outlook.

A more challenging external environment, a slowing real estate sector and the COVID-19 pandemic will weigh on growth in 2022 and 2023. The virus suppression measures in place in some major cities are expected to negatively impact private consumption, while a slower pace of construction activity will weigh on investment growth. Net exports are expected to provide a negative growth contribution in both 2022 and 2023 as export growth is constrained by supply chain disruptions and rising producer prices. An expansionary fiscal impulse (2-3% of GDP) by the general government should mitigate some of these impacts, but is unlikely to help to achieve the “around 5.5%” real GDP growth target set by the authorities. Overall, growth is expected to be around 4.6% in 2022 and 5.0% in 2023 – a sharp decrease from the average growth rates registered over the previous decade.

Russian GDP is expected to decline substantially, by around 10% in 2022, though projections are highly uncertain.

Inflation in Russia has increased sharply following the imposition of sanctions, and is expected to be around 20% in 2022, strongly impacting real incomes and consumption. The investment climate is affected by high uncertainty, the weakening outlook for consumption, and a tightening of financial conditions. The corrosive effect of sanctions on production chains and shortages of key imported components constitute an additional drag on investment. The overall outlook for Russia depends fundamentally on the prospects for its commodity exports. The current forecast assumes that most commodity exports continue to flow and that revenues will be strong, enabling the government to finance the war and support the economy through fiscal measures.

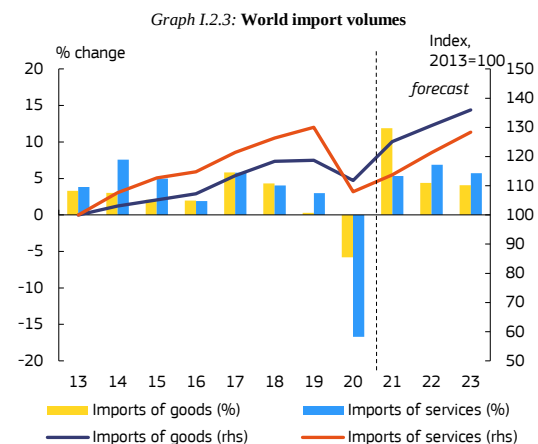
The outlook for Candidate countries, central Asia and most EME economies has also worsened.

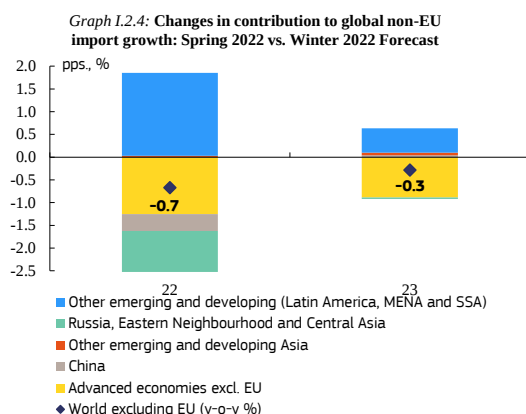
Regional economies will be directly affected by the Russian invasion through the trade channels and the disruptive impact of sanctions. While EME commodity exporters will benefit from higher prices (e.g. Saudi Arabia, Brazil, Nigeria), other EMEs will face worsening terms of trade and a weaker

external environment due to slower growth in goods trade. Higher food prices may threaten food security and stability in parts of the European periphery in North Africa with high dependence on imported supplies from Ukraine and Russia and a high share of food in consumption baskets (e.g. Egypt, Tunisia).

Global trade growth is set to moderate significantly in 2022.

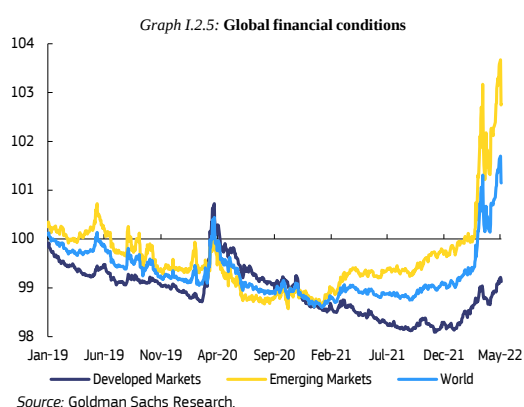
The strong growth in global trade seen in 2021 was partly linked to the synchronised rebound in global activity from the slump in 2020 (see Graph I.2.3), and to the unusually high demand for goods triggered by lockdowns in AEs. These underlying drivers were set to weaken in 2022, denting growth in goods exports, particularly for EMEs. Russia’s invasion of Ukraine, higher commodity prices, heightened stress in global logistics and renewed disruptions in supply chains are set to weigh on global trade activity (see Graph I.2.4). Furthermore, a strong dollar generally affects negatively global trade, as it increases the cost of trade financing. For the AEs and EMEs that largely rely on tourism, the phasing out of travel restrictions will, however, provide some boost to travel services. Overall, global imports of goods and services are now forecast to grow by 4.9% in 2022 and 4.4% in 2023.





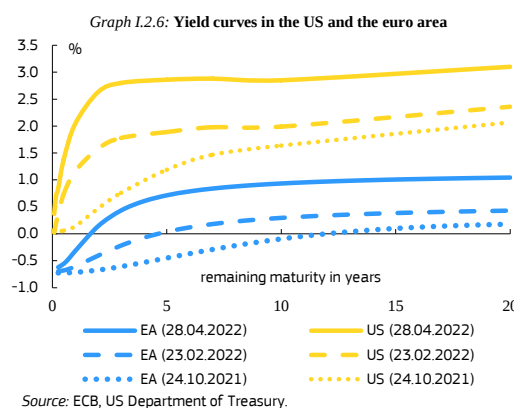
2.2. FINANCIAL CONDITIONS

Recent months have seen global financial conditions tightening and volatility rising, particularly in the aftermath of Russia's invasion of Ukraine. At the start of the year, concerns about soaring inflation, the economic impact of the Omicron variant and fading monetary policy support by central banks set investors on a cautious footing. Mid-February, geopolitics took centre stage, with the Russian military aggression against Ukraine sparking widespread risk aversion (see Graph I.2.5). Losses in global equity markets accelerated, reflecting rising corporate funding costs, worsening economic prospects due to rising energy and non-energy input prices, and renewed supply disruptions.



Yields on sovereign debt across the globe have picked up rapidly. Indications by the US Federal Reserve Bank of a faster-than-previously anticipated pace of interest rate rises, in an effort to prevent high inflation from becoming persistent, sparked yield increases across maturities, most notably at the short

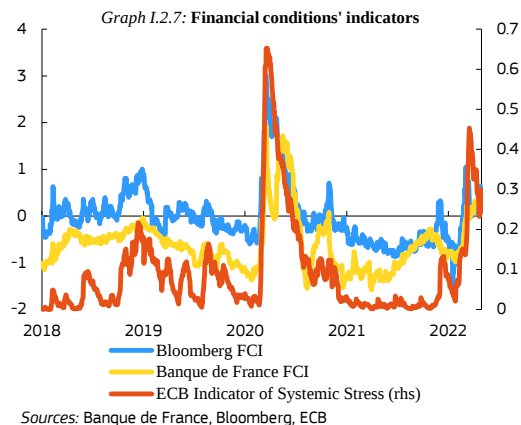
end of the yield curve. The 2-year Treasury yield has risen almost 200 bps since the start of 2022, bringing it close to the 10 year rate (see Graph I.2.6). The rise in inflation has outpaced nominal yield increases at short maturities (e.g. up to two years), translating into further declines in real short term interest rates. For longer maturities, the rise in inflation expectations goes on a par with the rise in nominal yields, keeping real rates fairly constant at close to zero in the US and still negative in the euro area. In EMEs, bond yields have further increased with abrupt rises in early 2022 amidst a more advanced monetary policy tightening cycle in most EMEs and decreasing capital inflows since autumn.



The EU's direct financial exposures to Russia and Ukraine are limited. The potential losses incurred by EU investment funds and banks are not sizeable enough to generate financial stability issues within the EU financial system. The EU banking system has built resilience over the past years, achieving strong capital and liquidity levels. Hence the direct effects of the war in Ukraine are set to be contained.

The war has nevertheless triggered further tightening of financial conditions in the EU, across different market segments. Similarly to what was experienced elsewhere, EU financial assets in both risk and risk-free market segments have experienced losses amidst a significant pick-up in volatility. Various composite financial conditions indicators for the euro area confirm the tightening of financial conditions in the euro area, particularly after the start of the war in Ukraine (see Graph I.2.7). The tightening has been even sharper in a number of non-euro

area EU Member States as their central banks have continued to raise their policy rates in response to strong inflationary pressures (i.e. in Czechia, Hungary, Poland, and Romania). Rises in rates have not prevented a depreciation of these currencies against the euro, reflecting these countries' higher economic exposure to Russia and the role of safe haven that the euro plays with respect to neighbouring countries.



With the war strengthening inflationary pressures, the ECB has accelerated the pace of policy normalisation, while retaining flexibility. The ECB conducted a last targeted long term refinancing operation (TLTRO III) in December 2021 and discontinued its net asset purchases under the pandemic emergency purchase programme (PEPP) at the end of March 2022. As inflationary pressures strengthened further, the ECB accelerated the pace of policy normalisation. In particular, the ECB's Governing Council revised downwards the expected volume of net asset purchases under the asset purchase programme (APP) for 2022 with a view to ending net purchases in the third quarter of 2022.⁽⁴⁾ At the same time, the ECB emphasised that it would retain flexibility in its conduct of monetary policy, given the high uncertainty surrounding the outlook for inflation and growth. Hence, it amended its forward guidance on interest rates, stating that any adjustment to its policy rates would take place 'sometime after' the end of net asset purchases, and that such an adjustment would be gradual. Markets now expect several interest

rate hikes this year, with a first one expected to take place already in July.⁽⁵⁾

In nominal effective terms, the euro has depreciated by 2.1% since end January.

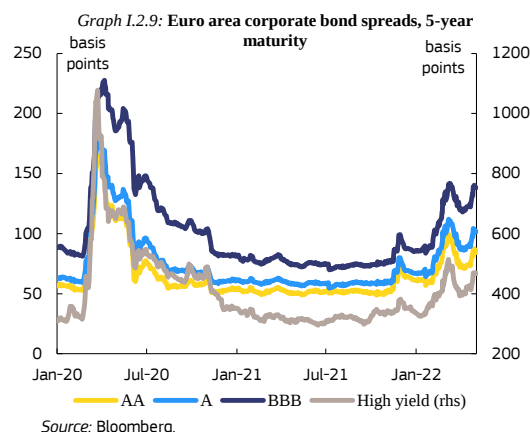
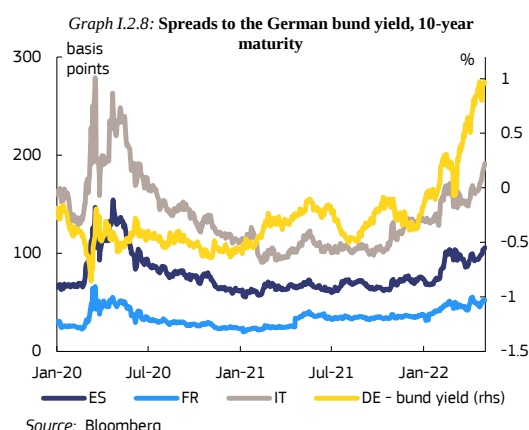
The ECB remains behind the FED in its tightening cycle. The ensuing yield differential coupled with the safe heaven role of the US dollar is reflected in a significant depreciation of the euro against the US dollar since the end of January (-5.3%). The euro also depreciated against the Chinese renminbi, on the back of higher demand for Chinese bonds and goods, the Australian dollar and the currencies of some emerging markets (Brazil, India, Mexico). By contrast, the euro appreciated against the Japanese yen and the Turkish lira. Overall, in nominal effective terms, the value of the euro has fallen by about 2% since the end of January.

Sovereign bond yields increased, with limited widening in euro area spreads.

The 10-year German Bund yield increased by more than 100 bps. since the start of the year, reaching 0.95% at the end of April, while the 2-year Bund yield increased somewhat less, but turned positive. At the same time, market-based inflation expectations in the euro area have been moving up, driving the short term real interest rates further down. Euro area sovereign bond spreads vis-à-vis the German benchmark have widened in a measured manner (see Graph I.2.8). EU joint bond issuance, aimed at funding the EU's economic recovery under the Recovery and Resilience Facility and other EU-budget programmes within NextGenerationEU, implies less issuance at national level and has likely contributed to limit the rise in spreads at a time when the ECB reduces, and eventually ends, its asset purchases.

⁽⁴⁾ In March, the ECB reduced the scheduled monthly net asset purchases under the APP for the second quarter from EUR 40bn per month to EUR 40bn in April, EUR 30bn in May and EUR 20bn in June.

⁽⁵⁾ At the end of April, the one month euro short term rate (1M €STR) forward curve was consistent with an almost 20bps higher €STR rate by the end of July and almost 160bps higher rates in one year time.



Both short- and long-term nominal interest rates are set to increase over the forecast horizon. As customary, the assumptions for interest rates used in this forecast are market-based. Short-term nominal rates are expected to turn positive in the fourth quarter of this year and to stand above 1.5% at the end of 2023. In view of the projected path of inflation, real short-term interest rates would rebound strongly from their record low levels, while remaining in negative territory by the end of 2023. For longer maturities, nominal and real rates in the euro area are expected to increase gradually over the forecast horizon, with real rates also projected to remain negative by the end of 2023. High inflation normally erodes the value of real debt and the real cost of servicing it, as incomes tend to evolve in line with inflation. This is not necessarily the case when, following a terms of trade shock, firms are not able to pass-on all the increase in costs and inflation outpaces the increase in nominal wages. On the contrary, some borrowers with flexible rates or short-term re-financing needs might be exposed to an increase in interest rates, and a simultaneous reduction in their debt-servicing capacity.

Increased risk aversion led to widening corporate bond spreads and weighed on equity prices. Corporate bond spreads in the investment grade and particularly in the high-yield segment have widened over the past months, leading to an increase in the cost of market-based funding in the EU (see Graph I.2.9). Meanwhile bank lending rates for both corporations and households have increased more moderately.

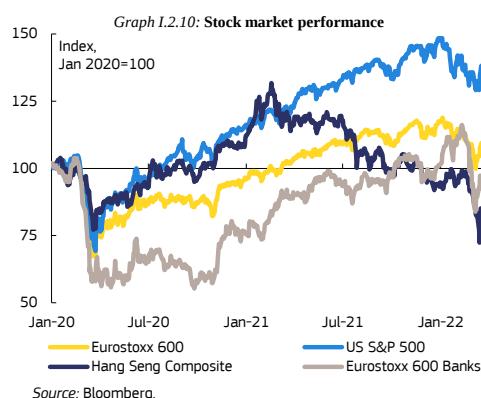
Bank lending in the euro area was still strong in the first quarter of this year. ECB data show that the annual growth rate of credit to the private sector stood at 4.7% in March compared with 4.2% in December last year.⁽⁶⁾ The annual growth rate of adjusted loans to households stood at 4.5% in March, compared with 4.2% in December, while the annual growth rate of adjusted loans to non-financial corporations declined somewhat, to 4.2% in March from 4.3% in December.

Credit standards, however, tightened in the first three months of the year. In the most recent ECB Bank Lending Survey of April 2022, euro area banks reported a slight net tightening of credit standards for loans to households for house purchase, driven by perceptions of increased risk and decreased risk tolerance. For the second quarter, banks expect a considerably stronger net tightening of credit standards for loans to firms, likely reflecting the uncertain economic impact of the war in Ukraine and the anticipation of less accommodative monetary policy. For households, banks expect a moderate net tightening of credit standards for housing loans and for consumer credit and other lending to households. In addition, banks reported an increased demand for loans to households and firms. The latter is driven by a strong positive impact of financing needs of firms for working capital, reflecting supply chain disruptions as well as precautionary inventories and liquidity holdings. Fixed investment continued to have a positive impact on loan demand, but less than in the previous quarter.

⁽⁶⁾ Loans, adjusted for loan sales, securitisation and notional cash pooling.

Equity valuations have declined amidst heightened volatility.

Losses in equity markets accelerated following the rapid escalation of the Ukrainian crisis and the uncertainties about rising commodity prices (see Graph I.2.10). European bank stocks, in particular those with high exposures to Russia sold off sharply following Russia's invasion of Ukraine, reflecting the risk of a severe shock at bank or investment fund level in case of a default of the Russian sovereign debt and large corporates, possibly simultaneously. Regarding non-financial corporations, the lower valuations on equity markets are rather motivated by higher long-term interest rates and increased risk perception than by their intrinsic situation. EU non-financial corporations are on aggregate in a strong position with overall healthy balance sheets, strong earnings and a longer maturity profile on their debt. However, there is significant divergence across economic sectors and types of firms. SMEs are significantly more vulnerable than large corporates.



The war in Ukraine has reinforced pre-existing vulnerabilities in the EU financial system.

Real estate prices are above their long-term fundamentals, after a decade of strong growth and the exuberant increases of last year. Households (and the construction sector) are vulnerable to corrections in house prices. Valuations in financial markets may not have fully priced in the risk of unfolding of adverse events and are therefore at risk of further corrections. In segments of the corporate sector, squeezing profit margins on the back of higher costs increase the vulnerabilities stemming from the large debt liabilities incurred during the pandemic. Vulnerabilities stemming from high sovereign debt are mitigated by the large share of debt

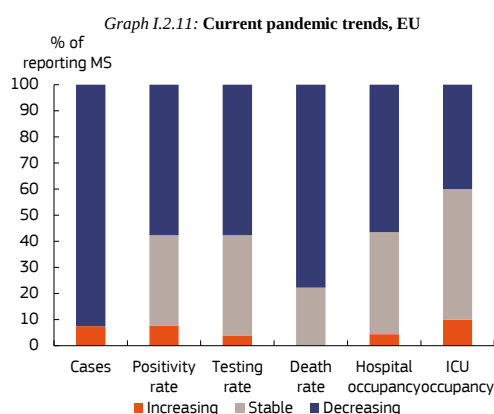
locked in at record-low rates. The banking sector remains well capitalised.

2.3. THE GROWTH OUTLOOK

Recent pandemic developments

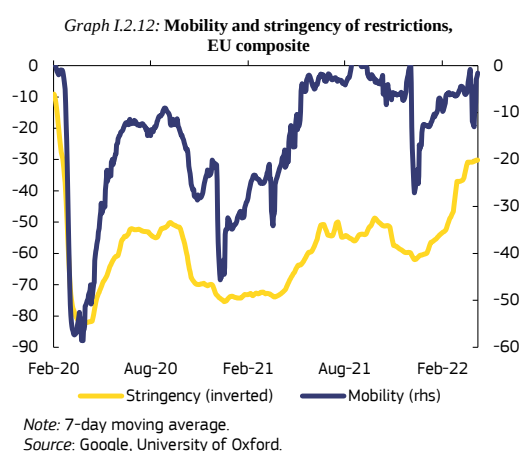
Despite a high caseload, the lower severity of the Omicron variant allowed easing restrictions in the EU.

During the first quarter of the year, the 7-day incidence⁽⁷⁾ of cases reached a record level of 2,820 on 30 January and declined significantly afterwards to a level of around 600 at the end of April. By then, pandemic developments were improving in many respects (see Graph I.2.11). With the effective reproduction rate (R) firmly below 1 since early April, the spread of infections should continue to fall in the coming weeks. The latest surge in infections in the EU had limited impact on the number of hospitalisations, and a significantly lower effect on death rates than previous waves. Thus, reassured by the lower severity of Omicron in terms of ICU admissions and deaths as well as the retrenching number of cases, Member States relaxed restrictions starting in mid-January. In consequence, the average stringency of containment measures, as measured by the Oxford Stringency Index, retreated to its lowest since the start of the pandemic in February, and continued to decline thereafter (see Graph I.2.12).



⁽⁷⁾ The 7-day average of number of new infections per million people. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

Still, high worker absenteeism weighed on the recovery of mobility. Available high frequency data shows that people's mobility in the EU increased in the course of the first quarter at a time when most restrictions were lifted, but remained below its average in 2021-Q4. This might be related to the fact that case numbers, as well as staff absenteeism due to sickness and mandatory isolation at that time, remained high. While at the end of April there were no official data available for the EU as a whole, data from Belgium⁽⁸⁾ and the UK⁽⁹⁾ point to a significant number of people on sick leave or isolating in the first quarter of 2022.



The future evolution of the pandemic remains highly uncertain. While in the near future absenteeism could continue to weigh on overall activity, in the long run, as more treatments become available, stringent containment measures and other non-pharmaceutical interventions are expected to play a marginal role and no longer pose a threat to economic activity. However, uncertainty over the future evolution of the pandemic, including possible new shocks to labour supply, remains significant.

Activity around the turn of 2021

As the EU economy moved from recovery to expansion in the last quarter of 2021, momentum eased and was further dented

⁽⁸⁾ <https://www.acerta.be/fr/a-propos-dacerta/dans-la-presse/premier-trimestre-2022-labsenteisme-pour-cause-de-maladie-ne-cesse-daugmenter>

⁽⁹⁾ <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/economicactivityandsocialchangeintheukrealtimeindicators/latest>

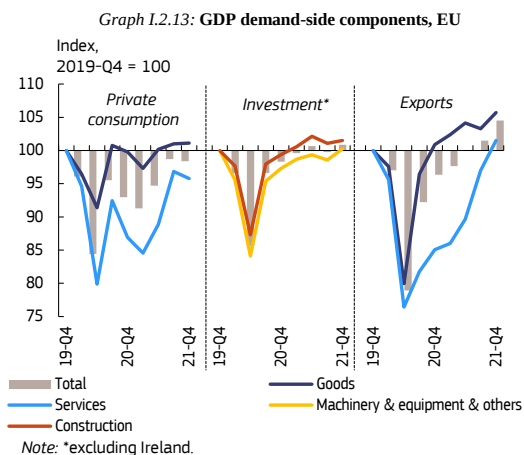
by intensifying headwinds. Amidst a renewed COVID 19 wave, continued disruptions in global production and distribution networks, as well as price pressures, EU real GDP growth decelerated to 0.5% in 2021-Q4. Still, real GDP increased in most countries except Ireland and Austria (-5.4% and -1.5%, respectively) as well as to a lesser extent in Germany, Latvia, Croatia and Romania. This follows a robust rebound in the previous two quarters (of slightly more than 2% in each) that had led to the recovery of pre-pandemic output levels in the EU in 2021-Q3.

Growth moderation owed as much to higher prices as to the resurgence of the pandemic.

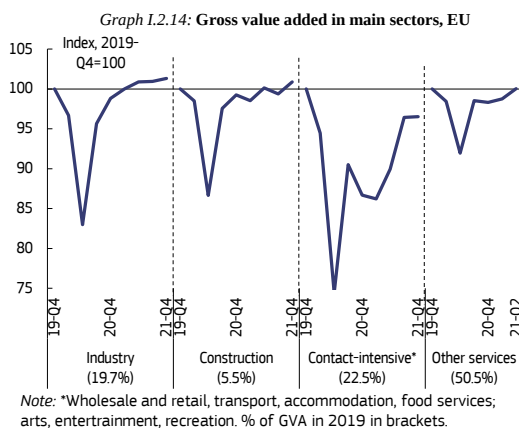
As nominal gross disposable income fell for the first time in 2021 and inflation eroded real incomes to a significant extent, the household saving rate fell to 13.3%, its lowest level since 2019. Private consumption fell 0.3%, due to falling consumption on durable goods and services (see Graph I.2.13). This is also reflected in value added growth in the services sector, which remained broadly flat despite a minor contraction in contact-intensive activities⁽¹⁰⁾ (see Graph I.2.14). Loss in momentum was significant, leaving output of those sectors most exposed to restrictions 3.5% short of their late 2019 levels, two years into the pandemic. Exports (1.5 pps.), investment⁽¹¹⁾ and public consumption all provided positive contributions to growth, as did the accumulation of inventories (all by 0.2 pps. each). Exports of goods grew at their fastest quarterly rate in the year, in line with the 6th consecutive increase in industrial output. Exports of services continued to increase strongly (4.6% after 8.2%), managing to go above their pre-pandemic level.

⁽¹⁰⁾ Contact-intensive sectors include: arts, entertainment and recreation as well as wholesale and retail trade, transport, accommodation and food service activities. There are sectors with non-teleworkable occupations, reliant on teamwork or face-to-face customer interaction, which have been particularly affected by containment measures.

⁽¹¹⁾ To look through the short-term volatility induced by activities of multinational firms in Ireland, data from the country is excluded in the analysis of investment.



Nevertheless, the rebound over the year was robust and led to a strong carry-over into 2022. Despite the loss of momentum, output grew by 5.3% in the year as a whole and provided 2022 with a strong carry-over of around 2% (see Box I.2.1).



Developments in 2022-Q1

Before Russia's war of aggression against Ukraine, data confirmed expectations of a temporary slowdown in growth. In January, the Economic Sentiment Indicator (ESI) for the EU eased on the back of declines in services, construction and industry confidence as the pandemic situation and supply bottlenecks took a toll on activity in these sectors. Consumer confidence also moved down somewhat due to diminished appraisals of households' future financial situation, likely reflecting lingering uncertainty about the evolution of the pandemic, as well as the impact of inflationary pressures. By contrast, confidence in retail remained strong. This overall reduced confidence is reflected in January's industrial

production in the EU as well as in new car registrations in the euro area, which both dropped. Retail sales in the EU failed to recover from the strong decline in December. As the wave of infections abated, February saw an improvement of economic sentiment, in particular in the services sector. This pick-up in economic activity was confirmed by a rebound of industrial production amid signs of easing supply chain disruptions, as well as in new car registrations in the euro area. However, consumer confidence recorded another decline to below its long-term average as households' reported more pessimistic views on their past and future financial situation, as well as their reduced intentions to make major purchases, possibly linked to increased fears that the high inflation will cut their purchasing power. Consistently, growth of retail sales remained subdued in February. The Purchasing Managers Indices (PMI) provided a similar picture, with the euro area composite PMI declining in January and picking up somewhat in February.

The war marked a major turnaround to short-term growth prospects. As an immediate consequence, energy, industrial raw material and food prices increased substantially, adding to already high inflationary pressures and creating further headwinds to households' purchasing power and private consumption. Furthermore, trade turbulences resulted in new indications of increased bottlenecks. While at the cut-off date of this forecast there was no hard data for March, surveys and other 'soft' sources of information provided evidence of the significant hit to growth.

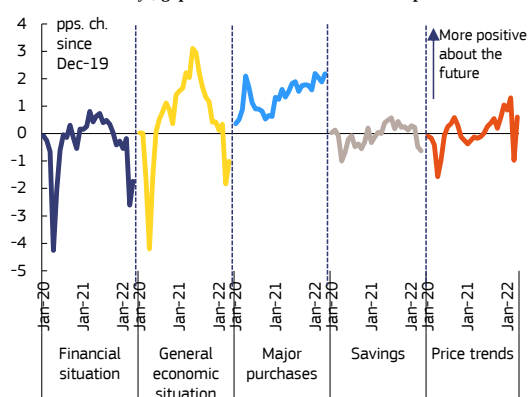
- The Commission's new Economic Uncertainty Indicator rose abruptly in March (+10.7 points to 25.8), driven by growing uncertainty about the outlook in all business sectors and among consumers. In a similar vein, measures of geopolitical risk hit their highest in several decades.⁽¹²⁾
- The ESI dropped substantially in the EU (-7.0 points to 106.6). Noteworthy was the

⁽¹²⁾ GDP-weighted average the geopolitical risk (GPR) index for 10 Member States representing 80% of EU GDP. See Caldara, Dario and Matteo Lacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.

slump in consumer confidence, of 9.1 pts – the second-largest monthly fall in the history of the survey – to the weakest since the onset of the pandemic and below the lows of 2009 and 2012. This mostly reflected the collapse in households' expectations about the general economic situation, but also about their own future financial situation. The divergence between consumers' assessments of their current situation versus expectations about the future reveals the extent of the “war shock”, driving a wedge between the two assessments (see Graph I.2.15). Industry confidence also fell to a 12-month low due to the sharpest drop in production expectations since the start of the pandemic. Selling price expectations rose to unprecedented levels in all sectors, in line with increased commodity prices.

- PMIs in March flagged slowing economic activity and worsening supply pressures, interrupting the normalisation of supply constraints that was starting to take place. Business confidence took a significant hit, with future output expectations slumping to a 17-month low. The euro area composite PMI fell 0.6 pts in March to 54.9, leaving the average in Q1 marginally below that in Q4. Firms also reported record increases in input costs and output prices, as well as a four-month high in supplier delivery times – signalling renewed disruptions in the workings of supply chains. Moreover, export demand fell for the first time since late 2020.

Graph I.2.15: European Commission Consumer Surveys, gap between future and current expectations



In the first quarter of 2022, economic activity in the EU slowed down, but

continued growth was reported in most Member States.

Amidst the COVID-19 Omicron wave, the rise in energy costs and inflation in general, as well as the onset of Russia's war, EU real GDP growth decelerated to 0.4% quarter-on-quarter (0.2% in the euro area), according to Eurostat's preliminary flash estimate. As compared to the first quarter of 2021, GDP was 5.2% higher in the EU (5.0% in the euro area). Continued economic growth was reported from 9 of the 11 Member States with a preliminary flash estimate. Among the largest euro area countries, output increased in Spain by 0.3% and by 0.2% in Germany, while activity remained unchanged in France and fell in Italy (0.2%). While no expenditure breakdown was published, data from Member States suggest that household consumption was a significant drag on growth while business investment appears to have remained firm.

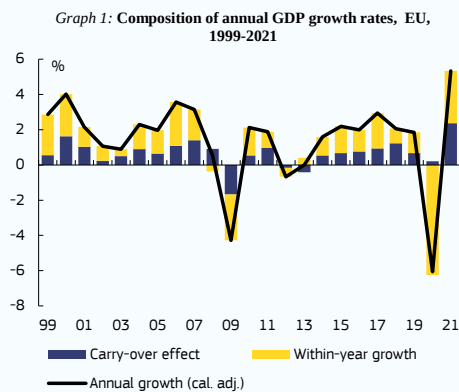
The growth outlook

Real GDP growth in the EU is expected to remain subdued in the second quarter of 2022.

High energy prices, persistent supply-side disruptions and the unfolding effects from Russia's invasion of Ukraine are expected to dampen growth dynamics in the second quarter. However, the mitigating positive effects from the reopening of parts of the services sector should keep the economic rebound on. In April, the S&P Global Flash Eurozone PMI marked a seven-month high (at 55.8), driven by the services activity index, which increased to an eight-month high (of 57.7). By contrast, in line with the Commission's industry confidence indicator, the euro area manufacturing output PMI fell to a 22-month low in April (though remaining slightly above the expansionary threshold, at 50.4). The subcomponents on new orders accelerated, which usually signals improving demand conditions but could also hint at the difficulty of meeting previous demand.

Box 1.2.1: Carry-over effects and the annual growth forecast for 2022

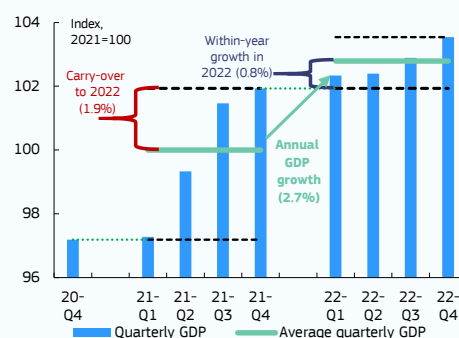
Annual growth rates depend not only on growth in the current year, but also on growth dynamics in the previous year. The carry-over effect shows how much GDP (or any of its components) would grow in the current year, on a year-on-year basis, if it remains at the same level as in the last quarter of the previous year. This concept can generally be applied to data with a frequency of less than one year, such as monthly and quarterly data. The difference between the annual growth rate in the current year and the carry-over effect from the previous year informs about growth dynamics within the current year. If quarterly data are calendar-adjusted but annual data are not, calendar effects need to be taken into account.



Carry-over effects can be particularly strong in times of sharp upturns and downturns. In the past two decades, economic activity fell most during the Global Financial Crisis (GFC) and when the pandemic started (see Graph 1), but the different timing and dynamics of the declines and the subsequent recoveries resulted in a different balance between carry-over effects and within-year growth. During the GFC, GDP in the EU started falling in the second quarter of 2008, resulting in a negative carry-over to 2009 that added to negative growth in that year. However, the recovery as of the third quarter of 2009 was sufficiently strong to result in a small carry-over effect to 2010. In 2020, due to the fast rebound after the two-quarter recession caused by the pandemic, the carry-over to 2021 was positive (2.4%). In the six years before the pandemic (2014-2019), the average GDP growth rate of 2.1% in the EU included on average carry-over effects of 0.8%.

The growth forecast for 2022 looks strong, but includes only subdued growth dynamics within the year. In 2021, the re-opening phase fuelled GDP growth in the EU in particular in the second and third quarter, resulting in a strong carry-over to 2022 of 1.9%. This accounts for most of the projected annual growth in 2022, reflecting an outlook of subdued growth within 2022 (see Graph 2).

Graph 2: Quarterly GDP levels and their implications for annual growth in 2022, EU



Carry-over effects are also important for GDP demand components. In the second half of 2020, the pandemic-related shift in spending from services to goods pushed goods imports and exports, resulting in high carry-overs to 2021 for the two components (see Graph 3). In 2021, the rebalancing between spending on goods and services brought high carry-overs for services trade. In addition, private consumption rebounded strongly, which explains the relatively high carry-over to 2022.

Graph 3: Carry-over effects of GDP components from 2020 and 2021, EU

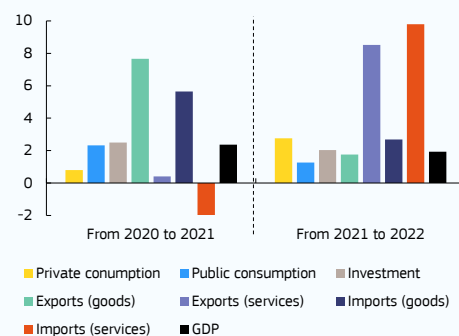


Table I.2.2:

Composition of growth - EU

(Real annual percentage change)

									Spring 2022 forecast		
2021			2016	2017	2018	2019	2020		2021	2022	2023
bn Euro	Curr. prices	% GDP	Real percentage change								
Private consumption	7,429.3	51.0	2.2	2.1	1.8	1.6	-7.3		3.8	3.3	2.7
Public consumption	3,217.5	22.1	2.0	1.1	1.2	2.0	1.1		3.8	0.8	0.4
Gross fixed capital formation	3,209.5	22.0	3.3	4.1	3.4	6.5	-6.2		4.2	3.1	3.6
Change in stocks as % of GDP	156.3	1.1	0.5	0.8	1.0	0.8	0.1		1.1	1.0	0.9
Exports of goods and services	7,399.0	50.8	3.5	5.8	3.8	3.0	-8.4		10.7	5.0	4.6
Final demand	21,410.1	146.9	2.8	3.7	2.7	2.7	-6.6		6.5	3.5	3.1
Imports of goods and services	6,836.0	46.9	4.6	5.6	4.2	4.6	-8.2		9.3	5.0	4.7
GDP	14,574.1	100.0	2.0	2.8	2.1	1.8	-5.9		5.4	2.7	2.3
GNI	14,478.9	99.3	2.2	2.9	2.3	1.8	-6.1		5.3	2.7	2.2
p.m. GDP euro area	12,253.9	84.1	1.9	2.6	1.8	1.6	-6.4		5.4	2.7	2.3
			Contribution to change in GDP								
Private consumption			1.2	1.2	1.0	0.8	-3.8		2.0	1.7	1.4
Public consumption			0.4	0.2	0.2	0.4	0.2		0.8	0.2	0.1
Investment			0.7	0.8	0.7	1.4	-1.4		0.9	0.7	0.8
Inventories			0.0	0.3	0.1	-0.2	-0.5		0.5	0.0	-0.1
Exports			1.7	2.7	1.8	1.5	-4.2		5.0	2.6	2.5
Final demand			4.0	5.2	3.9	3.9	-9.7		9.3	5.1	4.7
Imports (minus)			-1.9	-2.3	-1.8	-2.1	3.8		-4.0	-2.4	-2.4
Net exports			-0.3	0.3	0.0	-0.6	-0.4		1.0	0.2	0.1

The growth outlook is revised down markedly for 2022 and slightly for 2023.

All in all, GDP growth is expected to slow down from 5.4% in 2021 to 2.7% in 2022 in both the EU and the euro area. As the economy moved from recovery to expansion, a slowdown in growth was largely expected. In the Winter interim Forecast (February 2022), however, growth was still expected at 4.0% for 2022 (EU and euro area). The weaker outlook for 2022 includes an almost unchanged carry-over effect from 2021 (1.9% in both the EU and the euro area) but substantially lower growth within the year (see Box I.2.1 on carry-over effects). Annual GDP growth should moderate further in 2023, to 2.3% in the EU and the euro area, which is markedly lower than expected in the winter (2.8% in the EU, 2.7% in the euro area). The growth spillover from 2022 to the subsequent year is much smaller than it was in the last two years. This means that growth generated within the year plays a larger role for the annual growth rate than before.

The EU economy converges to its potential level of activity by 2023, one year later than expected before.

The output gap – which signals the cyclical position of an economy – is estimated to be closed next year, following three consecutive years during which the economy operated below its potential. In the Commission's Autumn Forecast, the gap was expected to be broadly closed already this

year. In the wake of the war in Ukraine, the closure of the gap with potential is therefore delayed by one year. One should nevertheless acknowledge the uncertainty regarding such estimates in a period of significant structural changes and large macroeconomic shocks.

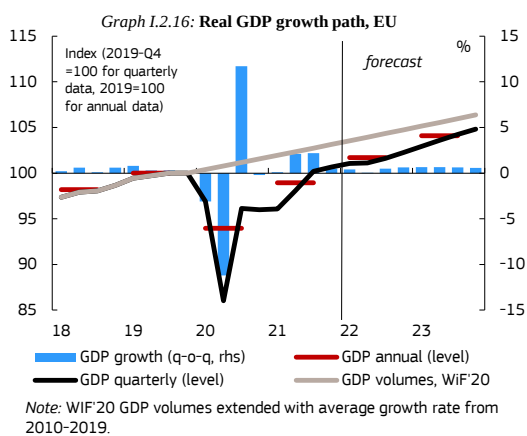
Moreover, the revised growth projections imply slower convergence to the growth path expected before the pandemic.

While in the Winter 2022 interim Forecast the volume of EU economic output in the last quarter of 2023 was expected to exceed its pre-pandemic level by 6.2%, now that gap is projected to be only 4.8%. The outlook for lower growth in 2022 and 2023 also widens the gap with the output level that the economy would have attained in the absence of the pandemic shock – based on an extrapolation of the growth outlook from the last forecast preceding the pandemic, the Winter 2020 interim Forecast (see Graph I.2.16).

Domestic demand remains the key driver of growth.

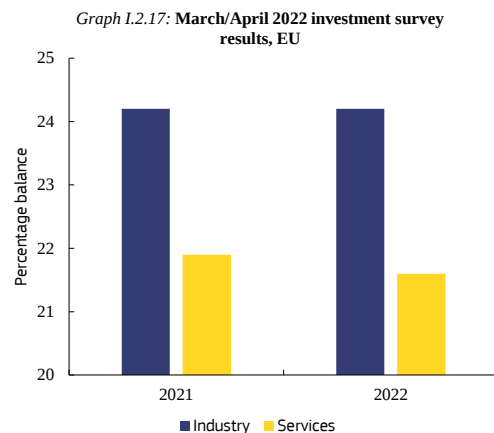
In both 2022 and 2023, real GDP growth is still expected to be driven by domestic demand. In particular, private consumption and investment will continue growing, albeit at a lower pace than previously expected, under the push of countervailing forces. On the one hand, inflation, uncertainty and aggravated supply bottlenecks will play as constraining factors. On the other hand, the

post-pandemic reopening momentum, fiscal measures to offset rising energy prices, a further decrease in the saving rate and the deployment of the RRF will act as favourable factors. After providing a significant contribution to growth over the past two years, not least through increased health spending needs, public consumption is projected to grow more modestly, and even decline, on a quarterly basis in most quarters of 2022. Finally, net exports are projected to provide only a marginal positive contribution to growth, with both export and import volumes slowing down.



Heightened uncertainty and tightening financial conditions weigh on equipment investment. Heightened uncertainty around the unfolding of the geopolitical situation and its ramifications for the demand outlook are set to weigh on companies' investment decisions and to delay the realisation of several investment plans. Moreover, inflationary pressures have not only increased costs for companies but are also leading to a faster and stronger tightening of financing conditions than previously anticipated. Finally, material shortages will continue to constrain investment. The latest bi-annual Commission investment survey (see Graph I.2.17), conducted between March and April, confirms a downward adjustment of managers' investment intentions in manufacturing as compared to the previous survey of October/November 2021. On the positive side, spillover effects from increased public investment and the possible frontloading of energy saving in the context of REPower EU are set to support equipment investment. Overall, however, the outlook for equipment investment in the EU is subdued, with growth rates projected to fall from 9.7% in 2021 to

2.7% in 2022, and to increase in 2023 to 4.3% (see Graph I.2.18).



Construction investment growth is expected to moderate. The availability of low-cost mortgages and the accumulation of savings during the pandemic, in particular by higher-income households, continue to support residential investment in the near term. Going forward, the projected fall in real incomes and rise in interest rates (and thereby borrowing costs) are expected to stretch housing affordability and dampen private residential demand. At the same time, in several countries material scarcity and labour shortages are weighing on supply. Residential investment growth in the EU is thus projected to slow down from 6.8% in 2021 to 2.5% in each of the two forecast years. Overall, construction investment is expected to slow from 5.8% in 2021 to 2.5% in 2022 and 3.0% in 2023.

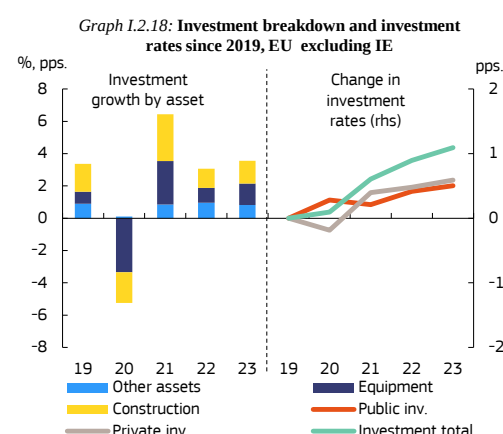
Public investment is set to further expand, benefitting from continued deployment of the RRF. The positive effects of the Recovery and Resilience Plans are set to be a key driver of public investment, even if the realisation of several planned investments may be affected by supply bottlenecks (e.g. material scarcity) and cost increases. Public investment in the EU is projected to increase stronger than GDP, raising the public investment-to-GDP ratio for a fifth consecutive year, from 3.2% last year to 3.4% in 2022 and 3.5% in 2023.

Table I.2.3:

Composition of growth - euro area

(Real annual percentage change)

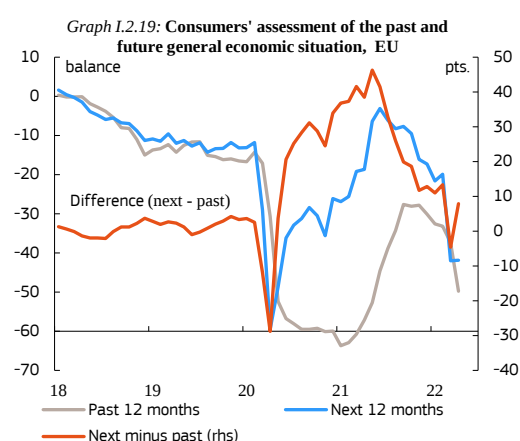
	2021								Spring 2022 forecast		
	bn Euro	Curr. prices	% GDP	2016	2017	2018	2019	2020	2021	2022	2023
Real percentage change											
Private consumption	6,249.5	51.0		2.0	1.8	1.5	1.3	-7.9	3.5	3.2	2.6
Public consumption	2,711.8	22.1		1.9	1.1	1.1	1.9	1.1	3.9	0.8	0.5
Gross fixed capital formation	2,693.9	22.0		4.0	3.9	3.1	6.8	-7.0	4.2	3.1	3.5
Change in stocks as % of GDP	105.1	0.9		0.4	0.7	0.9	0.7	0.1	0.9	0.8	0.7
Exports of goods and services	6,069.5	49.5		3.0	5.6	3.6	2.7	-9.1	11.0	5.1	4.7
Final demand	17,829.7	145.5		2.6	3.4	2.4	2.5	-7.1	6.3	3.5	3.1
Imports of goods and services	5,575.5	45.5		4.3	5.2	3.8	4.7	-9.0	8.8	5.1	4.8
GDP	12,253.9	100.0		1.9	2.6	1.8	1.6	-6.4	5.4	2.7	2.3
GNI	12,291.9	100.3		2.1	2.7	2.1	1.4	-6.7	5.4	2.8	2.2
p.m. GDP EU	14,574.1	118.9		2.0	2.8	2.1	1.8	-5.9	5.4	2.7	2.3
Contribution to change in GDP											
Private consumption				1.1	1.0	0.8	0.7	-4.2	1.8	1.7	1.4
Public consumption				0.4	0.2	0.2	0.4	0.2	0.9	0.2	0.1
Investment				0.8	0.8	0.6	1.4	-1.6	0.9	0.7	0.8
Inventories				0.0	0.3	0.1	-0.2	-0.4	0.4	0.0	-0.1
Exports				1.4	2.6	1.7	1.3	-4.4	5.0	2.5	2.5
Final demand				3.7	4.8	3.4	3.6	-10.3	9.0	5.0	4.7
Imports (minus)				-1.8	-2.1	-1.6	-2.1	4.0	-3.7	-2.3	-2.4
Net exports				-0.4	0.4	0.1	-0.8	-0.3	1.3	0.2	0.1



Overall, the outlook is for investment in the EU to grow by 3.1% in 2022 and by 3.6% in 2023. Investment growth is held back by rising costs and heightened uncertainty. The limited ability of firms to pass on higher costs to consumers is set to squeeze their profit margins. Heightened uncertainty and its impact on the demand outlook are set to weigh on companies' investment decisions and delay the realisation of investment plans. Moreover, increases in financing costs and material shortages continue constraining investment.

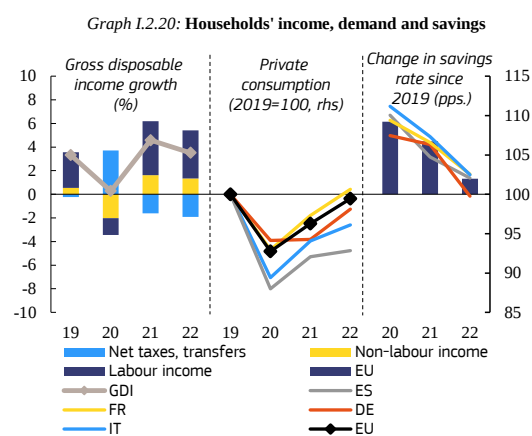
The slump in consumer confidence dampens the consumption outlook. According to the Commission's surveys, consumer confidence collapsed in March and dropped further in April. The fall coincided with

a surge in consumers' price expectations for the next twelve months to an all-time high. While consumers' expectations edged up slightly in the April survey, their assessments of the past financial situation worsened markedly (see Graph I.2.19). These readings point to the negative impact of elevated inflation and heightened uncertainty on consumption.



The gradual normalisation of saving behaviour is set to provide a buffer against the decrease in purchasing power. Households' purchasing power is being curtailed by rising prices. Gross disposable income is projected to expand by 3.5% in 2022 and 4.1% in 2023 in nominal terms on average in the EU (see Graph I.2.20). Yet, with inflation running at high rates, the net result is a fall in

real disposable incomes in 2022, only partially recouped in 2023. Growth in consumption is expected to resume as of the second quarter of 2022, as the labour market further improves and households continue to consume a larger share of their income. The household savings rate is projected to fall in the EU from 17.0% last year to 13.8% in 2022 and 12.5% in 2023, which is the saving rate recorded before the pandemic in 2019. In addition, the phasing out of many remaining pandemic related containment measures, should allow for a full resumption of consumption of contact-intensive services.

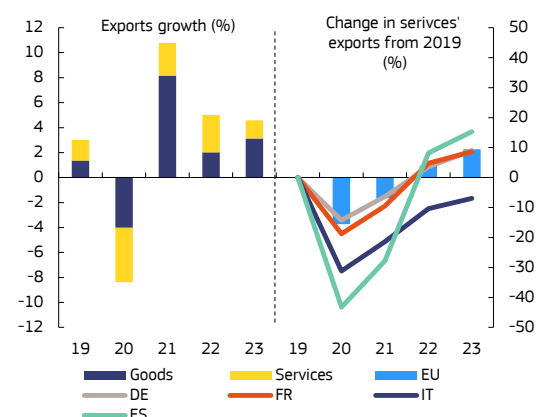


Private consumption in the EU is expected to grow by 3.3% in 2022 and by 2.7% in 2023. As a result, the projected expansion of private consumption in 2022 is weaker than expected in the Autumn Forecast last year. For 2023, the growth projection for private consumption has been revised slightly up (albeit from a lower base).

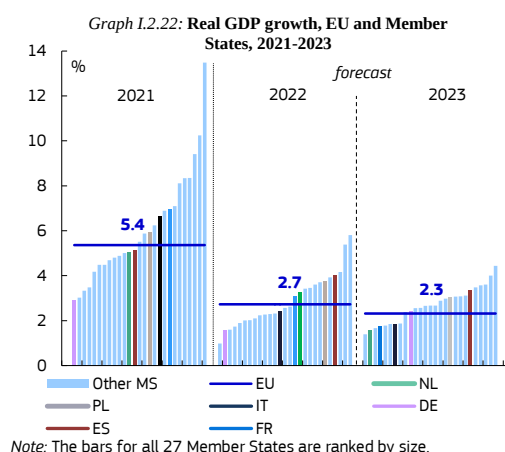
Net exports are expected to contribute only mildly to GDP growth in 2022. Volumes of exports and imports of goods and services in the EU are forecast to grow less than previously expected. This reflects weaker global demand, intensified and new supply disruptions, and some adjustment to soaring prices, but also the impact of sanctions and countersanctions. The projections for export market growth are revised down for the EU in 2022 and 2023, which is in line with the deterioration of the global trade outlook (see Section I.2.1). In the EU, the outlook for export market growth has especially deteriorated in Member States that formerly had close trade links with Russia, mostly economies in proximity to Russia. Similar differences had

characterised the export and the import side of foreign trade. In 2021, net exports contributed 1.0 pps to GDP growth, as the strong export growth largely exceeded import growth. Export growth was already expected to be less buoyant this year in the previous forecast. With downward revisions for imports and exports being broadly similar, the outlook for the contribution of net exports to economic growth is only slightly affected and is projected to be at 0.2 pps. in 2022 (see Graph I.2.21). In 2023, the growth contribution of net exports is expected to further decrease to 0.1 pps.

Graph I.2.21: Exports and external demand breakdown



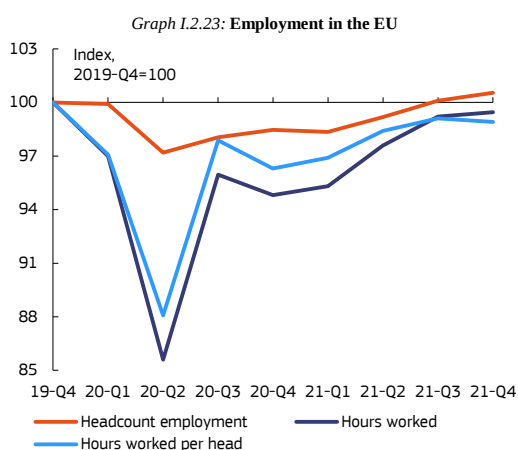
There is considerable heterogeneity in growth projections across Member States (see Graph I.2.22). In the last quarter of 2021, output in seven Member States, including Germany, Spain and Italy, had not reached its pre-pandemic level from the fourth quarter of 2019. The downward revisions to GDP growth in 2022 imply that this mark will be reached later than expected in the winter, in the fourth quarter of 2022 in Germany and Italy (instead of the second quarter), and in the third quarter of 2023 in Spain (instead of the fourth quarter this year). These differences can be partly explained by structural features, such as the importance of tourism and manufacturing, and by how pandemic-related restrictions and supply chain disruptions impacted these sectors. The effects of the Russian invasion of Ukraine have extended the list of factors explaining heterogeneous growth outcomes. Proximity to the war region, exposure to trade with Russia and Ukraine, dependency on energy imports from Russia, and the high degree of openness of the EU economies define the vulnerability of Member States to the new events (see Box I.2.2).



2.4. LABOUR MARKET

The recovery from the COVID-19 crisis was strongly felt in the labour market.

Last year, the EU economy created more than 5.2 million jobs and attracted nearly 3.5 million more people into the labour market. In addition, the number of unemployed decreased by nearly 1.8 million and unemployment rates fell below previous record lows at the end of 2021. This strong performance was broad-based across countries, sectors and socio-economic groups. Still, total hours worked and hours worked per employee remained below their pre-pandemic levels in the EU and most Member States (see Graph I.2.23).



The EU labour market ended the year with record outturns for several key metrics.

In the last quarter of 2021, EU headcount employment grew for the third consecutive quarter, reaching its highest level on record. According to Labour Force Survey data, the strong pace of job creation in the last quarter

of 2021 pulled an additional 1.3 million people into employment, 0.6% up from the previous quarter. A reduction in unemployment and an inflow from inactivity fuelled the increase in employment levels by about equal shares. The activity rate in the EU increased by 0.2 pps. to 64.5%, whereas the unemployment rate decreased to 6.5%, from 6.8% in the previous quarter.

The public sector contributed most to employment growth.

With virtually uninterrupted growth after the initial contraction in early 2020 and nearly 1.6 million (3.2%) more employees compared to 2019-Q4, the sectors of public administration, defence, education, human health and social work activities⁽¹³⁾ contributed markedly to the good performance of the labour market in 2021.

The pandemic-induced labour market slack was re-absorbed by the end of last year.

Labour market slack, as measured by the indicator proposed by Eurostat,⁽¹⁴⁾ decreased to 13% of the extended labour force in the EU in the fourth quarter of 2021, 0.4 pps. below the rate recorded in the previous quarter, as well as before the outburst of the pandemic. The share of the unemployed and those available to work but not seeking a job, two categories that contributed substantially to the sharp increase in labour market slack in early 2020, largely returned to levels recorded before the pandemic.

⁽¹³⁾ National accounts data. The combination of sectors O, P and Q of NACE Rev. 2 of the Labour Force Survey data leads to the same conclusions.

⁽¹⁴⁾ According to Eurostat's definition, labour market slack is the sum of unemployed persons, underemployed part-time workers, persons seeking work but not immediately available and persons available to work but not seeking, expressed as a percentage of the 'extended labour force', which adds up the aforementioned sum and the employed persons. The presented figure covers the age class of 15 to 74 years.

Box I.2.2: Member States' vulnerability matrix

Reflecting geographical proximity and important trade links, the war in Ukraine weighs on the European economy more severely than on other major economies, such as the US or China. In turn, within the EU, Member States have different degrees of exposure to some of the channels of transmission of the impact of the war described in Chapter 1 and Table I.1.1 – namely, the channels for trade, commodities and financial markets. By ranking Member States by degree of exposure to 13 dimensions of vulnerability, the matrix presented in this analysis has supported the assessments of the economic outlook for the EU Member States that are presented in this forecast. An *unweighted* average of the 13 rankings provides a rough indication of the overall position of a Member State vis-à-vis the others.

The energy part of the matrix includes energy intensities (total, for gas and for Russian gas) as well as a measure of dependency on Russian gas and two indicators of household budgets' exposure to energy prices. The total energy intensity of an economy refers to the amount of all energy (oil, gas, coal and other), expressed in *TeraJoules*, that is used in the generation of value added. It reflects the structure of the economy, most notably the prevalence of energy-intensive services and industries, such as air transport, manufacturing of petroleum products or basic metals. The other two intensity metrics focus on, respectively, the use of gas and of Russian gas only. The trade and value chains part of the matrix looks at various measures of trade linkages with Russia, Ukraine and Belarus. This includes exposure through direct trade shares in gross goods and services exports (to all three countries), as well as exports of travel services (to Russia only), or more complex value-chains links from the exports and non-energy imports based on the most recent input-output tables (for Russia only). Finally, the asset part looks at two types of asset exposure.

The Baltic and Eastern and Central European countries emerge as the most vulnerable Member States, largely due to the high energy intensity of their economies and the importance of Russia in trade, particularly for imports of gas. Cyprus also appears significantly exposed to the fallout from the war, due to the high share of its services' exports to Russia and the high value of Russian assets held by its residents. Among the large EU

Member States, Poland appears most vulnerable, largely reflecting its relatively high trade exposure and the importance of energy in the households' consumption basket. Netherlands, Germany and Italy follow, with an exposure that is broadly in line with the EU average. For the Netherlands, the vulnerability largely relates to assets and households' vulnerability to high energy prices, while for Italy and Germany it reflects a combination of the importance of Russian gas imports in gross available energy, asset exposure and households' vulnerability. Finally, France and Spain emerge, on average, as the least exposed large EU Member States. Portugal and Malta close the ranking.

Methodology and sources:

1) Total energy/gas/Russian gas intensity (columns 1-3) is defined as the ratio of total energy/gas/Russian gas to GVA that is embodied in the global value chains of products purchased by residents for final use (i.e. consumption, investment and inventories), including through intermediate inputs, independently of where they were produced. The ranking for Russian gas intensity (column 3) may differ from that based on the share of Russian gas in total available gas (column 4) because (i) the former includes a range of intermediate goods for which Russian gas may not be so relevant along the value chain of the final use product, and (ii) even high values of the latter may not translate into high intensity if gas is less important for generation of the value added compared to other energy sources. Source: *JRC calculations based on World Input-Output Database Environmental Accounts. Update 2000-2016 and Eurostat 2019 FIGARO EU inter-country supply, use and input-output tables*

2) The ratio of Russian gas imports to total available gas reflects the extent to which Member States rely on gas imported from Russia. Total available gas is calculated as imports + domestic production – exports + stock changes. A ratio above 100% indicates that the country re-exports part of the Russian gas it imports, as is the case for e.g. Hungary. Data refer to 2020. For the countries that do not report imports from Russia in their gas statistics or import Russian gas from other Member States, the following assumptions are made by the Eurostat:

(Continued on the next page)

Box (continued)

Table 1:

Vulnerability matrix

AREA OF EXPOSURE	ENERGY						TRADE AND VALUE CHAINS					ASSETS	
	Total energy intensity ¹	Total gas intensity ¹	RU Gas intensity ¹	Ratio of RU gas in gross available gas ²	Energy weight in the HICP consumption basket ³	Contribution of energy to annual HICP inflation ³	Direct goods exports to RU, UA and BY ⁴	Direct services exports to RU, UA and BY ⁴	Travel services exports to RU ⁵	Domestic VA embodied in exports to RU ⁶	Non-energy RU import content in final demand ⁷	Total exposure to RU assets ⁸	Banks' consolidated exposure to RU assets ⁹
	as % of GVA (TJ/EURm)	as % of GVA (TJ/EURm)	as % of GVA (TJ/EURm)	RU gas imports as % of total gross available gas	% of total expenditures	pps., 2022-Q1 average	as % of GDP					as % of GDP	
LV	8.1	2.1	1.7	100.1	16.2	3.4	7.8	2.2	0.1	1.0	2.6	2.7	-
EE	10.4	1.5	1.1	86.5	15.9	5.8	3.5	1.8	0.1	0.8	2.3	3.7	-
BG	13.1	2.0	1.2	72.8	13.4	3.1	1.4	1.4	0.1	0.7	1.4	1.0	-
LT	6.8	1.7	1.0	50.5	12.8	5.3	12.5	3.9	0.1	1.0	1.8	0.9	-
CZ	8.0	1.4	0.9	86.0	11.7	3.2	2.3	0.8	0.0	0.7	0.8	1.0	-
SK	9.0	1.8	1.2	75.2	15.1	2.5	2.3	0.7	0.0	0.7	1.0	0.4	-
HU	7.3	1.8	1.4	110.4	11.3	1.2	3.3	0.5	0.0	0.6	0.7	1.3	-
PL	8.4	1.3	0.6	45.5	14.5	2.8	3.0	0.9	0.0	0.6	0.8	0.3	-
SI	7.2	1.1	0.5	81.0	13.2	2.3	2.4	0.3	0.0	1.2	0.6	1.6	-
CY	8.0	1.0	0.4	0.0	9.7	2.5	0.3	12.6	1.9	2.8	2.2	713.3	-
FI	6.6	0.9	0.6	92.4	9.5	2.5	1.7	0.5	0.0	0.9	0.9	2.1	0.0
HR	6.6	1.2	0.6	55.0	13.2	1.7	0.5	0.5	0.1	0.5	0.6	0.1	-
EL	7.9	1.1	0.4	38.9	11.5	3.9	0.3	0.6	0.1	0.3	0.6	0.0	0.1
NL	4.2	1.2	0.4	35.8	11.3	5.8	1.2	0.3	0.0	0.4	0.3	11.6	0.7
EU	5.1	1.0	0.4	41.1	11.3	3.3	0.9	0.3	0.0	0.4	0.4	3.4	-
DE	4.3	0.9	0.4	58.9	12.1	3.0	1.0	0.1	0.0	0.5	0.4	1.0	0.2
IT	4.4	1.1	0.4	40.4	9.7	4.0	0.6	0.1	0.0	0.4	0.4	1.2	1.2
AT	4.3	0.9	0.4	58.6	8.7	2.3	0.7	0.3	0.0	0.5	0.4	3.0	3.7
BE	5.2	1.4	0.3	7.9	10.7	6.2	1.1	0.1	0.0	0.4	0.4	0.5	0.0
RO	7.6	1.7	0.4	15.5	12.1	2.7	0.8	0.1	0.0	0.3	0.6	0.0	-
LU	2.3	0.6	0.1	27.2	12.7	4.1	0.3	0.5	-	0.6	0.1	85.3	-
IE	4.5	1.0	0.1	0.0	8.9	2.8	0.2	0.9	0.0	0.9	0.3	10.8	0.0
FR	5.4	0.7	0.2	20.0	10.3	2.2	0.3	0.2	0.0	0.3	0.3	1.1	0.9
SE	5.2	0.5	0.2	13.9	9.6	2.2	0.6	0.2	0.0	0.3	0.4	1.2	0.0
ES	4.3	0.8	0.1	10.5	11.7	4.9	0.2	0.1	0.0	0.3	0.2	0.2	0.1
DK	3.6	0.5	0.2	52.4	8.9	2.7	0.5	0.3	0.0	0.3	0.3	1.0	-
PT	5.1	0.9	0.1	9.6	8.0	1.3	0.1	0.1	0.0	0.1	0.2	0.0	0.1
MT	5.0	0.6	0.1	0.0	6.7	0.0	0.1	1.0	0.0	0.4	0.4	0.2	-

Notes: Blank cells – no data available. Countries sorted by the average (unweighted) rank in the thirteen exposure dimensions (columns 1 – 13).

Colour coding (separate within each exposure dimension):

intense red – top 10% most exposed countries;

intense yellow – median exposed countries;

intense green – bottom 10% exposed countries.

Denmark: 50% of net imports from Germany are assumed to be from Russia

Estonia: 80% of imports from Latvia are assumed to be from Russia

Croatia: 80% of net imports are assumed to be from Russia

Austria: 80% of net imports are assumed to be from Russia

Romania: 80% of imports from Hungary are assumed to be from Russia

Slovenia: 80% of imports from Austria are assumed to be from Russia

Finland: 80% of imports from Estonia are assumed to be from Russia

Source: Eurostat, EU energy mix and import dependency

3) Share of energy in the HICP basket in 2022, and average contribution of annual energy

inflation to headline HICP in the first three months of 2022. Source: Own calculations based on the Eurostat data

4) Sum of exports to Russia, Ukraine and Belarus, as % of GDP in 2021 (goods) and 2019 (services). Source: Eurostat

5) Share of exports of travel services to Russia (BoP statistics) in 2021, as % of GDP. For DE, data on travel services exports to Russia are not available and the indicator is therefore proxied by the share of tourist nights spent by Russians to total tourist nights spent (assuming that the ratio of RU tourist nights in total nights to the share of Russia in travel services exports is the same as for FR. Source: Eurostat

(Continued on the next page)

Box (continued)

6) The indicator is defined as the domestic value added embodied in total country's exports to Russia as % of GDP. The indicator includes both direct exports of goods for intermediate and final uses as well as intermediate goods exported to third countries and eventually purchased by residents in Russia (embodied in a different good for its final use). Source: *JRC calculations based on the Eurostat 2019 FIGARO EU inter-country supply, use and input-output tables*

7) The Russian non-energy imports content to satisfy Member States' final demand includes: i) direct non-energy imports by a reporting Member State of intermediate and final goods and services from Russia, ii) intermediate non-energy imports from Russia via another EU

Member States to produce final products consumer in a reporting Member States, and iii) intermediate non-energy imports from Russia via non-EU countries (e.g. US, China) to produce final products purchased by residents in a reporting Member State. Source: *JRC calculations based on the Eurostat 2019 FIGARO EU inter-country supply, use and input-output tables*

8) Total stock of Russian assets held by EU countries in the form of stocks, bonds, FDI and other investment. Source: *FinFlows database updated and maintained by JRC and ECFIN, 2022*

9) Total stock of RU assets on banks' balance sheets in 2021-Q3, as % of 2019 GDP. Source: *BIS*

Recovery in hours worked lagged behind headcount employment, suggesting remaining underutilisation of labour.

With economic activity dampened by a new wave of the pandemic, the use of job retention schemes increased again in the fourth quarter of last year.⁽¹⁵⁾ Total hours worked increased by less than headcount employment, by 0.2% in the fourth quarter 2021. Average hours worked per employed person thus decreased after three quarters of growth, closing the year at 1.1% below the pre-pandemic level. This was the case in all major economic sectors except agriculture and financial and insurance activities. While during the pandemic job retention schemes played a crucial role in protecting jobs and incomes, they may have contributed to the drop in hours worked and to a muted responsiveness of labour supply to changing sectoral patterns of demand.⁽¹⁶⁾

The strong labour market rebound resulted in unmet labour demand.

The strong and sudden recovery of labour demand

was reflected in higher vacancy rates and survey data throughout last year. All major sectors reported increasing vacancy rates since the trough in the second quarter 2020. With unemployment rates at record-low levels, and a rapid and substantial increase in unfilled vacancies, labour markets in the EU tightened considerably by the end of last year. The Commission's surveys confirm strong broad-based labour demand. While job creation was widespread across sectors in the fourth quarter of 2021, the share of managers reporting labour shortages as a factor limiting their production increased in industry, services as well as construction. The share increased further in the first quarter of this year and broadly stabilised in the second. Labour shortages were particularly pronounced in several service sectors, such as computer programming, employment activities and land and air transport.⁽¹⁷⁾

The composition of employment growth reflects the structure of the demand rebound and trends accelerated by the pandemic.

Employment was created especially in occupations that are more easily

⁽¹⁵⁾ Workers covered by job retention schemes accounted for 1.6% of the extended labour force in December last year, according to the estimates of the ECB. The share was estimated to fall to 1.3% in February 2022.

⁽¹⁶⁾ Jean-Benoît Eyméoud, Nicolas Petrosky-Nadeau, Raül Santaella-Llopis, and Etienne Wasmer, 2021, "Contrasting U.S. and European Job Markets during COVID-19." FRBSF Economic Letter 2021-05.

⁽¹⁷⁾ Codes J62, N78, H49 and H51 of NACE rev. 2 classification. For more details, see Box 1.1. in European Commission (2022), "European Economic Forecast: Winter 2022", Institutional Paper 169.

teleworkable, a trend strengthened by the COVID-19 pandemic. Employment growth in the information and communication sector resulted in 8.5% additional jobs since the beginning of 2020. With booming demand following the reopening of economies as of spring last year, employment in wholesale and retail trade, transport, accommodation and food service activities performed strongly, though it remained below pre-pandemic levels, as tourism did not fully recover. By comparison, employment growth in manufacturing was subdued up until the third quarter 2021, before picking up at a rate of 0.5% in the last quarter of 2021, with employment in the sector still below its pre-pandemic reading.

Contrasting developments in hours worked and headcount employment paint a different picture on labour productivity.

Unlike headcount employment, hours worked fell steeply in early 2020. As a result, labour productivity per worker declined strongly and only closed the gap with its pre-pandemic level at the end of last year. By contrast, productivity per hour worked continued to increase throughout 2020 and 2021 above its pre-pandemic level, albeit at a slower rate than before the COVID-19 crisis.

Despite the tightening labour market and sharply rising consumer prices, wages have so far remained subdued.

The indicator of negotiated wage rates in the euro area increased by 1.6% in the fourth quarter of last year compared to the same quarter of 2020. Although probably still distorted by the impact of job retention schemes, the annual rate of change of compensation of employees per head reached 4% in the fourth quarter 2021, exceeding the post-2009 average. Given the average inflation rate of 4.6% in the last quarter of 2021, real wages actually declined.

Pandemic-induced labour market inequalities have been partially re-absorbed.

The COVID-19 pandemic had disproportionately hit population groups that were already facing worse employment prospects: notably the young, low-skilled and workers on temporary contracts. By contrast, women and men were not affected differently. Employment levels of those with lowest educational attainment had not yet started to recover by the end of last year. By contrast,

employment of young workers returned to pre-pandemic levels thanks to strong growth in the third and fourth quarters of last year. Employment and labour force participation of the elderly, which were only mildly affected in 2020, kept increasing during 2021. Labour force participation and employment of women and men continued increasing at around the same pace since the trough in 2020.

Labour markets improved in most Member States in the last quarter of 2021.

Headcount employment increased and unemployment rates decreased in most Member States. However, the recovery from the pandemic-induced crisis remained sluggish in a number of countries. In particular, labour markets in Bulgaria, Czechia, Germany, Latvia, Romania and Slovakia continued to lag behind in terms of hours worked, employment and unemployment statistics. By contrast, Greece, France and Croatia showed a strong performance in both hours worked and headcount employment, as well as in unemployment rate, beating their pre-pandemic levels.

Labour market conditions are expected to improve further over the forecast horizon.

Steady declines in monthly unemployment rates this year, from 6.4% in December to 6.2% in March, indicate likely further employment gains. In March, the employment PMI foresaw continued employment growth across the euro area at a slightly higher pace compared to the previous three months. In addition, Commission surveys indicate that further job creation in the short term may still take place in all surveyed sectors. With the gradual lifting of pandemic restrictions, managers in the services sector reported an increase in hiring intentions in February, March and April, following a two-month soft patch. Employment expectations in construction remained at around the same elevated level for four consecutive months, slightly below the all-time high levels recorded in autumn last year. By contrast, the results of the March and April surveys in industry show some easing of employment expectations, as confidence in the sector has been hit by the Russian invasion of Ukraine.

Headcount employment is forecast to increase by 1.2% in the EU this year before easing to 0.7% in 2023. The annual

Table I.2.4:

Labour market outlook - euro area and EU

(Annual percentage change)

	Euro area							EU						
	Spring 2022 forecast				Autumn 2021 forecast			Spring 2022 forecast				Autumn 2021 forecast		
	2020	2021	2022	2023	2021	2022	2023	2020	2021	2022	2023	2021	2022	2023
Population of working age (15-64)	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Labour force	-1.1	0.9	0.7	0.5	0.8	0.7	0.5	-1.0	0.5	0.8	0.5	0.8	0.6	0.4
Employment	-1.5	1.1	1.3	0.8	0.8	1.0	0.7	-1.4	0.7	1.2	0.7	0.8	1.0	0.6
Employment (change in million)	-2.5	1.8	2.0	1.2	1.3	1.7	1.1	-2.9	1.5	2.6	1.5	1.7	2.0	1.4
Unemployment (levels in millions)	12.8	12.6	11.9	11.6	12.9	12.3	12.1	15.2	15.0	14.3	13.9	15.1	14.4	14.0
Unemployment rate (% of labour force)	8.0	7.7	7.3	7.0	7.9	7.5	7.3	7.2	7.0	6.7	6.5	7.1	6.7	6.5
Labour productivity, whole economy	-3.2	4.2	1.1	1.3	3.0	2.7	1.4	-3.3	4.6	1.2	1.5	3.3	2.9	1.6
Employment rate (a)	61.9	62.5	63.3	63.7	62.2	62.7	63.0	61.4	61.9	62.7	63.1	61.8	62.4	62.8

(a) Employment as a percentage of population of working age. Definition according to structural indicators. See also note 6 in the Statistical Annex. For the EU and EA, this table now also displays employment in persons, limiting the comparability to figures published in previous forecasts.

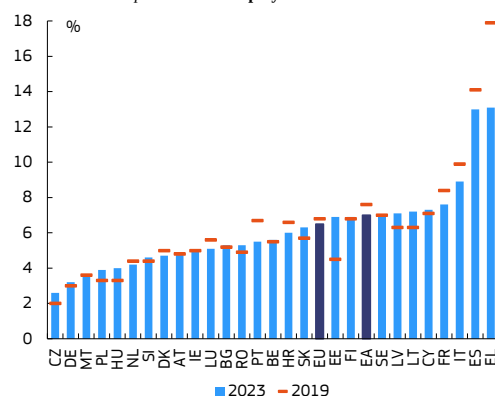
employment growth figure this year is largely driven by the strong growth momentum gathered in the second half of last year. Job creation is expected to ease markedly this year, amid a soft patch brought by the fading impact of Omicron and the war in Ukraine. As labour market tightness persists across the EU, labour force growth is expected to be supported by a continued re-activation of people following the slump in the labour force in 2020. People fleeing the war in Ukraine to the EU are expected to enter labour markets only gradually, with tangible effects only from next year⁽¹⁸⁾. Headcount employment is forecast to increase in all Member States over the forecast horizon at markedly varying rates. Employment levels in nine Member States are forecast to remain below their pre-pandemic levels.

Unemployment rates are forecast to decline further, to 6.7% this year and 6.5% in 2023 in the EU (see Graph I.2.24). Both a lower number of unemployed and an increase in the labour force are expected to contribute to the reduction in the rate. Unemployment rates are forecast to fall in most Member States.

Compensation of employees per head is forecast to only partly compensate for inflation this year. In the EU, compensation of employees per head is forecast to increase by 3.8% in 2022 and 3.7% in 2023. These growth rates are above those recorded before the pandemic. This year, however, real wages are expected to decline, before increasing moderately next year. Against the background of soaring production costs and increased uncertainty on the outlook for growth and employment, concerns about job security rather

than pay increases are likely to continue to have the upper hand in wage deals. At the Member States level, growth of nominal wages is expected to vary greatly, with real wages expected to decline in most Member States this year.

Graph I.2.24: Unemployment rates in the EU



The outlook for labour productivity is subdued. Amid significantly easing economic activity, growth of labour productivity per employed person is expected to decrease markedly to 1.2% this year, before increasing slightly to 1.5% in 2023, still above a long-term average.

2.5. INFLATION

Headline inflation in the euro area surged to 7.5% (year-on-year) in April, the highest rate in the history of the monetary union and almost double its previous peak in mid-2008. Inflation has been picking up momentum since early 2021, with outturns consistently exceeding expectations. A combination of factors are exerting upward pressures on prices: surging

⁽¹⁸⁾ See assumptions on the incorporation of people fleeing Ukraine in the forecast in Box I.1.1

energy and food commodity prices and a host of supply and logistics bottlenecks – both originating from pandemic-induced adjustment, but exacerbated by the outbreak of the war. Inflation went up from 4.6% in the last quarter of 2021 to 6.1% in the first quarter of 2022, more than one percentage point higher than projected in the Winter 2022 interim Forecast. In non-euro area countries inflation was even higher, implying an increase in EU inflation from 4.9% in the last quarter of 2021 to 6.6% in the first quarter of 2022. Core inflation (headline inflation excluding energy and unprocessed food) increased to 2.8% in 2022-Q1 in the euro area, up from 2.4% in 2021-Q4, and increased further to 3.9% in April.

Energy remains the main driver of headline inflation in the euro area.

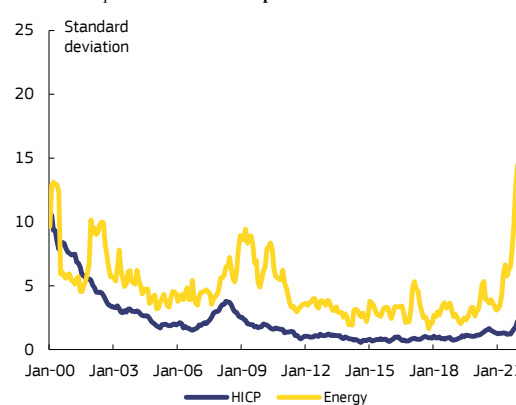
The April reading for the HICP energy component posted a 38% annual rate, somewhat down from its peak in March (44.4%). These dynamics reflect surges in oil and gas prices. The Brent oil price exceeded USD 100 per barrel in April, substantially above its price one year earlier in April 2021 (USD 65) and still well above the 70-80 USD range in the last quarter of 2021. Natural gas (TTF) prices climbed further in March amidst high volatility as markets scrambled to work out the consequences of the war in Ukraine: it hovered just above EUR 100/MWh since mid-March, which is around five times higher than in the first quarter of 2021. As gas-fired electricity plants are often wholesale price setters, electricity prices have also registered steep increases: retail electricity inflation increased from negative rates in the first quarter of 2021, to 34.3% in the first quarter of 2022.

The pass-through from energy commodity to retail prices varies across the EU, reflecting differences in national energy markets. In addition, many national authorities have recently taken measures to limit the impact on households, such as price caps or tax reductions. Established long-term market contracts at both wholesale and consumer level also played a role in suppressing short-term volatility in prices. However, since most of these contracts have price-adjustment mechanisms and/or come to be renewed with a delay, they only postpone price adjustments.

Dispersion in energy inflation drives the widening of headline inflation differentials across EU Member States.

Dispersion of headline inflation across the EU, whether measured in terms of standard deviation or simple range, widened in the first quarter of 2022 (see Graph I.2.25), ranging from 4.2% in France to 13.9% in Lithuania. The range was far wider for energy inflation, which went from 0% in Malta to 70.2% in the Netherlands. Looking ahead, dispersion of inflation is set to persist given that some countries have already absorbed most of the increase in gas prices while for others the pass-through will be delayed.

Graph I.2.25: Inflation dispersion across Member States



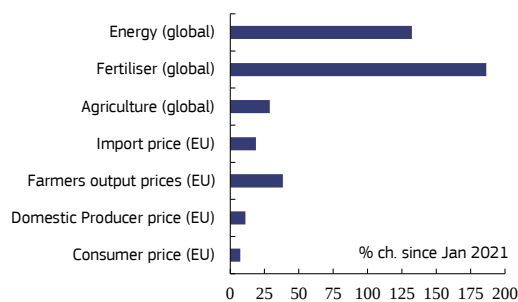
Food prices have been rising on the back of increasing input costs and supply bottlenecks. ⁽¹⁹⁾

In the first quarter of 2022, food prices increased by 4.9% year-on-year in the euro area (5.8% in the EU), of which the more volatile unprocessed food inflation increased by 6.4% while that of processed food did so by 3.6%. Futures prices for the main traded agricultural commodities (as at the cut-off date) pointed to further food price pressures in the second quarter. In line with this, food (total) prices accelerated further in April, with the month-on-month growth rate jumping by 1.9% (6.4% year-on-year), above the 1% increases registered in all the first three months of the year. Food supply chains are very diverse in terms of their input mix and only a part of the recent increase in inputs or agricultural commodity prices gets passed on to consumers. In the first stages, domestic food prices are determined either by the output

⁽¹⁹⁾ Prices of fertilizers are strongly linked to the price of gas, which is used as a production input.

prices set by EU farmers (also referred as agriculture or farmers' prices) or by imported food prices. Many food items are then processed and, thus, the domestic producer prices (also referred to as manufactured or processor prices) become another intermediate layer. Using the period between January 2021 and March 2022 for comparison, the World Bank's global energy and fertilizer price indices (measures of input costs) rose by 132% and 186%, respectively (see Graph I.2.26). Its global agriculture index, a measure of global food prices, rose by 29% over the same period. In the EU domestic market, since January 2021 imported food prices increased by 19% (latest data January 2022), farmer output prices by 38%, domestic producer food prices by 11% (latest data February) and consumer food prices by 7%. Of the latter, unprocessed and processed food prices increased by 7.8% and 4.6%, respectively (see Graph I.2.27).⁽²⁰⁾ Looking at more recent co-movements, farmer output prices have outpaced producer and consumer prices, which point to further price pressures along the food supply chain this year.

Graph I.2.26: Increase in food and food input prices



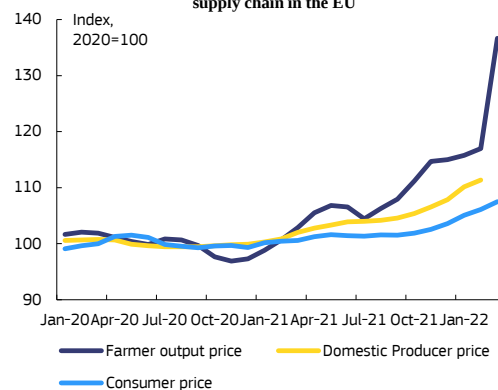
Notes: Increase of prices between Jan 2021 and March 2022 or latest available. Energy, fertiliser and agriculture global prices are indices from the World Bank. EU prices are from Eurostat.

Sources: World Bank, Eurostat

The increase in energy and food prices has distributional consequences. According to the Household Budget Survey, EU households in the first quintile of the income distribution spend approximately 16% of their income on food and non-alcoholic beverages, compared to

12% in the fifth quintile. Similarly, the first quintile spends 7% on electricity, gas and other fuels, compared to 4.5% of the fifth quintile. Differences in consumption patterns have implications for national headline inflation rates. The higher weight of food and energy in the consumption basket of Central and European countries amplifies the transmission of commodity price shocks to headline inflation, contributing to higher inflation in these countries.

Graph I.2.27: Pass-through of food prices along the supply chain in the EU



Inflationary pressures are picking up also in non-energy industrial goods and services.

In the first quarter of 2022, price growth rose by 2.9% in the non-energy industrial goods and by 2.5% in services. Both categories increased even further in April according to the flash estimate. Non-energy industrial goods inflation is reacting with a lag to the surge in producer price inflation since last year (25.4% in 2022-Q1). The increase in services inflation is picking up the recovery of many services items, including transport, holiday accommodation and packages, following the easing of the pandemic restrictions. More generally, the spreading of inflationary pressures is captured by median inflation in the euro area, which picked up to an annual rate of 3.3% in March, from an average of 2.3% in 2021-Q4 in the euro area.

A big part of the recent inflation is imported, but domestic price pressures have also increased.

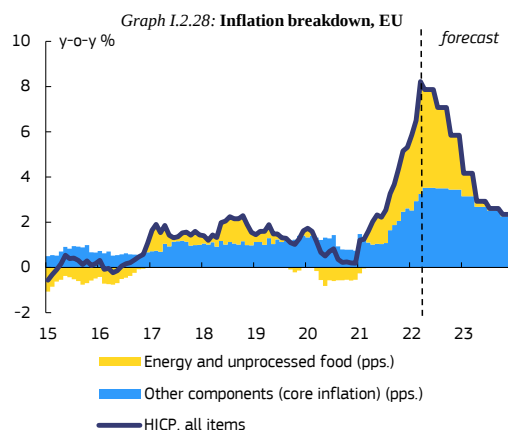
In 2021 the GDP deflator increased by 2.0%, compared to an HICP rate of 2.6%. The GDP deflator measures the change in the price of all *domestically produced*, rather than domestically consumed, goods and services. Therefore, the change in

⁽²⁰⁾ The EU's Common Agricultural Policy, as well as tariffs and a relatively strong self-sufficiency in food, may explain why the agriculture (farmers) price index in the EU is less volatile than comparable international global food indices. Still, the EU relies on imports for products like oilseeds, oilmeals, vegetable oils and protein crops, where the global import price is more relevant for price monitoring.

the deflator does not generally coincide with the rate of consumer price changes as it does not take account of the price of imports. Sudden swings in import prices, as the ones we are now experiencing (9.6% in 2021), thus drive a wedge between the HICP and GDP deflator. Since a large part of the recent changes in the import deflator is driven by changes in energy commodity prices – especially oil – the latter correlate well with the gap between the HICP and GDP deflator.

Inflation in the euro area is projected at 6.1% in 2022, before falling to 2.7% in 2023. For 2022 as a whole, this represents a considerable upward revision compared to the Winter 2022 interim Forecast (3.5%). Inflation is expected to peak at 6.9% in the second quarter, before slowing and closing the year at 5.2% (see Graph I.2.28). Food inflation is projected to register a considerable increase in the second quarter – already evident in the April flash reading –, while energy inflation is expected to peak before moderating thereafter as base effects from last year start detracting from its yearly rate of growth. Food commodity futures point to further price pressures in the second quarter followed by a moderation towards the end of the year.⁽²¹⁾ The impact of supply side bottlenecks on price pressures is also expected to diminish gradually later this year with the projected slowdown in global demand. The deterioration of the euro NEER, which raises the price of imported goods, is another contributing factor behind the upward revision for the year. According to data available up to April, the carry-over (i.e. inflation assuming no further month-on-month price increases for the rest of the year) would imply a high inflation rate of 6.2% for the year as a whole. This forecast thus implies no further aggregate price increases within the year, as the quarter on quarter fall in energy inflation is expected to outweigh increases in the other components. Core inflation is forecast

to average 3.5% in 2022. In the EU, in 2022, headline inflation is projected at 6.8% and core inflation at 4.2%



In 2023, headline inflation in the euro area is forecast to moderate substantially but to remain elevated at 2.7%. This represents an upward revision of 0.8 pps. compared to the Winter interim Forecast, mostly on the back of an upward level shift in energy futures and a more persistent pass-through to domestic prices. The expected stabilisation of energy commodity prices will phase out base effects and gradually reduce the contribution to the headline inflation rate. Core inflation is expected to remain more elevated and persistent throughout most of 2023, averaging 3.1%, as services inflation is set to be supported by stronger wage growth. In the EU, headline inflation rate is forecast at 3.2% and core inflation at 3.3%.

This projected inflation profile also reflects a pick-up in nominal wage growth. Growth in nominal compensation per employee in 2022, at 3.4% in the euro area (3.8% in the EU), is expected to be robust but below headline inflation. In 2023, it is expected to remain strong at 3.2% (3.7%), i.e. above inflation, marking an increase in real compensation growth of 0.7% (0.6%). It is nonetheless projected not to be strong enough to make up for the purchasing power losses of -2.2% (-2.3%) in 2022.

The expected increase in the GDP deflator reflects rising domestic price pressures. In 2022, the projected growth in the GDP deflator is still substantially below the HICP inflation rate. The GDP deflator is expected to remain

⁽²¹⁾ Judging by the prices of food futures contracts expiring in 2022-Q2, global food prices are set to increase yet again in the coming months, before gradually moderating in general towards the end of the year and further in 2023. For example, since 1st February (the cut-off date of the Winter Forecast) there were notable increases in the price of staple and internationally traded agricultural commodities like wheat (+36% by the cut-off date of this forecast), maize (30%), soybean (19%), palm oil (37%), rice (9%) and sugar (15%).

Table I.2.5:

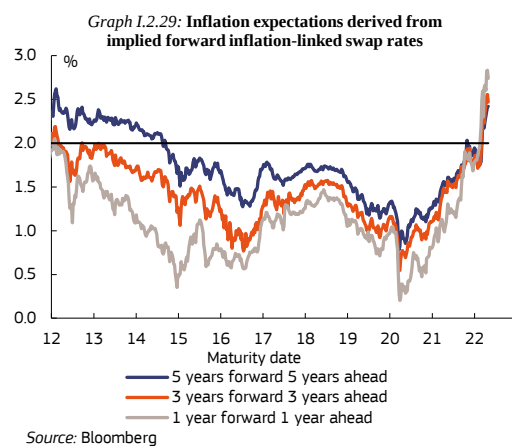
Inflation outlook - euro area and EU

(Annual percentage change)

	Euro area							EU						
	Spring 2022 forecast				Autumn 2021 forecast			Spring 2022 forecast				Autumn 2021 forecast		
	2020	2021	2022	2023	2021	2022	2023	2020	2021	2022	2023	2021	2022	2023
Private consumption deflator	0.5	2.3	5.8	2.7	2.2	2.0	1.5	0.7	2.5	6.3	3.1	2.4	2.3	1.6
GDP deflator	1.6	2.0	3.9	3.1	1.6	1.9	1.5	1.9	2.3	4.4	3.4	1.9	2.1	1.7
HICP	0.3	2.6	6.1	2.7	2.4	2.2	1.4	0.7	2.9	6.8	3.2	2.6	2.5	1.6
Compensation per employee	0.7	4.0	3.4	3.4	2.6	2.9	2.4	0.9	4.1	3.8	3.7	2.9	3.3	2.8
Unit labour costs	4.4	0.0	2.3	2.1	-0.4	0.2	1.0	4.6	0.0	2.5	2.2	-0.3	0.4	1.2
Import prices of goods	-3.8	9.6	13.2	0.8	7.0	3.7	1.1	-3.4	9.5	13.1	1.3	6.9	3.7	1.2

contained by a strong increase in the import price deflator mainly driven by the carry-over effect of the increase in the price of imported energy, but also by a notable deterioration of the euro's trade-weighted nominal effective exchange rate (NEER).

Market-based inflation expectations increased significantly at the shorter horizon. At the end of April, the 1-year forward 1-year (1y1y) ahead indicator stood at 2.7%, while the key longer-term (5y-5y) expectations stood at 2.4%, its highest level since 2012 but below the 2009 peak (see Graph I.2.29).



The projected inflation profile is consistent with the views held by different economic agents. The mean market forecast for euro area inflation reported by Consensus Economics (April survey) stood at 6.5% for 2022 and 2.4% for 2023. The ECB's 2022-Q2 Survey of Professional Forecasters has inflation at 6.0% in 2022, but expects a slowdown to 2.4% in 2023 and to 1.9% in 2024. Meanwhile, according to the European Commission's business and consumer surveys, firms' selling price expectations over the next 12 months reached their respective highest levels on record in April. Consumer price

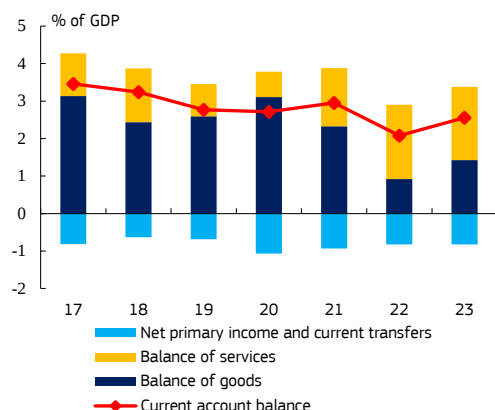
expectations over the next 12 months remain at elevated levels though slightly below their highest record. This is to be expected as both firms' and households' inflation expectations are typically strongly influenced by current inflation and their perceptions thereof.

2.6. CURRENT ACCOUNT

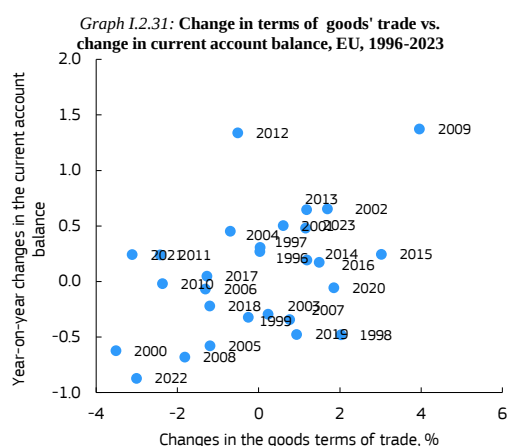
The EU merchandise trade balance is expected to further decline in 2022 and rebound marginally in 2023. Sharp shifts in the goods trade balance reflect large price changes of commodities, notably energy, that affect import deflators. Following a dip in 2020, energy prices rebounded strongly in the second half of 2021 and continued their surge in the first months of 2022, fuelled by Russia's invasion of Ukraine. The resulting EU merchandise trade balance plummeted from 3.1% in 2020 to 2.3% in 2021 and a projected 0.9% in 2022. The assumed decline in commodity prices is set to reverse some of these changes in 2023 bringing the merchandise trade balance up to 1.4% (see Graph I.2.30).

Global recovery in tourism is set to boost the EU's surplus in services over the forecast horizon. Parallel to the recovery in commodity prices, ongoing improvements in the epidemiological situation allowed the European tourism industry to embark on a gradual recovery. A strong rebound in services export growth in 2021 is expected to be followed by a continued recovery in 2022 and 2023. Reflecting this, rising exports of travel services boosted the services trade balance, which rose from the historical trough of 0.7% of GDP in 2020 to 1.6% in 2021, and is set to improve further to 2.0% in 2022 and 2023 (see Graph I.2.30).

Graph I.2.30: Current-account balance, EU



The EU current account surplus is set to decline sharply in 2022 before rebounding somewhat in 2023. Given the magnitude of the energy price shocks, the current account surplus of the EU is set to move in tandem with the changes in terms of goods trade over the forecast horizon, even if the increase in services surplus is expected to partially offset this impact in 2022. Given the EU's dependence on commodity imports, its current account changes have often been shaped by shifts in goods terms of trade (see Graph I.2.31). The joint deficit of primary incomes and current transfers is expected to contribute only marginally to changes in the current account in 2022 and 2023.

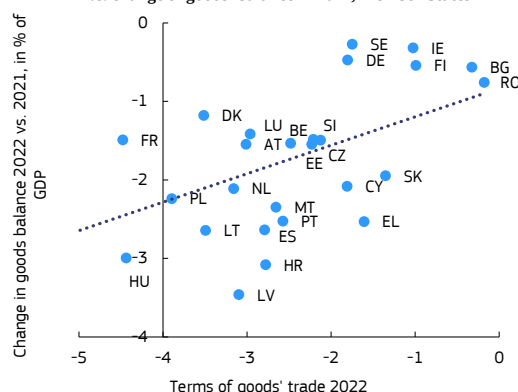


The decline in the EU current account is driven by the post-pandemic decline in households' net lending. The developments in the EU current account balance mirror the dynamics of the economy-wide saving and investment. The EU aggregate savings rate declined in 2021 and is expected to continue falling in 2022 and 2023, reflecting the decline

of the household saving rate. This is only partially offset by a gradual improvement in public finances, on the back of the phasing-out of the pandemic support measures. The aggregate investment ratio recovered strongly in 2021 from the pandemic low, and is expected to continue inching up over the forecast horizon in line with the developments in general government and corporations, with households' investment ratios set to remain broadly unchanged. In terms of net lending, households' position is expected to continue declining in the forecast horizon from the 2020 high of 6.2% of GDP to 1.8% projected in 2023, mirroring the gradual decline in the savings rate.

Shifts in merchandise trade balances in Member States are driven mostly by net imports of energy. Changes in merchandise trade balances at a Member State level reflect the importance of net imports of energy commodities and the ensuing shifts in terms of trade. Merchandise trade balances deteriorated in all but four (Ireland, Cyprus, Luxembourg and the Netherlands) Member States in 2021, and are projected to continue this trend in 2022 for all Member States. The largest deterioration in the goods trade balance in 2022, at or above 3% of GDP, are expected for Latvia, Croatia and Hungary, all among the countries most highly exposed to energy imports (see Graph I.2.32). Reflecting the improvement in terms of trade, goods trade balances are expected to increase in 2023 in the majority of Member States.

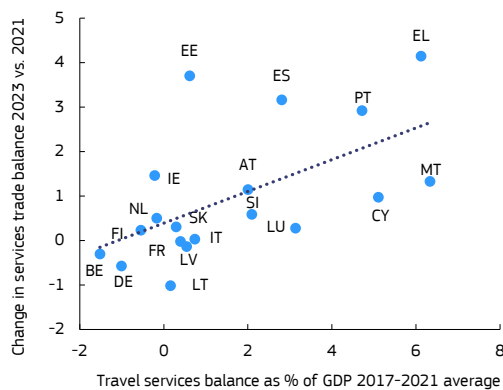
Graph I.2.32: Change of terms of goods' trade in 2022 vs. change of goods' balance in 2022, Member States



Increases in services trade balance linked to the importance of tourism in Member States. Another trend shaping the dynamics of the current account balance at a country level

are travel services. Member States with significant exposure to tourism have seen an upward trend in services balance in 2021 that is expected to continue in 2022 and in 2023 (see Graph I.2.33). Highest increases in the services surplus between 2021 and 2023 are projected for Greece (by 4.1 pps.), Estonia⁽²²⁾ (by 3.7 pps.), Spain (by 3.2 pps.) and Portugal (by 2.9 pps.). This trend is set to cushion the decline in merchandise trade balance in 2022 and reinforce its rise in 2023 in most of the Southern European countries where international tourism plays an important role in the economy.

Graph I.2.33: Importance of tourism vs. changes in the services trade balance, 2021-2023



Cross-country differences in current account changes reflect the importance of net energy imports and, to a lesser extent, tourism. Changes in terms of goods trade and the ensuing deterioration in the energy trade balance together with the importance of travel services help explain most of the shifts in Member States' current accounts. These forces are jointly expected to reduce current account balances in all Member States but Spain and Estonia in 2022, with the largest decline in the energy-imports-dominated Lithuania and Latvia. In 2023, current account balances are expected to rebound across all Member States (with the exception of Lithuania, the Netherlands, Czechia, Denmark and Croatia), with Member States with large tourism sectors

⁽²²⁾ In 2022, Estonia's balance of services is projected to improve significantly (by 3.4 pp of GDP). While the recent expansion in the exports of services is set to continue, mainly thanks to booming output of information technology services, the imports of services recorded a large inflow in 2021. This is expected to be temporary and thus exert a strong negative base effect on 2022.

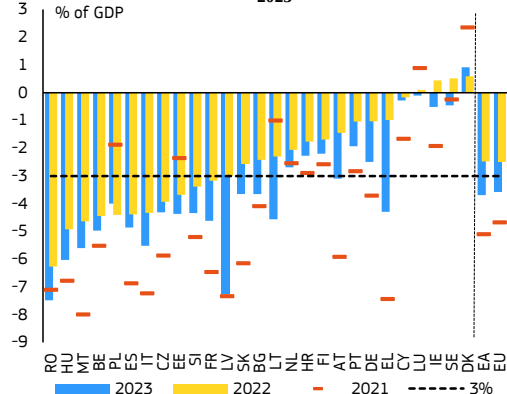
leading the ranking (e.g. Greece). With the V-shaped pattern of current account developments, most Member States are set to see a somewhat lower balance in 2023 compared to 2021. Current account balance in Lithuania and Croatia is expected to decline the most in the two years – by 3-4 pps. of GDP, while those of Estonia, Greece and Spain are projected to increase by some 1-3 pps. of GDP. Germany and the Netherlands, the two countries contributing most to the EU current account surplus in euro terms (around 80% of the EU surplus in 2021), are projected to see their surpluses in 2023 decline with respect to 2021, as well as to the 2018-2020 average.

2.7. PUBLIC FINANCES AND POLICY STANCE

Fast recovery and positive revenue developments drove a significant reduction in public deficits in 2021.

Starting from a historically high level of almost 7% of GDP in 2020, the EU general government deficit (Graph I.2.34) dropped to 4.7% of GDP in 2021. The working of automatic stabilisers and rather strong revenue developments⁽²³⁾ explain the decrease, despite the extension of COVID-related temporary measures where needed.

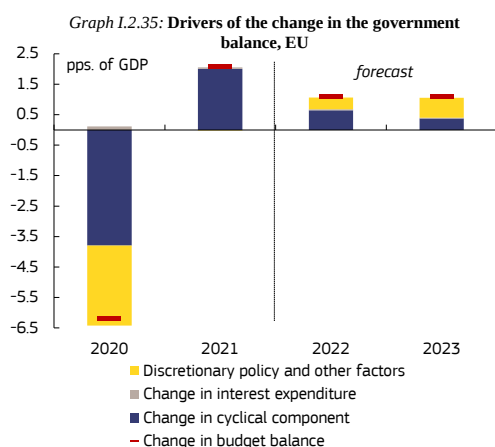
Graph I.2.34: Budget balance in Member States, 2021-2023



Public deficits are forecast to continue declining in 2022 and 2023,

⁽²³⁾ In 2021, revenue windfalls are estimated at around ¾% of GDP. This outcome is possibly related to the strong recovery in nominal growth of consumption of goods, investment and imports, components that are generally more tax-compliant than services.

notwithstanding the costs of the energy-related measures and humanitarian assistance. The aggregate deficit in the EU is forecast to fall to 3.6% of GDP in 2022. Most of the temporary measures taken in response to the COVID-19 crisis are expected to be phased out⁽²⁴⁾ and the economic expansion implies an increase in the cyclical component of the budget, although smaller than in 2021 (Graph I.2.35).⁽²⁵⁾ These deficit-decreasing factors are set to override the additional costs of measures to mitigate the impact of high energy prices (0.6% of GDP for the EU) and to deal with the humanitarian crisis following Russia's invasion of Ukraine (0.1 % of GDP). The further drop in the deficit to 2.5% of GDP in the EU in 2023 is driven by the complete phasing out of the temporary COVID-related measures, the expected unwinding of the energy-related measures and a still increasing cyclical component.



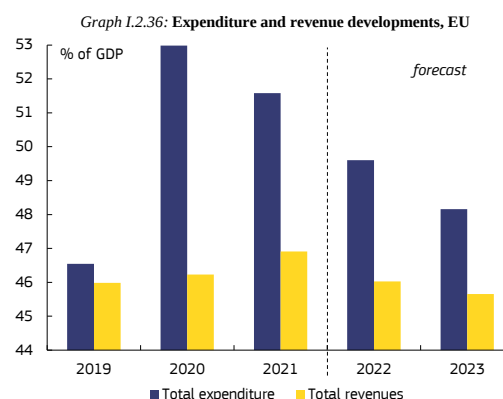
In 2020, all Member States except Denmark and Sweden recorded deficits of more than 3% of GDP. The number of Member States with a deficit greater than 3% of GDP fell to 15 in 2021. It is projected to rise to 17 in 2022 before falling again to 11 in 2023, under a no policy change assumption. The 11 countries are: Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Romania and Slovenia (Graph I.2.34).

⁽²⁴⁾ The impact of these measures on the deficit (mostly on the expenditure side) is projected to decline from 3½% of GDP in 2020 to 3¼% in 2021, ¾% in 2022 and nil in 2023.

⁽²⁵⁾ Given the high uncertainty surrounding potential growth estimates at this juncture, the automatic stabilisers' impact is subject to larger revisions than usual.

Expenditure developments are set to be the main factor behind the deficit reduction. In 2022 and 2023, the decrease in the general government deficit ratio in the EU is set to be driven by the change in the expenditure-to-GDP ratio (Graph I.2.36), mainly as a result of the expected phasing out of the sizeable emergency measures taken in response to the COVID-19 crisis.

More specifically, after the historically high level of 53% recorded in 2020, and a first fall by around 1½ pps. in 2021, the expenditure-to-GDP ratio is expected to continue declining in 2022 (by 2 pps.) and in 2023 (1½ pps.). The revenue-to-GDP ratio is also projected to decline in 2022 and 2023, by around 1¼ pps., reversing the increasing trend recorded in 2020 and 2021. The composition of economic growth is set to become less tax-rich, with consumption shifting towards services as COVID-19 restrictions are lifted. Expenditure and revenue projections incorporate the implementation of the national Recovery and Resilience Plans.



Rising public investment improves the expenditure composition. The EU aggregate public investment-to-GDP ratio is projected to increase from 3% of GDP in 2019 to 3.5% in 2023, as almost all Member States are expected to spend more on public investment than they did before the pandemic (Graph I.2.37).

Around a quarter of that increase is related to investment financed by the EU, especially the Recovery and Resilience Facility, with the aim to support a sustainable and inclusive recovery, the green and digital

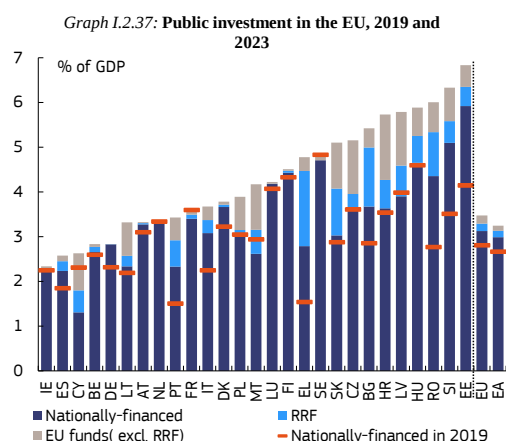
Table I.2.6:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area							EU						
	Spring 2022 forecast				Autumn 2021 forecast			Spring 2022 forecast				Autumn 2021 forecast		
	2020	2021	2022	2023	2021	2022	2023	2020	2021	2022	2023	2021	2022	2023
Total receipts (1)	46.5	47.3	46.6	46.3	46.1	45.5	45.5	46.2	46.9	46.0	45.7	45.8	45.2	45.1
Total expenditure (2)	53.6	52.4	50.3	48.8	53.2	49.4	47.9	53.0	51.6	49.6	48.2	52.4	48.8	47.4
Actual balance (3) = (1)-(2)	-7.1	-5.1	-3.7	-2.5	-7.1	-3.9	-2.4	-6.8	-4.7	-3.6	-2.5	-6.6	-3.6	-2.3
Interest expenditure (4)	1.5	1.5	1.4	1.3	1.4	1.2	1.2	1.4	1.4	1.3	1.3	1.3	1.2	1.1
Primary balance (5) = (3)+(4)	-5.6	-3.6	-2.3	-1.1	-5.7	-2.7	-1.2	-5.3	-3.3	-2.2	-1.2	-5.3	-2.4	-1.1
Cyclically-adjusted budget balance (a)	-3.7	-4.0	-3.4	-2.6	-5.7	-3.9	-2.8	-3.6	-3.6	-3.2	-2.5	-5.2	-3.5	-2.6
Cyclically-adjusted primary balance (a)	-2.2	-2.5	-2.0	-1.2	-4.3	-2.6	-1.6	-2.2	-2.2	-1.9	-1.2	-3.9	-2.4	-1.4
Structural budget balance (a)	-3.6	-4.0	-3.4	-2.6	-5.7	-3.9	-2.8	-3.6	-3.6	-3.3	-2.5	-5.3	-3.5	-2.6
Change in structural budget balance (a)	-2.4	-0.3	0.6	0.8	-2.1	1.9	1.1	-2.4	-0.1	0.4	0.7	-1.8	1.8	1.0
Gross debt	99.2	97.4	94.7	92.7	100.0	97.9	97.0	91.7	89.7	87.1	85.2	92.1	90.0	89.1

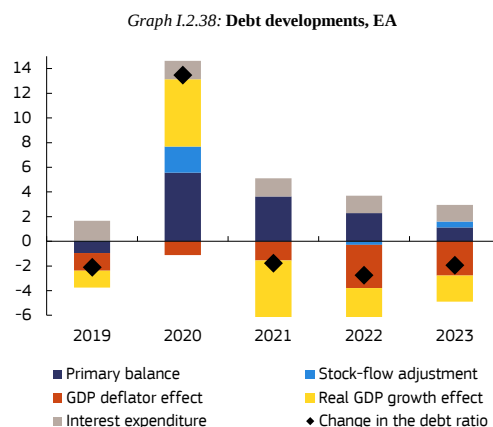
(a) as a % of potential output. The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the European Commission.

transitions and the resilience of the EU economy.⁽²⁶⁾



The debt-to-GDP ratio is set to decline but stay above pre-COVID-19 crisis level. In 2021, the aggregate debt-to-GDP ratio of the EU decreased to around 90% (97% in the euro area) from the historical peak of almost 92% in 2020 (almost 100% in the euro area).⁽²⁷⁾ The aggregate debt-to-GDP ratio of the EU is forecast to continue falling to around 87% in 2022 and 85% in 2023 (95% and 93% in the euro area, respectively), thanks to a favourable interest rate-growth differential ('snowball effect'⁽²⁸⁾). In particular, the projected increase in the GDP deflator is set to have a sizeable debt-decreasing impact over the forecast

horizon, while higher interest rates will affect the implicit cost of debt only in the longer term. At the same time, the projected primary deficit continues to weigh on debt developments, although significantly less than in 2020-2021 (Graph I.2.38).

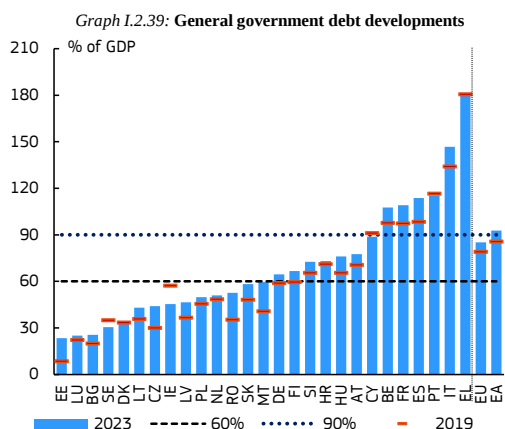


The EU aggregate debt ratio in 2023 is set to remain above the pre-COVID-19 crisis level of 79% of GDP in 2019. Half of the Member States are set to record debt ratios greater than 60% of GDP, with the debt ratios of Belgium, Greece, Spain, France, Italy, and Portugal expected to remain above 100% of GDP (Graph I.2.39).

⁽²⁶⁾ Differences in EU financed investment between Member States depend on the allocation of Recovery and Resilience Facility grants and other EU funds, as well as on the degree of absorption.

⁽²⁷⁾ Non-consolidated for intergovernmental loans.

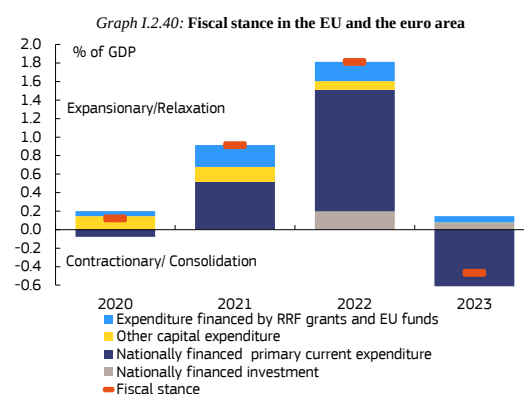
⁽²⁸⁾ The "snowball effect" captures the impact of interest expenditure on the annual accumulation of debt, as well as the impact of real GDP and GDP deflator growth on the debt ratio.



Fiscal policy is set to remain supportive in 2022 and to normalise in 2023.

In 2021, the fiscal stance, excluding temporary emergency measures related to the COVID-19 crisis but including support from the EU budget,⁽²⁹⁾ is estimated to have been expansionary, by around 1% of GDP (Graph I.2.40). In 2022, the fiscal stance is projected to be even more supportive, by around 1¾% of GDP, as governments have adopted new measures to help households and firms to cope with the surge in energy prices – such as changes in indirect taxes, subsidies on energy products or production, or price caps in energy markets – and are offering humanitarian assistance to people fleeing Ukraine. As a

result, nationally financed net primary current expenditure is expected to provide an expansionary contribution to the fiscal stance of around 1¼% of GDP. Other positive contributions would come from public investment spending financed by the national budgets and spending financed by the RRF and other EU funds. A contractionary fiscal stance of around ½% of GDP is forecast for 2023, mainly driven by the almost complete projected phasing out of measures to mitigate the impact of the high energy prices, while nationally financed investment and expenditure financed by the RRF and other EU funds are set to provide further support to a sustainable recovery.



Note: Corrected for emergency temporary measures

⁽²⁹⁾ The assessment of the euro area fiscal stance takes into account the unprecedented fiscal support provided at EU level through Next Generation EU (NGEU) and especially its Recovery and Resilience Facility (RRF). Expenditure financed by RRF grants does not, however, show up in the conventional indicators of fiscal surveillance. In other words, in the presence of NGEU, the business-as-usual indicator of the fiscal stance underestimates the fiscal impulse provided to aggregate demand. In order to present the full picture, the fiscal stance measures need to include support from the EU budget.

3. RISKS

The balance of risks surrounding the forecast is skewed towards adverse outcomes. The unprecedented nature and size of the shocks ushered in by the war make the baseline projections presented in the Spring 2022 Forecast subject to considerable uncertainty. The realisation of the key working assumptions underpinning them – regarding the evolution of the geopolitical situation and some of its reverberations in e.g. commodity markets and trade (see Box I.1.1) – is subject to high risks. On balance, these risks are skewed to the downside.

Shocks reverberating from an unpredictable evolution of energy markets also dominate the balance of risks. This consideration motivates the model-based scenario analysis that is presented in Chapter 4, focusing on the impact of higher energy commodity prices and of an outright cut in gas supply from Russia. In both scenarios, GDP growth rates would be lower and inflation higher than in the baseline. In the more severe scenario, economic output would contract on a quarterly basis in 2022. Furthermore, if commodity prices remain high for longer or increase further, price-wage feedback loops could arise. Risks of ripple effects to other markets, like energy-intensive manufacturing and agriculture, would also increase. Especially in food and energy importing poorer countries outside the EU, high commodity prices pose risks to economic and social stability.

A stronger deterioration of terms of trade could strengthen the stagflationary forces unleashed by the war. Further increases of import prices would feed into higher production costs and consumer prices, in turn curtailing investment and household consumption to a larger extent than projected. In addition, if cost pressures are passed on from producers to consumers at a larger extent than projected and/or wage pressures increase, the initial terms of trade shock would be amplified, leading to greater output loss, lower employment and higher inflation.

Strong inflationary pressures also come with increased risks to financing

conditions. Higher inflation could lead to tighter financial conditions than those underpinning the forecast. Higher interest rates and slowing demand would strain public budgets and could trigger a correction in the valuation of financial and non-financial (e.g. housing) assets, burden the banking sector and reduce the availability of credit. Similar dynamics would also apply outside of the EU, as many advanced and emerging economies struggle with unprecedented inflationary pressures. Moreover, a further rise in the US dollar and higher financing costs would increase pressure on EMEs exchange rates and financing conditions, notably among heavily indebted ones with large foreign currency exposure, with negative consequences for external demand. If uncontained, the unwinding debt crisis in China's real estate sector may have negative spillovers to the rest of the world, while monetary tightening in the US risks producing a much sharper deceleration than currently projected. This would in turn result in reduced demand for European exports.

The COVID-19 pandemic remains a significant risk factor. A resurgence of COVID-19 infections in Europe cannot be ruled out, and could cause new disruptions in the EU economy. Outside the EU, this risk is even greater, as vaccination rates in many regions remain low. Moreover, China's "dynamic zero-COVID-19" policy and rising infections elsewhere in the Asia-Pacific region continue to pose the risk of localised lockdowns, as indeed is already happening in Shanghai. This could disrupt production as well as the functioning of critical infrastructure (e.g. logistics and transports) more than assumed in the baseline, resulting in lower-than-expected economic activity in China and additional disturbances in global trade and inflationary pressures.

Some of the aforementioned downside risks could also turn into the opposite direction. Domestic demand could prove more resilient to increasing prices if households were to use more of their savings for consumption. Furthermore, investments fostered by the RRF could generate a stronger impulse to activity through e.g. stronger cross-sector and cross-country spillovers. Ongoing structural shifts

favouring the digital transformation could lead to faster productivity gains. Finally, an accelerated reduction of fossil fuel dependency

and greater investment in energy saving and renewable energy could reduce the negative impact of high energy prices faster than assumed.

4. SPECIAL ISSUE: ALTERNATIVE SCENARIOS ON THE ECONOMIC OUTLOOK

High uncertainty around the baseline forecast warrants a scenario analysis. In the context of a complex and fast-changing geopolitical and economic environment, this Special Topic assesses the potential impact of the realisation of key risks to the baseline forecast presented in this publication. The analysis proceeds in two steps. First, through the lens of an estimated macroeconomic model, it identifies the driving forces shaping past and projected output and price dynamics. Then this identification is used to define alternative scenarios in terms of the potential evolution of energy prices and supplies, trade, uncertainty, and consumer confidence.

The model captures key elements of the current macroeconomic environment. The assessment builds on the Commission's Global Multi-Country (GM) ⁽³⁰⁾, which features a prominent role for energy commodities ⁽³¹⁾ in production and consumption and has been augmented to take account of the pandemic's economic implications.⁽³²⁾ The model estimates use a rich data set of over 30 different time

series in total, including, among others, historical and forecast data from national accounts, trade data, as well as market-based expectations of gas and oil prices based on futures markets, in line with the assumptions included in the baseline forecast (see Box I.5.1).

Decomposition of the baseline forecast

The model estimates confirm the key role of soaring energy prices in fuelling inflation. Graphs I.4.1 breaks down inflation (as measured by the annual growth rate of the private consumption deflator) into its estimated main drivers.⁽³³⁾⁽³⁴⁾ Given the important weight of energy products in the consumption basket, the transmission of energy price shocks to the private consumption deflator is strong, fast and amplified by second-round effects stemming from higher production costs and wages. Some of these inflationary effects persist in 2023. Besides energy prices, substantial supply-side shocks also increase consumer prices, while lowering economic activity. Overall, based on the forecast baseline, these factors contribute around 3 pps. to inflation this year and more than 1 pp. in 2023 (see Graph I.4.1).

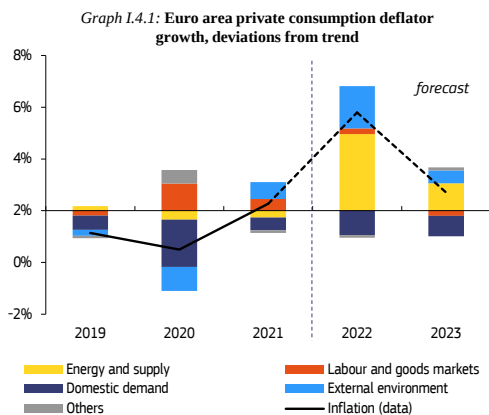
⁽³⁰⁾ The Global Multi-Country (GM) model, a macroeconomic model in the New Keynesian tradition, has been developed by DG ECFIN and the Joint Research Centre of the European Commission. The analysis considers a two-region configuration with the euro area and the rest of the world. For a detailed description of the GM model, see Albonico, A., L. Calès, R. Cardani, O. Croitorov, F. Di Dio, F. Ferroni, M. Giovannini, S. Hohnberger, B. Pataracchia, F. Pericoli, P. Pfeiffer, R. Raciborski, M. Ratto, W. Roeger and L. Vogel (2019). 'The Global Multi-Country Model (GM): an Estimated DSGE Model for the Euro Area Countries'. ECFIN Discussion Paper No. 102. European Commission.

⁽³¹⁾ The model includes energy as an imported intermediate input with limited substitutability, subject to excise duties. Higher energy prices increase production costs, which firms (partially) pass on to final consumers. It also features a direct pass-through into consumer prices. In addition, the model links the firms' gross operating surplus to investment via liquidity constraints. This channel also implies that higher energy prices negatively impact business investment.

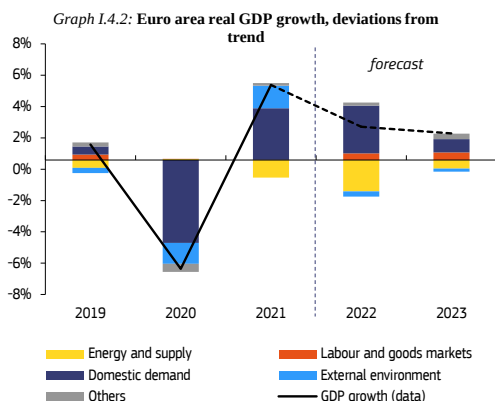
⁽³²⁾ I.e.; temporary 'lockdown' shocks and financial constraints on business investment. See also R. Cardani, O. Croitorov, F. M. Giovannini, P. Pfeiffer, M. Ratto, and L. Vogel (2021). 'The Euro Area's Pandemic Recession: A DSGE-Based Interpretation'. ECFIN Discussion Paper No. 153. European Commission.

⁽³³⁾ 'Shocks' drive the deviation of the endogenous model variables from their long-run trend. The decompositions distinguish: (1) prices of energy commodities and domestic supply (productivity) disruptions; (2) labour and goods market adjustment as captured by wage and price mark-up shocks; (3) domestic demand shocks, including pandemic-specific lockdown shocks and discretionary fiscal policy; (4) shocks to world demand and international trade.

⁽³⁴⁾ In Graphs I.4.1 and I.4.2, stacked coloured bars represent contributions of groups of shocks to deviations of growth and inflation from long-term trends, indicated by dashed bold horizontal lines in both panels. Bars above (below) this line indicate positive (negative) contributions.



Sharp increases in commodity prices also erode disposable incomes and weigh on consumer spending. They additionally depress business investment and worsen the trade balance through negative terms of trade effects. Overall, according to the model estimates, higher energy prices reduce GDP growth by around 2 pps. in 2022. The impact on growth in 2023 is negligible (see Graph I.4.2).



Domestic demand remains the main engine of growth. Despite downward revisions to private consumption and corporate investment, domestic demand continues to support growth in 2022 and 2023, even though with fading momentum. With the reopening of economies in early 2021 and improved economic sentiment, the reduction of ‘forced’ savings accumulated in 2020 supported the economic rebound, but this growth impulse is expected to fade this year. By contrast, the reduction in ‘precautionary’ saving is more

gradual and supports GDP growth this year and slightly less in 2023.⁽³⁵⁾

Pent-up demand and the easing of restrictions for contact-intensive services push inflation up. By contrast, the pre-COVID trend of persistently high savings⁽³⁶⁾ and slowdown in domestic demand weigh negatively on the forecast for inflation.

World demand and international trade are a drag on growth this year. The negative contribution of foreign factors is mostly explained by a slowdown in trade growth, some market share losses, and export price hikes in the rest of the world (possibly reflecting, amongst others, supply-chain bottlenecks). The impact of the latter on euro area inflation also increases, notably this year.

Risk scenarios

Two alternative scenarios shed light on the impact of the realisation of key downside risks to the baseline forecast.

Table I.4.1 summarises the scenarios’ specifications through several key channels related to energy commodities, trade, business and consumer sentiment, and financing conditions. The scenarios do not include economic policy responses to the shocks beyond the workings of automatic stabilisers and the monetary policy reaction. For the latter, the modelling allows for an (endogenous) exit from the effective lower bound. The shocks are assumed to materialise in the second quarter of 2022 and to play out with some persistence.

A first, *adverse* scenario is mainly characterised by oil and gas prices 25% above the baseline assumptions over the forecast horizon. The size of the price shock is motivated by the price volatility observed between February and March. The stagflationary forces triggered by this price

⁽³⁵⁾ For a detailed analysis on the role of demand shocks, see European Commission (2021a), ‘[The role of savings in determining the recovery path](#)’, in European Economic Forecast: Spring 2021, Special Issue 4.1’. Institutional Paper 149, pp. 45-48.

⁽³⁶⁾ On pre-COVID factors through the lens of the GM model, see, for example, European Commission (2018), ‘[Drivers of the euro area recovery - evidence from an estimated model](#)’ in European Economic Forecast: Spring 2018, Box 1.3’. Institutional Paper 77, pp. 64-67.

increase are assumed to curtail global demand, as expressed by a relative decline in rest-of-the-world GDP by 1%, and exacerbate supply chain bottlenecks for non-energy goods and services, as captured by a stylised shock to rest-of-the-world export prices. In addition, higher risk premia raise financing costs for firms, weighing on investment. For consumers, adverse confidence effects further weigh on private consumption.

A severe scenario considers large-scale disruptions to natural gas imports from Russia.⁽³⁷⁾ Compared to the adverse scenario, the energy supply disruptions are assumed to be associated with further increases in risk premia and negative confidence effects.

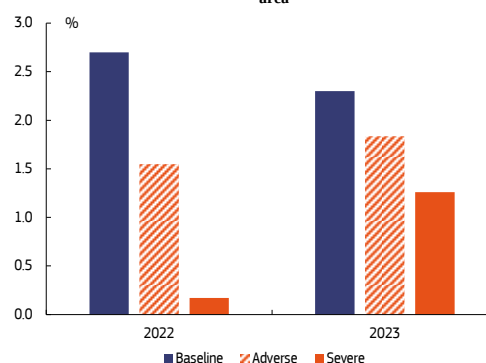
The severe scenario reflects the limited substitution possibilities in the short run. Gas imports are special because their delivery depends very much on specific infrastructure – pipelines and LNG terminals – and other producer countries cannot increase their deliveries fast enough to compensate fully for a stop of imports from Russia. As a result, the short-run adjustment to such a large shock can be extremely costly. It is also qualitatively different from adjustments to commodity price fluctuations like the one assumed in the adverse scenario. The model captures the high costs for short-run adjustment by assuming a very low elasticity of substitution between gas and other production inputs.⁽³⁸⁾

⁽³⁷⁾ A growing body of analyses has estimated the effects of a sudden stop of gas supply on European economies. For a seminal study on Germany, see Bachmann R., D. Baqaee, C. Bayer, M. Kuhn, B. Moll, A. Peichl, K. Pittel and M. Schularick (2022): 'What if? The Economic Effects for Germany of a Stop of Energy Imports from Russia', ECONtribute Policy Brief, no 28/2022. For a survey (and further estimates), see also Berger, E., S. Bialek, N. Garnadt, V. Grimm, L. Other, L. Salzmann, M. Schnitzer, A. Truger, and V. Wieland (2022), 'A potential sudden stop of energy imports from Russia: Effects on energy security and economic output in Germany and the EU', German Council of Economic Experts. Working Paper 01/2022.

⁽³⁸⁾ The model distinguishes household and business demand for natural gas. The severe scenario calibrates the parameters governing the elasticities between gas and other inputs to 0.08 (households) and 0.12 (firms). Due to frictions and monopolistic competition in the model, the very short-run substitution is even more limited. Technically, a price shock triggers a reduction in gas volume by up to -40%, coupled with prolonged difficulties in accessing alternatives (50% of the

In the adverse scenario, the increase in energy prices strengthens stagflationary forces. Annual GDP growth rates for 2022 and 2023 are estimated to be 1¼ and ½ pps. below the projections in the baseline forecast, respectively. Inflation is estimated to stand ¾ and ½ pps. above the forecast baseline in 2022 and 2023, respectively (see Graphs I.4.3 and I.4.4). The growth slowdown in the rest of the world translates into a reduction in euro area exports by a similar magnitude, while supply chain disruptions and higher rest-of-the-world export prices further depress economic activity. Each of the two factors shaves off around ½ pps. of GDP growth in 2022. Higher gas and oil prices are also the main drivers behind the impact on inflation (around +¾ pps. each year). However, the mix of foreign demand and supply shocks, i.e. reduced external demand and intensified supply chain bottlenecks, implies a relatively neutral impact on inflation since upside and downside pressures compensate. Finally, confidence effects and financial markets risk premia further reduce household consumption, business investment and real GDP, while mildly reducing inflationary pressures in 2023.

Graph I.4.3: Real GDP growth rates across scenarios, euro area



A sharp reduction in gas supplies from Russia would imply a substantial deterioration of the economic outlook. In the *severe scenario*, and under the assumption of limited substitution, the lack of gas supplies by Russia, coupled with the assumed oil price increase, reduces GDP growth by an additional 1½ pps. in 2022 and by around ¾ pps. in 2023,

volume decline remains after 2½ years). These assumptions are conservative in the sense that substitution on world markets could be faster or has already occurred to some extent.

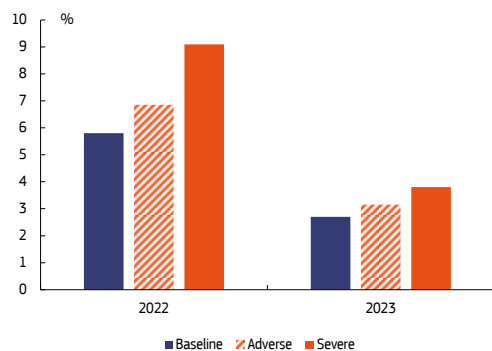
Table I.4.1:

Specification of alternative scenarios

Channel	Scenario	
	Adverse	Severe
Energy commodities		
Oil and gas prices	An increase by 25% compared to the baseline assumption this year and next	Sudden stop of gas supply from Russia: with only partial substitution possibilities <i>Oil prices as in the adverse scenario</i>
External environment		
Global activity and trade exposure: Lower exports to Russia and broader weakening of foreign demand	Rest-of-the-world GDP falls by an additional 1% (broadly in line with IMF World Economic Outlook risk scenario)	Same as adverse scenario
Supply chains and logistics	Persistently higher rest-of-the-world export prices decrease euro area imports by 1%, reflecting further economic fragmentation	Same as adverse
Uncertainty and confidence		
Confidence: negative shock to households' spending	A 1 std. deviation (persistent) shock affecting households' intertemporal consumption decisions (based on the estimated historical shock series, implying a reduction in private consumption growth by around 0.3-0.4 pps. each year)	Twice as large as in the adverse scenario (2 std. deviation shock)
Risk premia: Cost of funding for firms up due to less favourable outlook	Persistent increase in risk premium (by 50 bps)	Persistent increase in risk premium (by 100 bps)
Other assumptions		
Policy	No additional policy response besides automatic stabilisers, monetary policy's interest rate rule	Same as adverse

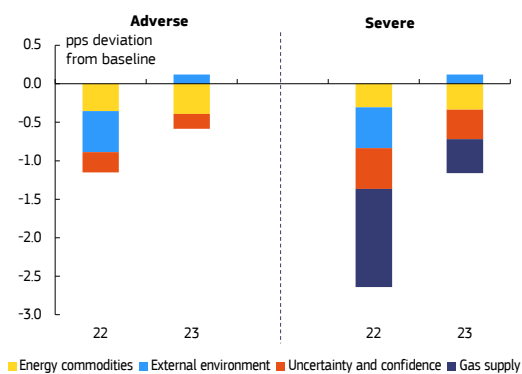
compared to the forecast baseline. Taking all channels together, the severe scenario implies GDP growth rates of around 2½ and 1 pps. below the forecast baseline in 2022 and 2023, respectively. Inflation is substantially higher in 2022 and 2023 relative to the baseline scenario: 3 pps. in 2022 and more than 1 pp. in 2023 above the baseline projection. Consequently, this year's inflation rate would be just above 9%, as shown in Graphs I.4.5 and I.4.6.

Graph I.4.4: Inflation rates across scenarios, euro area

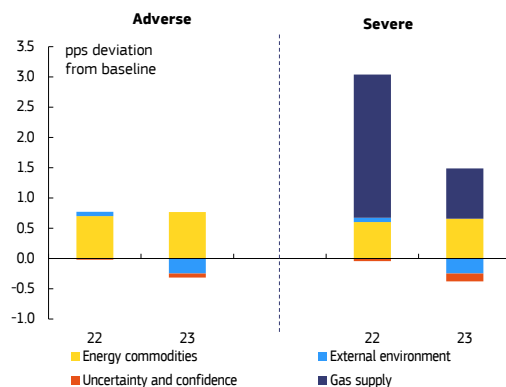


In both scenarios, euro area GDP contracts on a quarterly basis in 2022. The output reduction implied by the adverse and severe scenarios thus implies negative quarter-on-quarter growth on average in the last three quarters of 2022.

Graph I.4.5: Drivers of real GDP growth



Graph I.4.6: Drivers of inflation



This scenario analysis usefully complements the forecast narrative, but important limitations remain. Like other model-based assessments, these simulations are subject to an unusual degree of uncertainty

at this juncture. This caveat is especially true for the *severe scenario*, which, by sketching unprecedented extreme shocks, pushes the macroeconomic model beyond the ground for which it was designed. In particular, the macroeconomic effects greatly depend on assumed and highly uncertain substitution possibilities, as well as on the timing and persistence of the disruption. Beyond the risks explicitly addressed in the stylised simulations, additional disruptions could come from non-

energy imports such as metals, fertilisers and food imports, as well as from more extreme supply chain bottlenecks. Moreover, the scenarios are run for the euro area as a whole, whereas European countries are set to be affected to different degrees. A key determinant is the different dependence on energy commodities and Russian gas. Finally, all simulations assume that the scenarios' additional shocks hit the economy in the second quarter of this year and will gradually fade over time.

5. BOXES

Box I.5.1: Some technical elements behind the forecast

The cut-off date for taking information into account in this European Economic Forecast was 29 April 2022. Ad-hoc assumptions underpinning this forecast, relating to, e.g. the geo-political situation, are detailed in Box I.1.1.

Exchange and interest rates

The forecast builds on the technical assumption of fixed nominal exchange rates for all currencies (see Table 1 and Table 31 in the Statistical Annex).

Assumptions for interest rates are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States, are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates.

Commodity prices

Assumptions for Brent oil, gas and electricity prices are based on futures markets, using the average over the 10-day reference period between 14 and 27 April.

Trade policies and assumptions

Also for trade policy, this forecast pencils in only the measures that have been implemented until the cut-off date, as detailed in Box I.1.1. includes bans on specific exports and imports (see

<https://ec.europa.eu/info/strategy/priorities-2019-2024>).

ESA 2010

The forecast is based on the ESA 2010 system of national accounts for all Member States, the EU and the euro area aggregates.

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. The Commission's annual GDP forecasts are not adjusted for the number of working days, but quarterly forecasts are.

The working-day effect in the EU is estimated to be limited in 2022 and 2023, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ± 0.1 pps.), but it may be significant in the case of some Member States. For the euro area it is estimated to be +0.2 in 2022 and marginal in 2023.

Estimations of potential GDP and output gaps are not adjusted for working days. Furthermore, since the working-day effect is considered temporary, it is not expected to affect cyclically-adjusted balances.

The inclusion of the Recovery and Resilience Facility in the forecast

The macroeconomic and budgetary projections in the forecast include the impact of the implementation of the Recovery and Resilience Facility (RRF). Unless mentioned otherwise, the

Table 1:
Technical assumptions

	2021	Spring 2022 forecast		Autumn 2021 forecast	
		2022	2023	2022	2023
3-month EURIBOR (percentage per annum)	-0.5	-0.1	1.3	-0.5	-0.3
10-year government bond yields (percentage per annum) (a)	-0.4	0.8	1.1	-0.1	0.1
USD/EUR exchange rate	1.18	1.09	1.08	1.16	1.16
GBP/EUR exchange rate	0.86	0.84	0.83	0.85	0.85
RMB/EUR exchange rate	7.63	7.00	6.97	7.46	7.46
JPY/EUR exchange rate	129.9	135.61	137.38	130.54	130.54
EUR nominal effective exchange rate (annual percentage change) (b)	1.30	-2.20	-0.50	-1.30	0.00
Natural gas (EUR/Mwh) (c)	47.1	97.83	80.36	49.49	30.61
Electricity (EUR/Mwh) (d)	107.23	234.31	210.54	130.72	84.39
Oil price (USD per barrel)	70.7	103.6	93.5	78.9	72.3
Oil price (EUR per barrel)	59.8	95.0	86.6	68.1	62.5

(a) 10-year government bond yields for the euro area are the German government bond yields.

(b) 42 industrial countries EU-27, TR CH NR US UK CA JP AU MX NZ KO CN HK RU BR. (c) ICE Dutch TTF. (d) GDP - weighted average of electricity prices in DE, FR, IT, ES, NL, BE, AT.

(Continued on the next page)

Box (continued)

forecast includes the measures incorporated in the Recovery and Resilience Plans as submitted to the Commission. The cash disbursement and expenditure profiles implicit in the forecast are consistent with the time profile of milestones and targets as specified in the Plans (and - if adopted - the relevant Council Implementing Decisions). In all cases where the RRP was not yet endorsed by a Council Implementing Decision, the incorporation of the RRP in the forecast rests on the working assumption of a positive assessment by the Commission and future endorsement by a Council Implementing Decision. The working assumptions in the forecast do not pre-judge the outcomes of future Commission and Council decisions, nor the update of maximum financial contribution by 30 June 2022 per Article 11(2) of the RRF Regulation.

Transactions related to the RRF in the forecast are recorded in line with Eurostat's 'Guidance note on the statistical recording of the Recovery and Resilience Facility' of 7 October 2021. In particular, this implies that, except for 2020, the budgetary impact any expenditure or other costs financed with non-repayable financial support ('grants') from the RRF is neutralised in revenue projections by matching transfers received from the EU (in 2020, expenditure and other costs retroactively financed by RRF grants are offset by transfers from the EU in the year of adoption of the Council Implementing Decision). Expenditures financed by loans from the RRF are not neutralised and thus affect the government's balance, while the actual loans by the RRF are recorded as Member States' debt towards the EU.

Budgetary data and forecasts

The forecast incorporates validated public finance data up to 2021 as published in Eurostat's news release 46/2022 of 22 April 2022.

The public finance forecast is made under the 'no-policy-change' assumption, which extrapolates past revenue and expenditure trends and relationships in line with past policy orientations. This may also include the adoption of working assumptions, in particular to deal with structural breaks. The no-policy-change forecast includes all fiscal policy measures that imply a change to past policy orientations on the condition that they are sufficiently detailed as well as adopted or at least credibly announced. For 2022 in particular, the annual budgets adopted or presented to national parliaments are taken into consideration. The temporary emergency measures taken in response to COVID-19 crisis adopted in 2020 and 2021 are not treated as one-off and are thus reflected in the estimation of the structural budget balance. In line with Eurostat's press release, EU and euro area aggregates for general government balance and debt are based exclusively on the Member States' balances and debt. For debt, whereas Eurostat publishes the consolidated figures (corrected for intergovernmental loans, including those made through the European Financial Stability Facility), the projections in the forecast years 2022 and 2023 are published on a non-consolidated basis. To ensure consistency in the time series, historical data are also published on the same basis. For 2021, this implies an aggregate debt-to-GDP ratio that is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 46/2022 of 22 April 2022 (by 1.8 pps. in the EA and by 1.6 pps. in the EU).

PART II

Prospects by individual economy

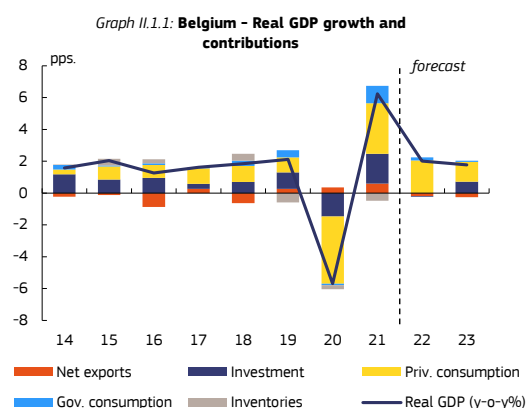
Euro Area Member States

1. BELGIUM

Economic growth in Belgium is expected to slow down to 2.0% in 2022 and 1.8% in 2023 after the strong rebound in 2021. The easing of restrictions related to COVID-19 combined with the depressing effect of high inflation, which is forecast to reach 7.8% in 2022 on the back of skyrocketing energy prices, is projected to lead to moderate growth of private consumption. Uncertainty, high costs and supply side constraints are expected to weigh on investment. Despite the withdrawal of COVID-19 measures, the government deficit is set to decrease to a limited extent, to 4.4% of GDP in 2023.

After a broad-based recovery in 2021, a slow down in 2022

Economic growth is set to slow down in 2022 after the rebound of 6.2% in 2021, when the gradual lifting of restrictions ushered in a robust recovery. Moving forward, a gradual return of growth towards its potential is expected.



Real GDP growth is forecast to reach 2.0% in 2022 and 1.8% in 2023. The wave of Omicron variant is assumed to have had limited impact on the economy in 2022-Q1 and, thanks to the swift lifting of restrictions, consumption is projected to have rebounded, leading to an estimated 0.3% real GDP growth in the first quarter.

However, Russia's war of aggression against Ukraine has changed the outlook for the following quarters. The high level of inflation and the drop in consumer confidence are expected to curb the expansion of household consumption. Still, lagged automatic indexation of wages and social benefits are set to support purchasing power moving forward into 2023 when inflation is projected to substantially decrease. Starting in March 2022, the inflow of people fleeing Ukraine is expected to have a

positive but limited effect on private consumption.

After a strong rebound during the first part of 2021, investment decreased strongly in the second half of the year. In 2022, uncertainty, higher cost pressures from input prices and wages as well as supply side constraints are expected to weigh on business investment. At the same time, the RRF and the energy transition are forecast to support gross fixed capital formation. After a strong performance of net exports in 2021, a less favourable external environment, notably for world trade, is forecast to weigh on imports and exports this year. The contribution of net exports to GDP growth is projected to be slightly negative in both 2022 and 2023.

Improvements in the labour market

The strong performance of employment in 2021 put Belgium on a strong footing for 2022, as reflected by the high vacancy rate at the beginning of the year. However, the rising uncertainty and the expected slowdown in growth is projected to moderate the performance of the labour market in the second part of 2022. Employment growth is forecast to reach 1% in 2022. The unemployment rate is expected to improve to 5.8% in 2022 and to 5.6% in 2023, consistent with economic growth.

Inflation on the rise

Headline inflation is forecast to reach an exceptionally high level in 2022, at 7.8%, after 3.2% in 2021. The sharp increases of wholesale gas and electricity prices have transmitted quickly to retail prices, which are expected to remain high this year. At the same time, food prices are on the rise and core inflation is projected to reach 3.8% in 2022

and 3.4% in 2023. The gradual fall in energy prices is forecast to push headline inflation down to 1.9% in 2023.

The budgetary response to the energy crisis causes further strain on government finances

The general government headline deficit narrowed considerably in 2021 to 5.5% of GDP, according to notified data. The decrease in the government balance deficit reflects mainly the stronger-than-anticipated rebound in revenue collection due to a stronger macroeconomic performance, and lower-than-expected government spending execution, notably concerning public investment and expenditure in relation to the COVID-19.

The government budget deficit is projected to decrease moderately in 2022, to 5% of GDP. While the bulk of government measures related to the pandemic are expected to be withdrawn, Belgium's fiscal outlook in 2022 is significantly affected by the budgetary response to the energy crisis. Temporary measures adopted in response to high energy prices are set to weigh on public finances in 2022. In addition, the automatic indexation of public sector wages and social benefits to rising consumer prices leads to rapidly growing public spending, which are only partly offset by the impact of higher wages on the revenue side. Furthermore, the

government adopted additional defence spending and the Commission's forecast also takes into account the budgetary impact of the inflow of people fleeing Ukraine.

In 2023, the government deficit is projected to decrease slightly, to 4.4%, as the vast majority of measures adopted in response to the energy crisis and to COVID-19 are assumed to be withdrawn. At the same time, the automatic indexation of public sector wages and social benefits, as well as lower corporate tax revenue due to rising input prices and wages, would have a negative impact on the government budget balance. In addition, the high government deficit in 2023 also reflects the growth in non-crisis current expenditure, which is notably due to rising ageing costs and to the budgetary impact of recently adopted permanent measures not offset by compensating measures.

The government debt-to-GDP ratio decreased to 108% in 2021, reflecting the rebound of economic output and its positive impact on the denominator. The debt to GDP ratio is set to decrease to 107.5 % in 2022 and to stabilise in 2023, as the favourable snowball effect from higher inflation (as measured by the GDP deflator) would be offset by the still-high government deficit.

Table II.1.1:

Main features of country forecast - BELGIUM

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	507.2		100.0	1.6	1.8	2.1	-5.7	6.2	2.0	1.8
Private Consumption	246.8		48.7	1.4	1.9	1.8	-8.2	6.4	4.2	2.5
Public Consumption	120.2		23.7	1.2	1.4	2.0	-0.4	4.4	0.8	0.3
Gross fixed capital formation	122.2		24.1	2.0	3.0	4.4	-6.1	7.8	-0.1	3.0
Exports (goods and services)	432.9		85.4	3.3	0.6	2.0	-5.5	9.6	3.3	3.9
Imports (goods and services)	426.1		84.0	3.4	1.4	1.6	-5.9	9.1	3.6	4.1
GNI (GDP deflator)	511.2		100.8	1.5	1.8	2.2	-5.6	6.0	2.0	1.8
Contribution to GDP growth:										
Domestic demand				1.4	2.0	2.4	-5.8	6.1	2.2	2.0
Inventories				0.1	0.4	-0.6	-0.3	-0.5	0.0	0.0
Net exports				0.0	-0.6	0.3	0.4	0.6	-0.2	-0.3
Employment				0.8	1.5	1.6	0.0	1.8	1.0	0.8
Unemployment rate (a)				8.0	6.0	5.5	5.8	6.3	5.8	5.6
Compensation of employees / head				2.2	1.8	2.0	-1.5	4.2	6.0	5.5
Unit labour costs whole economy				1.4	1.4	1.5	4.4	-0.2	5.0	4.4
Saving rate of households (b)				15.5	11.6	12.4	20.2	16.1	12.4	12.6
GDP deflator				1.7	1.5	1.8	1.3	4.5	4.5	3.0
Harmonised index of consumer prices				1.9	2.3	1.2	0.4	3.2	7.8	1.9
Terms of trade goods				-0.2	-1.0	0.9	0.7	-0.7	-2.5	1.0
Trade balance (goods) (c)				1.0	-0.4	0.6	1.0	0.9	-0.6	-0.2
Current-account balance (c)				2.7	-0.8	0.1	0.8	0.6	-1.1	-0.6
General government balance (c)				-2.2	-0.9	-2.0	-9.0	-5.5	-5.0	-4.4
Structural budget balance (d)				-2.4	-1.9	-3.0	-5.8	-4.6	-4.5	-4.2
General government gross debt (c)				100.3	99.8	97.7	112.8	108.2	107.5	107.6

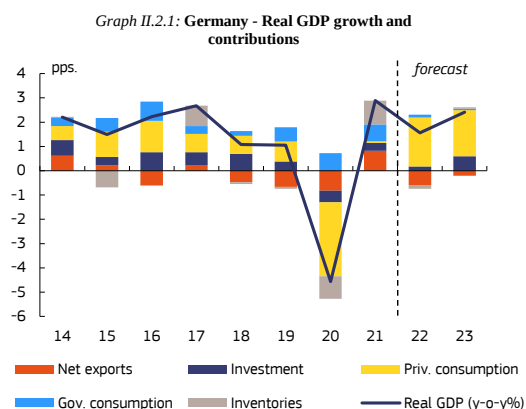
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

2. GERMANY

High energy and raw material costs and supply bottlenecks are holding back the rebound of exports and investment. This is, however, offset by recovering spending on services, a solid labour market and the use of accumulated savings, which are expected to drive private consumption growth despite the surge in inflation (6.5% in 2022 and 3.1% in 2023). GDP is forecast to grow by 1.6% in 2022 and 2.4% in 2023. The general government deficit is expected to continue decreasing (2.5% in 2022 and 1% in 2023) as additional public spending on defence, the green transition and in reaction to heightened energy prices is compensated by solid tax revenues.

Another interrupted rebound

Following subdued growth in 2022-Q1, at 0.2%, the relaxation of COVID-19 containment measures in early 2022 supported the consumption of contact-intensive services. In January and February industrial and construction activity was up relative to late 2021. However, in March, the fallout of the Russian invasion of Ukraine and the imposition of COVID-19-related lockdowns in some of China's industrial hubs resulted in renewed supply bottlenecks, soaring energy and material costs and a further uptick in already high consumer price inflation.



A host of headwinds

These developments are expected to be a drag on growth in the upcoming quarters, with manufacturing and exports set to continue to be slowed by trade disruptions caused by the war in Ukraine and the lockdowns in China. Germany is intensifying the steps to reduce its dependency on Russian energy by diversifying suppliers and speeding up the take-up of renewables, among other measures. However, in the short-to-medium term, still high energy prices are expected to depress production in

key sectors in early stages of the value chain (such as metals and chemicals).

Uncertainty about the outcome of the war in Ukraine is projected to have a negative impact on investment. At the same time, the unwinding of significant industry and construction order backlogs should benefit growth later this year and in 2023, as some of the supply bottlenecks ease. Household consumption is set to be impaired by elevated prices, although in the coming quarters this is expected to be partly offset by the ongoing recovery in the spending that had been constrained by the pandemic.

Overall, real GDP is projected to fall in Q2-2022. Growth is set to remain muted at 1.6% in 2022 and to strengthen somewhat to 2.4% in 2023 as the economy adapts to trade disruptions. The possibility of a sudden stop of gas delivery from Russia entails a significant downside risk to the outlook.

Employment continues to improve

After peaking at 4.1% in late 2020, unemployment declined to a historically low 2.9% in March 2022. Although the easier conditions for access to the short-time work scheme have been extended until mid-2022, its take-up has been very low in recent months. In 2022-Q1, employment recovered to the pre-pandemic level. Hiring expectations are altogether close to pre-crisis levels and reported labour shortages continue increasing.

Wages grew by 3.5% in 2021, partly through a recovery in hours worked. Wage growth is set to continue in 2022 and 2023, supported by an increase in the minimum wage and a tightening labour market. However, the inflation compensation in the wage negotiations later this year (notably in the engineering and chemical sectors and civil service) is expected

to be partial and staggered. With consumption still limited by restrictions, the household saving rate remained high at 22.6% in 2021. For 2022 and 2023 it is expected to decline to offset higher prices as spending picks up.

Germany's current account surplus is set to decline in 2022 (to just above 6% of GDP), due to trade disruptions, the resumption of foreign travel and more expensive energy imports. In 2023, the surplus is expected to edge up again as export growth picks up.

Inflation to stay elevated

In April 2022 HICP inflation soared to 7.8% and is expected to reach 6.5% for the year on average, driven by the surge in energy prices and rising input costs amid strong demand. Lingering pass-through of higher costs into prices, and a boost to service sector wages, due to an increase in the minimum wage in late 2022, are expected to maintain inflation above 3% in 2023.

Deficit and debt level decreasing

In 2021, the deficit decreased to 3.7% of GDP, turning out lower than initially expected, mostly due to a smaller take-up of the measures to alleviate the impact of the pandemic.

In 2022, the deficit is projected to decrease to

2.5% of GDP. While pandemic-related support measures are phased out, measures in response to the war in Ukraine like additional spending for defence and humanitarian aid increase government expenditure, as does green investment by the Energy- and Climate Fund. Furthermore, in reaction to the rising energy prices, the government has adopted a series of targeted one-time payments to households that weigh on the budget in 2022. At the same time, robust tax revenues are set to lead to an overall improvement of the headline balance.

In 2023, the government plans to increase its spending in defence, while tax revenues are projected to continue rising. Consequently, the deficit is expected to decrease to 1.0% of GDP.

Government debt peaked in 2021 at 69.3% of GDP and is projected to decrease to 66% in 2022 and 64% in 2023. This declining debt ratio is partly driven by the impact elevated inflation has on growth of nominal GDP, as well as the reduction in the portfolio of bad banks and the use of cash reserves accumulated during the height of the pandemic. Germany is returning to a path of debt reduction similar to that seen before the pandemic.

Table II.2.1:

Main features of country forecast - GERMANY

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	3570.6		100.0	1.3	1.1	1.1	-4.6	2.9	1.6	2.4
Private Consumption	1763.0		49.4	0.8	1.4	1.6	-5.9	0.1	4.1	3.7
Public Consumption	801.3		22.4	1.7	1.0	3.0	3.5	3.1	0.5	0.2
Gross fixed capital formation	783.9		22.0	1.1	3.4	1.8	-2.2	1.5	0.8	2.7
Exports (goods and services)	1694.6		47.5	4.6	2.3	1.1	-9.3	9.9	2.4	4.2
Imports (goods and services)	1497.0		41.9	4.2	3.9	2.9	-8.6	9.3	4.1	5.1
GNI (GDP deflator)	3678.5		103.0	1.5	1.9	1.1	-5.0	3.1	1.3	2.4
Contribution to GDP growth:										
Domestic demand				1.0	1.6	1.8	-2.8	1.1	2.3	2.6
Inventories				-0.1	-0.1	-0.1	-0.9	1.0	-0.2	0.1
Net exports				0.4	-0.5	-0.7	-0.8	0.8	-0.6	-0.2
Employment				0.7	1.4	0.9	-0.8	0.0	0.8	0.5
Unemployment rate (a)				6.8	3.2	3.0	3.7	3.6	3.3	3.2
Compensation of employees / head				1.8	2.9	3.4	0.4	3.4	3.4	4.0
Unit labour costs whole economy				1.2	3.2	3.2	4.3	0.5	2.6	2.1
Saving rate of households (b)				17.1	18.7	18.4	23.3	22.6	18.2	15.8
GDP deflator				1.3	2.0	2.1	1.6	3.0	5.4	3.6
Harmonised index of consumer prices				1.5	1.9	1.4	0.4	3.2	6.5	3.1
Terms of trade goods				0.4	-1.0	1.1	2.9	-4.2	-1.8	1.8
Trade balance (goods) (c)				7.0	6.7	6.2	5.6	5.1	4.7	5.2
Current-account balance (c)				6.0	8.1	7.6	7.1	7.2	6.1	6.5
General government balance (c)				-1.3	1.9	1.5	-4.3	-3.7	-2.5	-1.0
Structural budget balance (d)				0.9	1.3	0.7	-2.4	-2.6	-1.8	-1.0
General government gross debt (c)				70.5	61.2	58.9	68.7	69.3	66.4	64.5

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

3. ESTONIA

Real GDP growth is forecast to slow sharply to 1.0% this year, after 8.3% in 2021. The heightened uncertainty, commodity price increases and trade disruptions linked to Russia's invasion of Ukraine are holding back investment and trade flows, while private consumption is still set to increase, thanks to the savings buffer built over the past two years. The labour market is expected to integrate people fleeing from Ukraine only gradually, driving unemployment up. Inflation is forecast at double-digit rate in 2022, falling quickly to 2.5% in 2023. The government deficit is projected to rise from 2.4% of GDP in 2021 to 4.4% in 2022 and 3.7% in 2023, due to additional measures to address energy security and defence needs, supporting refugees and cushioning the social impact of price increases.

Growth prospects curtailed

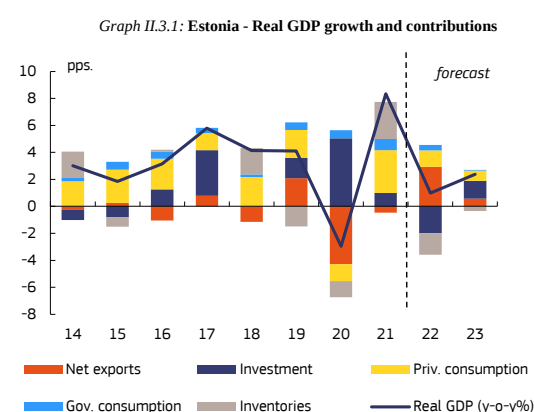
Real GDP grew by 8.3% in 2021, but slowed sharply already at the beginning of this year, as consumers and investors adjusted to the surge in commodity and energy prices. Russia's invasion of Ukraine and the ensuing sanctions, have disrupted trade flows and pushed energy prices further up. This dampened the positive effect on consumption of removing the remaining COVID-19 related restrictions, as in this new context households spent only a small part of the extra savings accumulated during the pandemic and of the assets withdrawn from the second pillar pension funds.

The uncertainties about the development of the war, together with renewed supply-chain tensions, weigh on investment decisions, in particular of foreigners. Part of the decrease in gross fixed capital formation is due to the unwinding of a significant investment in intangibles recorded at the turn of 2020-21, which determined similar fluctuations in the imports of services. As a result, real GDP is set to contract in the first half of the year and to rebound subsequently, averaging an annual growth rate of 1.0% in 2022 as a whole.

In 2023, Estonia is expected to diversify its import and export markets, further reducing its dependency on gas and other critical inputs imported from Russia and Belarus. Investment is forecast to bounce back in 2023, as supply bottlenecks subside and financial conditions remain favourable. EU funds inflows are expected to support construction and renewable energy projects. The push to accelerate the green transition, combined with the higher priority given to security and defence factors, are also set to boost investment.

Reduced imports of mineral fuels entail smaller exports of these or linked products, such as refined fuels and petrochemicals. Exports of higher value added goods and of information technology services are however forecast to pursue the robust expansion of recent years, allowing the current account to improve, despite this year's worsening terms of trade.

Estonia's economy appears to be adjusting rapidly to the rerouting of import and export flows, including of services such as tourism. However, it is still subject to the general risks of further disruption to the supply of key raw materials and faster increase of their price.



Wage growth falls behind inflation

The recovery in employment levels started much later than that in economic output, and is being further delayed in the current juncture. The inflow of people fleeing Ukraine is projected to add some 5,000 people to the labour force this year and 3,000 more in 2023. This is expected to temporarily add to unemployment, as these displaced persons find jobs more slowly than natives due to language and skills barriers. In turn, the additional labour

force is expected to exert a certain drag on wages, which were rapidly rising in several sectors as the economy recovered fast from the COVID-19 crisis and some shortages of skilled workers emerged. Despite persistently tight labour market conditions in the expanding sectors, compensations per employee are forecast to increase by 7% in 2022, implying lower real wages, and by 4.5% in 2023.

Inflation to peak in early 2022, then to fall rapidly

HICP inflation increased quickly towards the end of 2021 and reached double-digit rates in January-April 2022. It is forecast to average 11.2% in 2022, as the soaring prices of imported energy and food affect consumer price dynamics.

The prices of imported energy and other commodities are, however, expected to stop increasing by mid-2022 and go back to pre-war levels by end-2023. Therefore, headline inflation is forecast to drop to 2.5% next year.

Additional government support increases deficit

The general government deficit improved to 2.4% of GDP in 2021 on the back of the economic recovery. At the same time, tax revenues were boosted by about 1% of GDP by

the withdrawals from the second pillar pension funds.

In 2022, the deficit is projected to widen again to 4.4% of GDP, even though the COVID-19 expenditure measures have largely expired and tax revenues are expected to remain relatively buoyant thanks to strong growth of tax bases. The higher projected deficit largely reflects new spending on measures mitigating the impact of high energy prices, in security and defence, in integration of displaced persons and in other social measures, adding up to over 2% of GDP.

As some of these expenditure measures are set to be permanent (defence, social spending) and not offset by compensating measures, the deficit is projected to remain at a relatively elevated level of 3.7% of GDP in 2023. The forecast incorporates expenditure financed by RRF grants, which is set to gradually increase from 0.4% of GDP in 2022 to 0.7% in 2023.

Public debt is forecast to increase from 18.1% of GDP in 2021 to 23.5% in 2023, still the lowest ratio in the EU.

Table II.3.1:

Main features of country forecast - ESTONIA

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		30.7	100.0	3.3	4.1	4.1	-3.0	8.3	1.0	2.4
Private Consumption		14.8	48.4	3.9	4.3	4.1	-2.5	6.4	2.5	1.5
Public Consumption		6.2	20.3	2.6	1.0	3.0	3.0	3.9	2.0	0.3
Gross fixed capital formation		8.8	28.6	5.1	0.0	6.1	19.9	3.3	-7.0	5.0
Exports (goods and services)		24.7	80.5	6.9	3.9	6.5	-5.0	19.8	3.0	4.9
Imports (goods and services)		24.6	80.3	7.1	5.7	3.8	0.9	20.6	-0.6	4.3
GNI (GDP deflator)		30.3	98.8	3.5	4.5	4.3	-2.0	8.1	1.1	2.4
Contribution to GDP growth:										
Domestic demand				4.4	2.4	4.1	4.4	5.0	-0.4	2.1
Inventories				0.0	2.0	-1.5	-1.2	2.8	-1.6	-0.3
Net exports				-0.5	-1.1	2.1	-4.3	-0.5	2.9	0.6
Employment				0.5	0.9	1.3	-2.7	0.1	0.7	1.0
Unemployment rate (a)				8.9	5.4	4.5	6.9	6.2	6.8	6.9
Compensation of employees / head				8.0	8.6	8.4	5.3	7.6	7.0	4.5
Unit labour costs whole economy				5.1	5.2	5.5	5.5	-0.6	6.7	3.0
Saving rate of households (b)				5.1	12.3	12.7	16.4	11.9	9.0	10.0
GDP deflator				4.5	4.0	3.2	-0.3	5.5	8.1	3.2
Harmonised index of consumer prices				3.4	3.4	2.3	-0.6	4.5	11.2	2.5
Terms of trade goods				0.7	0.0	-0.7	1.1	0.6	-2.2	1.0
Trade balance (goods) (c)				-9.5	-4.7	-3.4	-0.6	-4.4	-5.9	-5.2
Current-account balance (c)				-4.6	0.8	2.5	-0.3	-0.7	1.3	2.3
General government balance (c)				0.5	-0.6	0.1	-5.6	-2.4	-4.4	-3.7
Structural budget balance (d)				0.0	-1.5	-0.8	-3.4	-3.3	-3.8	-3.0
General government gross debt (c)				7.1	8.2	8.6	19.0	18.1	20.9	23.5

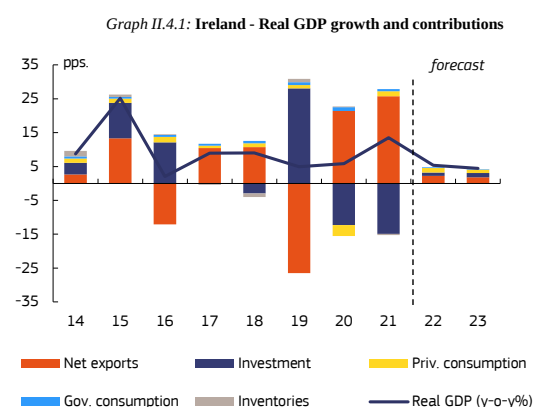
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.
Note: Contributions to GDP growth may not add up due to statistical discrepancies.

4. IRELAND

GDP is expected to keep increasing significantly, by 5.4% in 2022 and 4.4% in 2023, although slightly slower than previously expected due to higher inflation, supply bottlenecks and uncertainty created by the Russian aggression against Ukraine, which will negatively affect private consumption and investment. Net exports are projected to remain resilient and an important source of growth. Inflation is rising and expected to remain high for longer, albeit moderating in 2023. The fiscal outlook is set to further improve, with the budget balance set to reach a surplus of 0.4% of GDP in 2023.

Favourable domestic developments but geopolitical headwinds

Ireland's real GDP grew robustly in the first quarter of 2022, driven by private demand, which benefitted from the ending of all COVID-related restrictions in February. Business sentiment remained upbeat at the entry into the second quarter, indicating that conditions for growth remain broadly intact despite the impact of Russia's invasion of Ukraine. While Ireland's direct economic exposure to Russia and Ukraine is minor, as a highly open economy it remains exposed through trade and supply chain linkages, as well as through rising inflation, which erodes real household incomes.



Private consumption is facing opposing forces. On the one hand, post-pandemic conditions of expanded consumption opportunities and significant accumulated savings favour a rise in spending. The labour market, supported by government policies, has emerged from the pandemic without scarring and has been performing strongly, with employment rising rapidly and labour shortages favouring wage rises. Following the winding-down of two large pandemic support schemes, the unemployment rate stood at 5.5% in March. On the other hand, Russia's invasion of Ukraine is a headwind to

the economy. Consumer sentiment has fallen to an 18-month low in April as households reassess the impact of rising energy and food prices on their finances and curtail spending plans. Hence, private consumption is likely to decelerate in the short term, growing by 5.7% in 2022 and 4.1% in 2023.

Higher uncertainty and supply bottlenecks are set to dampen investment. Following buoyant investment in machinery and equipment in the second half of 2021, in the current environment companies in Ireland might tend to postpone further acquisitions. Construction investment, which is facing a revival due to high private demand and public investment plans, is grappling with shortages of material and labour. Multinational corporations in Ireland, traditionally a source of strong growth, are reportedly less affected by the war-induced repercussions and are likely to broadly maintain investment activities, although to a lesser extent.

Net exports are projected to remain positive and an important driver of growth, given their concentration in information technology, pharmaceutical and medical equipment sectors, which have fared well since the pandemic. Overall, Ireland's economy is projected to grow by 5.4% in 2022 and 4.4% in 2023. Modified domestic demand, which better reflects underlying domestic economic activity, is expected to expand by 4.6% in 2022 and 3.8% in 2023.

High inflation to stay for longer

HICP inflation rose in early 2022 amid higher energy prices and persistent supply bottlenecks across a variety of goods segments. Russia's invasion of Ukraine exacerbated pressures on energy prices, which are now expected to remain high for longer, and created new supply

disruptions of food products for which Russia or Ukraine are major producers. Ireland's HICP reached 5.9% in the first quarter of 2022. Inflationary pressures have become broad-based amid high post-pandemic demand, supply bottlenecks and second-round effects of high energy prices. Inflation is expected to peak around mid-2022 and moderate thereafter as the impact of high energy prices starts to wane. HICP is forecast to reach 6.1% in 2022 and 3.1% in 2023.

Risks to the outlook have increased. These include supply chain disruptions, the persistence of high inflation for longer than expected and a potential inflation-wage spiral.

Deficit to turn to surplus in 2023

Ireland's general government deficit is forecast to decrease to 0.5% of GDP in 2022 from 1.9% in 2021. Revenue growth in 2022 is projected to be robust, in light of the strong outturns in the first quarter of the year, which were fuelled by the easing of COVID-19 restrictions. The

phasing out of the pandemic-related support to companies and households is expected to curb nominal growth in government expenditure. Strong nominal GDP growth would add to the reduction in the deficit ratio, though less than in 2021, where GDP expanded at a double-digit rate.

In 2023, the deficit is forecast to turn into a surplus of 0.4% of GDP as pandemic-related spending ceases, while revenue growth is likely to remain robust amid a buoyant outlook for the labour market and economic growth.

The general government debt-to-GDP ratio is projected to decrease to 50.3 in 2022 from 56% in 2021, and further to 45.5% in 2023, amid planned decreases in cash reserves in the order of 1% of GDP for both years.

Table II.4.1:

Main features of country forecast - IRELAND

	2021				Annual percentage change					
	bn EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		421.5	100.0	4.2	9.0	4.9	5.9	13.5	5.4	4.4
Private Consumption		102.5	24.3	2.3	3.7	3.2	-11.1	5.7	5.7	4.1
Public Consumption		50.4	12.0	2.1	5.3	6.8	9.4	5.4	1.5	1.2
Gross fixed capital formation		99.1	23.5	6.9	-8.9	99.5	-22.9	-37.6	4.2	5.4
Exports (goods and services)		568.4	134.8	6.6	11.5	10.4	9.5	16.6	6.0	4.9
Imports (goods and services)		398.6	94.6	6.0	3.3	41.7	-7.4	-3.7	6.2	5.0
GNI (GDP deflator)		315.2	74.8	3.8	6.4	5.1	3.8	11.5	3.6	3.8
Contribution to GDP growth:	Domestic demand			3.1	-1.1	29.9	-14.4	-12.8	2.6	2.4
	Inventories			0.2	-1.1	1.0	0.2	-0.4	0.0	0.0
	Net exports			1.7	10.7	-26.5	21.4	25.8	2.2	1.8
Employment				1.3	3.2	2.9	-1.5	3.9	2.8	0.8
Unemployment rate (a)				9.0	5.8	5.0	5.9	6.2	4.6	5.0
Compensation of employees / head				2.5	2.5	3.4	2.4	3.6	3.8	7.8
Unit labour costs whole economy				-0.4	-3.0	1.4	-4.7	-5.2	1.3	4.0
Saving rate of households (b)				10.0	10.6	10.2	25.2	21.6	14.6	12.4
GDP deflator				1.4	0.7	4.2	-1.2	-0.4	4.8	4.1
Harmonised index of consumer prices				1.4	0.7	0.9	-0.5	2.4	6.1	3.1
Terms of trade goods				-0.1	-6.4	4.9	-1.8	-7.5	-1.0	0.4
Trade balance (goods) (c)				24.3	33.6	33.1	38.9	41.0	40.7	40.1
Current-account balance (c)				-1.8	4.9	-19.9	-2.7	14.3	12.8	13.1
General government balance (c)				-5.2	0.1	0.5	-5.1	-1.9	-0.5	0.4
Structural budget balance (d)				-3.0	0.0	2.3	-2.6	-3.2	-2.0	-0.9
General government gross debt (c)				64.1	63.1	57.2	58.4	56.0	50.3	45.5

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

5. GREECE

Following a rapid recovery from the pandemic and a promising start in the first months of the year, the Russian war of aggression against Ukraine has clouded the outlook on Greece. Growth is expected to ease but remain solid, primarily driven by the full recovery of tourism by the end of the forecast horizon. High inflation is expected to weigh on households' real disposable income, but the fall is being partly cushioned by government support measures. Emergency fiscal measures are due to expire in 2022 and a primary surplus is expected for 2023.

Growth to ease but remain solid

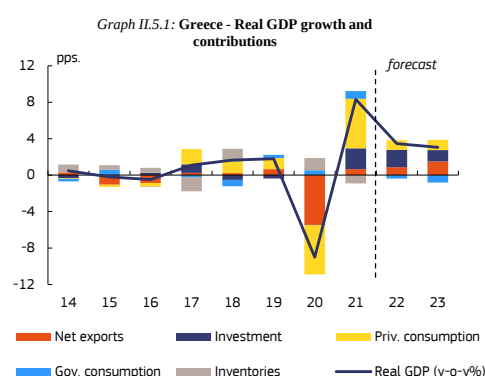
Despite prolonged uncertainty due to the successive waves of the pandemic, the Greek economy recovered quickly in 2021, offsetting almost entirely the sharp economic decline from 2020. Greece's real GDP grew by 8.3% in 2021, reflecting the better-than-expected tourism season, while private consumption almost fully recovered. Growth was also driven by a notable boost in private investment, while goods exports continued growing, as the country benefited from the recovery in the EU and in other trading partners.

The turmoil on global energy markets is expected to increase domestic inflationary pressures and weigh on the real disposable income of households. However, government support measures, increases in the minimum wage, and the savings accumulated during the pandemic are expected to partially cushion the negative effects on private consumption. Heightened risk aversion, along with increased supply bottlenecks, may delay the kick-off of new investment projects, but the economy is also set to benefit from the deployment of RRP-financed projects. Export growth is forecast to remain solid on account of the recovery in tourism, which is estimated to remain resilient given the limited share of tourists from Russia, Ukraine and Belarus in total arrivals. Growth of goods exports is, however, expected to decrease compared to previous estimates in view of the projected slowdown in the EU and the global economy as a whole. Overall, real GDP is forecast to grow by 3.5% in 2022. Growth in 2023 is expected to remain high, at 3.1%, driven by the gradual recovery of real disposable income and a projected return of tourism to its pre-pandemic level.

Job creation to continue, amidst high inflation

Job creation showed strong growth in the second half of 2021 on the back of employment gains in agriculture and manufacturing. It is expected to continue also in 2022, despite the overall slow-down in economic activity this year. The minimum wage was increased by 7.5% as of May 2022, following a modest increase by 2% in January 2022. This is likely to support nominal wage growth in the second half of the year, given that almost a third of the total employees in the country receive a minimum wage.

Inflation is expected to peak in the second quarter of 2022 and remain high thereafter, before easing in 2023. Increasing international oil and gas prices are the main driver, while the surge in key input costs such as fertilisers and transport, is affecting food prices. Headline inflation is projected to reach 6.3% in 2022 and 1.9% in 2023.



Russian's military aggression against Ukraine has magnified the downside risks for the Greek economy, while the outlook remains contingent upon the forecast's technical assumptions. Estimates for the spending outlook of households and the investment dynamic are highly sensitive to these assumptions.

Uncertainty also concerns the tourist season, as real disposable incomes of domestic and foreign tourists may be reduced by inflation. On the upside, the strong performance in exports of goods over the previous period of heightened supply-side disruptions indicates some resilience of Greece's exporting firms, which could result into a stronger export performance than currently expected.

Primary surpluses are set to return

Greece's general government deficit reached 7.4% in 2021, which reflects mainly the pandemic-related emergency and support measures still in place. This outcome is better than expected earlier, and owes to the fast recovery of personal and corporate incomes. Public debt decreased to 193% of GDP due to the strong increase in nominal GDP.

As growth continues, and some of the pandemic-related measures have already been phased out, the deficit is expected to decrease to 4.3% of GDP in 2022, although it is also set to be impacted by the temporary measures taken in response to the high energy prices.

The general government deficit is expected to decrease to 1% of GDP in 2023, bringing the primary balance to a surplus of 1.3% of GDP. This projected decrease assumes that most of the pandemic-related measures, as well as

those implemented to cushion the impact of high energy prices, are phased out. The forecast factors in the prolongation of two growth-friendly tax-cuts planned by the authorities, which build on measures originally introduced in 2021 and 2022 to alleviate the impact of the pandemic, which were set to expire at the end of this year. These measures aim to bring the tax wedge on labour closer to the euro area average, support labour demand and boost households' disposable income, which is expected to have a positive effect on consumption and the economic recovery in general.

Public debt is expected to decrease further to 186% of GDP in 2022 and to around 180% in 2023, supported by the increase in nominal GDP in both years and primary surplus in 2023.

Notwithstanding the better-than-expected outturn of 2021, fiscal risks remain substantial. They are mainly related to a possible activation of state guarantees issued as part of the support measures, the litigation cases against the public real estate company (ETAD) and the pending ruling of the Council of State on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses. On the upside, corporate income profitability may continue to outperform expectations as it did for the 2021 fiscal outcome.

Table II.5.1:

Main features of country forecast - GREECE

	2021				Annual percentage change					
	bn EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		182.8	100.0	-0.4	1.7	1.8	-9.0	8.3	3.5	3.1
Private Consumption		125.7	68.8	-0.1	1.7	1.8	-7.9	7.8	1.5	1.7
Public Consumption		38.9	21.3	0.1	-3.5	1.7	2.6	3.7	-1.7	-4.1
Gross fixed capital formation		23.6	12.9	-3.7	-4.3	-3.3	-0.3	19.6	14.7	8.5
Exports (goods and services)		74.3	40.6	2.5	9.1	4.9	-21.5	21.9	11.6	9.5
Imports (goods and services)		88.8	48.6	0.9	8.1	3.1	-7.6	16.1	7.9	5.3
GNI (GDP deflator)		181.9	99.5	-0.5	1.1	2.0	-8.6	8.2	3.5	2.9
Contribution to GDP growth:	Domestic demand			-0.5	0.0	1.2	-4.9	8.6	2.6	1.6
	Inventories			-0.1	1.4	0.0	1.4	-0.9	0.0	0.0
	Net exports			0.3	0.2	0.6	-5.5	0.7	0.9	1.5
Employment				0.2	4.6	0.9	-1.2	0.5	1.2	1.2
Unemployment rate (a)				16.1	19.7	17.9	17.6	14.7	13.7	13.1
Compensation of employees / head				1.1	-3.8	0.6	-0.7	1.4	3.5	2.2
Unit labour costs whole economy				1.6	-1.0	-0.3	7.8	-5.9	1.2	0.3
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				1.3	-0.2	0.2	-0.8	2.1	4.8	2.1
Harmonised index of consumer prices				2.0	0.8	0.5	-1.3	0.6	6.3	1.9
Terms of trade goods				-0.3	-1.2	-1.4	-4.1	0.6	-1.6	1.2
Trade balance (goods) (c)				-13.8	-12.6	-13.0	-11.8	-14.9	-17.4	-17.0
Current-account balance (c)				-7.9	-3.5	-2.4	-7.9	-8.3	-8.4	-6.4
General government balance (c)				-7.5	0.9	1.1	-10.2	-7.4	-4.3	-1.0
Structural budget balance (d)				4.7	5.3	2.7	-4.1	-5.5	-3.0	-0.9
General government gross debt (c)				140.0	186.4	180.7	206.3	193.3	185.7	180.4

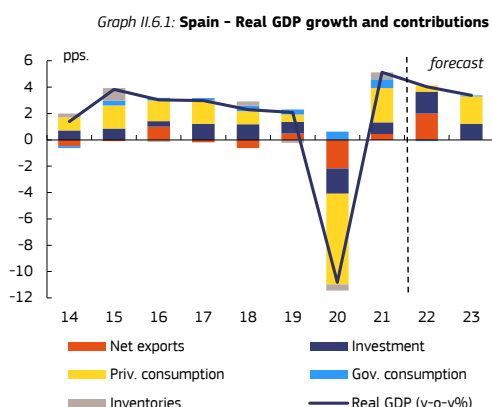
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

6. SPAIN

The economic recovery is expected to continue in Spain despite the disruptions created by Russia's war of aggression against Ukraine. Investments under the RRP and the recovery of the tourism sector are set to underpin economic growth over the forecast horizon. Real GDP is set to expand by 4.0% in 2022 and 3.4% in 2023. Headline inflation is projected to peak by mid-2022 and average 6.3% in 2022. The labour market is expected to remain strong, with the unemployment rate at its lowest level since 2008. The general government balance is set to improve, helped by strong revenues.

Economic growth to slow down in 2022-H1

Spain's real GDP grew by 5.1% in 2021, partly recovering from the unprecedented decline in 2020 (-10.8%). Economic growth accelerated in the second half of the year thanks to the COVID-19 vaccination campaign and the gradual relaxation of pandemic-related containment measures, the revival of international tourism and the strength of domestic demand. The Spanish economy was keeping momentum at the beginning of 2022, but supply disruptions and escalation of inflationary pressures in the context of the war have slowed down economic activity since the end of February. As a result, real GDP grew by 0.3% q-o-q in 2022-Q1 (compared to 2.2% in 2021-Q4), restrained by the strong contraction of private consumption. Further deceleration is expected in the second quarter (0.1%) due to the persistence of headwinds to growth.



Positive prospects despite deterioration of the balance of risks

Overall, real GDP is projected to grow by 4.0% in 2022 and by 3.4% in 2023, delaying the closure of the gap with the pre-crisis GDP level until mid-2023. Revived tourism activity has been the main driver of economic growth since

the summer of 2021 and is expected to keep momentum in 2022, allowing for a large contribution of net exports to GDP growth. Economic growth is set to accelerate as from 2022-Q3 thanks to the faster implementation of investments under the RRP and some reactivation of private consumption. The latter is expected to be supported by the strong labour market and the savings accumulated during the pandemic. However, the deterioration of households' purchasing power in a context of high inflation and declining real wages is expected to weigh as a drag. Private consumption is projected to remain below its pre-pandemic level over the forecast horizon.

Downside risks are predominant in a context of large global uncertainty. Energy prices have increased in Spain faster than in most of the euro area countries. Further price escalation may hit particularly hard activity in sectors such as transport, construction and electro-intensive industry. Consumption and investment decisions could be postponed until current disruptions fade away. Private consumption could be further affected by the persisting impact of inflation on households' purchasing power, particularly on those at the bottom of the income distribution. In addition, shortages of inputs in sectors receiving a large share of RRP funds (e.g. construction) could affect the delivery of green and digital investments envisaged in the plan. Conversely, RRP investments could lead to wider crowding-in effects than projected and a stronger-than-assumed impact on potential growth could materialise from key RRP reforms.

Inflation to remain high in the medium-term

Energy prices have been the main driver of the steep increase in the HICP rate since the spring of 2021 (7.9% y-o-y in 2022-Q1), although the pass-through effect into the prices of other

goods and services is becoming more and more evident. HICP inflation is expected to slowly start to ease by mid-year, helped by governmental measures such as fuel discounts and the cap on wholesale gas prices. Still, annual HICP inflation is forecast to increase from 3.0% in 2021 to 6.3% in 2022. In 2023, the reversal of base effects of energy prices is expected to reduce annual HICP inflation to 1.8%. Core inflation is projected to remain high over the forecast period, reaching 3.9% in 2022 and easing to 2.7% in 2023.

Strong labour market amid wage pressures

The labour market gained resilience during the pandemic thanks to the short-term work schemes (so-called 'ERTEs') put in place. As a result, at the end of 2021 the unemployment rate was at its lowest level since 2008. Further decreases are expected over the forecast horizon (from 14.8% in 2021 to 13.0% in 2023), on the back of continued job creation and the availability of the newly created 'RED mechanism' to support firms and workers in transition. Wage growth is set to accelerate but at a slower pace than prices, resulting in losses in households' purchasing power and a decline in households' savings ratio going forward.

Strong revenues drive the improvement of the government balance

Spain ended 2021 with a better than expected general government balance. The recovery of economic activity and a strong revenue performance drove the reduction of the public deficit from 10.3% of GDP to 6.9%. In addition, most COVID-19-related measures became more targeted and created space for the measures to cushion the impact of the rising energy prices.

In 2022, the government deficit is set to narrow further on the back of sustained economic growth and the continued strength of revenues, particularly from taxes on production and imports. On the expenditure side, the measures to ease the consequences of Russia's war of aggression against Ukraine will weigh on the deficit that is projected at 4.9% of GDP.

In 2023, the government deficit is set to continue decreasing (4.4% of GDP), reflecting dynamic economic growth and expenditure moderation that compensate the gradual return of revenues to their traditional elasticities. However, the indexation of pensions may result in higher than envisaged expenditure if inflationary pressures remain.

Public debt is projected to gradually decrease to 113.7% of GDP in 2023 mostly driven by nominal GDP growth.

Table II.6.1:

Main features of country forecast - SPAIN

	2021				Annual percentage change					
	bn EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		1205.1	100.0	1.4	2.3	2.1	-10.8	5.1	4.0	3.4
Private Consumption		669.7	55.6	1.1	1.7	1.0	-12.0	4.6	0.8	3.8
Public Consumption		258.1	21.4	2.5	2.3	2.0	3.3	3.1	-0.5	0.4
Gross fixed capital formation		242.0	20.1	0.1	6.3	4.5	-9.5	4.3	8.3	5.8
Exports (goods and services)		420.8	34.9	3.3	1.7	2.5	-20.1	14.7	13.6	4.6
Imports (goods and services)		402.6	33.4	2.2	3.9	1.2	-15.2	13.9	8.3	4.8
GNI (GDP deflator)		1211.3	100.5	1.5	2.4	2.2	-10.5	5.1	4.2	3.3
Contribution to GDP growth:	Domestic demand			1.2	2.6	1.8	-8.2	4.1	2.0	3.4
	Inventories			0.0	0.3	-0.2	-0.5	0.5	0.0	0.0
	Net exports			0.3	-0.6	0.5	-2.2	0.5	2.0	0.0
Employment				0.4	2.2	2.6	-7.6	6.6	3.3	1.6
Unemployment rate (a)				16.5	15.3	14.1	15.5	14.8	13.4	13.0
Compensation of employees / head				2.3	1.8	2.5	1.3	-0.6	2.8	3.0
Unit labour costs whole economy				1.2	1.7	3.1	5.0	0.8	2.1	1.2
Saving rate of households (b)				8.2	5.6	8.3	15.0	11.4	9.7	8.8
GDP deflator				1.7	1.2	1.3	1.1	2.2	3.7	2.4
Harmonised index of consumer prices				2.1	1.7	0.8	-0.3	3.0	6.3	1.8
Terms of trade goods				0.0	-0.7	-0.5	2.8	-0.2	-2.8	1.1
Trade balance (goods) (c)				-4.6	-2.4	-2.2	-0.8	-1.7	-4.4	-4.1
Current-account balance (c)				-2.9	1.9	2.1	0.8	1.0	1.8	2.1
General government balance (c)				-4.3	-2.6	-3.1	-10.3	-6.9	-4.9	-4.4
Structural budget balance (d)				-1.9	-2.8	-3.9	-4.3	-3.8	-3.5	-4.3
General government gross debt (c)				66.5	100.5	98.3	120.0	118.4	115.1	113.7

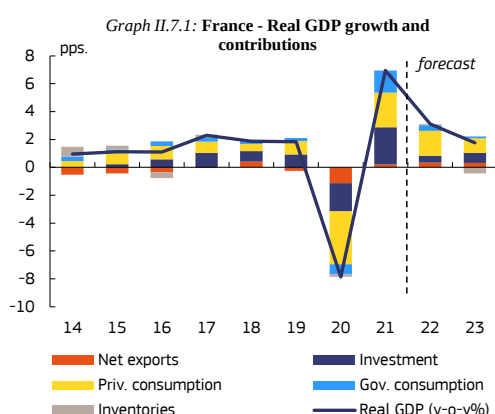
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

7. FRANCE

Economic activity is expected to slow down but to keep expanding until the end of the forecast horizon (+3.1% and +1.8% in 2022 and 2023), despite important supply disruptions and higher prices caused by the war in Ukraine. The rise in inflation is set to be sizeable and persistent (+4.9% and +3.1% in 2022 and 2023), although largely attenuated by the measures adopted in response to high energy prices. The general government deficit is forecast to fall to 4.6% and 3.2% of GDP in 2022 and 2023 respectively, while public debt is set to keep declining to around 109% of GDP in 2023.

Slow expansion after the quick recovery

After a strong recovery in 2021 (+7.0%), real GDP is set to expand by 3.1% in 2022 and 1.8% in 2023.



Following stagnation in the first quarter of 2022, GDP is expected to accelerate in the second quarter (+0.4%). Services are set to benefit from the full easing of sanitary restrictions while industry shows signs of resilience, as suggested by the latest surveys. GDP growth is then projected to remain positive but subdued until the end of the year, in a context of high inflation, important supply disruptions and heightened uncertainty, all exacerbated by Russia's invasion of Ukraine. The quarterly growth rate is forecast to slightly increase in 2023 thanks in particular to the deceleration in inflation.

All demand components are projected to contribute positively to growth over the forecast horizon. After the sharp decline in the first quarter of 2022, private consumption is expected to benefit from the full reopening of the economy in the second quarter. It is then forecast to be subdued, but to remain in positive territory, supported by the measures taken by the government to mitigate inflation

and a decline in the savings rate, which is, however, expected to remain significantly above its pre-crisis level. Following its strong recovery in 2021 (+11.6%), investment is set to slow down significantly in 2022 (+2.0%), in a context of increasing supply shortages (especially in transport equipment) and rising uncertainty. Investment is then projected to slightly accelerate in 2023 (+2.9%), but to remain below pre-crisis growth rates.

After the fall of 2020, net exports are forecast to recover later and more slowly than the other GDP components. They are expected to have a positive contribution to growth in 2022, thanks to the rebound in tourism, as well as in 2023.

Labour market to remain resilient

The labour market remained dynamic at the end of 2021, with the unemployment rate falling much below its pre-crisis level and the activity rate exceeding its pre-crisis performance. However, the hours worked per employee remained subdued, pointing at persistent labour hoarding. Thus, in line with the activity, total employment is set to slow down in 2022 (+1.1%, still supported by a strong carry-over) and 2023 (+0.4%). The unemployment rate is expected to reach 7.6% in 2022 and 2023, significantly below its pre-crisis level.

Inflation is expected to remain high in 2023

Inflation is set to increase to 4.9% in 2022 from 3.1% in 2021. The contribution of energy prices is expected to be the most important, although largely attenuated by the government's support measures (in particular the cap on electricity and gas regulated prices). Core inflation is set to accelerate due to the delayed transmission of the increase in raw materials' prices to non-energy goods. In 2023,

despite their slowdown, energy prices are still expected to contribute positively to inflation, and services' prices are projected to be fuelled by wage increases and rent revaluations. Prices are, thus, set to remain more dynamic than before the crisis (+3.1%).

Public debt on a declining path

The reduction in the general government deficit to 6.5% in 2021 was stronger than anticipated. This was mainly due to a better than expected improvement of the macroeconomic situation and the dynamism of tax revenues, including those linked to the housing market. These were offset in part by the extension of some pandemic-related measures, such as the partial activity scheme and subsidies via the solidarity fund. Other new expenses included the subsidies to assuage the rise in energy prices and the measures included in the French recovery plan *France Relance*, but not financed by the Recovery and Resilience Facility (RRF).

In 2022, the general government deficit is set to narrow further, to 4.6% of GDP. The decline is set to be driven by continued dynamism of tax revenues supported by higher inflation, the unwinding of most pandemic-related measures and the lower amount of recovery measures under *France Relance* compared to 2021. These deficit-reducing effects are expected to be partly offset by the measures adopted to

mitigate the impact of high energy prices, worth around additional EUR 23 bn. (0.9% of GDP), by the estimated budgetary impact of the investment plan France 2030 (0.1% of GDP) and by other measures, worth 0.1% of GDP, included in the more recent Resilience Plan to mitigate the economic effects of the Russian invasion of Ukraine. These projections also incorporate the estimated cost to host people fleeing from Ukraine, which is assumed to be relatively limited. The revenue-to-GDP ratio is expected to narrow, by some ¼ pp. of GDP, due to the withdrawal of the housing tax, the cut of the corporate income tax rate, the reduction in electricity taxes and lower RRF grants than in 2021. In turn, the expenditure ratio is forecast to decline by around 2¼ pps.

For 2023, the government deficit is set to narrow further to 3.2% of GDP. The revenue-to-GDP ratio is expected to increase by around ¼ pp., mainly due to the unwinding of the cut in electricity taxes. These projections incorporate estimated RRF grants of 0.3% of GDP. The expenditure ratio is projected to keep declining, by 1¼ pps.

After a decline in 2021, public debt is forecast to keep falling. From 112.9% of GDP in 2021, it is set to decrease to 111.2% in 2022, due to the still dynamic growth and the projected high inflation, and to around 109% in 2023.

Table II.7.1:

Main features of country forecast - FRANCE

2021				Annual percentage change						
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		2483.6	100.0	1.2	1.9	1.8	-7.9	7.0	3.1	1.8
Private Consumption		1301.9	52.4	1.4	1.0	1.8	-7.1	4.7	3.4	2.0
Public Consumption		603.5	24.3	1.5	0.8	1.0	-3.2	6.3	1.7	0.5
Gross fixed capital formation		605.7	24.4	1.2	3.3	4.0	-8.6	11.6	2.0	2.9
Exports (goods and services)		743.8	29.9	2.6	4.5	1.6	-15.8	9.3	8.3	7.5
Imports (goods and services)		795.2	32.0	3.3	3.1	2.3	-11.9	8.0	6.7	6.0
GNI (GDP deflator)		2522.2	101.6	1.2	1.9	1.7	-8.4	6.9	3.4	2.0
Contribution to GDP growth:	Domestic demand			1.4	1.5	2.1	-6.5	6.7	2.7	1.9
	Inventories			0.0	0.0	0.0	-0.2	0.0	0.1	-0.4
	Net exports			-0.2	0.4	-0.3	-1.1	0.2	0.3	0.3
Employment				0.4	1.0	1.3	-0.9	1.8	1.1	0.4
Unemployment rate (a)				9.1	9.0	8.4	8.0	7.9	7.6	7.6
Compensation of employees / head				2.3	1.7	-0.2	-2.9	4.9	3.8	3.3
Unit labour costs whole economy				1.5	0.8	-0.7	4.3	-0.2	1.8	1.9
Saving rate of households (b)				14.5	14.1	14.7	21.0	19.1	16.4	15.3
GDP deflator				1.3	1.0	1.3	2.5	0.8	2.2	3.0
Harmonised index of consumer prices				1.5	2.1	1.3	0.5	2.1	4.9	3.1
Terms of trade goods				0.3	-1.5	1.3	1.1	-1.7	-4.5	1.3
Trade balance (goods) (c)				-1.4	-1.7	-1.4	-2.1	-3.0	-4.5	-3.2
Current-account balance (c)				-0.3	-0.7	-0.7	-2.6	-2.4	-3.0	-2.0
General government balance (c)				-4.1	-2.3	-3.1	-8.9	-6.5	-4.6	-3.2
Structural budget balance (d)				-2.7	-2.9	-3.3	-4.4	-5.3	-4.5	-3.3
General government gross debt (c)				80.2	97.8	97.4	114.6	112.9	111.2	109.1

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

8. ITALY

Real GDP growth is forecast to moderate to 2.4% this year and slowing to 1.9% in 2023, as spill-over effects from Russia's military aggression against Ukraine exacerbate existing supply-chain disruptions and price pressures. The inflation rate is set to climb to close to 6% this year and averaging 2.3% in 2023. Government deficit and debt are projected to decline to 4.3% and 146.8% by 2023, as pandemic-related policy support is phased-out, but to remain at high levels.

Geopolitical tensions impact outlook while pandemic-related drag fades

Italy's economy navigated well the prolonged COVID-19 pandemic in 2021, when real output rebounded by 6.6%. However, rising input prices and supply bottlenecks started to weigh on industrial activity in the second half of 2021, while rapidly rising energy prices dented households' purchasing power. Real GDP contracted in the first quarter of 2022 and the short-term outlook remains subdued, as the economic repercussions of Russia's military aggression against Ukraine have dented economic sentiment and exacerbated existing obstacles to expansion. The economy should return to a more sustained expansion path next year, thanks to investment financed by the RRF.

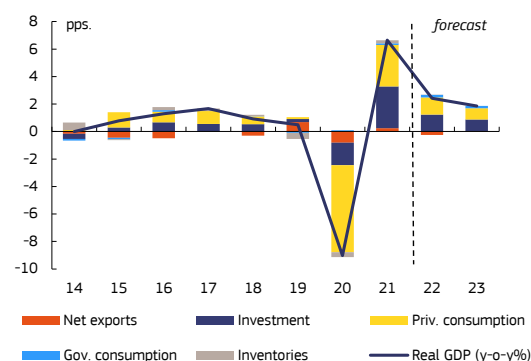
Real GDP growth is forecast to slow to 2.4% this year, with most of annual growth attributable to a carryover effect, due to the brisk recovery of 2021. The economy's return to pre-crisis output levels is thus postponed to the second half of 2022. In 2023, economic growth is expected to moderate to 1.9%, which is still sizeably above the long-term average. The outlook remains subject to pronounced downside risks. Namely, as one of the largest importers of Russian natural gas among EU countries, Italy would be severely affected by abrupt supply disruptions.

Domestic demand supports growth amid strengthening headwinds

Rising employment and high savings, albeit accumulated by wealthier households with a lower propensity to consume, are likely to support private consumption. Still, rising consumer prices coupled with sluggish wage growth are set to weigh on households' real disposable incomes and thus growth in consumer spending. In 2021, the investment-to-GDP ratio reached the highest level since 2010 and capital spending is set to remain

solid on the back of RRF-financed investment. Yet, a weaker demand outlook and worsening financing conditions are expected to dampen corporate investment. Exports are forecast to grow in line with slowing growth in external demand, while the energy-related negative terms-of-trade effect is set to curb the current account surplus. The recovery in tourism is projected to support services exports but is unlikely to reach pre-crisis levels before 2023.

Graph II.8.1: Italy - Real GDP growth and contributions



Job market in lockstep with slowing activity

The pace of employment growth is expected to be in line with slowing economic activity, also indicated by firms' subdued employment expectations. Despite a significant reduction in the use of short-time work schemes, labour market slack remains sizeable, as both hours worked and headcount employment are projected to reach pre-pandemic levels only by the end of the forecast horizon. The unemployment rate is set to drop to 8.9% by 2023, amid an increasing labour force.

Tight commodity markets spur price pressure

Sharply rising energy and food prices are set to lift HICP inflation to almost 6% in 2022 with price pressures expected to broaden further. With input prices and inflation expectations at historically high levels, rising selling prices are

set to keep inflation above 2% in 2023, despite a waning impact from energy prices. By contrast, wage growth is expected to remain moderate, as several wage contracts were already renewed just before the onset of the energy price surge in mid-2021. The GDP deflator is projected to rise by 3.1% this year, partly dampened by soaring import prices.

While improving, general government deficit projected to remain high

The government headline deficit decreased from 9.6% of GDP in 2020 to 7.2% in 2021. Fiscal revenues increased markedly, reflecting the rebound in economic activity, in particular private consumption. Moreover, government primary current expenditure decreased significantly as a share of GDP, also thanks to the phasing out of part of the pandemic-related fiscal measures. However, capital expenditure rose strongly, reflecting both higher public investment and grants for private investment.

The general government deficit is projected to decline further to 5.5% of GDP in 2022, due to higher revenues driven by economic growth and the unwinding of most of the pandemic emergency fiscal measures. At the same time, the measures included in the 2022 budget imply a deficit-increasing impact of around 1.2% of GDP in 2022. Additional fiscal support packages were adopted in the first months of

this year, including measures aimed at mitigating the impact of higher energy costs on firms' and households' budgets as well as supporting firms operating in sectors still hit by the pandemic. Part of these costs are expected to be offset by spending cuts and revenue increases, including an extraordinary tax on energy companies. The 2022 Stability Programme announced further new measures with a net deficit-increasing impact of around 0.3% of GDP in 2022. They are however not included in the forecast as details were not available before the cut-off date.

Public investment is set to increase substantially, also due to projects supported by the RRF, while interest expenditure is expected to remain stable at 3.5% of GDP. Outlays related to the inflow of people fleeing Ukraine are estimated to increase expenditure by around 0.1% of GDP in 2022. In 2023, the government deficit is set to narrow to 4.3% of GDP, thanks to declining government spending and accelerating revenue growth.

The debt-to-GDP ratio is forecast to follow a downward trend over the forecast horizon. From 155.3% of GDP in 2020, it declined to 150.8% in 2021 due to the economic recovery and a favourable stock-flow adjustment. It is expected to reach 146.8% by 2023.

Table II.8.1:

Main features of country forecast - ITALY

2021			Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		1775.4	100.0	0.0	0.9	0.5	-9.0	6.6	2.4	1.9
Private Consumption		1025.8	57.8	0.2	0.9	0.2	-10.6	5.2	2.2	1.4
Public Consumption		351.5	19.8	0.0	0.1	-0.5	0.5	0.6	0.9	0.9
Gross fixed capital formation		353.5	19.9	-0.9	3.1	1.2	-9.1	17.0	6.2	4.1
Exports (goods and services)		581.3	32.7	1.8	2.1	1.6	-13.4	13.3	4.9	4.3
Imports (goods and services)		538.3	30.3	1.5	3.4	-0.7	-12.1	14.2	6.1	4.2
GNI (GDP deflator)		1796.8	101.2	0.1	1.5	0.2	-8.7	6.6	2.8	1.5
Contribution to GDP growth:	Domestic demand			-0.1	1.1	0.2	-7.9	6.2	2.7	1.8
	Inventories			0.0	0.1	-0.4	-0.3	0.2	0.0	0.0
	Net exports			0.1	-0.3	0.7	-0.8	0.2	-0.2	0.0
Employment				0.0	0.8	0.1	-10.3	7.5	2.4	1.8
Unemployment rate (a)				9.4	10.6	9.9	9.3	9.5	9.5	8.9
Compensation of employees / head				2.0	2.0	1.8	2.8	-0.9	2.5	1.3
Unit labour costs whole economy				2.0	1.8	1.4	1.3	-0.1	2.4	1.3
Saving rate of households (b)				12.5	10.1	10.0	17.4	14.8	11.6	10.4
GDP deflator				1.8	1.1	0.9	1.4	0.5	3.1	2.4
Harmonised index of consumer prices				1.8	1.2	0.6	-0.1	1.9	5.9	2.3
Terms of trade goods				0.0	-1.2	1.6	4.6	-5.8	-6.1	1.7
Trade balance (goods) (c)				1.0	2.6	3.4	4.1	2.9	0.8	1.3
Current-account balance (c)				-0.4	2.5	3.2	3.7	2.5	1.2	1.6
General government balance (c)				-3.1	-2.2	-1.5	-9.6	-7.2	-5.5	-4.3
Structural budget balance (d)				-1.1	-2.4	-2.0	-5.2	-6.3	-5.8	-4.8
General government gross debt (c)				118.4	134.4	134.1	155.3	150.8	147.9	146.8

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

9. CYPRUS

Following a strong rebound of 5.5% in 2021, economic activity is expected to slow down to 2.3% in 2022 due to the negative impact of Russia's invasion of Ukraine and soaring inflation. The outlook is more positive for 2023, as tourism is expected to further recover and global energy prices to somewhat ease. Public finances are set to continue the improvement shown in 2021, with headline balance increasing from -1.7% in 2021 to -0.3% in 2022.

GDP growth to slow down in 2022

Real GDP increased by 5.5% in 2021, surpassing the 2019 pre-pandemic level. Both domestic and external demand contributed to growth. Domestic demand was supported by the fiscal stimulus and a successful vaccination campaign, which allowed a gradual lifting of restrictions. Exports of non-travel services, such as ICT, financial and professional services continued to expand strongly. However, the tourism sector recovered only partially: compared to 2019 levels, tourist arrivals reached 48.7%, while revenues were at 56.4%.

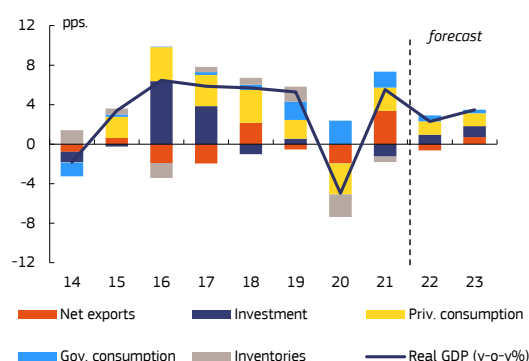
The Cypriot economy started 2022 on a strong footing, but Russia's invasion of Ukraine and the related sanctions are expected to impact economic activity, especially tourism and services exports, as Russia is an important market for both. High fuel prices and rising inflation present an additional challenge for the tourist sector. Alongside a drop in consumer confidence, high inflation will also impact private consumption and household investment in 2022. At the same time, government consumption is expected to decelerate significantly, as the pandemic support measures are progressively being phased out. Overall, real GDP is forecast to grow by 2.3% in 2022.

A stronger growth momentum is projected to resume in 2023, with 3.5% GDP growth, as tourism demand is expected to recover significantly and the delayed partial indexation of wages is set to support purchasing power. The implementation of the Cypriot RRP is expected to support investment over the forecast horizon.

Significant uncertainty and downside risks to the growth outlook remain, as the tourism sector and other export-oriented services

sectors are particularly vulnerable to external shocks.

Graph II.9.1: Cyprus - Real GDP growth and contributions



Unemployment is set to rise temporarily

The unemployment rate remained broadly stable in 2021 at 7.5%. Employment and vacancies were on the rise at the end of 2021, whereas the slowdown of economic activity is set to put brakes on the labour market later this year. In 2022, unemployment is forecast to somewhat increase to 7.8%, before resuming its decreasing trend in 2023 to 7.3%.

Inflation has increased

Headline inflation is on the rise and is expected to reach 5.2% in 2022, up from 2.3% in 2021. This is mainly due to exceptionally high oil prices, as Cyprus depends heavily on oil products. The prices of non-energy industrial products and food have also increased as a result of supply chain disruptions and the secondary impact from higher energy prices. In 2023, as energy prices are expected to somewhat moderate and supply side problems dissipate, inflation is projected at 2.7%.

Government deficit and public debt to decline

The general government deficit improved by more than 4 percentage points in 2021 to 1.7% of GDP on the back of strong economic growth.

In 2022, it is expected to further improve to 0.3% of GDP. Government expenditure is forecast to decrease with the phasing out of pandemic support measures such as health sector support schemes, wage subsidies and liquidity support to businesses. However, government revenues are expected to grow at a lower pace due to the less positive macroeconomic outlook.

For 2023, government revenues are projected to increase on the back of the economic recovery, while public expenditure is set to grow at a lower pace, allowing the budget deficit to decline to 0.2% of GDP.

Public debt decreased to 103.6% of GDP in 2021 on the back of high nominal GDP growth and thanks to cash reserves accumulated in the previous year. It is expected to decrease to 93.9% and 88.8% in 2022 and 2023, respectively.

Table II.9.1:

Main features of country forecast - CYPRUS

	2021			02-17	Annual percentage change					
	mio EUR	Curr. prices	% GDP		2018	2019	2020	2021	2022	2023
GDP		23436.7	100.0	2.1	5.7	5.3	-5.0	5.5	2.3	3.5
Private Consumption		14541.0	62.0	2.4	5.1	3.0	-5.0	3.7	2.2	2.0
Public Consumption		4702.6	20.1	1.6	3.6	12.7	14.8	8.0	3.1	1.8
Gross fixed capital formation		4178.4	17.8	2.6	-4.9	2.9	0.0	-6.3	5.4	5.8
Exports (goods and services)		18984.8	81.0	3.0	7.3	7.5	-5.1	14.0	1.7	4.6
Imports (goods and services)		18734.6	79.9	3.5	4.3	8.3	-2.5	9.2	2.5	3.7
GNI (GDP deflator)		21864.5	93.3	2.3	5.0	4.1	-6.2	4.6	3.6	4.5
Contribution to GDP growth:	Domestic demand			2.5	2.9	4.3	-0.8	2.7	2.9	2.8
	Inventories			0.1	0.7	1.5	-2.3	-0.6	0.0	0.0
	Net exports			-0.4	2.2	-0.5	-1.9	3.4	-0.6	0.7
Employment				1.5	5.3	3.8	-0.5	1.2	0.9	1.8
Unemployment rate (a)				8.3	8.4	7.1	7.6	7.5	7.8	7.3
Compensation of employees / head				1.9	1.5	4.4	-3.2	4.7	4.1	4.5
Unit labour costs whole economy				1.3	1.1	2.9	1.4	0.4	2.7	2.8
Saving rate of households (b)				3.5	3.3	5.7	8.0	5.3	2.1	3.3
GDP deflator				1.6	1.0	1.1	-1.1	2.7	4.5	3.2
Harmonised index of consumer prices				1.7	0.8	0.5	-1.1	2.3	5.2	2.7
Terms of trade goods				0.6	-1.4	-0.3	-0.8	-1.1	-1.8	0.0
Trade balance (goods) (c)				-22.9	-21.0	-20.1	-19.2	-18.3	-20.4	-21.4
Current-account balance (c)				-8.5	-3.9	-5.7	-10.1	-7.2	-8.8	-7.2
General government balance (c)				-3.0	-3.6	1.3	-5.8	-1.7	-0.3	-0.2
Structural budget balance (d)				2.4	2.4	-0.3	-4.6	-2.1	-0.4	-0.7
General government gross debt (c)				74.0	98.4	91.1	115.0	103.6	93.9	88.8

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

10. LATVIA

Latvia entered 2022 with a solid growth momentum, with consumption, investment and exports set for a strong showing. However, due to Latvia's relatively high exposure to trade with Russia, GDP growth is expected to slow to 2.0% in 2022. The impact will be felt both in terms of lost export revenue as well as in the rising prices of key raw material imports that will add to the inflation woes coming from the global commodity markets. In 2023, growth is expected to pick up to 2.9%, albeit still dampened by the impact of high inflation and the economic fallout from Russia's invasion of Ukraine. The general government deficit is expected to remain elevated at 7.2% of GDP in 2022, due to sizeable support to mitigate the impact of high energy prices and to ensure security of national energy supply, and to decline to 3.0% of GDP in 2023.

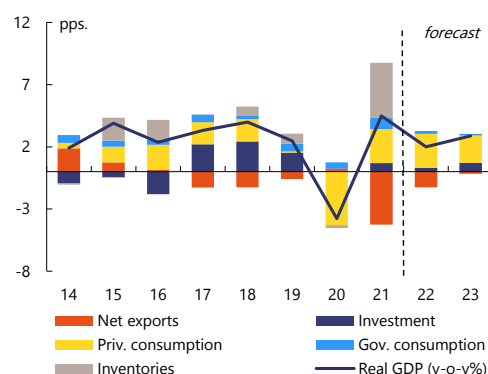
Strong growth momentum eroded by high inflation

In 2021, Latvia's economy grew by 4.5% surpassing its pre-pandemic level. However, the recovery has been uneven – while goods exports and public consumption spearheaded the recovery, household consumption remained subdued and exports of services remained significantly below their pre-crisis level. The employment recovery, while still solid, lagged somewhat behind that of GDP.

While Latvia was on course for another year of strong growth, driven by recovering household consumption and rapid growth in EU-funded investment, Russia's invasion of Ukraine has profoundly changed Latvia's growth prospects for both 2022 and 2023. The war's impact will play out through two main channels – a loss of trade and spiking prices. Latvia's exports to Russia and Belarus accounted for some 4.3% of GDP in 2021. While most of these exports are expected to dry up, the impact on GDP is set to be limited since a substantial part of them were re-exports with relatively low domestic value added. Additionally, disruptions of supply of metal and wood raw materials as well as of fertilisers, for all of which Russia is a major supplier to Latvia, is expected to add to already strong price pressures coming from energy. This is set to result in double digit price growth in industry and construction with expected knock-on effects on consumer prices in both 2022 and 2023. The high inflation and materials shortages are expected to dampen growth of investments and private consumption. Nevertheless, the latter is forecast to grow at a steady pace as it continues to recover from the impact of the COVID-19 restrictions. Consequently, real GDP is forecast to grow by 2.0% in 2022.

In 2023, growth is expected to pick up to 2.9% benefitting from solid growth in real disposable incomes, driven by solid wage and employment growth as well as increased inflows of EU funds. Exports are set to bounce back from the loss of the Russian market. However, with high price growth in many parts of the economy expected to persist and with the war impacting negatively on investment decisions and inbound tourism, growth is expected to remain subdued.

Graph II.10.1: Latvia - Real GDP growth and contributions



Labour market to remain tight

The recovery of the services sectors is expected to drive employment growth in 2022. However, once employment reaches its pre-pandemic level, further growth is expected to be limited by a structural decline in labour supply. People fleeing from Ukraine are expected to temporarily add to the labour supply and employment growth. However, since they are expected to stay for only a few months on average, their long-term impact on the labour market is set to be limited. The employment growth is, thus, set to ease in 2023. Nevertheless, the unemployment rate is set to continue declining due to the shrinking labour

force. The tight labour market is set to drive rapid wage growth in both 2022 and 2023.

Energy and food prices set to drive a spike in inflation

Consumer price inflation is set to reach 9.4% in 2022, driven by rapid growth in energy and food prices. While global energy commodity price growth is expected to relent in spring 2023, the knock-on effects of rapid price growth in industry and construction are expected to drive consumer price inflation over the forecast horizon. While Latvia's intention to cease importing Russian gas as from 2023 is expected to keep energy prices at a high level for longer, they are expected to decrease in the second half of 2023. Nevertheless, combined with price growth in other components, inflation is set to average 3.5% in 2023.

Deficit to remain elevated in 2022

The government deficit reached 7.3% of GDP in 2021 and was mainly driven by the sizeable support to the economy during the COVID-19 pandemic.

In 2022, the government deficit is projected to remain at 7.2% of GDP. Main deficit-increasing measures for the 2022 budget include an increase in income tax allowance, a sizeable investment package and an increase in wages

for employees in healthcare, investigation and border control, and education. Moreover, support to households and companies to mitigate the surge in energy prices, creation of a national energy supply security reserves as well as higher spending on defence and support to people fleeing Ukraine are set to ensure the deficit remains unchanged despite COVID-19 support measures being significantly lower in 2022 than in 2021.

Since most of the 2022 expenditure measures are expected to expire by end of the year, the government deficit in 2023 is projected to decrease to 3.0% of GDP. Key expenditure measures affecting the 2023 budget balance include some remaining COVID-19 support measures, like the purchase of vaccines, finalisation of public investment projects and support for companies to stimulate private investment, as well as increased spending in defence and support to the people fleeing Ukraine.

The forecast also incorporates expenditures financed by RRF grants, which are set to gradually increase from 0.4% of GDP in 2022 to 1.0% of GDP in 2023.

The debt-to-GDP ratio is expected to reach 47.0% in 2022 and to decrease in 2023 due to lower deficit.

Table II.10.1:

Main features of country forecast - LATVIA

	2021				Annual percentage change					
	mio EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		32866.5	100.0	3.4	4.0	2.5	-3.8	4.5	2.0	2.9
Private Consumption		18027.4	54.9	3.7	3.0	0.2	-7.4	4.8	5.0	3.8
Public Consumption		6591.5	20.1	1.4	1.7	3.4	2.6	4.4	1.1	0.7
Gross fixed capital formation		7754.5	23.6	2.5	11.8	6.9	0.2	2.9	1.3	2.8
Exports (goods and services)		21058.0	64.1	6.8	4.5	2.1	-2.2	6.2	1.3	4.1
Imports (goods and services)		21740.6	66.1	5.7	6.4	3.0	-2.5	13.5	3.2	4.0
GNI (GDP deflator)		32823.4	99.9	3.3	2.6	2.6	-2.3	4.4	1.9	2.7
Contribution to GDP growth:	Domestic demand			3.7	4.5	2.3	-3.7	4.3	3.3	3.0
	Inventories			0.3	0.7	0.8	-0.2	4.4	0.0	0.0
	Net exports			-0.4	-1.3	-0.6	0.2	-4.3	-1.3	-0.2
Employment				-0.4	1.5	-0.1	-2.3	-2.6	0.7	0.5
Unemployment rate (a)				11.7	7.4	6.3	8.1	7.6	7.3	7.1
Compensation of employees / head				9.5	8.1	7.8	5.5	11.0	5.6	6.0
Unit labour costs whole economy				5.6	5.4	5.1	7.0	3.5	4.2	3.5
Saving rate of households (b)				3.6	6.8	8.9	17.0	15.8	13.9	10.7
GDP deflator				4.8	3.9	2.6	-0.1	6.8	7.2	5.1
Harmonised index of consumer prices				3.8	2.6	2.7	0.1	3.2	9.4	3.5
Terms of trade goods				0.9	1.6	0.9	3.2	2.5	-3.1	1.5
Trade balance (goods) (c)				-15.0	-8.6	-8.6	-5.1	-7.4	-10.9	-9.9
Current-account balance (c)				-5.8	-0.2	-0.7	2.9	-0.5	-3.9	-3.2
General government balance (c)				-2.5	-0.8	-0.6	-4.5	-7.3	-7.2	-3.0
Structural budget balance (d)				-1.3	-2.1	-1.5	-3.3	-6.9	-6.6	-2.7
General government gross debt (c)				28.8	37.1	36.7	43.3	44.8	47.0	46.5

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

11. LITHUANIA

Lithuania's economy is expected to continue growing at 1.7% in 2022 and 2.6% in 2023. The relatively small exposure of Lithuanian producers to Russia, Belarus and Ukraine, together with the support provided by the government, should limit the impact of the war on the economy. Measures to limit energy price growth, support to lower income households and increased spending to help people fleeing Ukraine are expected to raise the general government deficit in 2022, before it declines in 2023.

Geopolitical tensions and strong inflation expected to weigh on growth

Although Russia's invasion of Ukraine and the associated geopolitical tensions will have a negative impact on Lithuania's economy, real GDP is still expected to grow by 1.7% in 2022. Exports to Russia, Belarus, Ukraine are sizeable, but mainly consisting of re-exported goods that generate relatively low added value compared to local exports. Weak financial ties with the aforementioned countries also limit the impact on the economy, which will, however, be affected adversely by worsening confidence in all major sectors.

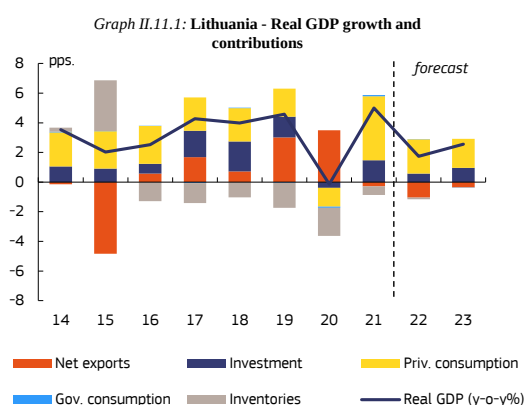
Economic growth will also be impacted by surging prices that erode the purchasing power of households. Nevertheless, these are positioned relatively well to withstand the new shock as in recent years household real disposable income has grown strongly and the saving rate was high (in 2020 it stood at 12.2%, and it is estimated to have remained well above the pre-pandemic levels in 2021, close to 7%). In addition, to support lower income households, the government is planning fiscal measures, which are estimated to increase household disposable income by 0.7% in 2022.

On the other hand, after falling last year, general government investment, in tandem with EU support funds, is projected to increase in 2022, mitigating anticipated weakening of private sector investment.

The inflow of people fleeing from Ukraine will also contribute to economic activity, leading to higher private consumption and government spending. While some of the displaced persons will enter the labour market, especially in sectors where companies are still facing shortages of employees, others will remain

inactive or unemployed, pushing up the unemployment rate in both 2022 and 2023.

In 2023, economic growth is forecast to accelerate to 2.6%, below the average growth rates in the past decade. Higher-than-usual inflation and the continued uncertainty due to the war will dampen economic activity. The economy will also be affected by the recent deterioration in trade relations with China and by lower growth opportunities for companies in the transport sector, which might be planning more sizeable investment in neighbouring countries.



External factors drive inflation

Consumer prices are rising much faster than previously expected, and the forecast for inflation in 2022 stands at 12.5%. Russia's invasion of Ukraine has led to a surge in energy prices that the government will only partly be able to alleviate with measures aiming at mitigating heating costs and capping electricity and gas prices. The surge in energy costs and growing concerns about supply shortages are also pushing up food prices. In addition, in 2022 services prices are projected to grow at the highest pace since 2008, when they surged before the global financial crisis. This development is driven by both rising domestic

demand and higher input costs. In 2023, average annual inflation in Lithuania is projected to decline to 3.0% on the back of assumed lower energy prices, slower growth in other costs, in particular labour costs, and a gradual resolution of supply disruptions in various markets.

General government deficit set to increase in 2022

After a significant decline in 2021, the general government deficit is projected to increase to 4.6% of GDP in 2022. The deficit will be impacted, in particular, by government measures to curb the rapid rise in energy prices and to improve the financial situation of households. Funds for the accommodation, health care, education and other related needs of people fleeing from Ukraine will also weigh on the public sector balance. The general government deficit will further be impacted by ongoing COVID-19-related measures, although these will receive less funding than in 2021.

The general government deficit is projected to decline to 2.3% of GDP in 2023 as measures to mitigate the impact of high energy prices cease. Nevertheless, the measures to increase household disposable income that will enter into force in the near term will continue to weigh on the public sector balance, while there are no significant offsetting measures planned so far. The forecast also incorporates RRF-financed expenditure, for a cumulative amount of 1.1% of GDP over the forecast horizon.

At the beginning of 2022, Lithuania redeemed a sizeable amount of government bonds for which cash reserves had been accumulated already in 2021. Therefore, the debt-to-GDP ratio is projected to fall from 43.3% in 2021 to 42.7% in 2022 despite a higher general government deficit. In 2023, the debt-to-GDP ratio is projected to increase to 43.1%, mainly due to the need to balance cash flows and prepare for a bond redemption scheduled for 2024.

Table II.11.1:

Main features of country forecast - LITHUANIA

	2021			02-17	Annual percentage change					
	bn EUR	Curr. prices	% GDP		2018	2019	2020	2021	2022	2023
GDP		55.4	100.0	3.9	4.0	4.6	-0.1	5.0	1.7	2.6
Private Consumption		32.6	58.9	4.2	3.6	3.1	-2.1	7.3	3.9	3.1
Public Consumption		10.1	18.3	0.9	0.2	-0.3	-0.4	0.5	0.1	-0.1
Gross fixed capital formation		11.7	21.1	5.3	10.0	6.6	-1.8	7.0	2.7	4.5
Exports (goods and services)		44.5	80.4	8.3	6.8	9.9	0.4	15.9	-2.1	3.1
Imports (goods and services)		42.2	76.2	8.0	6.0	6.1	-4.4	18.7	-0.9	3.6
GNI (GDP deflator)		53.7	97.0	3.8	4.5	4.2	0.5	4.8	1.8	2.5
Contribution to GDP growth:	Domestic demand			4.3	4.3	3.2	-1.7	5.9	2.9	2.9
	Inventories			0.1	-1.0	-1.7	-1.9	-0.6	-0.1	0.0
	Net exports			-0.2	0.7	3.0	3.5	-0.3	-1.1	-0.4
Employment				0.1	1.4	0.6	-1.6	1.2	0.2	0.1
Unemployment rate (a)				10.5	6.2	6.3	8.5	7.1	7.2	7.2
Compensation of employees / head				7.4	7.9	10.6	7.3	11.4	8.7	6.2
Unit labour costs whole economy				3.4	5.2	6.3	5.7	7.3	7.1	3.7
Saving rate of households (b)				2.8	0.1	3.5	12.2	7.3	2.9	2.6
GDP deflator				3.0	3.5	2.7	1.5	6.5	7.4	3.0
Harmonised index of consumer prices				2.6	2.5	2.2	1.1	4.6	12.5	3.0
Terms of trade goods				0.6	-1.0	1.3	1.5	-6.4	-3.5	0.1
Trade balance (goods) (c)				-7.9	-6.3	-4.8	-0.8	-5.2	-7.8	-8.3
Current-account balance (c)				-4.2	0.3	3.5	7.3	2.0	-1.8	-2.1
General government balance (c)				-2.5	0.5	0.5	-7.3	-1.0	-4.6	-2.3
Structural budget balance (d)				-0.7	-0.8	-1.0	-7.0	-0.9	-4.0	-1.5
General government gross debt (c)				29.3	33.7	35.9	46.6	44.3	42.7	43.1

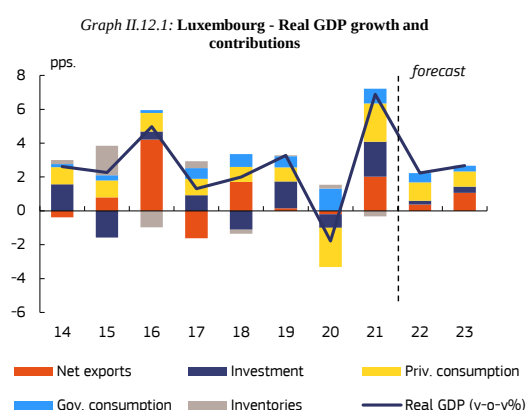
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

12. LUXEMBOURG

Luxembourg's economy is projected to further grow over the forecast horizon, but at a slower pace of 2.2% and 2.7% in 2022 and 2023 compared to 2021. This is mainly due to Russia's invasion of Ukraine, which is expected to weight on GDP growth through indirect channels of higher inflation, 6.8% and 2.3% in 2022 and 2023, and uncertainty on financial markets. The general government balance is projected to record a small deficit of 0.1% of GDP in 2022 and a small surplus of 0.1% in 2023, and the debt level is forecast to remain low.

Slowdown after 2021 rebound

The economy strongly recovered from the COVID-19 crisis in 2021, registering a 6.9% growth rate and surpassing its pre-pandemic level. External and domestic demand, which was supported by fiscal measures and the gradual withdrawal of restrictions, contributed to this growth. In 2022, real GDP is expected to grow by 2.2% - a more moderate increase mainly due to the Russian war against Ukraine and its global impact. Given the limited direct trade and financial flows with Ukraine and Russia, Luxembourg's economy is projected to be impacted mostly indirectly, notably through higher financial market volatility, lower confidence and slower growth of trading partners.



Although private consumption is expected to be affected by high energy and commodity prices, as well as by lower consumer confidence due to geopolitical tensions, it is projected to continue to grow, supported by accumulated savings, a dynamic labour market and the implementation of government support measures. Those aiming at maintaining citizens' purchasing power include an energy tax credit, the reduction in the cost of fuel and an agreement on rents, which increases subsidies and freezes any rent

rise. Investments are expected to increase at a slower pace in 2022 on the back of higher uncertainty and tightening of financial conditions. Imports and exports of goods and services are expected to be negatively affected by the less favourable external environment this year. The GDP growth rate is forecast to reach 2.7% in 2023. In particular, a higher increase of investments is projected supported by an improved business sentiment, and private consumption to remain on an increasing pace.

The growth outlook is surrounded by downside risks, including uncertainty about the geopolitical fallout and its impact on financial and commodity markets, which could persist for a longer period.

Positive prospects for the labour market

The strong GDP growth of 2021 is expected to sustain the labour market dynamics in 2022. Employment is forecast to increase by 2.6% and 2.5% in 2022 and 2023 respectively, while unemployment is expected to decline to 5.2% and 5.1% respectively. Nevertheless, the vacancy rate and the share of long-term unemployment have been rising and are set to remain high, reflecting persistent skills mismatches. The withdrawal of the short-time work scheme in June 2022 represents a downside risk to employment growth.

Inflation on the rise

Headline inflation (HICP) is expected to increase to 6.8% in 2022 from 3.5% in 2021, mainly driven by high energy prices, although an acceleration of prices is also forecast for other components. Soaring commodity prices are projected to induce an increase in non-energy industrial goods and food inflation in 2022. In addition, following the automatic wage indexations in October 2021 and April 2022, the prices of services are expected to increase as well. The next wage indexation is planned

for April 2023, while an assumed stabilisation of energy prices is set to ease inflationary pressures, with HICP estimated to increase by 2.3% in 2023.

Challenges ahead for sound public finances

In 2021, the general government balance recorded a surplus of 0.9% of GDP as revenues increased strongly on the back of economic growth, while expenditure growth slowed down. The revenue side mainly benefited from the strong labour market leading to high receipts from personal income tax and social contributions, as well as from a large increase in taxes on production and imports following the high nominal growth rate. Expenditure grew more moderately as higher compensation of employees was partially neutralised by lower social transfers, due to the phasing out of COVID-19 measures, and a slight decline in public investments.

The government balance is projected to decrease to a small deficit of 0.1% of GDP in 2022. Lower GDP growth and the uncertain economic outlook result in lower revenue growth, while the high inflation rate pushes expenditure up. The revenue side is expected to still benefit from the strong performance of the labour market leading to an increase in personal income taxes and social contributions, also supported by wage indexations in October 2021 and April 2022. The compensation of

employees, social transfers and the measures to mitigate the impact of high energy prices are leading to higher expenditure growth in 2022. In addition, public investment is planned to increase again in 2022, notably to support the green and digital transition, housing and infrastructure.

In 2023, a small budget surplus of 0.1% of GDP is forecast due to lower expenditure growth. Revenue growth is also expected to slow down in the context of the lower growth environment and in the light of the planned new corporate taxation regulation in 2023. As in the previous year, government expenditure is forecast to be driven by compensation of public employees, again supported by an additional wage indexation scheduled in April 2023, an increase in social transfers and higher public investments.

The debt to GDP ratio is on a slow upward trend, because the nominal GDP growth is offset by new planned debt to finance the deficit of the central government, as the surplus of the social security sector cannot be used for this purpose. In 2021, the debt to GDP ratio was 24.4% and it is expected to increase to 24.7% in 2022 and 25.1% in 2023.

Table II.12.1:

Main features of country forecast - LUXEMBOURG

	2021				Annual percentage change					
	mio EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		73313.5	100.0	2.7	2.0	3.3	-1.8	6.9	2.2	2.7
Private Consumption		21674.6	29.6	2.5	2.7	2.5	-6.9	7.4	3.7	2.9
Public Consumption		12368.5	16.9	2.7	4.7	3.9	7.7	4.7	3.3	2.0
Gross fixed capital formation		12673.5	17.3	2.6	-6.2	9.8	-4.6	12.3	1.3	2.1
Exports (goods and services)		155510.5	212.1	4.1	3.6	5.8	1.3	9.7	3.8	3.1
Imports (goods and services)		129567.3	176.7	4.4	3.2	6.9	1.6	10.4	4.3	3.1
GNI (GDP deflator)		52669.9	71.8	1.3	0.9	-3.4	4.8	8.7	2.2	2.1
Contribution to GDP growth:	Domestic demand			1.8	0.5	3.1	-1.8	5.2	1.9	1.6
	Inventories			0.1	-0.2	0.1	0.2	-0.3	0.0	0.0
	Net exports			0.8	1.7	0.2	-0.2	2.0	0.4	1.1
Employment				2.8	3.6	3.5	1.9	3.1	2.6	2.5
Unemployment rate (a)				5.0	5.6	5.6	6.8	5.3	5.2	5.1
Compensation of employees / head				2.7	2.8	1.9	0.4	5.1	4.8	3.6
Unit labour costs whole economy				2.7	4.5	2.1	4.1	1.4	5.1	3.4
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				2.9	1.7	0.6	4.3	6.8	4.0	2.1
Harmonised index of consumer prices				2.2	2.0	1.6	0.0	3.5	6.8	2.3
Terms of trade goods				0.8	-0.7	-0.2	3.6	-1.5	-3.0	0.1
Trade balance (goods) (c)				-1.1	3.5	3.3	4.1	4.3	2.9	3.1
Current-account balance (c)				4.7	3.0	-2.4	3.7	7.5	5.9	5.5
General government balance (c)				1.1	3.0	2.3	-3.4	0.9	-0.1	0.1
Structural budget balance (d)				1.8	3.2	2.2	-1.6	0.9	0.1	0.4
General government gross debt (c)				15.1	20.8	22.3	24.8	24.4	24.7	25.1

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

13. MALTA

The economy of Malta is set to continue expanding, by 4.2% in 2022 and by 4.0% in 2023 while withstanding the impact of the increase in by commodity prices and Russian invasion of Ukraine. The main factors supporting growth are the robust domestic demand and growth in exports of services, contributed by strong recovery in tourism. The general government balance is projected to remain in deficit, however decreasing in 2022 and 2023, following winding-down of pandemic-related policy support on the background of economic growth.

Malta remains on a growth path withstanding the current headwinds

The pressure from the COVID-19 pandemic related restrictions subsided in 2021, creating conditions for a very strong economic recovery of 9.4%, thanks to improved business and consumer sentiment, faster than expected rebound of international tourism and a strong growth in investment and services exports.

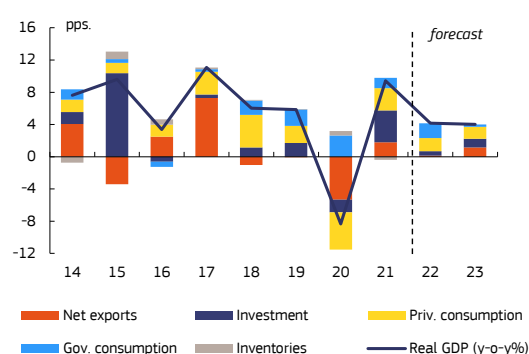
In 2022, affected by disruptions related to the Russian invasion of Ukraine, real GDP growth is forecast to reach 4.2%, which is substantially less than expected in winter, although Malta has very low direct exposure to trade with Russia and Ukraine. Growth in 2022 is set to be driven by domestic consumption, investment, and a small positive contribution from net exports. Export of tourism services is expected to continue gaining ground on the back of easing pandemic-restrictions. Robust government expenditure, in particular via public investment, will continue to support the economy. In 2023, growth is forecast to decrease to a still strong 4.0%, reflecting a general slowdown in performance among trading partners.

With both exports and imports growing, the current account balance is expected to remain positive. The limited downside risks deriving from the June 2021 decision of the Financial Action Task Force (the international standard-setting body on anti-money laundering/countering the financing of terrorism) to include Malta in the list of jurisdictions under increased monitoring have further receded following the FATF initial determination, in February 2022, that Malta has substantially completed its action plan. A final decision is expected in June 2022.

Labour market shortages persist

Malta was able to cushion the impact of the pandemic on the labour market thanks to fiscal support. Employment is estimated to have grown by 1.6% in 2021, while the wage support measures remained in place. Employment is expected to continue to increase over the forecast horizon. This positive development in the labour market is congruent with labour shortages being reported by firms. Malta's unemployment rate, at 3.5% in 2021, is set to remain broadly stable in 2022 and 2023.

Graph IL.13.1: Malta - Real GDP growth and contributions



Global price pressures lead to a strong uptick in inflation

HICP inflation remained low in 2021 at 0.7%, thanks to energy prices being kept low by government intervention and hedging contracts for gas. Going forward, while Malta's economy is highly energy-intensive, the share of household expenditures on energy is low compared to other Member States and the authorities have expressed a commitment to continue to limit energy prices growth. The higher inflation in the first quarter of 2022 shows that the pressure from increasing international energy and commodity prices is starting to affect Malta via transport costs and imported goods. As a result, inflation is set to

rise to 4.5% in 2022. As these factors are expected to persist into 2023, inflation is expected to remain elevated at 2.6%.

The government deficit is set to gradually decrease while remaining elevated

The government deficit is estimated to have decreased to 8.0% of GDP in 2021. This still high deficit level is mainly explained by public expenditure related to pandemic-related measures which were maintained in 2021, including the wage support scheme, the utility and rent subsidies for businesses, and healthcare-related expenditures. Pandemic-related economic support measures are expected to be phased out in 2022 and 2023, while several measures in response to the high energy prices were recently introduced.

The tax revenues resumed growth in 2021 and are expected to continue to increase in 2022 and 2023, following the positive economic growth dynamics. The revenues from social contributions also increased in 2021 and are expected to continue increasing over the forecast horizon, supported by the good performance of the labour market.

The deficit is projected to decrease to 5.6% of GDP in 2022 and further to 4.6% in 2023. The government debt-to-GDP ratio is projected to increase marginally to 58.5% in 2022 and reach 59.5% in 2023 as the negative primary balance is only partially compensated by the nominal GDP growth.

Table II.13.1:

Main features of country forecast - MALTA

	2021			02-17	Annual percentage change					
	bn EUR	Curr. prices	% GDP		2018	2019	2020	2021	2022	2023
GDP		14.5	100.0	4.2	6.0	5.9	-8.3	9.4	4.2	4.0
Private Consumption		6.2	42.8	2.4	8.9	4.6	-10.2	6.2	3.8	3.4
Public Consumption		3.0	20.6	2.1	12.3	13.1	15.8	6.1	9.0	1.4
Gross fixed capital formation		3.2	22.3	5.4	5.5	8.4	-7.6	19.3	2.5	4.9
Exports (goods and services)		21.6	148.4	6.8	-0.5	7.0	-5.6	8.2	5.5	4.7
Imports (goods and services)		19.6	135.0	6.0	0.2	8.0	-2.2	7.6	6.0	4.3
GNI (GDP deflator)		13.4	91.9	3.4	9.2	5.8	-9.9	10.3	3.6	4.0
Contribution to GDP growth:	Domestic demand			2.9	7.0	5.9	-3.6	8.0	4.0	2.9
	Inventories			0.1	0.1	0.1	0.6	-0.4	0.0	0.0
	Net exports			1.3	-1.0	-0.1	-5.3	1.8	0.1	1.1
Employment				2.6	6.0	5.7	2.8	1.6	2.1	2.0
Unemployment rate (a)				6.3	3.7	3.6	4.4	3.5	3.6	3.6
Compensation of employees / head				3.4	3.9	3.8	-0.7	5.5	3.8	2.9
Unit labour costs whole economy				1.9	3.9	3.6	11.4	-2.1	1.8	1.0
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				2.4	2.2	2.4	1.5	1.7	2.8	2.6
Harmonised index of consumer prices				2.0	1.7	1.5	0.8	0.7	4.5	2.6
Terms of trade goods				-0.1	3.2	-0.1	-0.5	3.4	-2.7	-0.8
Trade balance (goods) (c)				-17.2	-11.8	-11.9	-10.5	-16.6	-18.9	-19.5
Current-account balance (c)				-1.3	10.7	7.6	1.4	4.1	1.9	1.9
General government balance (c)				-2.6	2.1	0.6	-9.5	-8.0	-5.6	-4.6
Structural budget balance (d)				-0.8	-0.3	-1.7	-6.2	-7.4	-5.2	-4.3
General government gross debt (c)				63.5	43.7	40.7	53.4	57.0	58.5	59.5

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

14. THE NETHERLANDS

While growth momentum carried over from 2021 provided a strong starting point for 2022, the deterioration of households' real disposable income due to strong price pressures and the uncertainty created by the war in Ukraine are expected to subdue further economic expansion. In 2023, government spending and investment growth is expected to pick-up while net trade is forecast to contribute negatively to growth. The government deficit is projected to increase marginally in 2022 due to spending plans adopted by the new government and measures aimed at relieving the energy price pressure on consumers, before decreasing again in 2023.

A strong basis but increasing headwinds

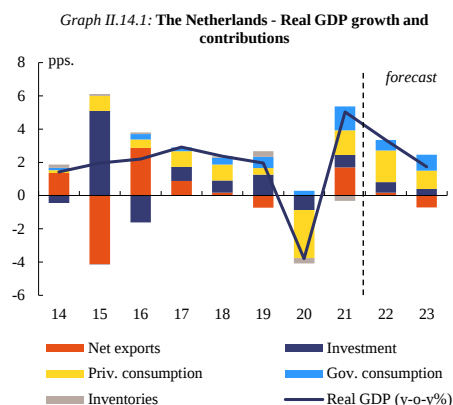
The Dutch economy grew by 5.0% in 2021 driven by a strong recovery in private consumption and a significant contribution from net trade. Early 2022 economic sentiment indicators remained strong, despite the strict COVID-related restrictions that were still in place in December and January.

Russia's invasion of Ukraine has, however, increased uncertainty, causing consumer confidence to drop sharply. Moreover, the war has further increased commodity prices, which come on top of the already high inflation related to supply chain pressures and new lockdowns in China. Inflation is expected to erode households' purchasing power, subduing the pace of the recovery in private consumption that followed the abolishment of the COVID-related restrictions at end-January. Business investment is also likely to be adversely affected during the remainder of 2022 as firms are coping with the increased uncertainty, labour shortages and the persistent supply chain bottlenecks.

After a strong contribution from net trade in 2021, export and import growth are forecast to be more in balance in 2022. Besides a reliance on oil and gas imports from Russia, direct trade links with Russia are relatively limited and the impact on the contribution of bilateral net trade to GDP growth is thus expected to be marginal. On the government side, COVID-related consumption expenditure is expected to decrease thereby further subduing growth, especially in the first half of the year. Overall and largely thanks to the strong growth momentum carry-over from 2021, GDP growth for 2022 is forecast at 3.3%.

Business investment and government spending

growth are projected to pick up in 2023. The contribution from net trade is set to turn negative in 2023 as import growth increases whereas export growth slows. Consumption growth is expected to be modest as geopolitical tensions are assumed to persist while high core inflation continues to weigh on disposable income. Annual growth in 2023 is forecast at 1.6%.



A tight labour market

Labour market tightening continued throughout 2021, with the number of vacancies well exceeding the number of unemployed and a broad range of sectors experiencing labour shortages. The tight labour market is due to a strong rebound in economic activity in combination with the large packages of economic support measures that were still in place during most of 2021. The unemployment rate is expected to reach 4.0% in 2022, down from 4.2% in 2021. With the abolishment of COVID-related support measures, bankruptcies are set to gradually pick up over the course of 2022 from their historically low levels. The normalisation of labour market dynamics is forecast to lead to a slight pick-up in unemployment to 4.2% in 2023. Wage growth has been on a clear upward trend since mid-

2021, although it remains below its pre-pandemic pace. Moreover, rapid price growth in 2022 is expected to outpace wage growth leading to a decline in real wages.

Surging inflation

The war in Ukraine has resulted in additional price pressures, with year-on-year HICP inflation reaching 11.7% in March. Gas, oil, wheat and other raw material price increases come on top of already very high inflation rates recorded at the beginning of the year. Gas and oil price increases are affecting inflation in the Netherlands particularly strongly due to their high share in the Dutch energy mix. Energy prices are expected to peak in the second quarter of 2022 and to stay elevated throughout the year. At the same time, core inflation is picking up as producers and businesses pass through raw material price increases to their customers. Annual inflation in 2022 is forecast at 7.4%. For 2023, energy prices are expected to show a moderate decline, which would bring annual inflation down to 2.7%.

Smaller deficit after the end of fiscal support measures

In 2021, the general government deficit fell to 2.5% of GDP, as revenues increased on the back of the economic recovery while COVID-

related expenditure decreased.

In 2022, the deficit is forecast to increase to 2.7% of GDP driven by of the new government's additional spending plans related to the green transition, excessive nitrogen depositions, education and housing supply, among others. For 2022, the government also announced additional tax cuts to alleviate the impact of surging energy prices on both households and companies.

Some COVID-related support measures will still be in place in 2022, but it will be phased out in 2023. So far, measure taken in response to the high-energy prices have been adopted only for 2022. The government deficit is forecast to drop to 2.1% in 2023.

Government debt is projected to decrease from 52.1% of GDP in 2021 to 51.4% in 2022 and 50.9% in 2023. In the absence of an officially submitted national RRP at the time of the cut-off date, this forecast assumes that it will be submitted in summer 2022 and that the first cash disbursement of the RRF could be made in 2023.

Table II.14.1:

Main features of country forecast - NETHERLANDS

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	860.7		100.0	1.3	2.4	2.0	-3.8	5.0	3.3	1.6
Private Consumption	357.7		41.6	0.4	2.2	0.9	-6.6	3.5	4.6	1.9
Public Consumption	225.7		26.2	1.8	1.7	2.8	1.0	5.5	1.8	1.8
Gross fixed capital formation	182.5		21.2	1.0	3.6	6.2	-4.1	3.5	2.9	2.9
Exports (goods and services)	719.6		83.6	3.8	4.3	2.0	-4.8	6.6	3.9	3.5
Imports (goods and services)	624.8		72.6	3.6	4.7	3.2	-5.5	5.1	4.1	4.3
GNI (GDP deflator)	854.9		99.3	1.3	2.8	1.2	-5.9	6.2	3.9	1.6
Contribution to GDP growth:										
Domestic demand				0.8	2.1	2.3	-3.5	3.7	3.0	1.9
Inventories				0.0	0.1	0.3	-0.3	-0.3	0.0	0.0
Net exports				0.4	0.2	-0.7	0.0	1.7	0.3	-0.4
Employment				0.5	3.0	2.2	0.6	1.8	2.0	1.1
Unemployment rate (a)				6.1	4.9	4.4	4.9	4.2	4.0	4.2
Compensation of employees / head				2.2	1.7	2.8	3.5	2.1	3.1	3.7
Unit labour costs whole economy				1.5	2.3	3.0	8.3	-1.0	1.9	3.2
Saving rate of households (b)				13.4	16.3	17.7	24.0	23.4	19.3	18.3
GDP deflator				1.4	2.4	3.0	2.3	2.4	3.8	3.3
Harmonised index of consumer prices				1.6	1.6	2.7	1.1	2.8	7.4	2.7
Terms of trade goods				0.1	-0.2	0.9	1.5	-2.1	-3.2	0.8
Trade balance (goods) (c)				8.6	9.3	7.4	8.1	8.1	6.0	5.8
Current-account balance (c)				7.3	10.8	9.4	7.0	9.5	8.7	8.7
General government balance (c)				-2.0	1.4	1.7	-3.7	-2.5	-2.7	-2.1
Structural budget balance (d)				-0.2	0.7	0.7	-1.3	-2.0	-3.2	-2.5
General government gross debt (c)				56.5	52.4	48.5	54.3	52.1	51.4	50.9

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

15. AUSTRIA

Economic activity recovered in 2021 on the back of strong pent-up demand and the relaxation of sanitary containment measures, and is set to expand by 3.9% in 2022 and 1.9% in 2023.. However, Russia's invasion in Ukraine and associated high energy prices, as well as disrupted supply chains, are set to slow the upswing. Inflation is forecast to peak at 6.0% in 2022, and will only gradually ease to 3.0% in 2023. The general government deficit is projected to decline to 3.1% of GDP in 2022 on the back of the positive growth outlook and the gradual phase out of support measures, and narrow further to 1.5% of GDP in 2023..

Economic rebound continues in 2022

After reaching its pre-pandemic level in the third quarter of 2021, economic activity declined again by 1.5% quarter-on-quarter in 2021-Q4, following the reintroduction of containment measures at the end of the year. In 2021 as a whole, real GDP increased by 4.5%. In 2022, real GDP is expected to increase by 3.9%, on the back of a strong rebound in the first quarter of this year after the phasing out of containment measures (2.5% quarter-on-quarter). The economic expansion in 2022 continues to be driven by pent-up private consumption and the revival of tourism and the services sector. The Russian invasion of Ukraine is a headwind for the Austrian export industry, while higher prices put pressure on consumers' purchasing power. Overall, this increases the uncertainty of the economic outlook.

and the implementation of the Austrian RRP. This will partly be offset by the impact of high inflation on real disposable income. Business investment is also set to continue supporting the expansion. Overall, real GDP is expected to grow by 1.9% in 2023. Downside risks to the projections are linked to Austria's dependence on Russian gas and prolonged supply bottlenecks.

Labour markets remain robust

Thanks to the ongoing expansion, the unemployment rate is forecast to drop to pre-crisis levels, reaching 5.0% in 2022 and 4.8% in 2023. After rebounding by 2.1% in 2021, employment is expected to expand by 2.9% in 2022 and 0.9% in 2023, in line with the revival of the labour intensive tourism and services sectors and the projected economic expansion.

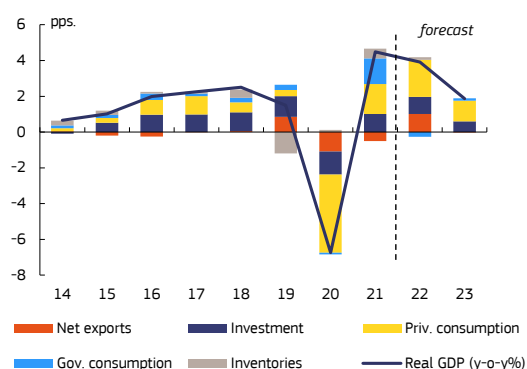
Energy prices drive inflation

Energy prices increased significantly following the Russian invasion of Ukraine, from an already elevated level. In 2022, energy inflation is expected to be even higher in the first half of the year, and is projected to slow down only as from the third quarter of 2022. Overall, after reaching already 2.9% in 2021, HICP inflation is expected to peak at 6.0% in 2022 before gradually decreasing to 3.0% in 2023.

Public finances continue to improve in line with positive growth prospects

Public finances have improved visibly in 2021 on the back of the economic recovery and positive labour market developments. The general government balance declined to -5.9% of GDP in 2021. This is largely the result of strong growth in tax revenues and social contributions, which exceeded pre-crisis levels. Public expenditures still continued to rise more

Graph II.15.1: Austria - Real GDP growth and contributions



Continued expansion in 2023

The economic expansion is expected to continue in 2023, mainly driven by domestic demand. Both pent-up demand and the unleashing of accumulated savings are projected to boost private consumption over the forecast horizon, further supported by the tax relief provided by the eco-social tax reform

strongly than in normal times as a result of continued crisis management measures, which prevented the deficit from decreasing further.

In 2022, the general government deficit is expected to decline to 3.1% of GDP. On the one hand, strong private consumption and employment fuel consumption-based taxes and social contributions. On the other hand, public expenditures are set to grow at a much lower pace, due to the phasing out of remaining pandemic support measures. In 2023, the general government deficit is expected to further decrease to 1.5% of GDP as a result of the continued economic expansion. Government

revenues are set to continue to grow robustly while expenditures are set to decrease further.

Driven by the expected favourable development of the general government balance and relatively high nominal GDP growth, public debt is set to continue declining in the coming years. Having declined to 82.8% of GDP in 2021, public debt is projected to further decrease to 80.0% and 77.5% of GDP in 2022 and 2023, respectively.

Table II.15.1:

Main features of country forecast - AUSTRIA

	2021			Annual percentage change						
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	403.4	100.0		1.5	2.5	1.5	-6.7	4.5	3.9	1.9
Private Consumption	201.2	49.9		1.2	1.1	0.7	-8.5	3.3	4.1	2.3
Public Consumption	86.6	21.5		1.3	1.2	1.5	-0.5	6.7	-1.2	0.7
Gross fixed capital formation	103.1	25.6		1.2	4.4	4.8	-5.2	4.0	3.7	2.3
Exports (goods and services)	225.7	55.9		3.5	5.1	3.4	-10.8	12.7	6.3	3.8
Imports (goods and services)	222.0	55.0		3.2	5.3	2.0	-9.4	14.5	4.6	3.8
GNI (GDP deflator)	401.2	99.5		1.5	2.5	2.1	-6.5	4.0	3.8	1.8
Contribution to GDP growth:										
Domestic demand				1.2	1.8	1.8	-5.8	4.1	2.8	1.9
Inventories				0.1	0.5	-1.2	0.1	0.5	0.1	0.0
Net exports				0.2	0.1	0.9	-1.1	-0.5	1.0	0.0
Employment				1.0	1.7	1.1	-1.6	2.1	2.9	0.9
Unemployment rate (a)				5.5	5.2	4.8	6.0	6.2	5.0	4.8
Compensation of employees / head				2.2	2.9	2.8	1.7	3.4	1.5	2.6
Unit labour costs whole economy				1.7	2.1	2.5	7.3	1.0	0.5	1.6
Saving rate of households (b)				14.6	13.1	13.9	19.7	15.6	11.6	10.7
GDP deflator				1.8	1.8	1.6	2.3	1.8	3.4	3.2
Harmonised index of consumer prices				1.9	2.1	1.5	1.4	2.8	6.0	3.0
Terms of trade goods				-0.1	-0.6	-0.9	1.2	-3.2	-3.0	0.7
Trade balance (goods) (c)				0.1	0.3	1.0	0.8	0.1	-1.4	-1.1
Current-account balance (c)				2.4	1.0	2.2	1.9	-0.5	-1.0	-0.8
General government balance (c)				-2.4	0.2	0.6	-8.0	-5.9	-3.1	-1.5
Structural budget balance (d)				-0.7	-0.8	-0.6	-4.8	-4.4	-3.0	-1.6
General government gross debt (c)				75.4	74.1	70.6	83.3	82.8	80.0	77.5

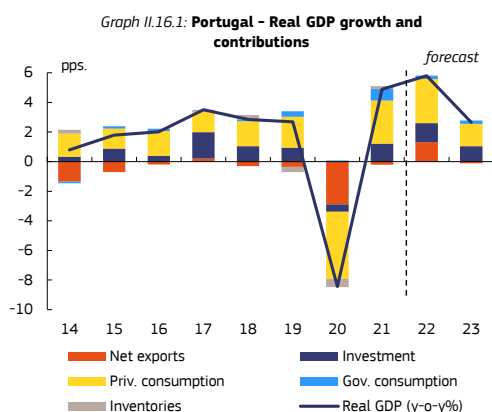
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

16. PORTUGAL

Portugal's economy grew by 4.9% in 2021, recovering slightly more than half of the level lost in 2020. The growth outlook remains favourable despite challenges related to commodity prices, global supply chains, and higher uncertainty in external demand. The public deficit is set to ease to 1.9% of GDP in 2022 and 1% in 2023, on the back of economic growth and the inflow of EU funds, amid a wind-down of crisis-related measures and strong momentum in public investment.

GDP keeps growing amid higher external risks

Portugal's GDP grew by 4.9% in 2021 after a steep contraction of 8.4% in 2020 caused by the outbreak of the COVID-19 pandemic. Investment and exports of goods rebounded to above pre-pandemic levels in 2021. However, private consumption recovered at a somewhat slower pace as contact-intensive services faced continuous restrictions. In quarterly terms, growth peaked in the second quarter of 2021 and moderated afterwards as pent-up demand gradually waned and services faced a new round of restrictions towards the end of the year. Growth picked up again to 2.6% (q-o-q) in the first quarter of 2022 as most of the containment measures were lifted in mid-January.



After the strong start of the year, Portugal's GDP is projected to rise by 5.8% in 2022 as the services sector, particularly foreign tourism, is set to rebound strongly from a low base. Economic growth is expected to moderate to 2.7% in 2023. Domestic demand is set to contribute substantially to growth in both years with investments rising faster than private consumption thanks to the ongoing implementation of the RRP. The external sector is forecast to have a positive net contribution to growth in 2022, reflecting the recovery in

tourism, followed by a broadly neutral impact in 2023. However, the current-account balance is expected to worsen in 2022, due to high prices of energy imports, and to only improve in 2023 when energy prices are assumed to move downwards to some extent.

Risks to the growth outlook have moved to the downside as a result of Russia's war of aggression against Ukraine. In the light of Portugal's low direct exposure to the affected region, these risks are mostly indirect, stemming from commodity prices, security of supplies and uncertainty in global demand.

Unemployment drops to 20-year low

Helped by continued government support schemes and the economic recovery, the unemployment rate dropped to 6.6% in 2021. The rate improved further to 5.6% in February 2022, reaching a 20-year low. In addition, the employment rate rose to a historic high at the end of 2021 and early 2022. However, hours worked remained well below their pre-pandemic level. As job support schemes are set to expire in the second quarter of 2022, the unemployment rate is projected to improve at a much slower pace over the forecast horizon. The rebound in foreign tourism is set to more visibly impact hours worked than employment.

Consumer price inflation (HICP) averaged 0.9% in 2021 amid a substantial increase towards the end of the year. In quarterly terms, HICP inflation reached 2.4% (y-o-y) in the last quarter of 2021 and rose further to 4.4% (y-o-y) in the first quarter of 2022 as prices of energy and other commodities, including metals, construction materials and agricultural products, kept growing. Inflation is forecast to peak in the second quarter of 2022 and to gradually moderate thereafter at year-average rates of 4.4% in 2022 and 1.9% in 2023. Core inflation is projected at 3.7% and 2.2%,

respectively, moving at a somewhat slower pace than the expected average wage growth.

Public finances benefit from the economic recovery

The budget balance reached a deficit of 2.8% of GDP in 2021, below the 5.8% observed in 2020. Public revenue drove the deficit reduction, thanks to the stronger intake of tax and social contributions' revenue (by 2.5% of GDP) and the higher inflow of EU funds (by more than 1% of GDP), compared to 2020. In particular, the revenue from taxes on production and imports grew buoyantly (by 10.6% y-o-y), on the back of stronger domestic demand. Public finances also benefited from one-off revenue linked to the repayment of the pre-paid margin of the European Financial Stability Facility financial assistance loan (of 0.5% of GDP). However, these favourable developments were partly offset by continued growth in public expenditure, where pre-pandemic upward pressures on current spending, especially on social benefits and the public wage bill, were amplified by the need to persist in responding to the pandemic. At the same time, there was revived momentum in public investment (by 19% y-o-y), after a protracted period of subdued growth.

Public finances are projected to continue to improve over the forecast horizon, supported by

broad-based economic growth. Against that background, the deficit is projected to narrow to 1.9% of GDP in 2022, and to 1% in 2023. On the one hand, the gradual wind-down of the temporary measures taken in response to the pandemic is expected to contribute to roll back the deficit, despite possibly lasting effects on health-related intermediate consumption and the public wage bill. On the other hand, Portugal is also implementing additional measures to mitigate the impact of high energy prices in 2022, which include a combination of tax breaks and new subsidies to firms and households. The forecast also incorporates expenditure financed by RRF grants, which are expected to gradually increase to 1.3% of GDP in 2022, and to 1.6% in 2023. Prompted by the ongoing implementation of the RRP, public investment is projected to accelerate to above 3% of GDP in 2022, and to remain at a historically high level in 2023.

Reflecting the improving economic conditions and a reduction of the cash buffer, the public debt-to-GDP ratio declined to 127.4% in 2021, after its peak of 135.2% in 2020. Driven by favourable nominal growth-interest rate differentials, it is set to remain on a steadily declining path over the forecast horizon, moderating to 119.9% of GDP in 2022, and to 115.3% in 2023, when it would therefore fall below its pre-pandemic level.

Table II.16.1:

Main features of country forecast - PORTUGAL

	2021			Annual percentage change						
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	211.3		100.0	0.4	2.8	2.7	-8.4	4.9	5.8	2.7
Private Consumption	135.9		64.3	0.6	2.6	3.3	-7.1	4.5	4.6	2.3
Public Consumption	40.1		19.0	0.2	0.6	2.1	0.4	4.1	1.2	1.3
Gross fixed capital formation	41.8		19.8	-2.0	6.2	5.4	-2.7	6.4	6.5	5.2
Exports (goods and services)	88.8		42.0	4.3	4.1	4.1	-18.6	13.1	12.3	4.1
Imports (goods and services)	95.1		45.0	2.6	5.0	4.9	-12.1	12.9	8.6	4.1
GNI (GDP deflator)	208.8		98.8	0.4	2.7	2.5	-7.5	5.3	5.2	2.8
Contribution to GDP growth:										
Domestic demand				0.0	2.8	3.4	-5.0	4.9	4.5	2.8
Inventories				0.0	0.3	-0.3	-0.6	0.2	0.0	0.0
Net exports				0.4	-0.3	-0.4	-2.9	-0.2	1.3	-0.1
Employment				-0.4	2.3	0.8	-1.9	2.1	1.0	0.9
Unemployment rate (a)				11.1	7.2	6.7	7.0	6.6	5.7	5.5
Compensation of employees / head				1.7	3.9	4.8	2.0	3.8	4.2	2.6
Unit labour costs whole economy				0.9	3.4	2.8	9.3	1.0	-0.6	0.8
Saving rate of households (b)				9.1	6.8	7.2	12.6	10.9	7.7	7.2
GDP deflator				1.9	1.8	1.7	1.9	0.7	2.9	3.1
Harmonised index of consumer prices				1.8	1.2	0.3	-0.1	0.9	4.4	1.9
Terms of trade goods				0.3	-0.8	0.4	1.6	0.8	-2.6	2.5
Trade balance (goods) (c)				-9.0	-7.8	-7.8	-6.4	-7.4	-9.9	-9.1
Current-account balance (c)				-5.6	0.3	0.1	-1.2	-1.1	-1.7	-0.7
General government balance (c)				-5.6	-0.3	0.1	-5.8	-2.8	-1.9	-1.0
Structural budget balance (d)				-1.9	-1.0	-1.2	-1.8	-1.3	-1.9	-1.5
General government gross debt (c)				98.1	121.5	116.6	135.2	127.4	119.9	115.3

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

17. SLOVENIA

Slovenia's economy expanded briskly in 2021, especially in the final quarter of the year. Benefitting from the strong carry over from 2021, growth is expected to continue in 2022-23 at 3.7% and 3.1% respectively, despite the increasing uncertainty arising from Russia's war of aggression against Ukraine, lower exports, price increases and supply chain difficulties. Public finances are forecast to improve with deficit decreasing from 5.2% in 2021 to 3.4% by 2023, although high current expenditure is projected to hinder a stronger improvement in public finances.

Robust recovery in 2021

GDP grew by 8.1% in 2021, significantly faster than the euro area average growth. Notably, Slovenia recorded the strongest growth in the EU in the final quarter of 2021, providing a very strong carry-over effect for growth in 2022. Growth was mostly driven by private consumption but also by investment, particularly in machinery and equipment. Imports grew significantly faster than exports, leading to a negative contribution of net exports to growth. Employment fully recovered the losses during 2020.

Continued growth over 2022 and 2023

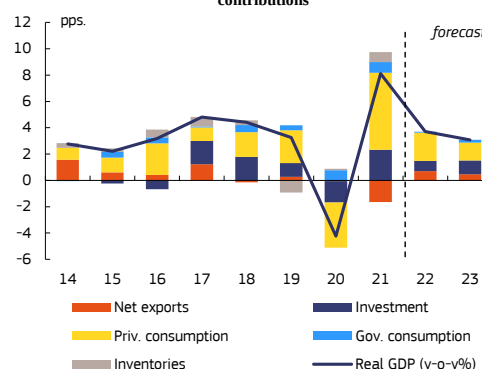
According to high-frequency indicators, Slovenia's economy continued to grow in the first quarter of 2022. GDP is expected to continue expanding, by some 3.7% and 3.1% in 2022-23 respectively despite the negative effects arising from price increases, supply bottlenecks and the fall of confidence in light of Russia's war of aggression against Ukraine. Despite the erosion of real incomes driven by inflation, private consumption is projected to expand on the back of continued employment growth, higher disposable income, the recently adopted tax reform and the utilisation of accumulated savings. As pandemic-related fiscal measures expire, public consumption growth is forecast to moderate in 2022 after registering high growth over the 2020-21 period.

Price and demand pressures and increased uncertainty are expected to have strong negative effects on private investment. This will be somewhat offset by a strong public investment thanks to the utilisation of significant residual structural funds and RRF-financed investments. With a lower projected import volume growth, net exports are expected

to have positive effects on growth over the 2022-23 period and the current account surplus is projected to narrow significantly in 2022 due to the worsening terms of trade.

Risks are tilted to the downside, as the uncertainty remains very high. Given Slovenia's high share of exports, growth could be hampered by lower demand in its markets. In the context of high uncertainty and inflation, consumers might be inclined to increase precautionary savings leading to lower consumption along with the decrease in employment.

Graph II.17.1: Slovenia - Real GDP growth and contributions



Labour market holding up

Employment grew by 1.4% in 2021. By February 2022, unemployment had reached 4.1% and the number of registered unemployed continued to fall while the number of job openings continued to increase. It is projected that unemployment will remain unchanged at 4.8% compared to 2021, implying that monthly rates will increase somewhat through the year as uncertainty and high input prices are likely to force employers to limit new hiring.

Although this was softened by the cap of fuel prices implemented by the government in March, inflation accelerated in the first quarter of 2022 to 6.3%. It is expected that the inflation will average 6.1% for 2022 and drop to 3.3% in 2023.

Public finances to improve slowly despite high current expenditure

The general government deficit declined to 5.2% of GDP in 2021, mainly due to the rebound in economic activity and the expiration of most of the measures adopted to mitigate the economic and social impact of the COVID-19 pandemic.

In 2022, the deficit is projected to decrease to 4.3% of GDP. On the revenue side, indirect taxes are projected to increase by 8.8% in 2022 due to the increase in private consumption. Current taxes on income and wealth are forecast to decrease by 1.7% as a result of the permanent tax cuts adopted by the government without compensating measures. Revenues from social security contributions are expected to keep growing on the back of the increases in nominal wages in the private sector.

On the expenditure side, even if most of the measures to mitigate the impact of the pandemic are phased out this year, nominal

current expenditure in 2022 is projected to increase by 0.5%. This is partly due to the newly adopted measures in response to the high energy prices and the expenditure to support refugees fleeing Ukraine. Despite past under-execution compared to the budget, public investment is still expected to grow strongly in 2022 at a similar pace compared to 2021.

In 2023, the general government deficit is expected to decline to 3.4% of GDP. However, this projection is subject to a number of risks: higher current expenditure and the prolongation of a number of temporary measures as uncertainty heightens; costs of indirect measures to shield household and firms being eventually borne by the budget (e.g., price cap on fuel prices and temporary suspension of network charges); additional wage pressures following negative real public sector wages in 2022.

The debt-to-GDP ratio is expected to be mainly driven by the changes in the headline deficit and the denominator effect from higher nominal GDP. Thus, the debt-to-GDP ratio is projected to decrease from 74.7% in 2020 to 72.6% in 2023.

Table II.17.1:

Main features of country forecast - SLOVENIA

2021				Annual percentage change						
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		52.0	100.0	2.1	4.4	3.3	-4.2	8.1	3.7	3.1
Private Consumption		27.3	52.5	1.8	3.6	4.8	-6.6	11.6	4.1	2.5
Public Consumption		10.5	20.2	1.5	3.0	2.0	4.2	3.9	0.4	1.1
Gross fixed capital formation		10.5	20.2	-0.2	9.7	5.5	-8.2	12.3	3.8	5.0
Exports (goods and services)		43.5	83.5	6.0	6.2	4.5	-8.7	13.2	4.9	6.0
Imports (goods and services)		40.7	78.2	5.0	7.1	4.7	-9.6	17.4	4.3	5.7
GNI (GDP deflator)		52.0	99.9	2.0	4.8	3.2	-3.5	8.8	4.1	3.3
Contribution to GDP growth:	Domestic demand			1.3	4.2	3.9	-4.3	9.0	3.0	2.6
	Inventories			0.1	0.4	-0.9	0.1	0.8	0.0	0.0
	Net exports			0.8	-0.1	0.3	-0.1	-1.6	0.7	0.5
Employment				0.5	3.2	2.5	-0.6	1.4	0.9	1.5
Unemployment rate (a)				7.2	5.1	4.4	5.0	4.8	4.8	4.6
Compensation of employees / head				4.0	3.9	5.0	3.5	5.4	3.6	5.5
Unit labour costs whole economy				2.3	2.7	4.2	7.4	-1.1	0.8	3.9
Saving rate of households (b)				13.5	13.7	13.7	22.6	15.9	9.2	9.4
GDP deflator				2.4	2.1	2.2	1.2	2.6	3.3	3.7
Harmonised index of consumer prices				2.6	1.9	1.7	-0.3	2.0	6.1	3.3
Terms of trade goods				-0.2	-0.1	0.4	0.8	-2.6	-2.2	0.5
Trade balance (goods) (c)				-0.9	2.8	2.7	5.0	0.8	-0.7	-0.3
Current-account balance (c)				0.1	6.1	6.1	7.6	4.4	1.7	2.6
General government balance (c)				-3.6	0.7	0.4	-7.8	-5.2	-4.3	-3.4
Structural budget balance (d)				-3.3	-0.6	-1.1	-6.2	-6.1	-5.5	-4.5
General government gross debt (c)				46.0	70.3	65.6	79.8	74.7	74.1	72.7

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

18. SLOVAKIA

The outlook for the Slovak economy is clouded by the effects of the Russian military aggression against Ukraine, which constitute a severe adverse supply shock. The sharp rise in energy and commodity prices is expected to raise production costs and to erode the purchasing power of domestic households, constraining economic growth over the forecast horizon, to 2.3% in 2022 and 3.6% in 2023. As a result of rising costs, inflation is forecast to increase sharply to 9.8% in 2022, and stay elevated at 6.8% throughout 2023. Due to high nominal GDP growth and the phase-out of pandemic-related measures, budget deficits are projected to decline to 3.6% of GDP 2022, and 2.6% in 2023, helping to contain the public debt-to-GDP ratio.

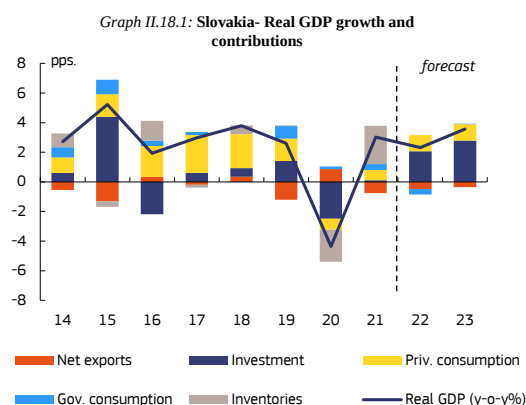
Rising costs weaken economic growth

After growing by 3% in 2021, the Russian invasion of Ukraine is expected to slow down the recovery of the Slovak economy from the pandemic. The ensuing adverse supply shock is projected to raise inflationary pressures and to constrain economic activity throughout the forecast horizon. This would shift the anticipated trajectory of GDP persistently lower, resulting in an expected annual GDP growth of 2.3% in 2022, and 3.6% in 2023.

The military aggression is set to lead to a sharp rise in imported energy and commodity prices, constituting a negative terms-of-trade shock, which transfers purchasing power from Slovakia to the rest of the world. This would raise costs and constrain production in Slovakia's energy intensive industry. Furthermore, by contributing to broader inflationary pressures, this is also expected to erode the purchasing power of households, which is forecast to weigh on private consumption in the coming years, especially in light of the relatively large share of energy in Slovak household expenditures. The hit to consumption from lower real incomes is expected to be only partially cushioned by a declining saving rate and lower real interest rates. Elevated uncertainty is assumed to curb private investment demand, but a boost to public investment from Next Generation EU funds is projected over the forecast horizon.

In addition to rising input costs and persisting global semiconductor shortages, Slovakia's export industry is expected to be adversely affected by further supply-chain disruptions as a result of the military aggression and renewed lockdowns in China. Shortages of cable harness and neon gas, largely imported from Ukraine, are expected to constrain output in the

automotive industry. Moreover, while direct exposure to Russian and Ukrainian exports is relatively low, weaker growth in other trading partners is forecast to limit Slovakia's export performance in the coming years, leading to a negative growth contribution from net exports. The deteriorating terms-of-trade weighs further on the trade balance, contributing to a widening current account deficit.



Real wage growth to decline

The recovery from the pandemic brought along an increasingly tight labour market, with certain sectors facing labour shortages, and employment having reached its pre-crisis levels by the end of 2021. However, current economic headwinds are expected to moderate further expansion, leading to a projected employment growth of 1.9% in 2022, and 0.6% in 2023. The decline in the unemployment rate is also forecast to slow down, decreasing to 6.3% by 2023 from 6.8% last year. The effect of people fleeing Ukraine on the Slovak labour market is assumed to be small. Amid this weaker labour market environment, employee compensation is expected to lag behind the spikes in inflation, resulting in real wages declining in 2022, and catching up only slowly in 2023.

Inflation rises sharply

Recent spikes in imported energy and food prices have intensified inflationary pressures, which are becoming more broad-based as higher production costs pass through to other prices as well. Combined with persisting supply-side bottlenecks, which raise goods prices, this subjects the Slovak economy to an adverse cost-push shock. In addition, recovering demand in contact-intensive sectors is making services more expensive. As a result, annual HICP inflation is forecast to rise sharply to 9.8% in 2022 from 2.8% in 2021. Despite decelerating quarterly price dynamics, annual inflation is projected to stay elevated next year, at 6.8%, as regulated energy prices are expected to adjust only at the start of 2023.

Budget deficits to start declining in 2022

The general government deficit increased from 5.5% of GDP in 2020 to 6.2% in 2021, driven by pandemic-related support measures, including short-time work schemes, healthcare spending and support to selected sectors as well as increases in social benefits and compensation of employees.

As pandemic spending is gradually withdrawn, the budget deficit is expected to narrow to 3.6% of GDP in 2022. The projected high growth of nominal GDP is expected to boost tax revenues, while rising compensation of

employees should increase social security contributions, thus helping to reduce the deficit. On the other hand, the inflation-induced increase in the growth of public expenditures is assumed to occur only with a delay (e.g. pensions being indexed to previous year's inflation). Increased spending to shield households against the impact of high energy prices, or additional support measures for persons fleeing Ukraine, pose upside risks to public expenditures. In 2023, the government budget deficit is expected to further narrow to 2.6% of GDP as nominal GDP growth stays high.

Public investment is forecast to accelerate in both 2022 and 2023. This is driven by increased EU funds absorption due to the assumed drawdown of remaining funds from the previous programming period coinciding with the start of the new programming period, as well as by additional support from the RRF.

After an increase from 59.7% in 2020 to 63.1% in 2021, the government debt-to-GDP ratio is projected to gradually decline to 61.7% in 2022 and 58.3% in 2023, helped by moderating primary budget deficits as well as by strong nominal GDP growth.

Table II.18.1:

Main features of country forecast - SLOVAKIA

2021			Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		97.1	100.0	4.0	3.8	2.6	-4.4	3.0	2.3	3.6
Private Consumption		56.0	57.7	3.1	4.1	2.7	-1.3	1.2	1.9	1.9
Public Consumption		20.9	21.5	2.5	-0.1	4.6	0.9	1.9	-1.7	0.2
Gross fixed capital formation		18.6	19.1	2.7	2.8	6.7	-11.6	0.6	10.8	13.4
Exports (goods and services)		91.2	93.9	8.8	5.1	0.8	-7.3	10.2	2.9	7.4
Imports (goods and services)		91.8	94.5	7.0	4.8	2.1	-8.2	11.2	3.4	7.6
GNI (GDP deflator)		96.0	98.8	3.9	4.3	2.2	-3.8	3.0	2.3	3.8
Contribution to GDP growth:	Domestic demand			2.9	2.9	3.8	-3.0	1.2	2.8	3.9
	Inventories			0.0	0.6	0.0	-2.2	2.6	0.0	0.0
	Net exports			1.2	0.3	-1.2	0.9	-0.8	-0.5	-0.4
Employment				1.0	2.0	1.0	-1.9	-0.6	1.9	0.6
Unemployment rate (a)				13.4	6.5	5.7	6.7	6.8	6.7	6.3
Compensation of employees / head				5.3	6.0	6.8	3.6	5.9	7.8	7.0
Unit labour costs whole economy				2.2	4.2	5.2	6.3	2.2	7.4	3.9
Saving rate of households (b)				7.3	10.3	9.8	10.9	8.8	6.7	6.2
GDP deflator				1.7	2.0	2.5	2.4	2.4	6.6	5.5
Harmonised index of consumer prices				2.7	2.5	2.8	2.0	2.8	9.8	6.8
Terms of trade goods				-0.7	-0.9	-0.3	-0.5	-1.1	-1.4	0.1
Trade balance (goods) (c)				-0.4	1.1	-0.5	0.1	-1.2	-3.1	-3.5
Current-account balance (c)				-2.7	-0.3	-2.0	-0.8	-2.4	-4.3	-4.1
General government balance (c)				-3.8	-1.0	-1.3	-5.5	-6.2	-3.6	-2.6
Structural budget balance (d)				-2.2	-2.0	-2.4	-4.5	-5.7	-3.3	-2.6
General government gross debt (c)				43.3	49.6	48.1	59.7	63.1	61.7	58.3

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

19. FINLAND

Finland's economy rebounded strongly in 2021. However, Russia's war of aggression against Ukraine and its immediate and wider consequences are set to take their toll on Finnish exports and weigh on private consumption and investment this year, driving GDP growth down to 1.6% in 2022 and 1.7% in 2023. Inflation is forecast to accelerate to 4.5% in 2022, exerting pressure on household purchasing power. The general government deficit is projected to reach 2.2% of GDP in 2022 and 1.7% in 2023.

Strong outcomes in 2021

Finland's economy recovered strongly in 2021, with GDP growth reaching 3.5% and exceeding the pre-pandemic level already in the second quarter of 2021. Robust growth was driven by domestic demand, especially including private consumption. The removal of some COVID-19 related restrictions, strong wage growth, accumulated savings and increasing employment were the main factors supporting the rebound in consumption. After a two-year contraction, investment also grew, especially in the last quarter of 2021. However, the contribution of net exports to growth was slightly negative due to a more dynamic recovery in imports.

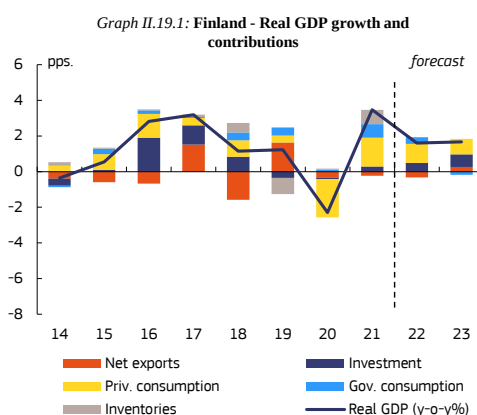
A mixed picture ahead

The positive economic momentum continued into early 2022, with sentiment indicators pointing to improved expectations across the board. This changed notably with the onset of Russia's war of aggression against Ukraine in February. International sanctions imposed on Russia and retaliation measures adopted by Russia have translated into a immediate and significant drop in trade between Finland and Russia that is set to weigh on export growth in 2022. In 2023, however, a re-orientation of exports to other markets should allow for the contribution of net exports to growth to turn positive.

At the same time, elevated inflation and increased geopolitical tensions are set to take their toll on private consumption. Accumulated savings and recovering demand for services are expected to partially offset this negative impact. Together with the projected deceleration in wage growth, private consumption is forecast to grow by 2.1% in 2022 and 1.7% in 2023. Public consumption growth is set to follow a similar path in 2022

and then contract in 2023 as some temporary government expenditure measures expire.

Due to high uncertainty, private investment is forecast to decelerate in 2022 before picking up the year after. Public investment plans, which are partly financed by the RRF, will also support investment growth over the forecast horizon. Overall, GDP is projected to grow at 1.6% and 1.7% in 2022 and 2023, respectively. Finland's historically close trade relations with Russia could be deemed a source of risk to the current economic outlook as businesses might struggle to adapt to the new geopolitical circumstances.



Tightening labour market and high inflation

In 2021, employment grew by 2% and exceeded its pre-pandemic level. In February 2022, the unemployment rate was approximately 1 pp. lower compared to a year ago. At the same time, the number of vacancies increased considerably, and companies increasingly report difficulties to find skilled staff. Consequently, the unemployment rate is projected to decline further over the forecast horizon, though not as fast as expected before due to the negative economic consequences stemming from the war.

HICP inflation accelerated in the last quarter of 2021 due to a spike in energy prices. This is expected to continue in the first half of 2022, also due to rising food prices, lifting inflation to 4.5% in 2022 as a whole. The assumed decline in energy prices is projected to result in a deceleration of the rate of inflation later this year and also in 2023. Core inflation is projected to be driven by increases in prices of processed food and services.

General government deficit to slightly decrease

In 2021, the general government deficit declined thanks to strong revenue collection and gradual withdrawal of stimulus measures. In 2022, the measures taken by the Finnish government to counter the impact of the COVID-19 pandemic are set to amount to 0.2% of GDP compared to 1.7% in 2021.

Against the backdrop of Russia's war of aggression against Ukraine, the Finnish government has announced additional spending on defence of 0.3% of GDP in 2022 and 0.1% in 2023. The general government deficit is also set to be affected by the costs of dealing with

the ongoing humanitarian crisis, which are projected at around 0.1% of GDP in 2022 and 0.2% in 2023. In addition, the fiscal forecast takes into account measures amounting to approximately 0.1% of GDP to mitigate the economic and social impact of high energy prices.

The forecast also incorporates expenditures, including investment, financed by RRF grants amounting to approximately 0.2% of GDP in 2022 and 2023. Public investment is projected to remain high in both 2022 and 2023. Overall, despite a bleaker economic outlook and additional expenditure measures, the general government deficit is forecast to slightly decrease to 2.2% of GDP in 2022, and 1.7% in 2023.

After a decline in 2021, the general government public debt-to-GDP ratio is expected to increase from 65.8% to 65.9% in 2022 and 66.6% in 2023.

Table II.19.1:

Main features of country forecast - FINLAND

	2021				Annual percentage change					
	bn EUR	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		252.9	100.0	1.3	1.1	1.2	-2.3	3.5	1.6	1.7
Private Consumption		127.8	50.5	1.9	1.7	0.7	-4.1	3.1	2.1	1.7
Public Consumption		60.9	24.1	1.0	2.0	2.0	0.4	3.2	1.6	-0.8
Gross fixed capital formation		59.1	23.4	1.2	3.6	-1.5	-0.3	1.2	2.1	3.0
Exports (goods and services)		98.5	38.9	2.5	1.5	6.7	-7.5	4.7	2.1	4.3
Imports (goods and services)		97.9	38.7	3.4	5.7	2.4	-6.6	5.3	2.9	3.7
GNI (GDP deflator)		257.2	101.7	1.3	1.5	1.3	-1.1	3.5	1.4	1.6
Contribution to GDP growth:	Domestic demand			1.5	2.2	0.5	-2.1	2.7	1.9	1.4
	Inventories			0.1	0.5	-0.9	0.1	0.8	0.0	0.0
	Net exports			-0.2	-1.6	1.6	-0.3	-0.2	-0.3	0.3
Employment				0.6	2.5	1.8	-1.9	2.0	1.0	0.4
Unemployment rate (a)				8.4	7.5	6.8	7.7	7.7	7.2	6.9
Compensation of employees / head				2.2	1.3	1.2	0.4	4.4	3.3	3.0
Unit labour costs whole economy				1.4	2.6	1.9	0.8	3.0	2.7	1.7
Saving rate of households (b)				7.8	7.2	8.5	12.7	9.2	7.1	7.0
GDP deflator				1.5	2.0	1.5	1.6	2.7	3.8	2.3
Harmonised index of consumer prices				1.6	1.2	1.1	0.4	2.1	4.5	2.3
Terms of trade goods				-0.7	0.8	-0.6	1.8	0.5	-1.0	-0.2
Trade balance (goods) (c)				4.6	0.1	1.0	1.3	1.2	0.6	0.8
Current-account balance (c)				1.6	-1.8	-0.3	0.7	0.7	0.2	0.4
General government balance (c)				0.4	-0.9	-0.9	-5.5	-2.6	-2.2	-1.7
Structural budget balance (d)				-1.0	-1.0	-1.2	-3.7	-2.0	-1.7	-1.4
General government gross debt (c)				47.8	59.8	59.6	69.0	65.8	65.9	66.6

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.
Note: Contributions to GDP growth may not add up due to statistical discrepancies.

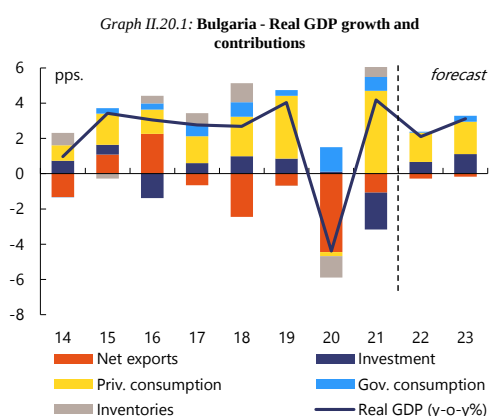
Non-EA Member States

20. BULGARIA

In 2022, price pressures and the associated adjustment process are set to weigh on household consumption, while the increased uncertainty is expected to negatively affect private investment. With inflation gradually slowing down in 2023, GDP growth is projected to accelerate from 2.1% in 2022 to 3.1% in 2023. The government balance is forecast to slowly recover to 3.7% of GDP in 2022. The effect of the phase-out of most pandemic-related measures is expected to be partially offset by measures put in place in response to high energy prices, aid to people fleeing the war in Ukraine and pension updates.

Lower growth amid strong price pressures

In 2021, economic activity recovered from the COVID-19 crisis on the back of robust private consumption growth and strong rebound in goods exports. Investment was on a declining path due to high uncertainty. With the global rise in energy prices, domestic inflation started to accelerate in the second half of 2021.



GDP growth is expected to slow down to 2.1% in 2022, due to a slower expansion in domestic and external demand, and grow by 3.1% in 2023. Given the high energy intensity of the economy, with energy and commodity prices set to remain high, firms are expected to respond to the cost-push shock by restricting nominal wage growth and postponing new hiring and investment decisions. On aggregate, firms' reactions are forecast to lead to lower investment activity. Lower private investment is forecast to be fully compensated by public investment, supported by the RRF funds.

Private consumption growth is expected to decelerate markedly to 2.8% in 2022 and to increase slightly to 3% in 2023. The 2022 slowdown in consumer spending is linked to expected strong price increases that are set to erode real disposable income.

Russia's war of aggression against Ukraine and the sanctions on the Russian economy pose additional challenges for the production sector through the trade channel. The direct exposure of Bulgarian goods exports to Russia and Ukraine is relatively limited, at 1.3% for each country in 2021. Nevertheless, the overall negative effect of the war on external demand is set to limit export dynamics. The discontinuation of natural gas supplies by Gazprom in late April is expected to be compensated through alternative sources, leading to a one-off increase in gas prices.

In 2023, GDP growth is forecast to accelerate, supported by the intensified public investment, financed by the RRF, and the improved outlook for external demand.

Labour demand set to stagnate

The decreased hiring intensity is expected to lead to a stabilisation of unemployment rates at slightly below 5%. The labour market situation is set to improve the bargaining position of employers, leaving wages to grow below consumer prices. People fleeing the war in Ukraine are not expected to immediately integrate in the labour market, notably in the context of the decreased hiring intensity. They are, however, expected to increase demand for goods, services and accommodation.

High inflation driven by energy and commodity price pressures

Consumer price inflation is expected to reach 11.9% in 2022 and then to decrease to 5% in 2023. All HICP components are forecast to exhibit high increases in 2022. Energy price inflation is projected to gain momentum until mid-2022 and then to gradually abate and turn negative in 2023, following with a lag the expected gradual decline in international oil and

gas prices. High annual food inflation in 2022 is driven by the strong increase in the first three months of the year and the expected dynamics of international food commodity and energy prices. Services inflation is driven by cost-push shocks in the transport and catering services. Higher prices of non-energy industrial goods are set to increase via cost pressures and higher prices of imported goods.

Government budget balance set to slowly recover

The general government budget deficit is forecast to improve only slightly in 2022, reaching 3.7% of GDP, from 4.1% in 2021. While the costs of most pandemic support measures are gradually falling from 4.3% of GDP in 2021 to 1.8% of GDP in 2022, new measures in response to high energy prices and Russia's military aggression against Ukraine are preventing a stronger recovery of the government balance. On top of increasing fiscal costs related to the people fleeing Ukraine and

the measures implemented in response to high energy prices, the extension of business support schemes and pension system amendments continue to weigh on public finances. However, the deficit is on track to further fall to 2.4% in 2023 on the back of the positive impact of RRF investments on the economy and the phase-out of COVID-19 measures.

Bulgaria's general government debt ratio is set to marginally increase to 25.3% of GDP in 2022 with a further increase to 25.6% of GDP in 2023 due to the persistent deficits. However, in both years, the snowball effect on gross public debt as a percentage of GDP is projected to be negative, thereby somewhat cushioning the impact of the deficits.

Table II.20.1:

Main features of country forecast - BULGARIA

	2021			Annual percentage change						
	bn BGN	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	132.7	100.0		3.4	2.7	4.0	-4.4	4.2	2.1	3.1
Private Consumption	78.8	59.4		3.8	3.7	6.0	-0.4	8.0	2.8	3.0
Public Consumption	26.5	20.0		1.6	5.3	2.0	8.3	4.0	0.3	1.7
Gross fixed capital formation	22.0	16.6		4.0	5.4	4.5	0.6	-11.0	4.0	6.9
Exports (goods and services)	83.7	63.0		7.6	1.7	4.0	-12.1	9.9	4.5	4.2
Imports (goods and services)	82.2	62.0		7.3	5.8	5.2	-5.4	12.2	5.0	4.5
GNI (GDP deflator)	128.4	96.7		3.5	-3.5	4.6	-3.6	4.4	1.3	3.0
Contribution to GDP growth:										
Domestic demand				3.8	4.1	4.7	1.3	3.4	2.4	3.3
Inventories				0.0	1.1	0.0	-1.2	1.9	0.0	0.0
Net exports				-0.4	-2.4	-0.7	-4.4	-1.1	-0.3	-0.2
Employment				0.6	-0.1	0.3	-2.3	0.2	0.2	0.4
Unemployment rate (a)				11.6	6.2	5.2	6.1	5.3	5.4	5.3
Compensation of employees / head				8.1	9.7	6.9	7.2	9.5	9.7	7.7
Unit labour costs whole economy				5.2	6.7	3.1	9.5	5.4	7.7	4.8
Saving rate of households (b)				-3.4	:	:	:	:	:	:
GDP deflator				4.2	4.2	5.2	4.2	6.2	9.5	3.9
Harmonised index of consumer prices				3.4	2.6	2.5	1.2	2.8	11.9	5.0
Terms of trade goods				1.6	0.7	1.9	4.3	2.1	-0.3	-0.8
Trade balance (goods) (c)				-13.2	-4.8	-4.7	-3.2	-5.1	-5.7	-5.9
Current-account balance (c)				-5.2	1.0	1.9	-0.5	-1.1	-1.8	-1.8
General government balance (c)				-0.6	1.7	2.1	-4.0	-4.1	-3.7	-2.4
Structural budget balance (d)				-0.3	1.5	1.4	-2.9	-3.8	-3.5	-2.7
General government gross debt (c)				24.5	22.1	20.0	24.7	25.1	25.3	25.6

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

21. CZECHIA

Exacerbated supply-chain disruptions and rising energy prices driven by Russia's war of aggression against Ukraine, as well as the fiscal costs associated with the inflow of people fleeing Ukraine, are impacting the recovery of the Czech economy. Economic growth is forecast at 1.9% in 2022 and 2.7% in 2023, whilst being fuelled by domestic demand, including public investment supported by the RRF. Inflation is projected to peak in the second quarter of this year, driven by energy prices, and forecast to overage 11.7% over 2022. Inflation is expected to gradually decline to 4.5% in 2023. The budget deficit is expected to start decreasing to 4.3% of GDP in 2022 and 3.9% of GDP in 2023, supported by high nominal GDP growth. Consequently, the pace of growth of government debt-to-GDP ratio is set to slow down.

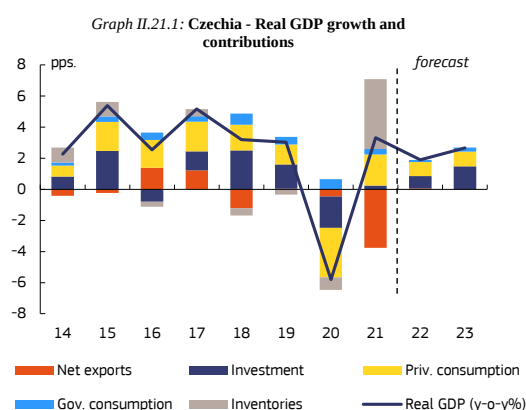
Rising cost and uncertainty to weaken economic growth

Annual GDP growth reached 3.3% in 2021 and is forecast to slow down to 1.9% in 2022, driven by exacerbating supply chain disruptions resulting from new bottlenecks created in relation to the Russian invasion of Ukraine and lockdowns in China, as well as an elevated inflation rate caused by higher energy and commodity prices. Domestic demand is set to remain the central growth driver. Supported by a very gradual normalisation of international trade as from 2023. In 2023, real GDP is forecast to increase by 2.7%, surpassing the pre-pandemic output level in the first half of the year.

High inflation is projected to substantially squeeze real disposable income. Yet, the slowdown in private consumption growth is mitigated by the expenditure of the over 400,000 persons fleeing from Ukraine who are assumed to have entered Czechia by the end of 2023. Due to the increased economic uncertainty in 2022, the saving rate is forecast to remain high but is expected to gradually converge towards its long-term average, reflecting higher prices for consumers and the relaxation of pandemic restrictions.

Government consumption growth is set to slow down as pandemic-related expenditure is phased-out. Investment activity is projected to increase by 3.1% in 2022, supported by low real interest rates, while negatively affected by rising uncertainty and slower economic growth. Investment growth is forecast to increase in 2023, supported by the economic recovery as well as by a boost to public investment through the RRF.

Czechia's industry-based economy, which relies on imports, is set to take a strong hit from supply chain disruptions and increasing energy prices. Net exports are forecast to have a near neutral contribution to economic growth in 2022 due to supply shortages, longer delivery times and increased transportation cost, as well as to a similar impacted macroeconomic situation in the main trading partners.



Labour market to remain robust

The population in Czechia is forecast to grow by more than 3% in 2022 due to the arrivals of those fleeing Ukraine. Czechia's tight labour market is expected to gradually absorb this increase, noting that most persons arriving from Ukraine are assumed to be inactive over the forecast horizon. The unemployment rate is therefore projected to remain around 2.6%.

Inflation expected to peak in 2022-Q2

Inflation further increased following Russia's aggression against Ukraine, mostly driven by elevated energy and commodity prices, as well as food prices. Inflation is forecast to peak in the second quarter of 2022, but to decline

afterwards, averaging 11.7% in 2022. Inflation is projected to decline towards 4.5% in 2023, supported by well-anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.

Fiscal consolidation to start in 2022

The budget deficit came in at 5.9% of GDP in 2021, slightly higher than 5.8% in 2020, as measures to support the economy during the COVID-19 crisis remained in place. Measures like the “Antivirus” short-time work scheme, the “Compensation bonus for self-employed” and support programmes targeted at companies added to expenditure while a personal income tax reduction lowered revenues.

With the withdrawal of the temporary support measures, the budget deficit is set to decrease to 4.3% of GDP in 2022. High inflation is likely to boost tax revenues, even if private consumption growth will be limited in real terms. Further increases in compensation of employees are also set to contribute to expanding social security contributions. An increase in public expenses on the back of measures to help households cope with

increased inflation, as well as costs related to those fleeing Ukraine, are likely to be offset by high GDP deflator. Its growth is set to reach a 20-year high and to lead to a contraction of current expenses as percentage of GDP.

In 2023, this trend is likely to continue, but growth in public expenditure is expected to accelerate due to inflation-related indexations (e.g. automatic indexation of pensions). The deficit is, thus, expected to reach 3.9% of GDP in 2023.

Public investment is set to expand further towards 5% of GDP, supported by the RRF and the increase in the absorption of other EU funds, as the remaining funds from the previous programming period are still being drawn at the same time with those from the new programming period.

While public debt is still low compared to other EU Member States, the pace of its growth in 2020-2021 was above the EU average. The public debt-to-GDP ratio is forecast to rise further to 42.8% in 2022 and 44.0% in 2023, driven by the negative headline balance, being only partly offset by nominal GDP growth.

Table II.21.1:

Main features of country forecast - CZECHIA

2021				Annual percentage change						
	bn CZK	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		6127.1	100.0	2.8	3.2	3.0	-5.8	3.3	1.9	2.7
Private Consumption		2795.6	45.6	2.5	3.5	2.7	-6.8	4.4	2.0	2.7
Public Consumption		1300.9	21.2	1.5	3.8	2.5	3.4	1.6	0.6	1.3
Gross fixed capital formation		1563.2	25.5	2.2	10.0	5.9	-7.5	0.9	3.1	5.6
Exports (goods and services)		4442.3	72.5	7.9	3.7	1.5	-6.9	5.1	1.2	3.5
Imports (goods and services)		4255.7	69.5	7.2	5.8	1.5	-6.9	11.5	1.2	3.6
GNI (GDP deflator)		5876.5	95.9	2.6	3.4	2.4	-3.0	2.4	1.4	2.6
Contribution to GDP growth:	Domestic demand			2.1	4.9	3.3	-4.5	2.6	1.8	2.7
	Inventories			0.1	-0.5	-0.3	-0.8	4.5	0.0	0.0
	Net exports			0.7	-1.2	0.0	-0.5	-3.8	0.1	0.0
Employment				0.6	1.3	0.2	-1.7	0.1	2.2	0.3
Unemployment rate (a)				6.3	2.2	2.0	2.6	2.8	2.6	2.6
Compensation of employees / head				4.3	8.1	7.2	3.2	5.7	2.4	5.3
Unit labour costs whole economy				2.0	6.1	4.3	7.7	2.4	2.8	2.8
Saving rate of households (b)				11.9	12.2	13.1	21.0	20.8	15.2	13.9
GDP deflator				1.5	2.6	3.9	4.4	4.1	7.4	4.7
Harmonised index of consumer prices				1.8	2.0	2.6	3.3	3.3	11.7	4.5
Terms of trade goods				-0.1	-0.2	0.4	2.0	0.2	-2.1	0.1
Trade balance (goods) (c)				1.2	3.7	4.1	5.0	1.2	-0.3	-0.3
Current-account balance (c)				-3.1	-0.6	-0.9	2.5	-2.3	-3.7	-3.8
General government balance (c)				-2.6	0.9	0.3	-5.8	-5.9	-4.3	-3.9
Structural budget balance (d)				0.0	-0.1	-0.9	-4.1	-4.9	-3.1	-3.5
General government gross debt (c)				34.0	32.1	30.1	37.7	41.9	42.8	44.0

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

22. DENMARK

Following a strong post-pandemic rebound last year, growth in 2022 is forecast to decelerate considerably as high energy prices and the direct and indirect effects of Russia's invasion of Ukraine take a toll on supply chains and push costs and prices further up. Public finances are proving resilient, with a general government surplus expected in 2022 and 2023, mainly explained by the easing of expenditure pressures in the post-pandemic period.

Economic expansion hit by high energy prices and war

The Danish economy emerged without major apparent scarring from the COVID-19 pandemic. Production and employment growth resumed quickly, leading to a real GDP expansion of 4.7% in 2021. The strong expansion was accompanied by robust employment growth and rising real household disposable incomes. The positive growth is set to continue in 2022, although the outlook has deteriorated following Russia's invasion of Ukraine. Economic activity is expected to be constrained by supply side disruptions, further energy and raw material price rises and shortages, as well as heightened general uncertainty. Overall, real GDP is forecast to grow by 2.6% in 2022 before easing to 1.8% in 2023.

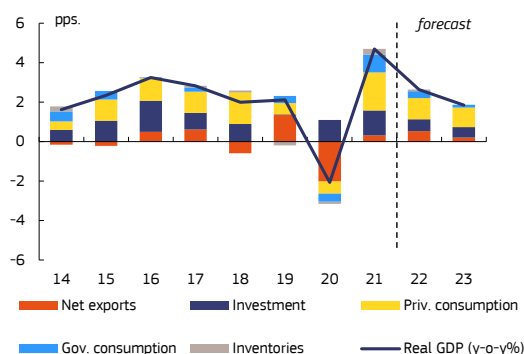
The second half of 2021 was marked by a private consumption rebound as COVID-19 related restrictions were lifted and as pent-up savings allowed households to expand their consumption. This spending revival was supported by certain government measures, notably the release of frozen savings. In 2022 and 2023, private consumption is expected to grow at a more moderate rate, tempered by high inflation. Additionally, the high uncertainty created by the Russian invasion of Ukraine is likely to keep the household saving rate somewhat elevated.

Denmark's direct exports to Russia are overall modest, hence the sanctions imposed by the EU on Russia mainly affect Danish exports through the negative impact on sentiment, lower global growth and through potential disruptions to supply chains. Exports of goods and services are projected to expand by 5.4% in real terms while import volumes are projected to rise by some 5.0% in 2022. In value terms, the growth in imports is projected to exceed that of exports markedly, reflecting price developments in key

inputs for traded goods. As a result, Denmark's current external surplus is set to decline to 7.8% of GDP in 2022 and remain around this level in 2023.

Growth in both construction and equipment investment is forecast to be modest in 2022 and in 2023. Higher interest rates and markedly more expensive building materials are likely to constitute a drag on housing investment while equipment investment is also projected to be negatively affected by higher interest rates and ongoing supply chain disruptions. The fallout the Russia's invasion of Ukraine, the very elevated energy prices and inflationary pressures constitute downwards risks to the forecast.

Graph II.22.1: Denmark - Real GDP growth and contributions



Labour market bottlenecks

The economic expansion since mid-2021 was accompanied by strong employment growth, resulting in labour shortages across a number of sectors. These continue to be especially pronounced in those services that were subject to severe restrictions, and the construction and manufacturing sectors are now also facing similar difficulties. Labour market pressures are projected to ease slightly as of this year due to an expanding labour force — partly thanks to a rise in the number of workers from other countries — and the gradual increase in the

retirement age over the coming years. The unemployment rate is set to decline from 5.1% in 2021 via 4.8% in 2022 to 4.7% in 2023.

Inflation at 35-year high

Consumer prices have accelerated sharply in the first months of 2022, reaching year-on-year inflation figures not recorded since the 1980s. While the inflationary pressures were initially mainly attributable to energy, core inflation is now also on the rise: in March 2022, HICP rose by 6.0% y-o-y, and core inflation increased to 3.2%. HICP inflation is expected to grow by 5.1% annually in 2022 and by 2.7% in 2023, due to normalising energy prices.

Strong government finances

In 2021, the government recorded a surplus of 2.3% of GDP, reflecting strong tax revenues, extra one-off revenues from the taxation of released holiday savings and a smaller than expected take-up of some COVID-19 related relief measures.

In 2022, the general government balance is forecast to record a surplus of 0.9% of GDP, driven by the growth moderation and non-recurrence of certain exceptional revenues. The arrival of people fleeing the war in Ukraine is expected to be accommodated through additional government consumption, financed via foreign development aid.

In 2023, the government surplus is expected to decline to 0.6% of GDP, reflecting further moderation of growth.

The government debt ratio returned to its downward trajectory in 2021, falling to 36.7% of GDP. Continued government surpluses and significant denominator effects only partly countered by stock-flow effects are expected to bring the gross debt level to 34.9% of GDP in 2022 and further down to 33.9% of GDP in 2023.

Table II.22.1:

Main features of country forecast - DENMARK

	2021				Annual percentage change					
	bn DKK	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		2496.6	100.0	1.2	2.0	2.1	-2.1	4.7	2.6	1.8
Private Consumption		1138.6	45.6	1.4	3.5	1.2	-1.3	4.2	2.3	2.1
Public Consumption		608.7	24.4	1.3	0.0	1.5	-1.7	3.7	1.4	0.6
Gross fixed capital formation		560.0	22.4	1.7	4.2	0.1	5.1	5.6	2.7	2.3
Exports (goods and services)		1487.2	59.6	3.1	3.4	5.0	-7.0	7.8	5.4	4.5
Imports (goods and services)		1319.7	52.9	3.9	5.1	3.0	-4.1	8.2	5.0	4.6
GNI (GDP deflator)		2576.6	103.2	1.4	2.6	2.2	-1.6	4.5	2.3	1.7
Contribution to GDP growth:	Domestic demand			1.3	2.5	1.0	0.1	4.1	2.0	1.7
	Inventories			0.0	0.1	-0.2	-0.1	0.3	0.1	0.0
	Net exports			-0.1	-0.6	1.4	-2.0	0.3	0.5	0.2
Employment				0.3	1.5	1.4	-0.7	2.6	1.9	1.1
Unemployment rate (a)				5.9	5.1	5.0	5.6	5.1	4.8	4.7
Compensation of employees / head				2.6	1.6	1.9	2.3	3.2	3.6	2.9
Unit labour costs whole economy				1.7	1.1	1.2	3.8	1.1	2.8	2.2
Saving rate of households (b)				7.5	11.2	9.5	11.6	10.6	10.1	9.4
GDP deflator				1.7	0.7	0.7	2.6	2.4	3.3	2.3
Harmonised index of consumer prices				1.5	0.7	0.7	0.3	1.9	5.1	2.7
Terms of trade goods				0.8	-1.6	-0.1	1.5	-5.9	-3.5	0.3
Trade balance (goods) (c)				4.0	3.6	5.3	5.3	3.8	2.6	2.9
Current-account balance (c)				5.3	7.3	8.8	8.1	8.3	7.8	7.7
General government balance (c)				0.6	0.8	4.1	-0.2	2.3	0.9	0.6
Structural budget balance (d)				0.3	1.1	4.3	2.2	3.5	1.9	2.2
General government gross debt (c)				40.2	34.0	33.6	42.1	36.7	34.9	33.9

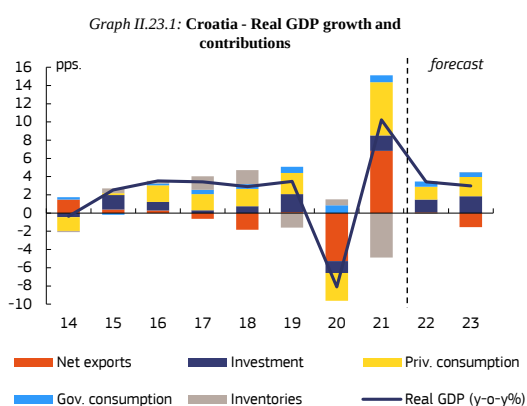
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

23. CROATIA

After a strong recovery in 2021, GDP is forecast to grow by 3.4% in 2022, mostly supported by domestic demand and as the labour market is expected to stay dynamic, with employment growing by around 1.5% this year. Inflation is projected to accelerate to 6.1% in 2022, driven by rising energy and food prices. The adopted fiscal package, including direct transfers to households and SMEs and cuts in indirect taxes, should cushion the effects of rising prices on disposable incomes and corporate profits. Despite this further fiscal support to the economy, the sustainability of the key fiscal figures is expected to continue improving, with the general government deficit narrowing toward 1.8% of GDP and public debt to around 73% of GDP by 2023. In 2023 GDP is expected to grow by 3.0%.

Despite uncertainties, growth to remain solid

After a strong rebound of the economy in 2021, with a growth rate of 10.2%, GDP growth in 2022 is expected to be more modest but still solid at 3.4% as the direct exposure of the Croatian economy to the effects of Russia's military aggression against Ukraine is limited. Private consumption is forecast to grow by 2.4%, lower than previously expected, due to rising consumer prices and uncertainty, which increases precautionary savings. On the other hand, the implementation of the RRP, and the acceleration of post-earthquake reconstruction should push investment growth to 6.5%, despite the drag induced by the rising costs of materials, supply bottlenecks and increased uncertainty. Government consumption should retain its positive contribution to economic growth, with a growth rate of around 2.5%.



On the external side, exports of goods are expected to be affected by weaker demand in main trading partners, but the growth rate should remain solid, at around 5%. The growth of exports of services should be mostly driven by tourist activity, which is expected to converge towards pre-crisis levels in spite of

the current global developments. Imports are projected to increase in line with final demand, particularly driven by capital goods required for investments. The overall contribution of net exports to growth is expected to stay mildly positive in 2022.

In 2023, GDP is forecast to expand by 3.0%, with a positive contribution from domestic demand and a negative contribution from net exports, due to the rising import dependency of final demand. The balance of risks to the forecast is tilted to the downside, with key negative risks stemming from the rising global uncertainties and commodity price shocks, which could affect both domestic and external demand. On the upside, the envisaged euro adoption in 2023 could benefit investments and trade, while RRP-related investments and reforms, if swiftly implemented, could more rapidly increase the growth potential of the economy.

Labour market should stay dynamic

Employment growth is expected to remain dynamic at around 1.5% in 2022 and 2023, driven by a stable macroeconomic outlook, the expected acceleration of the investment cycle and RRP-supported active labour market policies. However, activity and employment rates are expected to stay below the EU average due to the structural issues still present on the labour market, addressing which requires time to address. After peaking at 7.6% in 2021, the unemployment rate is projected to gradually decline moving below 6.5% by the end of the forecasting horizon.

Inflation to accelerate driven by external shocks

HICP inflation is expected to accelerate from 2.7% in 2021 to 6.1% in 2022, mainly driven by rising energy and food prices triggered by shocks on international commodity markets. However, the spill-over from the rising costs of inputs (especially energy and transport) is also expected to push core inflation up. Policy support, namely cuts in indirect taxes, are projected to have a cushioning effect on administered and food prices. In 2023, the inflation rate should decelerate to around 2.8% as current external shocks are expected to be transitory. Overall, inflation dynamics in Croatia should continue to closely follow euro area and EU averages.

Fiscal deficit and debt remain on an improving path

Fiscal balances are forecast to continue to improve, with an expected decrease of the general government deficit from 2.9% of GDP in 2021 to 2.3% of GDP in 2022, which – together with high nominal GDP growth – should bring down the debt-to-GDP ratio from 79.8% close to 75.3%. Similarly, on the revenue side, indirect tax receipts should grow in spite of tax cuts, due to solid economic activity and accelerating inflation. Meanwhile, the full phasing out of COVID-19-related support measures and further savings on debt

servicing costs should limit the growth of expenditures.

The government adopted several measures to help households and companies cope with the economic and social impact of rising prices of energy products. After temporarily freezing petrol and diesel prices already in late 2021, authorities temporarily cut excise duties on petrol and diesel from March until end-May 2022. On top of these fuel-related measures, the authorities adopted a package of measures aimed at mitigating the effect of rising prices of food and energy. Effective as of 1 April 2022, this package includes a permanent reduction in the VAT rate on natural gas, heat, pellets, firewood, food, hygienic products and tickets for sport and cultural events. It also includes support measures designed for both households and companies.

In the medium term, the fiscal outlook looks favourable, with the deficit decreasing to 1.8% of GDP and debt ratio to 73% of GDP in 2023. Debt dynamics should be affected by solid nominal GDP and revenue growth, the phasing out of temporary inflation-related measures and debt-reducing stock flow adjustments.

Table II.23.1:

Main features of country forecast - CROATIA

2021			Annual percentage change							
	bn HRK	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		430.6	100.0	1.8	2.9	3.5	-8.1	10.2	3.4	3.0
Private Consumption		251.6	58.4	1.4	3.3	4.1	-5.3	10.0	2.4	3.6
Public Consumption		96.9	22.5	2.0	2.5	3.3	4.1	3.1	2.6	2.2
Gross fixed capital formation		93.0	21.6	1.9	3.8	9.8	-6.1	7.6	6.5	8.2
Exports (goods and services)		221.8	51.5	3.8	3.7	6.8	-22.7	33.3	8.4	5.5
Imports (goods and services)		225.9	52.5	3.8	7.5	6.5	-12.3	14.7	8.1	8.0
GNI (GDP deflator)		431.8	100.3	1.9	2.8	4.0	-6.0	8.3	2.3	3.2
Contribution to GDP growth:	Domestic demand			1.8	3.2	5.0	-3.5	8.3	3.4	4.5
	Inventories			0.3	1.6	-1.6	0.7	-4.9	0.0	0.0
	Net exports			-0.3	-1.8	0.1	-5.3	6.8	0.1	-1.5
Employment				0.3	2.6	3.1	-1.2	1.2	1.6	1.8
Unemployment rate (a)				13.2	8.5	6.6	7.5	7.6	6.3	6.0
Compensation of employees / head				2.6	3.9	0.4	2.1	5.6	3.0	2.7
Unit labour costs whole economy				1.1	3.6	0.0	9.8	-3.1	1.1	1.5
Saving rate of households (b)				7.2	9.9	9.5	13.4	:	:	:
GDP deflator				2.3	2.0	1.9	-0.1	3.2	3.8	2.4
Harmonised index of consumer prices				2.1	1.6	0.8	0.0	2.7	6.1	2.8
Terms of trade goods				0.4	-0.5	0.3	-3.8	-0.4	-2.8	0.0
Trade balance (goods) (c)				-17.9	-18.3	-18.8	-17.3	-17.7	-20.7	-22.5
Current-account balance (c)				-3.6	1.9	2.8	-0.9	3.3	1.7	0.3
General government balance (c)				-4.1	0.0	0.2	-7.3	-2.9	-2.3	-1.8
Structural budget balance (d)				-1.7	-1.2	-1.4	-4.4	-3.1	-2.7	-2.3
General government gross debt (c)				57.1	73.3	71.1	87.3	79.8	75.3	73.1

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

24. HUNGARY

Hungary's economy grew strongly until early 2022, but the war in Ukraine clouds the outlook, as more expensive imports, trade disruptions, higher uncertainty and risk premia are set to curb GDP growth, raise inflation and worsen the external balance. Due to a more challenging macroeconomic environment and new spending pressures, the budget deficit is projected to remain high.

Strong growth momentum to be interrupted

Hungary's economy recovered rapidly from the pandemic, with real GDP growing by 7.1% in 2021. The expansion continued in the first quarter of 2022. Construction was bolstered by public investment, while industry had begun to recover from supply chain disruptions. Retail sales were boosted by stimulus measures such as the 20% minimum wage increase in January, the reintroduction of the 13th monthly pension and the refund of last year's income tax payments to families in February 2022.

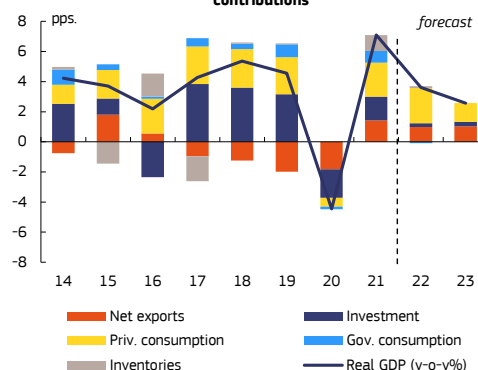
Russia's war of aggression against Ukraine has overshadowed the outlook. GDP growth is expected to slow to 3.6% in 2022 and 2.6% in 2023. Private consumption is forecast to lose momentum after the impact of stimulus measures fades and inflation erodes households' purchasing power. Investment is set to be constrained by slowing demand, geopolitical uncertainty, higher funding costs, as well as fiscal consolidation efforts. Exports face headwinds from weaker external demand, sanctions against Russia and input shortages. Higher commodity prices worsen the external balance, with the current account deficit rising to 5.5% of GDP in 2022. Hungary's net energy imports are projected to swell by some 3 pp of GDP in 2022. The current account deficit is expected to moderate to 3.5% in 2023, due to somewhat lower commodity prices and the gradual easing of supply chain disruptions that hold back exports.

Real wage growth to slow down

Employment rose to a historic high in 2021, and signs of labour shortages began to re-emerge. The tight labour market continued to fuel strong wage growth in the first months of 2022. Although more expensive inputs and weaker expected demand force companies to contain labour costs, their high profitability in 2021 and the social contribution cuts in

January 2022 have left them with some buffers. At the same time, labour supply is projected to rise due to the newly introduced income tax exemption for workers below age 25, and the arrival of people fleeing from Ukraine on the labour market. Consequently, employment growth should be maintained, while real wage growth is expected to moderate. Unit labour cost is forecast to spike in 2022 but slow down in 2023 as businesses adjust to weaker demand and higher input prices.

Graph II.24.1: Hungary - Real GDP growth and contributions



Higher commodity prices to raise inflation

With companies facing strong cost and demand pressure and a weaker exchange rate, inflation is set to rise from 5.2% in 2021 to 9.0% in 2022. Inflation is forecast to peak in 2022-Q3 after the price caps on motor fuel and basic food items expire. Once consumer prices adjust to higher production costs, lower demand is expected to ease inflation to 4.1% in 2023.

Regulated utility prices, which are assumed to remain unchanged over the forecast horizon, are an upside risk for inflation and a downside risk for GDP. In addition, the outlook is sensitive to the evolution of the war due to Hungary's geographical proximity and its stronger trade linkages with Russia and Ukraine compared to

other EU members, as well as due to its high energy import dependency.

Public finances under pressure

Due to robust economic recovery in 2021, Hungary's public finances finished the year in a better than expected shape with public debt declining to 76.8% and government deficit reaching 6.8% of GDP. The growth of nominal GDP and revenues remained robust, while public investment activity moderated.

In 2022, the deficit is forecast to remain elevated at 6.0% of GDP, reflecting the introduction of several expansionary measures and additional spending related to high energy prices. In 2023, the deficit is set to decrease to 4.9% due to continued high nominal GDP growth and the partial curbing of discretionary spending. Current expenditure in 2022 is set to grow briskly on the account of measures adopted in 2021: the full re-introduction of the 13th monthly pension, a one-off service benefit for military and law enforcement employees, and wage increases in the public sector. The decision to postpone some nationally-financed investments, and a slowdown in absorption of EU funds are set to lead to less dynamic capital expenditure growth both in 2022 and in 2023. The retail prices of energy are fixed at a level below cost, which is expected to lead to large losses in the mostly state-owned utility sector.

The forecast assumes capital injections to those companies amounting to 1.1% of GDP in 2022 and a further 0.7% in 2023. Other measures in response to the high energy prices are set to reach 0.1% of GDP in 2022.

Public debt is projected to decrease slightly from 76.8% of GDP in 2021 to 76.4% in 2022, before falling to 76.1% in 2023. High nominal GDP growth is set to support the debt-consolidation and will largely offset high headline deficits. The worsening financing conditions and a relatively low average maturity of public debt are forecast to increase the debt-servicing costs substantially, from 2.3% of GDP in 2020 to 3.0% in 2023.

In the absence of a Council Implementing Decision approving Hungary's RRP, this forecast builds on the technical assumptions and includes expenditures to be financed by RRF grants, amounting to 0.6% in 2022 and 0.8% in 2023.

Risks to the fiscal outlook remain high due to the uncertain evolution of nominal GDP, stronger-than-expected spending pressures and uncertainty about the government's policy response to rising energy prices.

Table II.24.1:

Main features of country forecast - HUNGARY

2021				Annual percentage change						
	bn HUF	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		55256.7	100.0	2.1	5.4	4.6	-4.5	7.1	3.6	2.6
Private Consumption		26616.5	48.2	1.7	5.1	5.0	-1.2	4.6	4.8	2.5
Public Consumption		11312.7	20.5	1.7	1.8	4.3	-0.9	3.7	-0.5	0.0
Gross fixed capital formation		14986.6	27.1	2.2	16.3	12.8	-7.0	5.9	0.9	1.2
Exports (goods and services)		44941.8	81.3	7.3	5.0	5.4	-6.1	10.3	4.9	5.9
Imports (goods and services)		44522.3	80.6	6.5	7.0	8.2	-4.0	8.7	3.8	4.6
GNI (GDP deflator)		53526.5	96.9	2.2	5.5	6.0	-4.5	6.6	3.4	2.7
Contribution to GDP growth:	Domestic demand			1.8	6.5	6.5	-2.6	4.6	2.5	1.5
	Inventories			-0.3	0.1	0.1	0.0	1.1	0.1	0.0
	Net exports			0.6	-1.2	-2.0	-1.8	1.4	1.0	1.0
Employment				0.6	2.3	1.1	-1.1	2.0	1.7	0.6
Unemployment rate (a)				7.6	3.6	3.3	4.1	4.1	3.8	4.0
Compensation of employees / head				4.8	6.4	6.9	3.0	9.2	8.7	6.5
Unit labour costs whole economy				3.3	3.3	3.4	6.6	4.0	6.7	4.5
Saving rate of households (b)				10.8	15.1	14.8	15.5	17.5	14.7	14.4
GDP deflator				3.8	4.8	4.8	6.3	6.9	5.6	4.6
Harmonised index of consumer prices				3.8	2.9	3.4	3.4	5.2	9.0	4.1
Terms of trade goods				-0.3	-1.0	0.5	2.0	-3.6	-4.4	0.5
Trade balance (goods) (c)				-0.1	-1.7	-2.5	-0.9	-2.5	-5.5	-4.3
Current-account balance (c)				-3.1	0.0	-0.8	-1.1	-2.9	-5.5	-3.5
General government balance (c)				-4.8	-2.1	-2.1	-7.8	-6.8	-6.0	-4.9
Structural budget balance (d)				-2.6	-3.8	-3.8	-6.2	-6.6	-5.8	-4.4
General government gross debt (c)				70.5	69.1	65.5	79.6	76.8	76.4	76.1

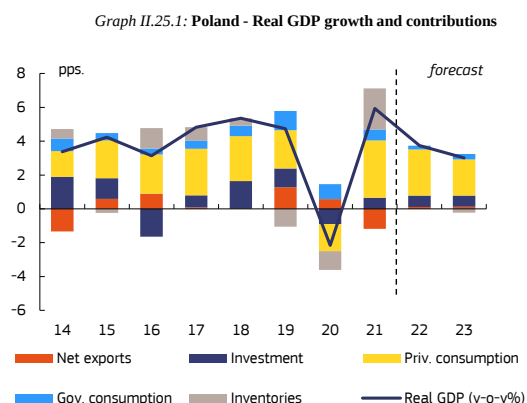
(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

25. POLAND

Poland's economic growth is expected to be impacted by Russia's war of aggression against Ukraine. Higher uncertainty, trade disruptions, strong inflationary pressures and monetary policy tightening are set to curb GDP growth, which is expected to decelerate to 3.7% in 2022 and 3.0% in 2023. After the improvement of public finances in 2021, the costs related to the war will also weigh on Poland's fiscal position, pushing the deficit to 4.0% of GDP in 2022.

Poland entered 2022 on a strong economic footing...

The lifting of pandemic-related restrictions led to a swift recovery of economic activity in 2021, leaving real GDP growth at 5.9%. Despite Russia's war of aggression against Ukraine, hard data suggests that the economy continued on a strong growth path in the first quarter of 2022. Growth of industrial production and retail sales stood well above 10% in March in year-on-year terms, driven by a recovery in Poland's main trading partners and a favourable situation in the labour market, which supported private consumption. Overall, real GDP is forecast to grow by 1.0% q-o-q in the first quarter of 2022.



... but the war has clouded the outlook

The war is projected to have a sizeable impact on economic activity over the forecast horizon, mainly through a drop in sentiment, a collapse in trade with Russia and Ukraine, and increased inflation, which weighs on purchasing power. In particular, higher uncertainty about the economic outlook and elevated inflation are expected to lower households' propensity to spend, although the large inflow of people fleeing from Ukraine will provide a boost to consumption and somewhat offset these factors. Private investment, particularly in

equipment, is expected to remain subdued in the remainder of 2022, as lower confidence results in a postponement of firms' investment decisions. Elevated cost pressures and rising interest rates are expected to have a negative impact on investment, too, especially in construction. On the external side, the collapse in trade with Russia and Ukraine is set to weigh on export and import growth. Still, weaker domestic demand and a projected depreciation of the zloty should also have a significant impact on imports, leading to a positive contribution of net exports to growth in 2022 and 2023. All in all, real GDP growth is forecast to reach 3.7% in 2022 and 3.0% in 2023.

Employment growth to continue

After an extraordinary performance of the labour market in 2021, job creation is expected to continue in 2022. Nevertheless, the unemployment rate will likely increase to 4.1% in 2022 due to the assumed large inflow of people fleeing from Ukraine into the labour force and their relatively lower employment rate. Wage growth is projected to keep gathering pace in 2022 driven by a minimum wage hike and increasing inflation expectations, which will likely lead to higher wage demands. At the same time, the tightening of monetary policy and the increase in labour supply should gradually soften wage pressures towards the end of the forecast horizon. As a result, after reaching 9.5% in 2022, wage growth is expected to decelerate to 8% in 2023.

Inflation to accelerate strongly in 2022

Rising commodity prices, booming demand and supply-side bottlenecks have contributed to a steady and marked rise in HICP inflation in recent months. Despite a number of policy measures introduced to lower tax rates paid on certain goods, strong price dynamics are forecast to persist in 2022, mainly due to surging global energy and food prices, which

are likely to increase further following the war. Rising unit labour costs and supply-chain disruptions are also expected to put upward pressure on core inflation, especially in 2022. HICP inflation is thus expected to continue increasing strongly and to peak in 2022-Q3, leaving the annual inflation rate at 11.6% in 2022. Inflation is then projected to decelerate to 7.3% in 2023 due to an easing of global commodity prices, wage pressures and supply-chain disruptions.

Russia's unprovoked invasion of Ukraine has led to a significant deterioration of the risk balance. A stronger-than-expected increase in precautionary savings, coupled with elevated inflation, could constrain private consumption. Furthermore, longer-lasting supply chain disruptions could negatively impact export growth, exacerbating cost pressures and weighing on economic activity.

War-related costs to impact public finances

The lower-than-forecast deficit in 2021 sets the ground for the current fiscal projections. In the autumn forecast, the general government deficit was expected at 3.3% of GDP in 2021 while it turned out at 1.9% of GDP, thanks to a substantial decrease in public expenditure and windfall revenues caused by the recovery.

The adverse economic developments resulting

from Russia's invasion of Ukraine are expected to lead to a significant deterioration of Poland's fiscal position in 2022. The general government deficit is estimated to increase to 4.0% of GDP in 2022, driven by the cost of aid to people fleeing from Ukraine and higher interest expenditure as well as temporary measures adopted in response to the high energy, food and farm production prices. Meanwhile, the COVID-19 related measures are scheduled to be fully withdrawn in 2022. A major tax reform introduced in 2022 – the so-called Polish Deal – will substantially decrease revenue from income taxes, mainly due to the lowering of the basic personal income tax rate. However, high nominal GDP growth is expected to increase revenues from taxes on production and have a positive impact on the fiscal ratios.

In 2023, the public deficit is projected to increase to 4.4% of GDP. While the energy and inflation compensation measures are assumed to be withdrawn, the costs of hosting people fleeing from Ukraine are set to increase further in line with the horizontal assumptions, increasing the deficit by 0.8% of GDP. In line with technical assumptions, the forecast includes expenditure financed from the RRF in 2022 and 2023. Due to high nominal GDP growth, public debt is set to remain on a declining path through the forecast period: from 54% of GDP in 2021 to 50% in 2023.

Table II.25.1:

Main features of country forecast - POLAND

	2021				Annual percentage change					
	bn PLN	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		2622.2	100.0	3.8	5.4	4.7	-2.2	5.9	3.7	3.0
Private Consumption		1480.7	56.5	3.3	4.5	3.9	-2.8	6.0	4.8	3.7
Public Consumption		489.0	18.7	2.7	3.5	6.5	4.9	3.4	1.3	1.8
Gross fixed capital formation		434.0	16.6	4.0	9.4	6.1	-4.9	3.8	4.1	3.9
Exports (goods and services)		1592.9	60.7	7.6	6.9	5.2	0.0	11.8	5.5	3.9
Imports (goods and services)		1473.8	56.2	6.9	7.4	3.0	-1.1	15.9	5.7	3.8
GNI (GDP deflator)		2540.3	96.9	3.5	5.4	4.8	-1.6	6.5	4.1	2.9
Contribution to GDP growth:	Domestic demand			3.4	4.9	4.5	-1.6	4.7	3.6	3.1
	Inventories			0.2	0.4	-1.0	-1.1	2.4	0.0	-0.2
	Net exports			0.2	0.0	1.3	0.6	-1.2	0.1	0.1
Employment				0.9	0.5	0.0	0.0	1.5	0.4	0.3
Unemployment rate (a)				11.8	3.9	3.3	3.2	3.4	4.1	3.9
Compensation of employees / head				3.9	8.1	7.3	5.6	5.0	9.5	8.0
Unit labour costs whole economy				0.9	3.2	2.4	7.9	0.6	6.0	5.1
Saving rate of households (b)				4.8	1.6	2.9	8.8	4.4	3.9	4.0
GDP deflator				2.1	1.2	3.2	4.2	5.8	10.0	7.8
Harmonised index of consumer prices				2.0	1.2	2.1	3.7	5.2	11.6	7.3
Terms of trade goods				0.6	-1.2	1.5	3.2	-1.5	-3.9	0.5
Trade balance (goods) (c)				-2.7	-1.2	0.3	2.4	-0.1	-2.4	-2.1
Current-account balance (c)				-3.3	-1.0	0.8	3.3	1.6	-0.5	-0.2
General government balance (c)				-4.2	-0.2	-0.7	-6.9	-1.9	-4.0	-4.4
Structural budget balance (d)				-2.2	-1.5	-2.3	-5.9	-1.8	-4.0	-4.0
General government gross debt (c)				49.7	48.8	45.6	57.1	53.8	50.8	49.8

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

26. ROMANIA

After robust growth in 2021, Romania's economy is set to slow down to 2.6% in 2022 as high inflation erodes disposable income and Russia's war of aggression against Ukraine affects economic sentiment, supply-chains and ultimately investment. Growth is projected to pick up slightly in 2023, when inflation is set to come down. Unemployment is projected to stay around 5.5% while price levels growth will peak this year and gradually reduce over 2023. The general government deficit is forecast to reach 7.5% of GDP in 2022 before decreasing to 6.3% in 2023, bringing the debt-to-GDP ratio up to 52.6% by 2023.

The war deepens the momentum loss

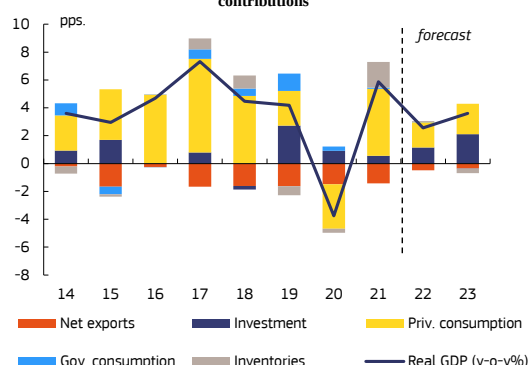
Overall, real GDP is forecast to grow by 2.6% in 2022 and 3.6% in 2023.

In early 2022 Romania's economy was already showing signs of momentum loss, as high inflation at the end of 2021 reduced purchasing power and private consumption. This trend has been aggravated by Russia's invasion of Ukraine, which further lifted inflation and hampered economic sentiment, while adding to supply bottlenecks.

Against this backdrop, private consumption is set to grow only moderately in 2022, before picking up somewhat in 2023 when inflation slows down. Despite increasing interest rates, supply shortages and higher prices for construction materials, gross fixed capital formation is forecast to grow at 4.8% for 2022 thanks to support from the RRP, which is also expected to be the main driver for investment in 2023.

Following a strong recovery of both imports and exports in 2021, trade in goods and services is set to be subdued in 2022 and 2023. Import growth should slow in line with domestic demand, whereas export growth, in particular in the automotive industry, is expected to be negatively affected by supply bottlenecks. The overall net exports contribution to real GDP is forecast to be close to zero. However, high prices of imported commodities such as energy and food are set to worsen the current account deficit, which is projected to peak at 7.5% in 2022⁽³⁹⁾.

Graph II.26.1: Romania - Real GDP growth and contributions



Employment creation in line with economic growth

After the initial pandemic shock, unemployment rate gradually moved during 2021 towards its 2019 levels. The trend continued this year, despite some upticks in the winter months, and unemployment rate is set to reach 5.5% in 2022 and 5.3% in 2023. Total employment is set to grow modestly given the demographic trends and the low stock and slow integration of people fleeing Ukraine, Romania being mainly a transit country. Nominal private sector wages are forecast to increase in line with inflation, whereas those in the public sector are set to rise less following a freeze in 2021.

Inflation to mark record highs

The surge in energy prices that started at the end of 2021 has passed-through into core inflation components such as processed food, services and industrial goods. This trend is expected to be aggravated by the additional push on energy and selected food and commodity prices following Russia's invasion of Ukraine. Overall, HICP is set to reach 8.9% in 2022 before falling somewhat to 5.1% in 2023 when base effects are supposed to kick in.

⁽³⁹⁾ Figures are based on the Commission services' calculations using the latest published available data.

Risks to macroeconomic forecast

Risks are mainly on the downside for economic growth and viceversa for the inflation, as the situation depends very much on the length and the severity of the conflict, as well as on global trade frictions. Still, there are also risks to the upside, as gross fixed capital formation might be positively impacted by productive process relocations from Ukraine and Russia, while the labour market could integrate more people fleeing Ukraine than initially assumed.

Public deficit to remain elevated

Romania's general government deficit is forecast to increase to 7.5% of GDP in 2022, from 7.1% in 2021. Several factors are behind this expected rise: the 2022 budget already contained new expenditure measures (mainly increasing social expenditure, e.g., pensions and children allowance), a higher interest burden due to rising interest rates and lower social security contributions. In addition, Romania adopted a compensation scheme to deal with the surge in energy prices until March 2023, and provides support to people fleeing Ukraine. A new set of social and economic measures was announced on 11 April 2022, which based on the available information, would have a negative budgetary impact of 0.4% of GDP. Overall fiscal revenues are forecast to benefit from high nominal GDP growth and from the

effects of the tax administration reform on tax collection contained in the RRP, partly offsetting the upward pressures on deficit.

The deficit is forecast to fall to around 6.3% of GDP in 2023, mainly due to the discontinuation of the energy support measures, and to the effect of automatic stabilisers as real economic growth should accelerate. Capital expenditure is expected to grow at a sustained pace thanks to the implementation of the RRP, which entails capital expenditure of 0.3% of GDP in 2022 and 0.4% in 2023, and of other nationally-financed investments, as well as to the announced increase in defence expenditure by 0.5 percentage points of GDP as from 2023.

The general government debt is projected to rise to 50.9% of GDP in 2022, and 52.6% in 2023, mainly due to high deficits.

Risks to the fiscal forecast are tilted to the downside. Details on the measures announced on 11 April 2022 might result in a higher budgetary impact while the tax administration reform could have a larger-than-expected positive impact on tax collection.

Table II.26.1:

Main features of country forecast - ROMANIA

	2021		Annual percentage change							
	bn RON	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	1181.9		100.0	4.0	4.5	4.2	-3.7	5.9	2.6	3.6
Private Consumption	736.5		62.3	5.8	7.7	3.9	-5.1	7.9	2.9	3.5
Public Consumption	206.1		17.4	0.2	3.3	7.3	1.8	0.4	0.1	-0.1
Gross fixed capital formation	285.0		24.1	5.8	-1.1	12.9	4.1	2.3	4.8	8.1
Exports (goods and services)	482.8		40.8	10.8	5.3	5.4	-9.4	12.5	4.5	5.2
Imports (goods and services)	549.7		46.5	12.2	8.6	8.6	-5.2	14.6	5.0	5.3
GNI (GDP deflator)	1164.1		98.5	3.9	4.0	4.7	-4.1	6.1	2.7	3.8
Contribution to GDP growth:										
Domestic demand				5.7	5.1	6.5	-2.0	5.5	3.0	4.3
Inventories				-0.3	1.0	-0.6	-0.3	1.8	0.1	-0.3
Net exports				-1.3	-1.6	-1.6	-1.5	-1.4	-0.5	-0.4
Employment				-1.3	0.1	0.1	-1.8	-8.9	0.8	0.8
Unemployment rate (a)				8.5	5.3	4.9	6.1	5.6	5.5	5.3
Compensation of employees / head				11.7	12.9	10.9	2.6	5.7	8.3	7.0
Unit labour costs whole economy				6.0	8.2	6.6	4.7	-9.0	6.4	4.1
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				8.9	6.2	6.8	3.9	5.4	9.5	4.9
Harmonised index of consumer prices				6.3	4.1	3.9	2.3	4.1	8.9	5.1
Terms of trade goods				2.1	0.6	2.1	3.2	0.8	-0.2	-0.5
Trade balance (goods) (c)				-9.8	-7.5	-8.0	-8.7	-9.6	-10.4	-10.8
Current-account balance (c)				-5.5	-4.4	-5.3	-5.8	-7.0	-7.5	-7.3
General government balance (c)				-3.1	-2.8	-4.3	-9.3	-7.1	-7.5	-6.3
Structural budget balance (d)				-1.5	-3.1	-4.9	-7.8	-6.3	-6.5	-5.4
General government gross debt (c)				26.7	34.7	35.3	47.2	48.8	50.9	52.6

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

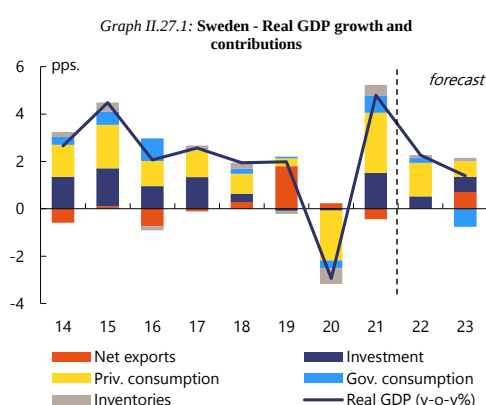
Notes: Due to a break in historical employment data in 2021, employment-related variables have been affected (employment, unemployment as well as cyclically-adjusted and structural fiscal indicators).

27. SWEDEN

Economic growth in Sweden is set to pick up in the second half of 2022 after a weak start due to Russia's war of aggression in Ukraine, the erosion of purchasing power, cost increases due to inflation, and continuing supply bottlenecks. The recovery is expected to remain muted in 2023, driven by private consumption and exports. Inflation is set to increase to 5.3% on average for 2022, falling back to 3% in 2023. Fiscal policy supports the economy in 2022 with sizeable expenditure measures to improve health care, address the surge in inflation and counter the consequences of the war. The general government balance is expected to turn from a deficit of 0.5% of GDP in 2022 into a surplus of similar size next year. The public debt-to-GDP ratio is set to fall to just above 30% of GDP in 2023.

Recovery to stall temporarily

At the beginning of 2022, the Swedish economy was poised for a healthy recovery, underpinned by fundamentals, including a strong labour market, robust corporate profitability and healthy exports orders. However, as the pandemic subsided, the economy started to be negatively affected by the outbreak of the war in Ukraine, which further lifted inflation with negative consequences for household purchasing power and costs to businesses. It also aggravated supply bottlenecks linked to the reversal of supply improvement from Asia, as well as induced lower confidence among households and businesses.



Real GDP growth is set to be positive for 2022 as a whole. Private consumption is expected to expand despite elevated inflation, due to a decline in the household saving ratio and supportive labour market. Meanwhile, investment growth is set to continue, albeit dampened by uncertainty, supply constraints and tightening credit conditions. Fiscal support would continue in 2022. In 2023 government consumption should moderate real GDP growth

as support measures are scaled down. Exports are on track for a recovery this year and in 2023, reflecting order backlogs and overall healthy profitability and competitiveness of exporting firms whereas private consumption growth is projected to slow in 2023. Overall, real GDP is forecast to grow by 2.3% in 2022 and 1.4% in 2023.

Resilient labour market supports growth

The Swedish labour market proved resilient during the pandemic and strong employment growth is expected in 2022, moderating somewhat in 2023. The combination of very high labour shortages and still elevated unemployment indicates matching problems in the labour market. While long-term unemployment remains high, further adjustments would allow the unemployment rate to decrease to 7% in 2023. Wage increases are expected to remain in line with a long-standing pattern of relative wage moderation. The next round of collective wage bargaining, the results of which will be in place as from March 2023, is set to show a limited pick-up in wage growth.

Broad-based inflation to recede only slowly

HICP inflation reached 2.7% in 2021, initially pushed up by energy prices, in particular for electricity. Thereafter, it increased markedly in the first quarter of 2022, as energy inflation stayed at around 26%, while price increases broadened across a wide range of items in the consumer basket, spurred by a sharp increase in input costs for firms. In March 2022, HICP inflation was 6.3%, the highest rate on record since the harmonised consumer price index was first published in 1996. Base effects are set to lower inflation from end-2022 onwards,

especially for energy. However, headline inflation would continue to mirror the pass-through of higher production, energy and transport costs to consumer prices. Overall HICP inflation is expected to average 5.3% in 2022 and 3% in 2023.

Fiscal expenditure to support economy in 2022

The general government balance is expected to move from a 0.5% of GDP deficit in 2022 to a surplus of 0.5% of GDP in 2023. In 2022, weaker economic growth and additional spending more than offsets the phasing out of most COVID-measures, outweighing the revenue impact of higher inflation. In 2023, temporary fiscal support measure notably with regard to energy and the pandemic are set to expire thus strengthening the balance.

The spending increases of the 2022 spring amending budget bill, taken together with the already adopted 2022 amending budgets, amount to around 1.3% of GDP in total. The amending budgets contain measures to compensate households and, in particular, the

agricultural sector for increases in energy prices (energy tax deductions as well as an electricity allowance). Defence spending is expected to continue to increase over the coming years. Substantive emergency aid to Ukraine has already been approved while costs related to those fleeing from Ukraine will be offset through the foreign aid budget in 2022. Further expenditure measures include increased old-age pensions for those with the lowest pensions, an increased housing allowance for families with children, continuation of the bonus for cars with low CO2 emissions and compensation to employers for higher sick pay costs.

The public debt-to-GDP ratio is set to resume its downward path and fall to just above 30% of GDP in 2023. This reflects the combination of sizeable nominal GDP growth, and the stepwise debt-reducing repayment of a Riksbank loan for foreign currency reserves over 2021-2023, equivalent to around 3½% of GDP.

Table II.27.1:

Main features of country forecast - SWEDEN

	2021				Annual percentage change					
	bn SEK	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		5381.3	100.0	2.3	2.0	2.0	-2.9	4.8	2.3	1.4
Private Consumption		2357.3	43.8	2.4	1.8	0.7	-4.7	5.8	3.2	1.5
Public Consumption		1411.5	26.2	1.3	0.8	0.3	-1.3	2.8	0.8	-3.0
Gross fixed capital formation		1358.2	25.2	3.0	1.4	-0.3	-0.3	6.1	2.0	2.5
Exports (goods and services)		2489.2	46.3	3.5	4.2	6.0	-4.6	7.5	4.1	3.1
Imports (goods and services)		2255.0	41.9	3.7	3.8	2.1	-5.6	9.4	4.5	1.8
GNI (GDP deflator)		5541.5	103.0	2.4	2.2	3.0	-2.4	4.2	1.9	1.3
Contribution to GDP growth:	Domestic demand			2.2	1.4	0.3	-2.5	4.8	2.1	0.6
	Inventories			0.0	0.3	-0.1	-0.7	0.4	0.1	0.1
	Net exports			0.1	0.3	1.8	0.2	-0.4	0.0	0.7
Employment				0.8	1.6	0.6	-1.3	1.3	2.1	0.9
Unemployment rate (a)				7.3	6.5	7.0	8.5	8.8	7.8	7.0
Compensation of employees / head				3.1	3.8	3.0	2.5	4.3	2.7	3.7
Unit labour costs whole economy				1.7	3.5	1.5	4.3	0.8	2.6	3.2
Saving rate of households (b)				11.9	16.2	18.2	20.5	19.3	16.5	15.2
GDP deflator				1.6	2.4	2.5	1.8	3.0	4.3	3.9
Harmonised index of consumer prices				1.4	2.0	1.7	0.7	2.7	5.3	3.0
Terms of trade goods				-0.1	-1.0	1.1	0.9	0.4	-1.7	0.2
Trade balance (goods) (c)				4.9	2.5	3.9	4.7	4.5	4.2	4.9
Current-account balance (c)				5.3	2.6	5.2	6.1	5.5	4.8	5.8
General government balance (c)				0.2	0.8	0.6	-2.7	-0.2	-0.5	0.5
Structural budget balance (d)				0.2	0.6	0.4	-0.4	0.5	0.0	1.2
General government gross debt (c)				42.6	38.9	34.9	39.6	36.7	33.8	30.5

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Candidate Countries

28. ALBANIA

A stronger-than-expected economic recovery driven by a quick rebound of tourism from neighbouring countries, as well as by high investment growth and a recovery of private consumption, boosted growth to 8.5% in 2021. For 2022 and 2023 growth is expected to be 2.7% and 3.1 % respectively, mainly affected by the impact of Russia's invasion of Ukraine, although only indirectly as Albania has little direct exposure to both countries. Increasing food and energy prices have prompted the government to provide additional support to households and SMEs, which is set to postpone to 2023 a more significant improvement in government finances.

A stronger-than-expected recovery in 2021

The Albanian economy grew by 8.5% last year, according to preliminary data, almost 2 pps. higher than the Autumn 2021 Forecast projection. Most expenditure categories exceeded their 2019 levels, driven by both public and private investment, private consumption and external demand. Public investment and a stable and liquid financial sector supported the exceptionally strong investment growth. Growing employment and increasing wages fuelled private consumption beyond pre-crisis levels. While goods exports, mainly electricity and construction material, more than recovered the ground lost in 2020, services exports, although benefitting from growing inbound tourism from neighbouring countries, still remained slightly below their pre-pandemic level. Investment and consumption growth drove the rise in goods imports, leading to a strongly negative growth contribution of net exports in 2021.

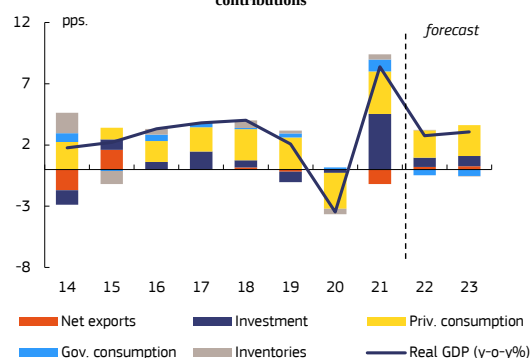
Normalisation of growth dampened by uncertainty about the external environment

Following the strong recovery of most demand components in 2021, expectations of a return to the over 3% historical average growth rate are dampened by the impact of the war on the main EU trading partners, supply chains and commodity prices. Uncertainty about the economic effect of these disruptions, in addition to the likely tightening of financing conditions, is expected to subdue the growth of private consumption and investment. Public investment, in particular the completion of the post-earthquake reconstruction, will continue to support the economy, but less than planned as public expenditure of about 1.5% of GDP has been reoriented to subsidise electricity and fuel, as well as increased social support. Subdued domestic demand is expected to dampen

import growth. On the other hand, tourism, which mainly depends on regional and EU tourists, is projected to continue supporting the growth of services exports, which is set to turn the contribution of net exports to growth slightly positive. Overall, economic growth is forecast at 2.7% in 2022 and 3.1% in 2023. This slowdown and increasing wages are likely to moderate employment growth in 2023. However, driven by recent labour shortages, the unemployment rate is expected to decline to below 11% by 2023.

This outlook is subject to downside risks, mainly related to the impact of a lasting energy price hike coupled with low domestic hydroelectric production due to insufficient rainfall, as already seen in 2022-Q1. In this case, Albania's electricity import bill would increase substantially, and could, in addition to widening the trade deficit, overburden the public budget, which has so far covered the price gap between high external import prices and the regulated domestic prices for households and SMEs.

Graph II.28.1: Albania - Real GDP growth and contributions



Rising commodity prices weigh on the current account deficit

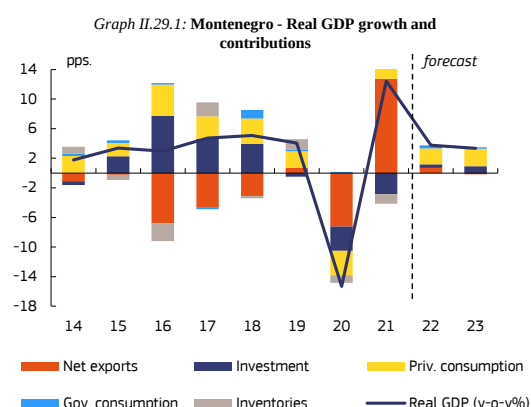
A strongly increased services balance, in combination with rebounding remittances,

29. MONTENEGRO

A quicker than expected resumption of tourism resulted in a strong rebound of the economy in 2021. Tourism activity in Montenegro is however set to slow down in 2022 due to Russia's war of aggression against Ukraine, as Russians and Ukrainians constitute a significant share of visitors. At the same time, an ambitious economic reform programme adopted by the government at the end of 2021 is projected to boost households' purchasing power and investment. This stimulus is set to add further inflationary pressures and to increase external and budget deficits.

Strong rebound of the economy in 2021

Montenegro's economy recorded very strong growth in 2021, surging by 12.4% y-o-y, but did not fully recover to pre-pandemic levels. Net exports were the main driver of growth in 2021, led by a robust revival of tourism, which had positive spillover effects across the economy, boosting private consumption. Government consumption increased only moderately, as COVID-19-related support measures started to expire. Investment activity remained weak for a second year in a row, declining by 10% y-o-y.



Challenging circumstances in 2022

The optimistic autumn forecast baseline outlook has been upturned by a triple shock. In early 2022, food and energy price increases were exacerbated further by the fallout of Russia's war of aggression against Ukraine. The war is also expected to have a negative impact on Montenegro's tourism industry, as Russians and Ukrainians constitute 20% of total visitors. On top of this, a political crisis materialised on 4 February 2022, when the government lost a vote of confidence 14 months after being formed. A new minority government was established three months later, but political uncertainty persists.

An ambitious initiative not exempt from risks

At the end of 2021, the government adopted an ambitious plan (Europe Now) to boost economic recovery. This included the abolition of health contributions, an 80% increase in the minimum wage, the introduction of new social benefits and an ambitious public investment programme. This major fiscal stimulus is set to boost households' income, employment and investment. However, while the increase of salaries is projected to preserve households' purchasing power this year, it also risks nourishing inflationary pressures as well as increasing external and fiscal imbalances.

Overall, this scenario is subject to major downside risks in case the economy grows less than expected in an environment of global financial tightening, which would hinder investments and employment, and consequently, public finances.

Growth projections lowered

Montenegro's GDP growth projections for 2022 are revised downwards by some 2 pps. compared to the Autumn Forecast. Tourism in particular is expected to perform worse in 2022 than previously expected and to reduce exports of services, while the fiscal stimulus is set to support private consumption particularly in 2022, before the impulse runs out in 2023. Weaknesses in public investment management, a track record of low implementation rates, and delays in forming the new government are set to hinder the ambitious public investment plan for 2022, albeit some intensification of investment could be expected in 2023 as the preparation of several construction projects mature. The economy is expected to regain some momentum in 2023, as tourism is projected to fully recover or surpass pre-pandemic levels. The slower but sustained growth of the economy would be reflected in a

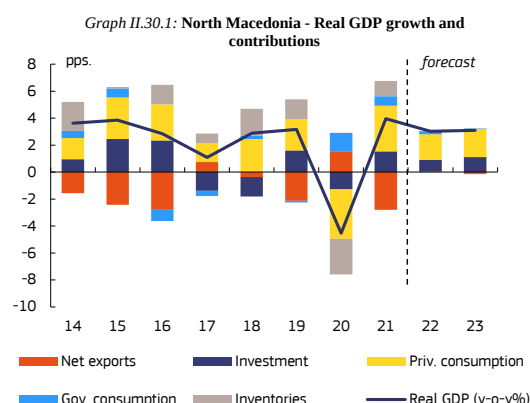
30. NORTH MACEDONIA

North Macedonia's economic recovery is expected to lose some momentum in 2022, reflecting a deteriorating external environment, but also weaker domestic demand due to increasing domestic inflationary pressures, and more cautious investment in view of increased international uncertainty and possible supply chain interruptions. Real GDP growth is projected to slow down to 3.0% in 2022, but to accelerate slightly to 3.1% in 2023. Financing needs for continued implementation of anti-crisis measures, in particular to mitigate the impact of high energy prices on households and companies, are likely to entail sustained high fiscal deficit levels.

The economic recovery will moderate in 2022

After a COVID-19 related output drop by 4.5% in 2020, the economy rebounded by 4% in 2021. The main driver was domestic demand, in particular private consumption, but also exports, which recovered rapidly at the beginning of last year. However, towards the end of 2021, growth dynamics slowed down, partly as a result of weakening external demand and a strong increase in food and energy prices, which brought annual inflation to 3.2% in 2021. Inflows from remittances were slightly weaker than a year before, but continued to bolster households' disposable incomes. Investment was slightly above its level of one year earlier, but remained below the outturn of the second half of 2020. Import growth was rather strong, reflecting solid domestic demand. High frequency indicators for the first two months of 2022 send mixed signals about the resilience of the economy in the face of rising price pressures and protracted ruptures of supply chains.

Over the forecast horizon, domestic demand is projected to be the main source of growth, benefitting from pent-up demand and increasing investment. Household spending is expected to grow by some 3% in 2022 and 2023, benefitting from a recovery in remittances and from government support to employment and wages at least throughout 2022. Based on the assumption that the international environment will remain subdued in 2022 and 2023, export growth is expected to slow down during the forecast period. Due to less buoyant private consumption and investment, import growth will also remain more moderate, leading to a largely neutral growth contribution of net exports to total growth. The deficit in merchandise trade is likely to narrow as a result of weaker imports.



Employment growth to accelerate

After a moderate employment decline in 2020, the number of employees increased slightly in 2021, in particular in the second half of the year, benefitting from public employment support measures. However, brain drain continues to be an important issue. During the forecast period, employment growth is expected to accelerate, in particular in 2023, reflecting higher investment and government support to employers.

Price pressures set to increase markedly

Inflation is projected to pick up significantly in 2022, mainly due to rising global prices for energy and food, and to global supply chain disruptions. Energy prices over the forecast horizon are expected to track futures and hence remain elevated. Spillovers to core inflation are already discernible in various sectors. Further price pressures might arise from a renewed push to wage growth, given the 18.5% rise in the minimum wage as of March this year.

31. SERBIA

After a strong rebound by 7.4% in 2021, the Serbian economy is projected to expand more moderately by 3.4% in 2022 and by 3.8% in 2023. Growth is expected to be mainly driven by private consumption and investment, but dampened by the economic fallout of Russia's war of aggression against Ukraine. Inflation is set to peak in mid-2022 to then decelerate as of autumn 2022. Supported by a lower volume of fiscal support measures and high nominal GDP growth, the general government deficit and the debt-to-GDP ratio, after decreasing to 4.1% of GDP and 57.1% respectively in 2021, are expected to record further gradual reductions in 2022 and 2023.

Strong rebound in 2021

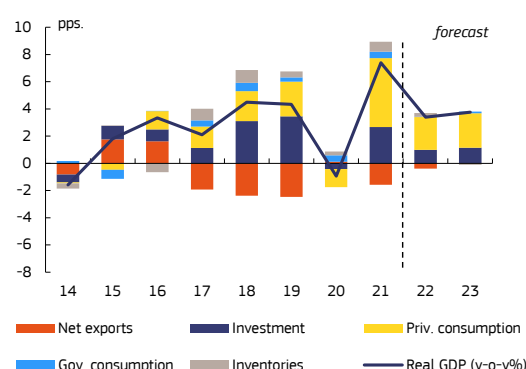
After a relatively mild contraction in 2020, the Serbian economy recorded a strong rebound in 2021 to well above its pre-COVID-19 crisis level. Real GDP growth reached 7.4%, mostly driven by increases in private consumption, gross fixed capital formation and public consumption that were only slightly offset by a negative contribution of net exports to growth. The rebound of private consumption was particularly supported by a new fiscal stimulus programme worth around 2% of GDP and additional liquidity support measures of similar size. On the supply side, the recovery was chiefly driven by services, construction and industry. Short-term indicators suggest that the expansion of economic activity, while slightly decelerating, continued in the first quarter of 2022. Thus, industrial production and real retail turnover increased by 1.9% and 10.6% y-o-y respectively in the first three months of 2022.

Growth momentum dampened by the war in Ukraine

Economic growth is projected to reach 3.4% in 2022, mostly driven by increases in private consumption and investment that are expected to outweigh the small negative contribution of net exports to growth. The economic fallout of Russia's war against Ukraine is expected to weigh on the growth momentum in particular via higher commodity prices, impacting real disposable income, and reduced trade dynamics with Serbia's main trading partners in the EU. Under the assumption of a continued high level of geopolitical tensions, growth in 2023 is expected to remain below its pre-pandemic rate of somewhat above 4%. GDP growth in 2023 is projected to be mostly driven by private consumption and investment as well as an improving contribution of net exports due to increased export capacity supported by recent

foreign direct investment in the tradable sector. The current account deficit, after a slight increase in 2021, is expected to rise substantially in 2022, mainly due to the higher cost of energy imports, and to broadly stabilise in 2023.

Graph II.31.1: Serbia - Real GDP growth and contributions



Unemployment to resume gradual decline

After a slight increase in 2021, as the pace of return of discouraged workers to the labour market initially exceeded the growth of employment, the unemployment rate is expected to resume a gradual decline in 2022 and 2023.

Inflationary pressures to decelerate from high levels

After accelerating strongly since the second half of 2021, mostly due to food and energy prices, inflation reached 9.1% in March 2022 and is projected to peak in the middle of the year. It is expected to decelerate as of autumn 2022 as base effects from lower price levels in early 2021 are set to subside, leading average annual inflation to stabilise at the level of the first quarter of 2022 and to return below 5% in 2023.

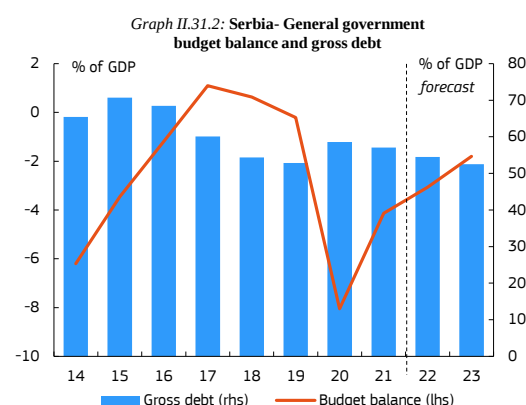
High uncertainty and substantial downside risks

Given the war in Ukraine, the growth outlook is subject to a high level of uncertainty while risks appear to be tilted to the downside. An even stronger or more durable hike in inflation, maintaining or exceeding the March 2022 level for a prolonged period, particularly due to continued pressure from energy and food prices, could further weaken purchasing power and thereby weigh on real growth more than currently anticipated. A protracted impact of supply-side bottlenecks, particularly in the EU, could dampen net exports as compared to the baseline. On the other hand, increased nearshoring of production could have beneficial effects on foreign direct investment and exports.

Deficit and debt levels on a downward path

After reaching 8.0% of GDP in 2020, mostly as a result of COVID-19-crisis-mitigating fiscal support measures, the general government deficit dropped to 4.1% of GDP in 2021 on the back of lower fiscal support measures, strong revenue performance in line with high nominal growth and deferred tax payments, and despite substantial further increases in capital spending.

government support measures, lower capital spending and continued strong revenue performance from high nominal growth, the deficit is forecast to decrease further to around 3% of GDP in 2022 and to continue declining in 2023. Following an increase by 5 pps in 2020 to 57.8%, the debt-to-GDP ratio has slightly decreased to 57.1% in 2021 as a result of very high nominal GDP growth. The ratio is projected to continue a gradual decline in 2022 and 2023 in line with lower public deficits and continued rather high nominal GDP growth.



In line with a lower overall volume of

Table II.31.1:

Main features of country forecast - SERBIA

	2021			Annual percentage change						
	bn RSD	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	6268.7		100.0	3.1	4.5	4.3	-0.9	7.4	3.4	3.8
Private Consumption	4100.7		65.4	2.8	3.1	3.7	-1.9	7.6	3.7	3.8
Public Consumption	1052.5		16.8	1.7	3.7	1.9	2.8	2.7	0.1	0.7
Gross fixed capital formation	1409.5		22.5	6.4	17.5	17.2	-1.9	12.5	4.4	4.8
Exports (goods and services)	3410.2		54.4	9.8	7.5	7.6	-4.1	19.3	8.6	8.5
Imports (goods and services)	3902.2		62.2	8.0	10.8	10.7	-3.6	19.3	8.1	7.3
GNI (GDP deflator)	5991.0		95.6	2.7	6.0	4.0	1.5	5.9	3.3	3.5
Contribution to GDP growth:										
Domestic demand				3.7	5.9	6.3	-1.3	8.2	3.4	3.8
Inventories				0.1	0.9	0.4	0.3	0.7	0.3	-0.1
Net exports				1.4	-2.4	-2.5	0.1	-1.6	-0.4	0.0
Employment				-0.9	1.4	2.4	-0.2	2.6	0.8	0.7
Unemployment rate (a)				18.1	12.7	11.2	9.7	11.0	10.0	9.3
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				7.9	2.0	2.4	2.4	6.1	7.6	4.5
Consumer price index				8.3	2.0	1.7	1.6	4.0	8.5	4.6
Terms of trade goods				:	-1.3	3.1	1.0	2.7	-2.7	-0.2
Trade balance (goods) (c)				-14.6	-11.9	-12.2	-11.1	-11.1	-12.9	-13.0
Current-account balance (c)				-7.1	-4.8	-7.0	-4.1	-4.4	-6.5	-6.4
General government balance (c)				-3.0	0.6	-0.2	-8.0	-4.1	-3.1	-1.8
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				52.0	54.4	52.8	58.6	57.1	54.5	52.5

(a) as % of total labour force, (b) gross saving divided by adjusted gross disposable income, (c) as a % of GDP, (d) as a % of potential GDP.

32. TURKEY

The strong 2021 economic recovery decelerated in early 2022 and is expected to weaken further before rebounding somewhat in 2023. Private consumption is forecast to stagnate, while the high country risk premium and tighter global financing conditions are set to dampen investment. The negative terms-of-trade shock from the higher global commodity prices is set to materially worsen external imbalances. The overly loose monetary policy remains a major disruptive factor leading to very high and rising domestic inflation and elevated risks. Although the budget deficit is set to increase, the government debt-to-GDP ratio is forecast to remain broadly stable.

Slowing down

Base effects and robust domestic and external demand propelled economic growth to double-digits in 2021. Despite growing inflationary pressures (March inflation was 61% y-o-y), household consumption was very strong, supported by a recovering labour market and deeply negative real interest rates. Net exports had a sizeable positive contribution to growth as the strong export performance continued unabated, while imports were suppressed by the depreciation of the lira. Investments weakened in the second half of the year, while stocks accumulated in the COVID-19 crisis continued to unwind fast.

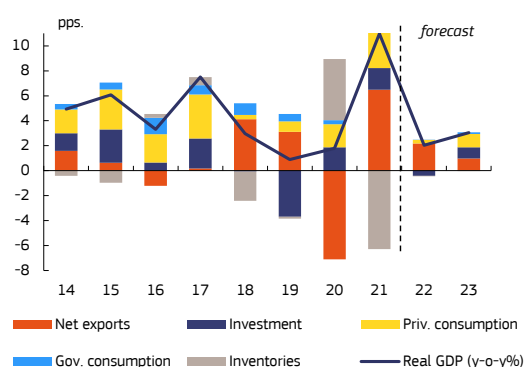
The economic growth momentum, however, decelerated in early 2022 and was further weakened by the fallout of Russia's invasion of Ukraine. Heightened volatility and uncertainty took a toll on economic sentiment, in particular in services and retail trade. Consumer confidence fell steeply in April, from an already very low level. High input costs due to rising global commodity prices and supply chain disruptions undercut manufacturing strength. The slowdown of industrial activity deepened, with March high-frequency data indicating a contraction for the first time in about a year.

High inflation, elevated uncertainty and global challenges to suppress growth

Economic growth is expected to fall sharply in 2022, when it is set to be driven exclusively by net exports, before rebounding modestly in 2023 as domestic demand picks up. A confluence of domestic and external challenges is likely to materially slow down economic activity. Private consumption is forecast to largely stagnate, as pent-up demand dissipates and households' purchasing power is undermined by the very high inflation, in

particular due to the strong rise in food and energy prices. Without a budget revision, inflation would also take the edge off public consumption. The high country risk premium and growing uncertainty, coupled with tighter global financing conditions, are expected to sap investment performance.

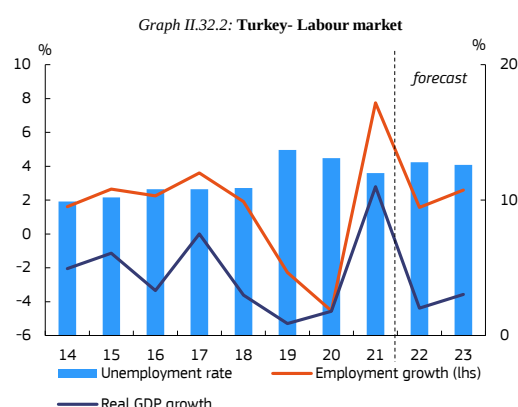
Graph II.32.1: Turkey - Real GDP growth and contributions



The disruption of global supply chains and the lower external demand because of Russia's war against Ukraine is forecast to significantly curb export growth. However, exports are likely to continue expanding, supported by previous price competitiveness gains and the further lifting of pandemic-related restrictions. Service exports may even benefit from the conflict in certain sectors, as international transport corridors have been re-routed through Turkey and the country remains open to Russian tourists. Turkey may also benefit from a possible relocation of some companies out of Russia and from the shortening of global supply chains. Despite a continuation of a relatively robust net exports contribution to growth, external imbalances are forecast to worsen significantly. The negative terms of trade shock from the higher global commodity prices, energy in particular, is the key factor driving this development.

Following a strong recovery in 2021, the labour market is forecast to stagnate, with limited gains in employment and a broadly unchanged unemployment rate.

Real interest rates have been deeply negative since late 2021, triggering a steep drop in the lira and a resulting multiyear record spike in inflation. In an environment of persistent global inflationary pressures, the continuation of an excessively loose monetary policy stance is expected to keep domestic inflation very high and to further entrench the rising inflationary expectations.



Higher budget deficits but stable debt

The budget execution outperformed the 2021 target and the good performance continued in the first quarter of 2022. The 2022 budget, however, is outdated, as it is based on an unrealistic macroeconomic scenario and does not include a number of measures on the revenue and expenditure side to lower inflation and support the lira. Therefore, the annual deficit is expected to increase above plans and its previous-year levels and to remain elevated next year. Despite the bigger deficit and significant valuation effects, high inflation is forecast to keep the government debt-to-GDP ratio broadly stable through the denominator effect. Fiscal challenges loom large in view of growing contingent liabilities and the political cycle, with executive and parliamentary elections due in 2023.

Risks are elevated

Turkey's high exposure to Russia makes it vulnerable to a drawn-out war in Ukraine. The global monetary policy tightening cycle is another challenge for the economy, which relies on sizeable short-term external financing. The unorthodox monetary policy and lack of credibility remain key sources of domestic risk.

Table II.32.1:

Main features of country forecast - TURKEY

	2021				Annual percentage change					
	bn TRY	Curr. prices	% GDP		02-17	2018	2019	2020	2021	2022
GDP		7209.0	100.0	5.8	3.0	0.9	1.8	11.0	2.0	3.0
Private Consumption		3995.5	55.4	5.3	0.6	1.5	3.2	15.1	0.5	2.0
Public Consumption		942.4	13.1	5.2	6.5	4.1	2.2	2.1	0.0	1.0
Gross fixed capital formation		2016.0	28.0	10.1	-0.2	-12.4	7.2	6.4	-1.5	3.0
Exports (goods and services)		2551.7	35.4	5.9	8.8	4.6	-14.8	24.9	7.0	7.3
Imports (goods and services)		2582.1	35.8	8.1	-6.2	-5.4	7.6	2.0	0.9	4.5
GNI (GDP deflator)		7074.4	98.1	5.9	1.7	1.5	2.7	10.1	1.7	3.0
Contribution to GDP growth:	Domestic demand			6.6	1.2	-2.2	4.1	10.6	-0.1	2.1
	Inventories			-0.3	-2.3	-0.2	4.9	-6.3	0.0	0.0
	Net exports			-0.3	4.1	3.1	-7.1	6.5	2.2	1.0
Employment				:	1.9	-2.3	-4.5	7.7	1.6	2.6
Unemployment rate (a)				9.9	10.9	13.7	13.1	12.0	12.8	12.6
Compensation of employees / head				:	17.0	22.7	14.8	21.9	61.6	63.5
Unit labour costs whole economy				:	15.8	18.9	7.6	18.4	60.9	62.8
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				10.8	16.5	13.9	14.8	28.7	62.8	58.8
Consumer price index				11.2	16.3	15.2	12.3	19.4	63.1	54.1
Terms of trade goods				:	:	:	:	:	:	:
Trade balance (goods) (c)				-7.0	-5.5	-3.0	-6.3	-3.0	-4.9	-4.0
Current-account balance (c)				-4.8	-2.7	0.7	-4.9	-2.2	-3.8	-3.5
General government balance (c)				-0.3	-2.3	-3.9	-4.7	-2.7	-4.5	-4.5
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				41.2	30.4	32.7	39.7	42.0	41.4	39.3

(a) as % of total labour force, (b) gross saving divided by adjusted gross disposable income, (c) as a % of GDP, (d) as a % of potential GDP.

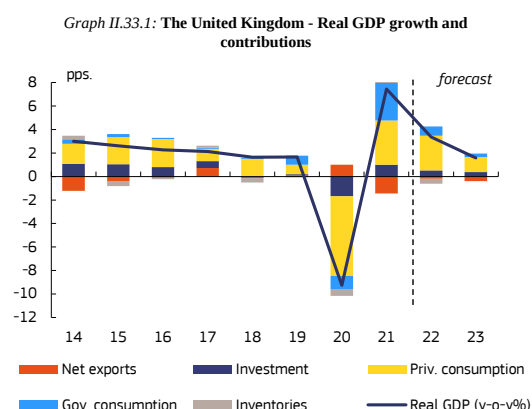
Other non-EU Countries

33. THE UNITED KINGDOM

During 2021, the UK economy clawed itself back from the 2020 slump induced by the pandemic, coming close to pre-pandemic output levels by end year. Looking ahead, growth is expected to be sluggish as high energy prices and tighter fiscal and monetary policy weigh on disposable incomes and private consumption. Inflation is set to remain high, as the economy grapples with a combination of supply side bottlenecks, high commodity prices and tight labour market.

Recovery has come with rising prices

UK GDP grew by 7.4% in 2021, after contracting by 9.7% in 2020. The recovery was driven largely by private and government consumption, with a negative contribution from net exports. Growth was 0.9% in Q3 and 1.3% in Q4, giving a large statistical “carryover” of nearly 2.7% for GDP for 2022. Inflation rose sharply from mid-2021 and continued to increase in early 2022 to 7% in March, pushed up mainly by higher prices for energy, fuels and other tradeable goods.



Low growth momentum in 2022 and 2023

The UK saw a spike in COVID-19 cases in early 2022 as the Omicron variant took hold. New cases then fell back quickly, and all remaining restrictions were eliminated in late February and March. The UK then saw a steep increase in deaths in April, much higher than either the US or EU. No further lockdowns are assumed over the forecast period, though the virus remains a risk factor for the outlook, unless deaths subside rapidly. Survey data (PMIs) for services showed a clear boost in February from the end of COVID restrictions, and manufacturing PMIs have been buoyant. However, both weakened in March following the Russian invasion of Ukraine. Consumer confidence has declined steadily from the start of the year, and is now

at levels last seen during the global financial crisis in 2008. Monthly GDP figures show the UK economy grew by 0.8% m-on-m in January, but stalled in February, expanding by just 0.1%.

GDP is expected to grow only slowly during 2022, with private consumption being negatively affected by higher inflation, weakening sentiment, and fiscal and monetary tightening. The Chancellor’s March Spring Statement carried through with planned rises to National Insurance rates, while not uprating welfare benefits to fully reflect higher inflation. Additional reliefs to households to cope with the higher cost of living were also limited. Gas supplies a higher share of total energy in the UK than in most EU countries, and higher energy prices will cut deeply into household incomes from April, and again in October, as the regulatory price caps on fuel bills increase. Higher taxes and prices will both reduce real household disposable income with stronger effects for those on lower incomes, although consumption will be supported to some extent by a projected fall in the household saving rate back to close to pre-pandemic levels.

While slowing down substantially as compared to 2021, government consumption is still projected to contribute positively to growth in 2022 and 2023. Business investment is forecast to see some pick-up in 2022, as firms make use of the temporary “super-deduction” which allows an offset of 130% of eligible spending and which is due to end by April 2023. Nevertheless, the strength of this investment response is highly uncertain, given the worsening outlook, rising interest rates, and supply side constraints. Both imports and exports are projected to grow only slowly over the forecast horizon, with net exports making small negative net contributions to growth. GDP is expected to grow by 3.4% in 2022 and by 1.6% in 2023.

The labour market has tightened

The labour market is tight, with vacancies at high levels. The end of the pandemic furlough scheme in September 2021 did not noticeably increase unemployment, which fell to 3.8% in February 2022, the same as pre-pandemic. Participation rates and total employment are however around 1pp lower than pre-pandemic. The unemployment rate is projected to remain broadly stable over the forecast horizon. The Bank of England has raised the base rate four times since December to 1%, and markets expect further rises of around 125 basis points in 2022, given the low level of labour market slack, and inflation well above the 2% target level. Nominal wages are rising at around 5%, below inflation, but pay settlements and inflation expectations have been edging up

Higher inflation is in store

Consumer price inflation is forecast to increase further and peak in late 2022, mainly due to the increase in energy prices and (regulated) price caps. Inflation is then expected to fall back in 2023 as energy prices soften and price pressures for tradeable goods ease as bottlenecks loosen. Overall, prices are expected to increase by 7.0% in 2022 and by 3.6% in 2023.

A narrowing deficit, but a larger state

The UK government provided substantial fiscal support during the pandemic, with the public deficit expanding to 12.8% of GDP in 2020 and 8.3% in 2021. The deficit should fall rapidly in 2022 to around 3.9% of GDP and 2.3% in 2023, as higher taxes and slower public spending growth take effect. However, both spending and tax revenue are expected to remain at high levels compared to the last decade, with tax receipts at close to 40% of GDP.

Risks are tilted to the downside

The UK has been hit by compounded shocks, including COVID-19, Brexit, and the impact of the Russian invasion of Ukraine. The response of consumers to falling real incomes in a highly uncertain environment may be to reduce consumption more than expected, while the response of private investment to existing and possible new policy measures – already hinted at in the Chancellor's Spring statement – could surprise on the upside or downside. A deterioration in the domestic COVID-19 situation remains a risk. Finally, supply constraints could prove longer lasting than assumed, increasing inflationary pressures, and heightening risks of a wage-price spiral.

Table II.33.1:

Main features of country forecast - UNITED KINGDOM

	2021			Annual percentage change						
	bn GBP	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		2317.1	100.0	1.7	1.7	1.7	-9.3	7.4	3.4	1.6
Private Consumption		1424.4	61.5	1.8	2.4	1.3	-10.6	6.2	4.8	2.0
Public Consumption		511.3	22.1	1.8	0.4	4.2	-5.9	14.3	3.6	1.4
Gross fixed capital formation		395.8	17.1	2.0	-0.1	0.5	-9.5	5.9	3.0	2.2
Exports (goods and services)		625.4	27.0	2.9	2.8	3.4	-13.0	-1.3	5.3	1.2
Imports (goods and services)		654.5	28.2	3.2	3.1	2.9	-15.8	3.8	5.8	2.3
GNI (GDP deflator)		2305.1	99.5	1.6	1.5	2.5	-10.1	8.5	3.5	1.6
Contribution to GDP growth:	Domestic demand			1.9	1.6	1.7	-9.6	8.0	4.3	1.9
	Inventories			0.0	-0.4	-0.1	-0.6	0.8	-0.4	0.0
	Net exports			-0.2	-0.1	0.1	1.0	-1.4	-0.2	-0.4
Employment				0.9	1.2	1.1	-0.5	-0.8	0.9	1.0
Unemployment rate (a)				6.0	4.1	3.8	4.5	4.5	4.0	4.0
Compensation of employees / head				2.9	2.5	4.2	2.2	5.4	4.5	3.0
Unit labour costs whole economy				2.1	2.1	3.6	12.1	-2.7	2.0	2.4
Saving rate of households (b)				8.1	4.8	4.6	14.0	10.4	3.9	4.4
GDP deflator				2.1	2.0	2.0	5.1	0.3	3.8	2.6
Consumer price index (CPIH) (e)				2.1	2.3	1.7	1.0	2.5	7.0	3.6
Terms of trade goods				0.7	0.8	1.1	-2.3	1.3	-8.6	-0.2
Trade balance (goods) (c)				-5.9	-6.5	-6.1	-6.0	-6.7	-8.6	-8.8
Current-account balance (c)				-3.4	-3.9	-2.7	-2.5	-2.6	-4.6	-4.9
General government balance (c)				-4.9	-2.2	-2.4	-13.1	-8.3	-3.9	-2.3
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				62.7	84.5	83.8	102.5	102.8	100.2	98.4

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP. (e) CPIH is consumer price index which includes costs of owner-occupied housing

34. THE UNITED STATES

Following a rapid expansion in 2021, US output contracted in 2022-Q1. Growth is forecast to pick up in the next quarters, but at a lower rate than observed in 2021, as decades-high inflation, fuelled by tight labour market and Russia's war of aggression against war in Ukraine, weighs on household incomes, while financial conditions tighten. 2023 is set to see further moderation in output growth, converging down to potential. Inflation is projected to peak in 2022-Q2 and then gradually come down as supply constraints progressively recede, energy price inflation eases and domestic demand moderates. Higher inflation for longer and the impact of geopolitical tensions are the main risks to the outlook.

After 2021 expansion, GDP contraction signals troubles ahead

The US real GDP increased by 5.7% in 2021, the fastest rate of expansion since early 1980s. Activity saw a sharp acceleration in 2021-Q4 (1.7% q-o-q increase) as suppliers re-stocked inventories depleted during the post-COVID rebound. Output at the end of 2021 stood 3.1% above its pre-pandemic level as private consumption increased by 7.9%, reaching its pre-COVID trend. Activity was also supported by private investment, which increased by 7.8%, propelled by double-digit growth in equipment and intellectual property and an expansion in residential construction. Net exports contributed negatively to growth, as a robust rise in exports (4.5% in 2021) was outpaced by imports increasing 14% over the year, fuelled by flourishing domestic demand.

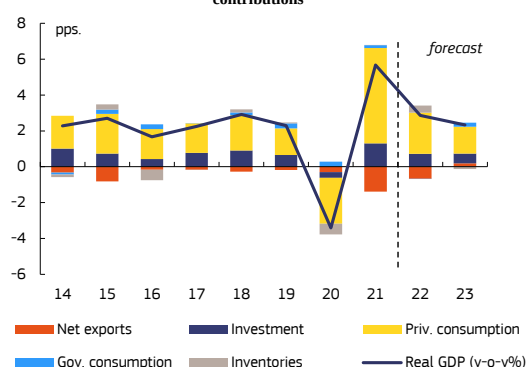
According to an advance estimate, US output fell by 0.4% (q-o-q SA) in 2022-Q1, as exports unexpectedly contracted (while imports continued expanding). Private consumption and investment growth remained robust, pointing to continued strength of domestic demand.

Growth expected to slow in 2022, remain positive

GDP is expected to rise by 2.9% in 2022 and by 2.3% in 2023, lower than projected in autumn. While the Russian invasion of Ukraine should affect activity only indirectly (mainly via the commodity price channel), the projected elevated consumer inflation is expected to weigh on household real incomes, dragging down private consumption. A faster-than-previously-envisioned monetary tightening, in reaction to continued inflation pressures and a tight labour market, is expected to constitute a further drag on growth. Private consumption

and fixed investment are set to remain the main growth engines, but their pace of expansion is expected to decelerate over the forecast horizon as output growth gradually converges back to potential.

Graph II.34.1: The United States - Real GDP growth and contributions



Due to US dollar appreciation, imports volume growth is projected to remain high, at almost 9%, in 2022, but is set to slow down to 3% in 2023, reflecting less dynamic domestic demand and the further progress in restocking inventories. Export growth is forecast to accelerate to around 5.5% in both 2022 and 2023, with export volume surpassing the pre-pandemic level in mid-2023. Net exports' contribution to growth will remain negative in 2022 and will turn marginally positive only in 2023. The current account deficit widened in 2021, and may further increase in terms of GDP in 2022, before improving in 2023.

War in Ukraine adds to inflationary pressures

Headline CPI inflation reached 4.7% in 2021 on the back of strong base effects, flourishing demand, high energy prices and supply constraints. Inflation is expected to further increase in the first half of 2022, fuelled by even higher energy and commodity prices due

to the war in Ukraine, as well as continued robust domestic demand and persisting supply chain disruptions. Inflation is projected to moderate into the second half of the year as monetary policy tightening succeeds in shifting expectations, while supply chain constraints and commodity prices start to ease gradually. However, inflation is not expected to reach the Federal Reserve's (Fed's) target of 2% by the end of the forecast horizon.

The pace of jobs growth is expected to decelerate over the next two years, but wage pressures may persist in some market segments. The unemployment rate is set to fall to close to 3.5% in late 2022 and remain at around that level in 2023.

Policy mix will turn firmly contractionary

The Fed accomplished its asset purchase tapering in March 2022 and lifted its target funds rate for the first time since pre-pandemic, by 0.25 pps, to the 0.25%-0.5% range. The March Federal Open Market Committee meeting minutes suggest that the Fed is prepared to keep tightening aggressively during 2022 and could start reducing its balance sheets in June. Although recent high inflation prints have pushed nominal long yields above their February 2020 levels, real interest rates remain unusually low. The yield curve (its 10y-2y segment) briefly inverted in early April

2022, but returned to positive territory more recently.

On the fiscal front, the general government deficit is set to fall from around 12% of GDP in 2021 to close to 6% of GDP in 2022 and to 5% of GDP in 2023. With no extra spending packages currently in the pipeline, the fiscal impulse will remain negative over the forecast horizon. After a steep increase of about 14 pps in 2020, general government debt fell by 4 pps to 129% of GDP in 2021, and is set to continue decreasing to 123.5% of GDP and 122% of GDP in 2022 and 2023, respectively.

The risks are skewed to the downside

A higher inflation for longer, in part due to intensified wage-price pressures, lingering supply chain disruptions (e.g. if lockdowns in China are extended) and an outsized impact of the war in Ukraine on prices, risks eroding consumer purchasing power and depressing demand. Persistent inflation resulting in a faster-than-projected tightening of monetary policy could also considerably raise the cost of financing and further stifle demand, increasing the risk of recession in 2023.

Table II.34.1:

Main features of country forecast - UNITED STATES

	2021			Annual percentage change						
	bn USD	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	22997.5		100.0	2.0	2.9	2.3	-3.4	5.7	2.9	2.3
Private Consumption	15746.9		68.5	2.2	2.9	2.2	-3.8	7.9	3.4	2.2
Public Consumption	3250.7		14.1	0.8	1.2	2.0	2.0	1.1	0.0	1.6
Gross fixed capital formation	4941.7		21.5	1.9	4.4	3.1	-1.6	6.1	3.4	2.5
Exports (goods and services)	2479.9		10.8	4.1	2.8	-0.1	-13.6	4.6	5.7	5.4
Imports (goods and services)	3395.8		14.8	3.5	4.1	1.2	-8.9	14.0	8.7	2.7
GNI (GDP deflator)	23250.0		101.1	2.0	2.8	2.1	-3.6	5.7	3.0	2.4
Contribution to GDP growth:										
Domestic demand				2.0	3.0	2.4	-2.6	6.8	2.9	2.3
Inventories				0.0	0.2	0.0	-0.6	0.0	0.4	-0.1
Net exports				-0.1	-0.3	-0.2	-0.3	-1.4	-0.7	0.2
Employment				0.6	1.7	1.2	-5.8	3.2	3.3	1.1
Unemployment rate (a)				6.4	3.9	3.7	8.1	5.4	3.6	3.5
Compensation of employees / head				2.9	3.2	3.0	6.7	5.6	5.4	3.9
Unit labour costs whole economy				1.5	1.9	1.9	4.1	3.2	5.9	2.7
Saving rate of households (b)				11.4	13.2	13.3	21.7	18.2	13.8	13.4
GDP deflator				1.9	2.4	1.8	1.2	4.2	6.4	2.8
Consumer price index				2.1	2.4	1.8	1.2	4.7	7.3	3.1
Terms of trade goods				-0.2	0.8	0.6	-1.2	6.0	2.3	0.7
Trade balance (goods) (c)				-4.9	-4.3	-4.1	-4.3	-4.8	-5.3	-5.0
Current-account balance (c)				-3.6	-2.1	-2.2	-2.8	-3.6	-3.9	-3.4
General government balance (c)				-6.7	-6.1	-6.4	-15.3	-11.7	-5.7	-4.9
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				83.9	107.0	108.6	132.8	128.8	123.4	122.1

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

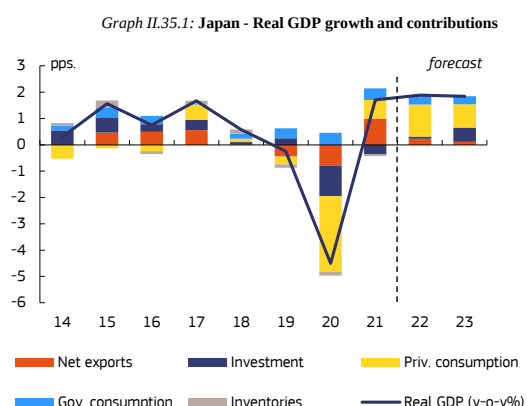
(*) Employment data from the BLS household survey.

35. JAPAN

After subdued growth in the first quarter of 2022, amid the Omicron spread and continued containment measures, economic activity is expected to accelerate in the remainder of 2022 as the economy reopens. Real GDP growth is likely to moderate slightly in 2023 as cyclical rebound subsides and fiscal policy support is gradually scaled back.

Recovery subdued amid recurrent COVID-19 containment measures

Repeated waves of COVID-19 resulted in continued containment measures and dampened private consumption growth for most of 2021, while supply chain disruptions affected negatively investments and exports. However, the negative effects on growth were tempered by sustained fiscal support and recovering global demand. Economic activity picked up in the last quarter of 2021 amid high vaccination rates and easing supply side constraints. Overall, real GDP growth increased by 1.6% in 2021.



The rebound was short-lived as mobility plunged again in the beginning of 2022 due to the Omicron variant. Retail sales data indicate that private consumption growth might have turned negative in the first quarter of 2022, reflecting extension of containment measures. At the same time, industrial production remained sluggish due to persistent supply side bottlenecks, higher commodity prices, and increasing uncertainty, indicating stagnant investment and export growth outlook. Overall, real GDP growth is expected to have flatlined in the first quarter of 2022.

Growth set to remain robust in 2022 as private demands rebounds

On the domestic side, private consumption recovery is expected to set in as from the second quarter of 2022, as services reopen, the labour market situation improves and consumer spending out of accumulated savings increases. However, rising commodity prices and weakening currency might dent consumers' purchasing power. Accommodative funding conditions and rising spending on digitalisation and automation are likely to support private investments, but increasing input prices, declining profit margins and elevated global uncertainty might limit the scale of the recovery in 2022. At the same time, public spending is forecast to support growth reflecting previously announced fiscal stimulus measures.

On the external side, ongoing supply side disruptions and weakening global demand are expected to limit export growth, despite depreciating currency. Services trade is likely to be supported by easing of travel restrictions and weaker currency. Import growth is projected to moderate amid rising global commodity prices. Overall, net exports are set to contribute slightly positively to growth in 2022 with real GDP projected to increase by 1.9%.

Output growth moderates in 2023

The pace of real GDP growth is expected to moderate slightly to 1.8% in 2023, as the cyclical forces that supported the post-COVID-19 recovery dissipate. Dwindling fiscal support and fading impact of services' reopening are likely to limit the pace of consumption growth. However, growing ICT spending and easy funding conditions are projected to support private investment growth. Exports' growth is set to remain subdued while imports' growth is forecast to pick up slightly leading to neutral growth contribution of external demand. The

2023 growth rate remains well above potential growth, as the post-COVID gradual catch-up continues. Output is only likely to reach pre-pandemic level at the end of 2023.

Fiscal support is set to diminish

Sizeable fiscal stimulus (14% of GDP in 2020–2021), which sustained consumption and investments during the crisis, was further extended at the end of 2021 with yet another fiscal package (4½% of GDP). Going forward, additional support measures might be added during 2022, though their impact is expected to fade out towards the end of the forecast horizon. Overall, the headline deficit is projected to fall from around 7½% of GDP in 2021 to about 6½% of GDP in 2022 and 4% of GDP in 2023. Public debt is forecast to stabilise at around 265% of GDP in both 2021 and 2022 before declining to around 261% in 2023.

Monetary policy remains constrained

The Bank of Japan provided ample liquidity to stabilise the markets, sustain lending to corporates and support the economy during the pandemic. However, weakening currency,

negative interest rates and sizeable direct involvement of the Bank of Japan in the domestic asset markets limits the scale of future support. At the same time, after turning negative in 2021, annual consumer inflation rate is expected to rise to around 1½% in both 2022 and 2023, on the back of rising commodity prices, depreciating currency and the fading impact of one-off price reductions and subsidies. Still, inflation is set to remain below the Bank of Japan target of 2% for the foreseeable future, reflecting declining working age population and sluggish wage growth amid low labour mobility and backward-looking wage bargaining process.

Risks are broadly balanced

Downside risks include more persistent supply side disruptions, slower global demand and higher input prices crippling the manufacturing sector. Weaker currency might further increase inflationary pressures, dampening private demand while simultaneously supporting exports. On the upside, additional fiscal support to consumers might result in a further boost to private consumption.

Table II.35.1:

Main features of country forecast - JAPAN

2021				Annual percentage change						
	bn JPY	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		541981.6	100.0	0.8	0.6	-0.2	-4.5	1.7	1.9	1.8
Private Consumption		291926.3	53.9	0.6	0.2	-0.5	-5.3	1.3	2.3	1.6
Public Consumption		116136.9	21.4	1.3	1.0	1.9	2.3	2.1	1.7	1.4
Gross fixed capital formation		137335.5	25.3	-0.2	0.4	1.0	-4.6	-1.5	0.3	2.1
Exports (goods and services)		99824.1	18.4	4.7	3.8	-1.5	-11.8	11.7	3.6	3.4
Imports (goods and services)		102758.7	19.0	2.8	3.8	1.0	-7.2	5.2	2.3	2.7
GNI (GDP deflator)		565693.2	104.4	0.9	0.7	-0.2	-4.8	2.4	1.8	1.8
Contribution to GDP growth:	Domestic demand			0.5	0.4	0.3	-3.6	0.8	1.7	1.7
	Inventories			0.0	0.2	-0.1	-0.1	-0.1	0.0	0.0
	Net exports			0.3	0.0	-0.4	-0.8	1.0	0.2	0.1
Employment				0.1	1.8	0.9	-0.5	0.0	0.3	0.3
Unemployment rate (a)				4.2	2.4	2.4	2.8	2.8	2.7	2.6
Compensation of employees / head				-0.4	1.4	0.8	-0.8	0.2	0.9	0.9
Unit labour costs whole economy				-1.1	2.6	2.0	3.4	-1.4	-0.7	-0.6
Saving rate of households (b)				10.4	9.4	10.7	18.6	17.5	13.7	10.9
GDP deflator				-0.6	0.0	0.6	0.9	-1.0	0.5	1.5
Consumer price index				0.1	1.0	0.5	0.0	-0.2	1.6	1.5
Terms of trade goods				-2.1	-5.0	0.9	6.7	-9.0	-6.3	0.0
Trade balance (goods) (c)				1.0	0.2	0.0	0.6	0.3	-0.5	-0.4
Current-account balance (c)				2.9	3.5	3.4	3.0	3.4	2.5	2.6
General government balance (c)				-5.9	-2.5	-3.0	-9.0	-7.6	-6.5	-4.1
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				199.4	232.5	236.1	259.0	264.9	265.2	260.9

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

36. CHINA

China's growth outlook remains burdened by widespread local lockdowns that disrupt economic activity, high corporate indebtedness, especially in the real estate sector, and a worsening external environment. Turmoil in the real estate sector is likely to weigh on growth over the forecast horizon due to ongoing deleveraging and poor demand. In the run-up to the important 20th National Congress of the Chinese Communist Party in autumn 2022, authorities are expected to prioritise stability, by deploying a sizeable fiscal and monetary stimulus. However, a commitment to a disruptive zero COVID-19 policy could undermine efforts to boost growth.

Sluggish growth continues in the first quarter of 2022

The Chinese economy rebounded sharply in 2021, growing by 8.1%, after a historical low of 2.3% in 2020. Growth was primarily driven by the recovery in domestic demand, most notably private consumption. Investment was somewhat subdued in 2021, especially in the second half of the year, reflecting weakening prospects in the real estate sector. Strong external demand further supported growth, amid robust global demand for consumer goods. Still, growth slowed markedly towards the end of the year due to the ongoing turmoil in the broader construction sector and to more widespread and frequent lockdowns in line with China's strict adherence to its zero COVID-19 policy.

After falling to 4% y-o-y in 2021-Q4, output growth surprisingly picked up in the first quarter of 2022 to 4.8% despite the introduction of strong lockdown measures in several large cities throughout March, most notably Shanghai and Shenzhen. Growth was driven by still recovering private consumption, but also by a stronger contribution from investment. Numerous real estate building sites were temporarily closed in the last quarter of 2021 as struggling developers cut expenditure. Following government intervention, viable projects were transferred to more solvent companies, largely state owned, and construction activities gradually resumed in 2022-Q1.

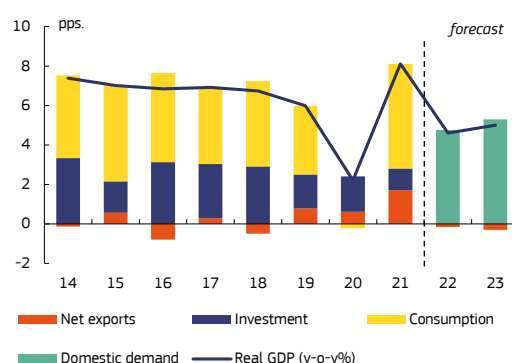
Uncertain recovery despite policy support

Growth is expected to remain below its pre-pandemic trend in both 2022 and 2023. In 2022, despite the announced strong fiscal and monetary impulse to offset the impact of China's COVID-related measures and weaker

external demand, growth is forecast to weaken to 4.6%. In 2023, growth is projected to strengthen somewhat to 5%, but declining productivity growth, an excessively leveraged corporate sector and geopolitical tensions will weigh on economic performance.

Household consumption recovery is expected to remain sluggish, amid increasing uncertainty due to more frequent lockdowns in larger and more prosperous cities. Household incomes are set to be significantly affected by disruptions caused by lockdowns, especially among migrant workers largely employed in service sector jobs with low labour market protection. Furthermore, weak retail sales and domestic tourism numbers in the first quarter confirm households are again responding to greater uncertainty by increasing precautionary savings. Direct government support to household consumption should remain limited given the authorities' preference to boost economy through supply side measures.

Graph II.36.1: China - Real GDP growth and contributions



As real estate investments account for around 50% of all fixed asset investments, the ongoing restructuring in the real estate sector is expected to weigh on investment growth in both 2022 and 2023. Two consecutive years of declining new construction and more frequent

project cancellations significantly depleted the stock of projects in development. Furthermore, in the context of weak demand and constrained financing, developers reliant on high leverage and quick turnover will likely postpone new projects. On the other hand, the expected fiscal stimulus in 2022 will largely be delivered through increased infrastructure spending. Although previous fiscal stimuli resulted in a sharp increase in local government debt and decreasing returns on investment, it should at least partially offset the expected underperformance in the real estate sector. Furthermore, an expansionary monetary policy and stable credit growth in 2022 should provide a more favourable environment for corporate investment.

Growth of imports is expected to outpace that of exports in 2022 and 2023. Geopolitical tensions, rising producer prices and shifting consumer preferences in advanced economies in favour of services will all weigh on external demand for Chinese products. At the same time, rising global commodity prices will underpin nominal import growth. The current account surplus is therefore expected to significantly narrow over the forecast period.

Economic stability will be the primary policy priority

As President Xi is looking to be confirmed to his

unprecedented third term at the Party Congress in autumn, maintaining economic stability will be a priority for the authorities in 2022. The growth target for the year was set ambitiously at “around 5.5%” of GDP. A fiscal impulse, estimated at between 2–3% of GDP, is being implemented to boost domestic demand through higher investment, mostly in infrastructure, by local governments and state owned enterprises. Furthermore, the expected expansionary monetary policy is set to provide liquidity to the financial sector throughout the year, while looser credit standards should incentivise credit demand. Already in April, the banks’ reserve requirement ratio was lowered by 25 basis points, freeing up RMB 500 billion (around 0.45% of GDP) for new lending.

A number of risks cloud the outlook. Significant deviations from the zero COVID-19 policy are unlikely at least until the Party Congress, as the authorities seek to maintain credibility. This policy is already undermining their efforts to boost economic growth and will remain the main downside risk to the economic outlook. At the end of April, cities accounting for around 42% of China’s GDP were at least in a partial lockdown. Other short-term risk stem from increased geopolitical uncertainties, supply chain disruptions and high food, energy and commodity prices.

Table II.36.1:

Main features of country forecast - CHINA

	2020			Annual percentage change						
	bn CNY	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		101356.7	100.0	9.4	6.7	6.0	2.2	8.1	4.6	5.0
Private consumption		38718.6	38.2	-	-	-	-	-	-	-
Public consumption		17362.5	17.1	-	-	-	-	-	-	-
Gross fixed capital formation		43062.5	42.5	-	-	-	-	-	-	-
Exports (goods and services)		18880.5	18.6	13.8	4.0	0.4	2.1	18.2	2.1	3.1
Imports (goods and services)		16227.5	16.0	12.8	7.3	-3.7	-1.0	11.0	3.6	5.8
GNI (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth:	Domestic demand			-	-	-	-	-	-	-
	Inventories			-	-	-	-	-	-	-
	Net exports			-	-	-	-	-	-	-
Employment				-	-	-	-	-	-	-
Unemployment rate (a)				4.1	3.8	3.6	4.2	4.0	-	-
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Saving rate of households				-	-	-	-	-	-	-
GDP deflator				3.7	3.5	1.3	0.5	4.4	2.8	2.6
Consumer price index (c)				2.4	2.1	2.9	2.5	0.9	-	-
Terms of trade goods (b)				-	-	-	-	-	-	-
Trade balance (goods) (b)				4.4	2.7	2.8	3.5	3.2	2.6	2.5
Current-account balance (b)				4.0	0.2	0.7	1.9	1.9	1.6	1.5
General government balance (b)				-	-	-	-	-	-	-
Structural budget balance				-	-	-	-	-	-	-
General government gross debt (b)				-	-	-	-	-	-	-

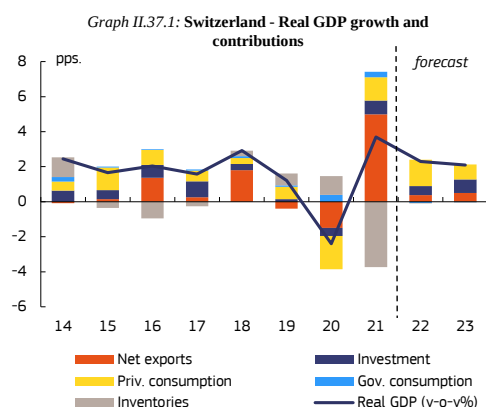
(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

37. EFTA

As the COVID-19 related rebound loses momentum, Russia's war of aggression against Ukraine is posing new challenges for the EFTA countries. The economic outlook is for more moderate growth, reflecting weaker external demand and lower disposable income growth due to higher energy prices. The consolidation of public finances is also likely to be less pronounced, resulting from lower than initially expected revenue growth and additional measures to mitigate the economic and social impact of high energy prices. The risks to the forecast are largely on the downside.

Switzerland

The rebound from the COVID-19 pandemic moderated in the fourth quarter of 2021, reflecting continued pandemic-related containment measures, weakening external demand and rising inflationary pressures. Nevertheless, output increased by about 3.7% in 2021, compared to a drop in economic activity by 2.4% in 2020. In particular, exports performed better than expected. On the labour market, short-time working schemes helped to contain the crisis' overall impact on employment. The government adopted fiscal support measures amounting in total to about 5¼% of GDP for the period 2020-21.



The outlook is based on a less supportive international environment, in particular due to higher energy costs and weaker international environment. The main growth driver during the forecast period is expected to be domestic demand. Pent-up demand will help to keep consumption growth at high levels in 2022, while investment growth is projected to recover, despite uncertainties related to the war. In 2022 and 2023 export growth is set to return to average levels, as the 2021 boom following the COVID-19 trade shock is likely to peter-out. Import growth is expected to remain

contained, leading to a small positive growth contribution of net exports.

The usual strengthening of the Swiss currency at times of high uncertainty will help to partially contain the impact of higher energy prices on domestic inflation. Still, consumer price inflation is forecast to increase markedly above 2% in 2022 due to the external energy price shock, but to moderate again in 2023, taking into account base effects. After several years of low employment growth, the situation on the labour market is likely to rebound in 2022 and 2023, which should bring unemployment rates back to pre-COVID-19 levels.

As the fiscal costs of fighting the pandemic are likely to decline, Switzerland's public finances are expected to gradually return to a largely balanced fiscal position in 2022, while in 2023 a minor surplus is forecast, reflecting the expected petering-out of negative effects related to the pandemic. Thanks to largely balanced public accounts in 2022 and even a slight surplus in 2023 as well as solid economic growth, gross debt ratios are set to return to pre-pandemic levels by 2023.

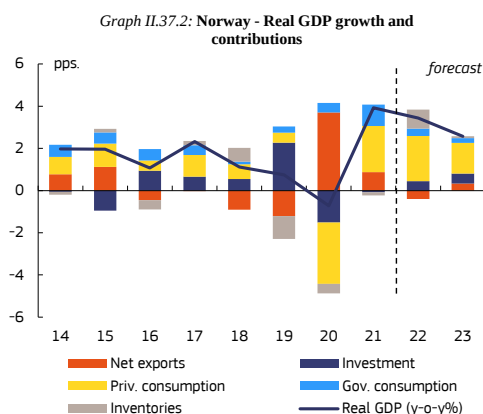
Country-specific risks to the outlook are largely on the downside. In particular, there is a risk related to the Swiss franc's safe-haven status, which could lead to a rapid appreciation, eroding the country's price competitiveness.

Norway

Despite the slowdown of economic activity at the end of 2021 due to the reintroduction of containment measures, real GDP expanded by 3.9% after a mild contraction of 0.7% in 2020. The recovery was largely driven by base effects as well as a strong rebound in private consumption reflecting significantly improved labour market conditions and the return of

consumer sentiment to positive territory. Investment fell, albeit at a much slower pace than in the year before. The external sector had a positive contribution to growth also benefiting from higher oil and gas prices.

In mid-February 2022, the government removed all containment measures that it had re-imposed in December to counteract the Omicron variant and since then economic activity has been increasing rapidly. Growth is expected to be robust in 2022 although easing somewhat from 2021 due to the impact of Russia's war of aggression against Ukraine. Increased consumer confidence combined with a tight labour market is set to underpin private consumption while investment should recover mainly due to a pick-up in business investment. House prices rose significantly by 10.5% in 2021 and continued to increase in the first months of 2022. After recovering by 2.6% in 2021, housing investment is expected to grow modestly in 2022 due to concurrent headwinds including the uncertainty about economic developments going forward and higher interest rates. Net exports are expected to subtract from growth, as imports are set to increase at a faster pace than exports, largely driven by pent-up domestic demand.



Expansion is projected to continue in 2023, albeit at a slower pace mainly driven by buoyant household spending and investment as well as a positive contribution of net exports to growth.

Average annual CPI inflation significantly accelerated to 3.5% in 2021 (up from 1.3% in 2020) mainly driven by high electricity prices. In the first three months of 2022, consumer price inflation averaged 3.8% y-o-y, thus well above the central bank's target of 2%. The

Norges Bank's Executive Board decided on 23 March to raise the key policy rate by another 25 basis points to 0.75% after lifting it from the historic low of 0.0% to 0.25% and 0.5% in September and December 2021, respectively.

In terms of public finances, spending financed by petroleum revenue in 2022 is likely to be higher than projected in the national budget. The government has submitted proposals to increase expenditure related to measures to strengthen national defence capabilities, to help the intake of people fleeing from Ukraine and to prolong support for households' electricity bills. The fiscal policy anticipates for 2022 a structural non-oil deficit of 10.4% of mainland GDP and spending of oil revenues equivalent to 2.9% of the sovereign wealth fund's assets.

Domestic risks to the outlook are clearly tilted to the downside. Uncertainties in the property market and high household debt levels raise financial stability concerns, which are however alleviated by the significant capital and liquidity buffers held by the Norwegian banks. Regarding the external environment, the volatility of energy prices presents upside and downside risks, while a deterioration in growth prospects of Norway's major export markets points to downside risks.

Iceland

In 2021 Iceland's economy grew by 4.3% on the back of domestic consumption and investment. The recovery of exports was supported by an increasing number of tourist arrivals and a successful fishing season, but a strong rebound of imports, partially due to increasing investment, resulted in a negative contribution of foreign trade to output growth.

The outlook is for a mild recovery to continue at a slightly lower rate in 2022-23. Foreign trade is set to be the main driver of growth in 2022, as the exposure of Iceland's exports to Russia is limited, while monthly readings and short-term indicators show increasing exports of aluminium, fisheries and tourism. Growth of domestic demand is set to decelerate as compared to 2021, due to higher commodity prices and higher global inflation, which will push up the domestic prices.

38. RUSSIAN FEDERATION

An abrupt fall in real GDP following military aggression against Ukraine and Western sanctions are set to set back output levels by at least a decade, as Russia is forced to change its economic model and move closer to autarchy. In addition, living standards are expected to collapse, accentuating their long-term decline. High commodity prices could somewhat cushion the economic decline and allow for some limited fiscal stimulus.

War puts an end to strong recovery

Improving terms of trade, fiscal support packages, limited lockdowns and higher real wages fuelled a rebound of private consumption in 2021. This, together with strong investment, supported the recovery of the Russian economy, with real GDP growing by 4.7% in 2021. The invasion of Ukraine and the subsequent sanctions implemented by the international community halted these trends abruptly, as Russia was cut off from most Western production inputs. At the same time, inflation, already running high despite an early tightening of the Central Bank of Russia (CBR), shot up as the ruble plunged, the availability of imports deteriorated, supply chains inside Russia were disrupted and demand for imported products temporarily surged.

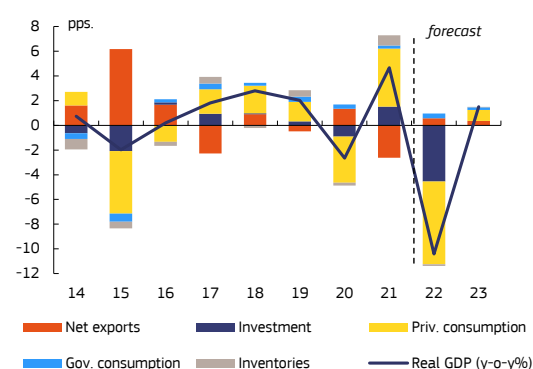
Commodity exports save Russia from economic disaster but the outlook is dire

High inflation expectations, rising job insecurity, a loss of purchasing power and scarcity of imported goods are projected to cause a large fall in private consumption this year. Although government consumption is set to increase moderately and partially stabilize the economy, the fiscal stimulus is expected to be limited to preserve scarce resources. At this point, it is particularly difficult to predict the development in 2022 of export-related revenues, which are a crucial revenue source for the budget.

Private investment is forecast to dramatically fall by more than 20% in 2022, given extremely low appetite for new investment in the current environment amid withdrawal of foreign companies. Isolated pockets of investment to cater for import substitution are likely to emerge in some sectors but investor confidence is projected to remain depressed over the forecast horizon and a modest increase in public investment is not expected to compensate for the fall in private investment.

Imports are set to decline steeply reflecting plummeting private demand due to the deteriorating economic situation and limited access to imported goods due to sanctions and payment restrictions. Existing sanctions and self-sanctioning of the private sector, which hamper market access for Russian goods, are expected to reduce exports, although at a slower rate than imports leading to a modest positive contribution of net exports to growth in 2022. Assuming no escalation of sanctions beyond those in place on 29 April and continued exclusion of energy exports, commodity exports will be the main anchor for the economy in these circumstances. Thanks to high prices and strong demand for commodities, export revenues are projected to be strong, increasing the current account surplus to 14% of GDP in 2022. This will enable the government to support the ruble, vulnerable groups and the economy, limiting the decline in real GDP to 10.4% in 2022.

Graph II.38.1: Russia - Real GDP growth and contributions



For 2023, the economy is forecast to stabilise as it adjusts to the new normal of severed ties to the West. However, real GDP growth is expected to remain subdued, reaching 1.5%, as ongoing import substitution due to departure of foreign companies will cause inefficiencies. Uncertainty regarding the nature of future economic ties with the rest of the world will continue to hamper investor confidence and

ACKNOWLEDGEMENTS

This report was prepared in the Directorate-General for Economic and Financial Affairs under the direction of Maarten Verwey – Director-General and Reinhard Felke – Director “Policy coordination, economic forecasts and communication”. It has benefitted from the close collaboration with Directorate-General for Financial Stability, Financial Services and Capital Markets Union.

Executive responsibilities were attached to Laura Bardone – Head of Unit “Economic situation, forecasts, business and consumer surveys”, Kristian Orsini – Deputy Head of Unit “Economic situation, forecasts, business and consumer surveys”, and the forecast coordinators – Reuben Borg and Alexandru Zeana.

The Executive Summary was prepared by Kristian Orsini. In the section on “Economic outlook for the euro area and the EU”, Chapter 1 was prepared by Laura Bardone and Oliver Dieckmann. Chapter 2 “Economic outlook” was prepared under the responsibility of Laura Bardone and coordinated by Kristian Orsini. This chapter benefited from contributions by Nicolas Bernier Abad, Piotr Bogumil, Reuben Borg, Chris Bosma, Lucian Briciu, Christian Buelens, Alessandra Cepparulo, Guillaume Cousin, Oliver Dieckmann, Christian Gayer, Susanne Hoffmann, Stefan Kramer, João Miguel Leal, Jakub Mazur, Vito Ernesto Reitano, Milan Výškrabka, Rupert Willis, Przemysław Woźniak, Václav Žďárek, Tomasz Zdrodowski and Alexandru Zeana. Chapter 3 “Risks” was prepared by Laura Bardone and Kristian Orsini. In Chapter 4 “Special issues”, Special issue 1 “Alternative scenarios on the economic outlook” was prepared by Roberta Cardani (JRC), Olga Croitorov, Lorenzo Frattarolo (JRC), João Miguel Leal, Beatrice Pataracchia (JRC), Philipp Pfeiffer, Marco Ratto (JRC), Jan Teresinski (JRC) and Milan Výškrabka. The Box I.1.1 “Key assumptions concerning the forecast” was prepared by Laura Bardone, Aron Kiss and Kristian Orsini. The Box I.2.1 “Carry-over effects and the annual growth forecast for 2022” was prepared by Oliver Dieckmann. The Box I.2.2 “Member States’ vulnerability matrix” was prepared by Mattia Cai (JRC), Pablo Piñero (JRC), Paola Rocchi (JRC), Jose-Manuel Rueda Cantuche (JRC) and Przemysław Woźniak.

The sections on “Member States” were prepared under the supervision of Isabel Grilo, Massimo Suardi, and Luc Tholoniati, Directors for the “Economies of the Member States”. These sections benefited from contributions by Jakob Abou Zeid, Ronald Albers, Lucian Albulescu, Aurelija Anciūtė, Martin Åström, Antonino Barbera Mazzola, Paolo Battaglia, Barbara Bernardi, David Berthier, Adrian Bodea, Joël Boulanger, Tadej Breznik, João Capella-Ramos, Francisco de Castro Fernández, Alessandro Cisotta, Christos Daoulas, Milan Deskar-Škrbić, Angela Droussioutou, Hugo Ferradáns Ramonde, Miriam Franzelin, Norbert Gaál, Carmine Gabriele, Sotirios Giannoulis, Oscar Gómez Lacalle, Karolina Gralek, András Hudecz, Zuzanna Iskierka, Tim Jacobs, Dirk Kamps, Szabolcs Klubuk, Daniel Kosicki, Radoslav Krastev, Anna Laudwein, Ivan Lozev, Markus Muench, Natalie Lubenets, Ruslan Lukach, Mart Maiväli, Janis Malzubris, Dorin Mantescu, Robert Markiewicz, Fabrizio Melcarne, Gergő Motyovszki, Balázs Pálvölgyi, Mona Papadakou, Alejandro Paz Otero, Gábor Márk Pellényi, Leonardo Pérez-Aranda Alonso, Arian Perić, Paulina Rogowska, Marie-Luise Rüd, Marie-Luise Schmitz, Sebastian Schmitz, Ana Seco Justo, Elisabetta Severi, Roberto Sigismondo, Michael Sket, Peeter Soidla, Gilles Thirion, Tsvetan Tsalinski, Daniel Vâlcu, Milda Valentinaite, Vasiliki Vasilopoulou, Michael Vedsø, Alberto Vidan Bermúdez, Ernestas Virbickas, Martina von Terzi, Kai-Young Weißschädel, Bartłomiej Wiczewski, Christos Zavos, Ingars Zustrups and Pieterjan van der Zwan.

The sections on “Candidate Countries” and “Other non-EU countries” were prepared under the supervision of Annika Eriksgaard Melander, Director of the “International economic and financial relations, global governance”. These sections, and forecasts for all other non-EU economies, benefited from contributions by Moreno Bertoldi, Juan José Almagro Herrador, Piotr Bogumil, Stefan Bohner, Bernhard Böhm, Uwe Böwer, Maria Gerhardt, Nikolay Gertchev, Dalia Grigonytė,

Marianne Grima, Renata Hrůzová, Sarah Jurreit, Plamen Kaloyanchev, Stefan Kramer, Ivan Kušen, Mihai-Gheorghe Macovei, Maria Maierean, Alexandros Mouzakis, Radostin Neykov, José Ramón Perea, Jerzy Pieńkowski, Rafał Raciborski, Antonio Sánchez Pareja, Uwe Stamm, Barbara Stearns-Bläsing, Vladimír Solanič, András Tari, Rupert Willis and Marta Zakrzewska.

Support in editing the report by Clara Gonzalez Zunzarren, and for its communication and publication by Nicolas Carpentiers, Manuel De La Red Carino, Robert Gangl, Olivier Glorieux, Tamas Nagy, Sarka Novotna and Yasmina Quertinmont under the responsibility of Matthieu Hebert, is gratefully acknowledged.

Follow-up calculations were performed by Francesca D'Auria, François Blondeau, Olga Croitorov, Atanas Hristov and Kieran Mc Morrow under the responsibility of Björn Döhring. Forecast assumptions were prepared by Luisa Boa, Puck Boom, Paloma Cortés and Vaclav Zdarek. Statistical support for the production of the forecast was provided by Antonio Fuso, Daniel Grenouilleau, Susanne Hoffmann, Ingo Kuhnert, David Zaitogui Perez and Tomasz Zdrodowski. Further statistical and layout assistance was provided by Helene Gaston, Manfredi Danielis, Michel Gerday, Szabolcs Klubuk, Johann Korner, Anna Chiara Küffel, Gianluca Papa, Jacek Szelożyński and Christos Zavos.

Valuable comments and suggestions by Emiel Afman, Laura Bardone, Moreno Bertoldi, Gerrit Bethuyne, Reuben Borg, Stefan Ciobanu, Angela D'Elia, Oliver Dieckmann, Björn Döhring, María José Doval Tedin, Patrick D'Souza, Miroslav Florian, Christian Gayer, Gabriele Giudice, Joern Griesse, Valeska Gronert, Martin Hallet, Renata Hruzova, João Miguel Leal, Zenon Kontolemis, Robert Kuenzel, Stefan Kuhnert, Paul Kutos, Júlia Lendvai, Milan Lisicky, Maarten Masselink, Gilles Mourre, Moisés Orellana, Kristian Orsini, Dino Pinelli, Eric Ruscher, Matteo Salto, Dominique Simonis, Uwe Stamm, Michael Stierle, Andras Tari, Michael Thiel, Alessandro Turrini, Anneleen Vandeplas, Valerie Vandermeulen, Charlotte Van Hooydonk, Milan Výškrabka, Florian Wöhlbier, Przemysław Woźniak, Javier Yaniz Igal, Vaclav Zdarek and Alexandru Zeana are gratefully acknowledged.

Secretarial support for the finalisation of this report was provided by Carlos Rodríguez del Río.

Comments on the report would be gratefully received and should be sent to:
Directorate-General for Economic and Financial Affairs
Unit A3: Economic situation, forecasts, business and consumer surveys
European Commission
B-1049 Brussels
E-mail: ecfin-forecasts@ec.europa.eu

Statistical Annex

European Economic Forecast – Spring 2022

Contents

Output : GDP and its components

1. Gross domestic product	150
2. Profiles (q-o-q) of quarterly GDP	150
3. Profiles (y-o-y) of quarterly GDP	151
4. GDP per capita	151
5. Final domestic demand	152
6. Final demand	152
7. Private consumption expenditure	153
8. Government consumption expenditure	153
9. Total investment	154
10. Investment in construction	154
11. Investment in equipment	155
12. Public investment	155
13. Potential GDP	156
14. Output gap relative to potential GDP	156

Prices

15. Deflator of GDP	157
16. Deflator of private consumption	157
17. a) Harmonised consumer prices index	158
17. b) All-items HICP, excluding energy and unprocessed food	158
18. Harmonised consumer prices quarterly profiles	159
19. Deflator of exports of goods	159
20. Deflator of imports of goods	160
21. Terms of trade of goods	160

Wages, population and labour market

22. Total population	161
23. Total employment in persons	161
24. Total employment in full-time equivalents (ES, FR, IT, NL, EA and EU)	162
25. Unemployment rate	162
26. Compensation of employees per head	163
27. Real compensation of employees per head	163
28. Labour productivity	164
29. Unit labour costs, whole economy	164
30. Real unit labour costs	165

Exchange rates

31. Nominal bilateral exchange rates	165
32. Nominal effective exchange rates	166

General Government

33. Total expenditure	166
-----------------------	-----

34. Total revenue	167
35. Net lending (+) or net borrowing (-)	167
36. Interest expenditure	168
37. Primary balance	168
38. Cyclically-adjusted net lending (+) or net borrowing (-)	169
39. Cyclically-adjusted primary balance	169
40. Structural budget balance	170
41. Gross debt	170

Saving

42. Gross national saving	171
43. Gross saving of the private sector	171
44. Saving rate of households	172
45. Gross saving of general government	172

Trade and international payments

46. Exports of goods and services	173
47. Imports of goods and services	173
48. Merchandise trade balance (% of GDP)	174
49. Current-account balance (% of GDP)	174
50. Net lending (+) or net borrowing (-) of the nation	175
51. Current-account balance (bn EUR)	175
52. Export markets (goods and services)	176
53. Export performance (goods and services)	176

World economy

54. World GDP	177
55. World exports of goods and services	178
56. Export shares (goods) in EU trade	178
57. World imports of goods and services	179
58. Import shares (goods) in EU trade	179
59. World merchandise trade balances (bn USD)	180
60. World current-account balances (bn USD)	181
61. Crude oil prices	181

Table 59: World merchandise trade balances (fob-fob, in billions of US dollar, 2016-2023)

29.04.2022

						Spring 2022 forecast			Autumn 2021 forecast		
	2016	2017	2018	2019	2020	2021	2022	2023	2021	2022	2023
EU	483.4	463.3	389.8	407.4	475.6	397.4	154.4	251.8	447.7	412.0	451.9
EU, adjusted¹	322.3	289.4	207.6	252.5	291.0	205.1	129.9	216.0	318.0	307.4	337.2
Euro area	459.7	446.5	396.4	395.1	439.7	399.5	194.2	288.4	434.4	416.1	455.4
Euro area, adjusted¹	327.5	306.8	240.2	275.4	298.6	245.4	163.3	247.4	308.6	310.4	339.7
Candidate Countries	-56.4	-77.2	-56.3	-37.1	-58.3	-40.9	-58.9	-73.0	-56.9	-64.9	-76.9
- Albania	-2.9	-3.2	-3.4	-3.5	-3.4	-4.5	-4.7	-5.0	-3.9	-4.0	-4.2
- Montenegro	-1.8	-2.1	-2.4	-2.3	-1.9	-2.3	-2.3	-2.5	-2.3	-2.2	-2.3
- North Macedonia	-2.0	-2.0	-2.1	-2.2	-2.1	-2.8	-2.9	-3.0	-2.3	-2.4	-2.4
- Serbia	-3.5	-4.5	-6.0	-6.3	-5.9	-7.0	-8.4	-9.0	-6.8	-7.3	-7.8
- Turkey	-46.2	-65.4	-42.4	-22.8	-45.0	-24.3	-40.6	-53.4	-41.6	-49.2	-60.1
Iceland	-0.8	-1.5	-1.5	-1.0	-0.7	-1.3	-1.5	-1.9	-0.7	-0.7	-1.0
Norway	11.7	20.4	30.7	12.8	-3.2	56.5	72.4	80.9	-0.1	1.3	2.0
Switzerland	61.2	63.9	71.6	70.6	61.4	110.2	113.5	117.2	69.0	69.5	75.5
Australia	-5.8	10.5	20.8	48.1	40.5	47.1	42.0	39.3	46.8	36.2	33.1
Canada	-19.2	-19.1	-16.8	-13.9	-29.7	4.1	19.7	20.5	11.8	20.2	21.1
Japan	50.8	43.8	10.2	1.4	28.2	16.2	-23.2	-19.9	17.8	20.5	22.5
Korea	116.5	113.6	110.1	79.8	80.6	76.2	62.8	53.5	104.6	109.8	120.5
United Kingdom	-188.0	-181.0	-189.9	-176.3	-166.0	-214.7	-279.7	-295.1	-195.3	-216.5	-230.8
United States	-771.1	-823.2	-889.8	-876.2	-892.6	-1109.4	-1327.3	-1313.9	-1114.9	-1218.0	-1273.4
Advanced economies	-175.4	-228.8	-385.6	-346.3	-288.8	-463.8	-1043.1	-955.9	-507.1	-657.9	-680.9
Emerging and developing Asia	423.7	367.5	199.2	259.9	512.6	463.5	314.7	371.8	526.1	460.5	436.2
- China	488.9	475.9	380.1	393.0	515.0	568.5	498.5	503.7	584.3	541.3	525.3
- India	-107.5	-148.1	-186.7	-157.7	-95.4	-179.3	-255.0	-216.4	-145.6	-161.0	-174.8
- Indonesia	15.3	18.8	-0.2	3.5	28.3	43.8	47.6	55.3	30.8	23.2	28.4
Eastern Neighbourhood and Central Asia	-7.2	-0.1	6.6	-5.0	-9.0	9.4	12.1	12.7	6.8	1.0	-1.9
Russia	90.2	114.7	195.9	165.4	90.5	176.0	286.9	254.6	139.3	159.7	164.9
Latin America	8.2	34.3	10.4	7.3	72.5	27.0	43.7	66.0	83.2	84.8	82.3
- Argentina	4.4	-5.4	-0.7	18.2	14.6	16.8	18.0	19.0	14.2	16.1	17.1
- Brazil	44.5	57.3	43.4	26.5	32.4	36.2	43.5	56.3	37.8	38.7	38.4
- Mexico	-13.1	-11.0	-13.8	5.2	34.0	8.9	6.7	4.0	21.1	20.2	20.0
MENA	90.2	198.4	354.9	249.9	88.9	225.4	324.0	308.6	248.9	263.5	270.4
- Saudi Arabia	55.8	98.5	168.7	121.3	47.9	85.9	114.7	98.6	85.9	98.3	102.2
Sub-Saharan Africa	-13.7	16.4	28.3	2.8	-5.5	7.9	10.2	8.0	7.6	-2.4	-1.6
- South Africa	1.9	4.4	1.7	2.6	17.8	28.5	25.8	22.3	28.2	16.7	15.7
Emerging and developing economies	591.3	731.3	795.3	680.2	750.0	909.2	991.6	1021.8	1011.8	967.0	950.2
World	415.9	502.5	409.7	333.9	461.3	445.4	-51.5	65.9	504.7	309.2	269.3
World excluding EU	-67.5	39.2	19.8	-73.5	-14.3	48.0	-206.0	-185.9	57.1	-102.9	-182.6
World excluding euro area	-43.8	56.0	13.3	-61.2	21.6	45.9	-245.7	-222.5	70.3	-106.9	-186.1

¹ See note 8 on concepts and sources.

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Spring and Autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries, the European Union as a whole, the euro area and the international environment.
2. Data for 2022 and 2023 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounts (ESA 2010). US national accounts are based on SNA 2008, whilst the Japanese accounts use SNA 1993. Due to differences in revision schedules of annual and quarterly national accounts, annual and quarterly figures may not be fully consistent for some Member States. Notes: Due to a break in historical employment data in 2021 for Romania, employment-related variables have been affected (Total employment, Unemployment rate, Unit labour cost whole economy, Real unit labour cost, Potential GDP, Output gap, Labour productivity (GVA per occupied person), Cyclically-adjusted NLNB, Cyclically-adjusted primary balance, Structural budget balance).
3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.
4. In Tables 17 and 18, the data are based on the national index for the United Kingdom, USA and Japan.
5. The output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role. Due to technical reasons, the inflows of people fleeing the war in Ukraine have not been integrated in the population of working age forecasts.
6. Employment data used in tables 24 and 26-30 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.
7. Source: National Accounts (ESA 2010), except for US current-account in tables 49, 51, and 60 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.
8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 48 - 51, 59 and 60 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors.
- The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2019.
9. EU and euro area aggregates for general government debt are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility).
10. Quarterly EU and euro-area GDP growth rates are aggregated using estimates for 27 Member States, including unpublished quarterly forecasts for CY, EL, IE and MT.
11. Geographical zones are defined as follows :
 - Euro area :**
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI).
 - European Union :**
EU (EA19, BG, CZ, DK, HR, HU, PL, RO, and SE).
 - Candidate countries :**
Albania, Montenegro, North Macedonia, Serbia and Turkey.
 - Potential candidates :**
Bosnia-Herzegovina and Kosovo.
 - Advanced economies :**
EU, United Kingdom, candidate countries, Iceland, Norway, Switzerland, Australia, Canada, Hong Kong, Japan, Korea, New Zealand, Singapore, Taiwan and the United States.
 - Emerging and developing Asia:**
All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.
 - Latin America :**
All countries in that region.
 - MENA (Middle East and Northern Africa) :**
Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Lybia, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.
 - Sub-Saharan Africa :**
All countries in that region except the African MENA countries.
 - Eastern neighbourhood and Central Asia:**
Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Ukraine, Uzbekistan, Tajikistan, Turkmenistan.

PREVIOUS EUROPEAN ECONOMIC FORECASTS

2. Forecast publications (2017-2022)

Winter 2022: Growth expected to regain traction after winter slowdown	<i>February 2022</i>
Autumn 2021: From recovery to expansion, amid headwinds	<i>November 2021</i>
Summer 2021: Reopening fuels recovery	<i>July 2021</i>
Spring 2021: Rolling up sleeves	<i>May 2021</i>
Winter 2021: A challenging winter, but light at the end of the tunnel	<i>February 2021</i>
Autumn 2020: Rebound interrupted	<i>November 2020</i>
Summer 2020: A deeper recession with wider divergences	<i>July 2020</i>
Spring 2020: A deep and uneven recession, an uncertain recovery	<i>May 2020</i>
Winter 2020: Offsetting forces confirm subdued growth	<i>February 2020</i>
Autumn 2019: A challenging road ahead	<i>November 2019</i>
Summer 2019: Growth clouded by external factors	<i>July 2019</i>
Spring 2019: Growth continues at a more moderate pace	<i>May 2019</i>
Winter 2019: Growth moderates amid high uncertainty	<i>February 2019</i>
Autumn 2018: Less dynamic growth amid high uncertainty	<i>November 2018</i>
Summer 2018: Resilient growth amid increased uncertainty	<i>July 2018</i>
Spring 2018: Expansion to continue amid new risks	<i>May 2018</i>
Winter 2018: A solid and lasting expansion	<i>February 2018</i>
Autumn 2017: Continued growth in a changing policy context	<i>November 2017</i>
Spring 2017: Steady growth rates ahead	<i>May 2017</i>
Winter 2017: Navigating through choppy waters	<i>February 2017</i>

3. Selected economic analyses (2017-2022)

Production bottlenecks based on the Business and Consumer Surveys	<i>February 2022</i>
An update on energy price development: pass-through from wholesale to retail	
Business managers are upbeat about investment this year	
Supply side bottlenecks	<i>November 2021</i>
Energy prices	
Labour market: slack or tight?	
Housing market	
New survey-based measures of economic uncertainty	
Selling price expectations of business managers on the rise	<i>July 2021</i>
An update on the tourism sector in the EU: insights from early 2021 data	

The role of savings in determining the recovery path Will consumers save the EU recovery? Insights from the Commission's consumer survey Spillovers from 2021 US fiscal policy The pandemic and inflation: technical factors driving volatility The incorporation of the Recovery and Resilience Facility in the forecast	May 2021
An update on the tourism sector: insights from big data The Trade and Cooperation Agreement between the EU and the UK and model simulation of the short-term economic impact of the included Free Trade Agreement The road out of the crisis: an update of alternative scenarios	February 2021
The road out of the crisis remains bumpy and uncertain Macroeconomic effects of Next Generation EU Tourism in pandemic times: an analysis using real-time big data Technical specifications underpinning the QUEST simulations of NGEU Some technical elements behind the forecast Technical assumption on the future trading relations between the EU and the UK and model simulation of their economic impact The inclusion of Next Generation EU and its Recovery and Resilience Facility in the forecast	November 2020
The impact and recovery from COVID-19: a model-based scenario analysis	July 2020
How the pandemic shaped the forecast	May 2020
Global value chains and protectionism What is behind the slowdown? A model-based analysis of growth drivers The procyclicality of potential output	November 2019
Looking at euro area GDP growth in 2019 through the lens of an estimated model Euro area banks 10 years after the crisis The impact of European Structural and Investment Funds on near-term forecasting Changes to HICP methodology	May 2019
How resilient is the economy to oil price shocks? Implications of higher yields for the banking sector and private sector funding in the euro area Euro area GDP growth drivers in 2019 – analysis using a structural model	November 2018

Labour market slack in the euro area

Has inflation become more 'global'?

May 2018

Residential construction

Drivers of the euro area recovery - evidence from an estimated model

Main drivers of growth in 2018 - shock decomposition from an estimated model

November 2017

What drives wage developments?

Automatic stabilisers in the euro area: a model-based assessment

The economic impact of uncertainty assessed with a BVAR model

May 2017

US macroeconomic policies and spillovers to the euro area

Main drivers of growth in 2017 - shock decomposition from an estimated model

Inflation: between temporary effects and slow trends

China's economy in transition: dealing with the twin challenge of deleveraging and rebalancing growth

February 2017

A 'new modesty'? Level shifts in survey data and the decreasing trend of 'normal' growth

EUROPEAN ECONOMY INSTITUTIONAL PAPERS SERIES

European Economy Institutional Papers series can be accessed and downloaded free of charge from the following address:

[https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_date_published_value\[value\]\[year\]=All&field_core_tags_tid_i18n=22621](https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en?field_eurovoc_taxonomy_target_id_selective=All&field_core_nal_countries_tid_selective=All&field_core_date_published_value[value][year]=All&field_core_tags_tid_i18n=22621).

Titles published before July 2015 can be accessed and downloaded free of charge from:

- http://ec.europa.eu/economy_finance/publications/european_economy/index_en.htm
(the main reports, e.g. Economic Forecasts)
- http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm
(the Occasional Papers)
- http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm
(the Quarterly Reports on the Euro Area)

GETTING IN TOUCH WITH THE EU

In person

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: <http://europa.eu/contact>.

On the phone or by e-mail

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: <http://europa.eu/contact>.

FINDING INFORMATION ABOUT THE EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: <http://europa.eu>.

EU Publications

You can download or order free and priced EU publications from EU Bookshop at: <http://publications.europa.eu/bookshop>. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see <http://europa.eu/contact>).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: <http://eur-lex.europa.eu>.

Open data from the EU

The EU Open Data Portal (<http://data.europa.eu/euodp/en/data>) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

