



# Lookout for economic developments and risks in selected Euro area Member States

Pilot version  
(we welcome any feedback)

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August 2013

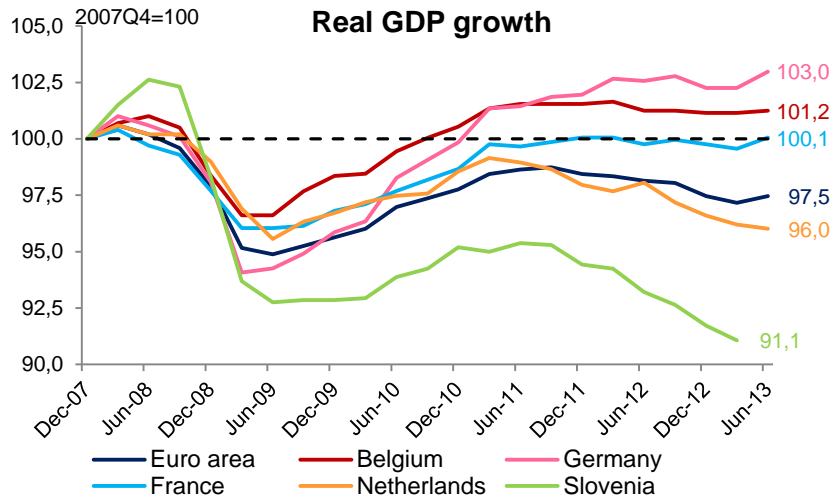
*Note: As this is a pilot version, only a selection of Euro area Member States and indicators has been included in this document. The views in this document are those of the author(s) and do not necessarily reflect the views of the European Parliament.*

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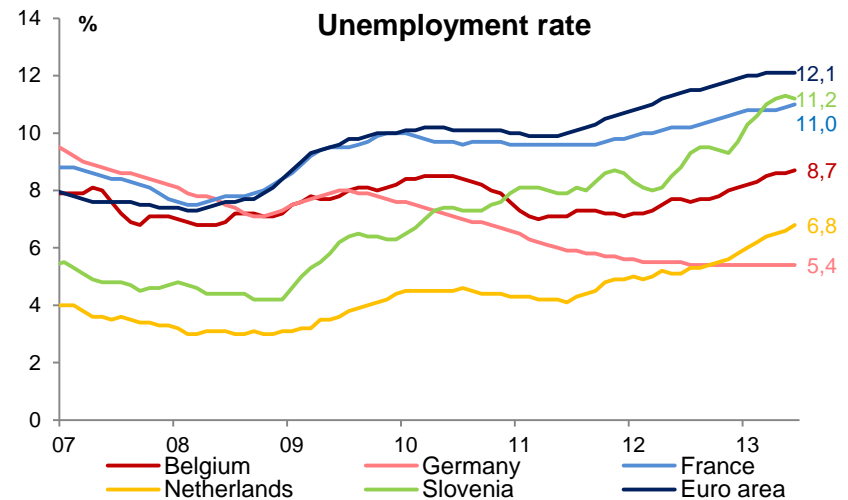
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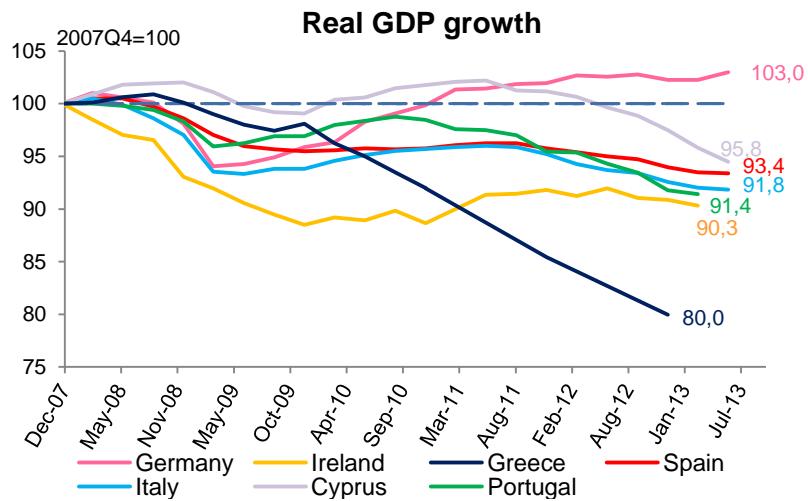
# GDP growth & Unemployment



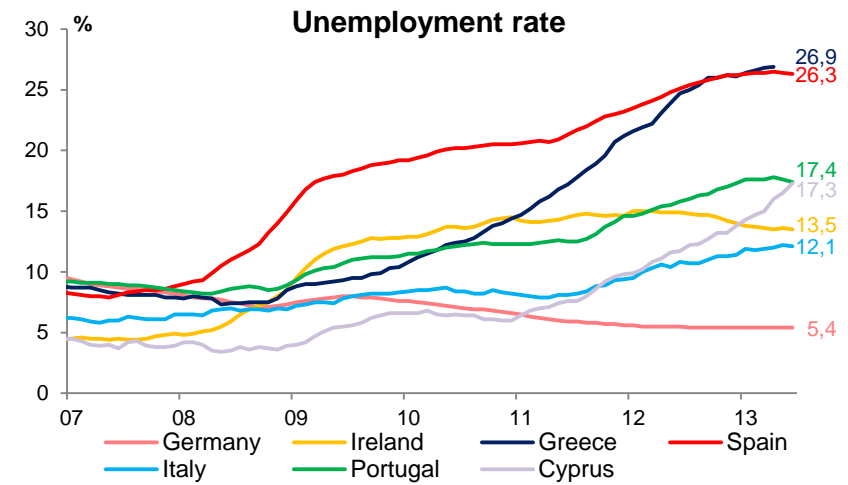
Source: Eurostat



Source: Eurostat



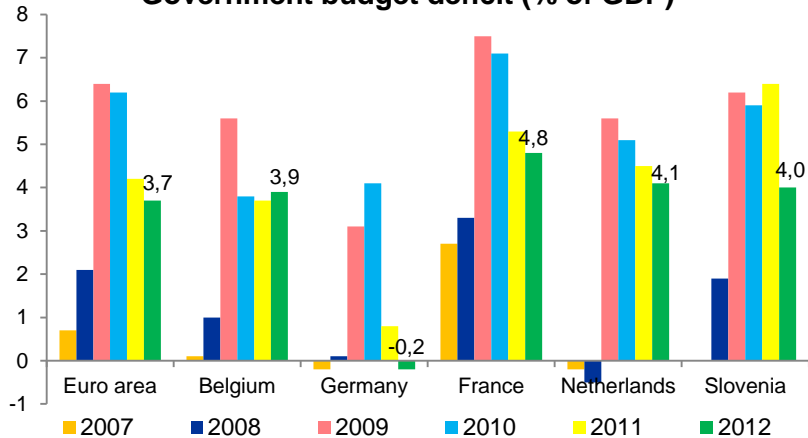
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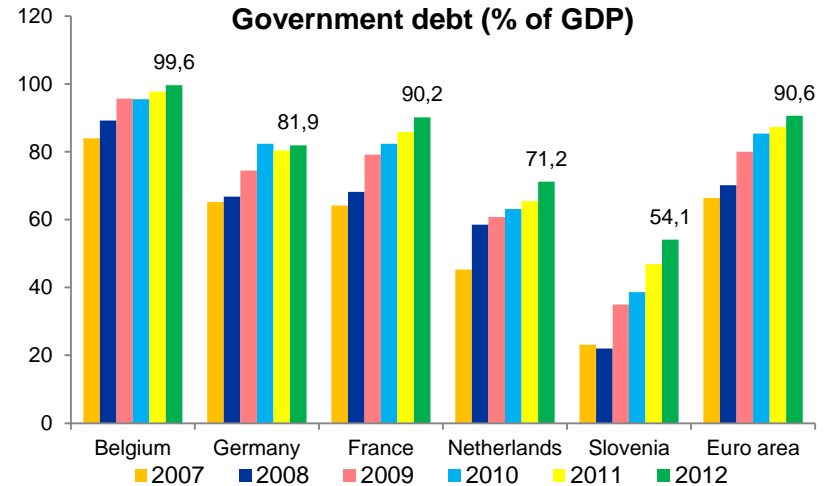
# Public Finances

**Government budget deficit (% of GDP)**



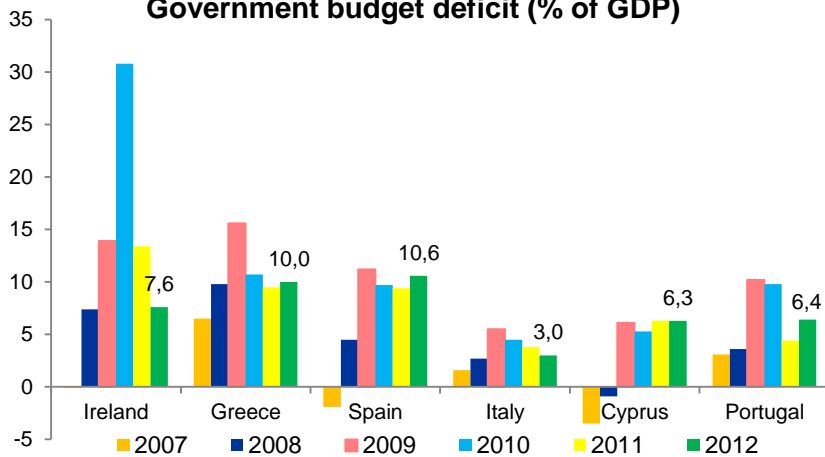
Source: Eurostat

**Government debt (% of GDP)**



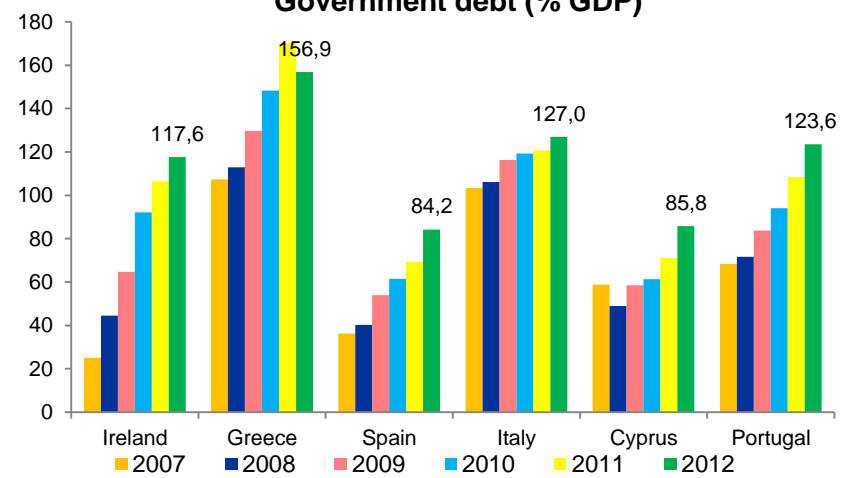
Source: Eurostat

**Government budget deficit (% of GDP)**



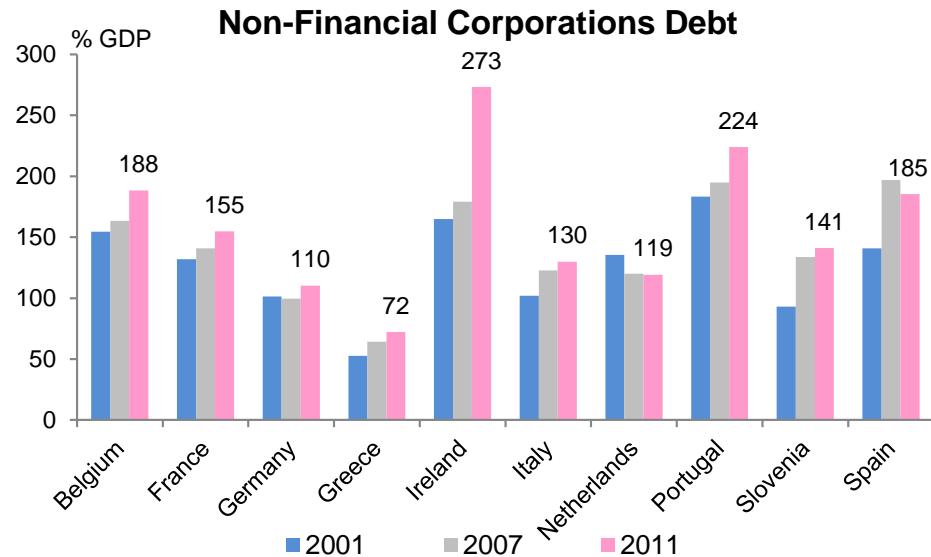
Source: Eurostat

**Government debt (% GDP)**

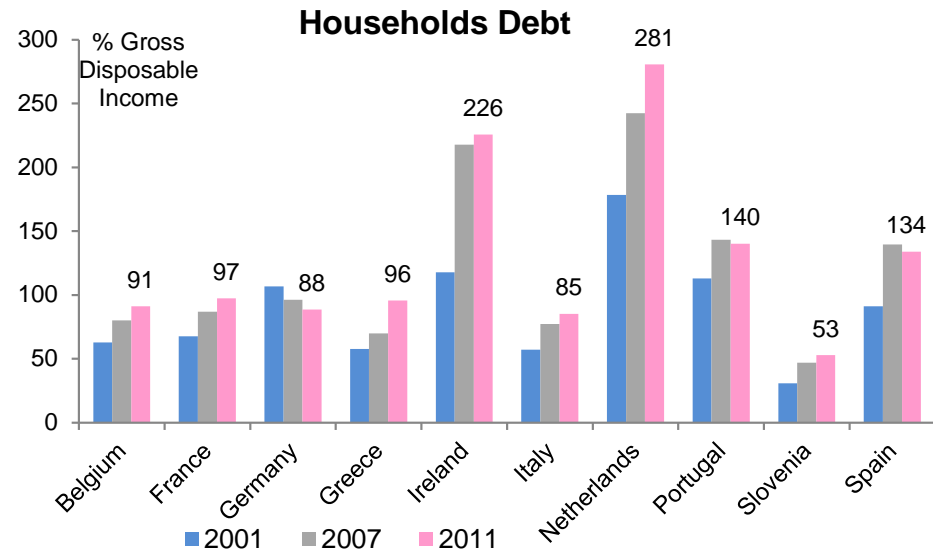


Source: Eurostat

# Private-Sector Debt

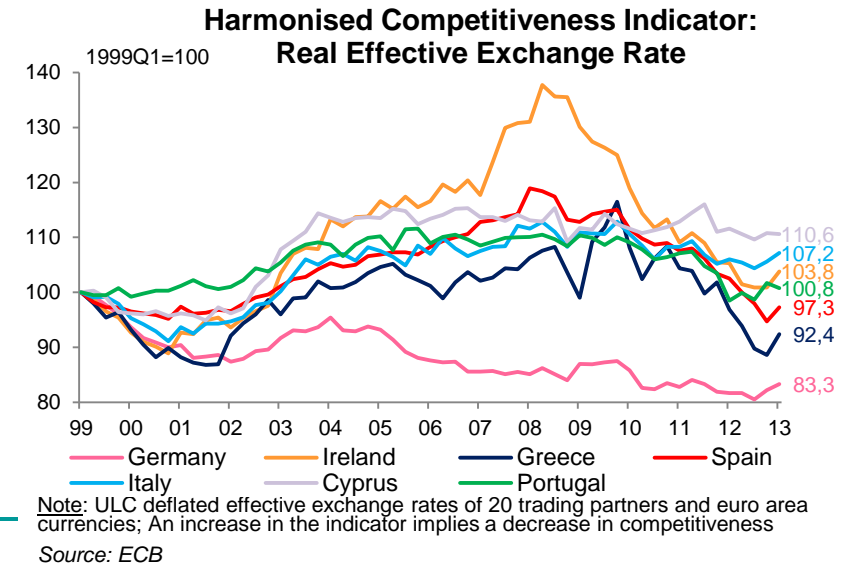
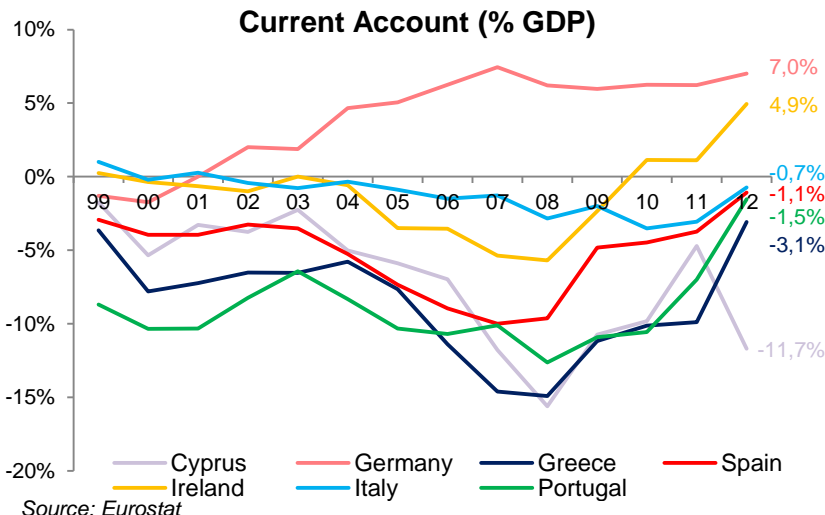
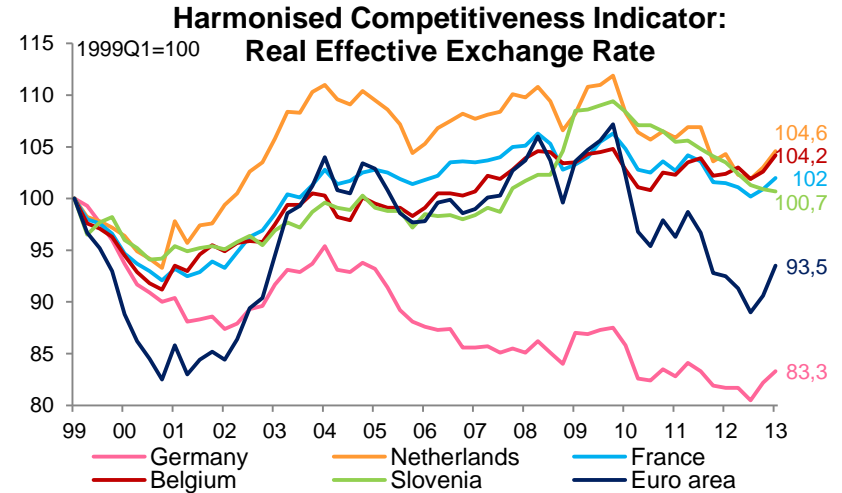
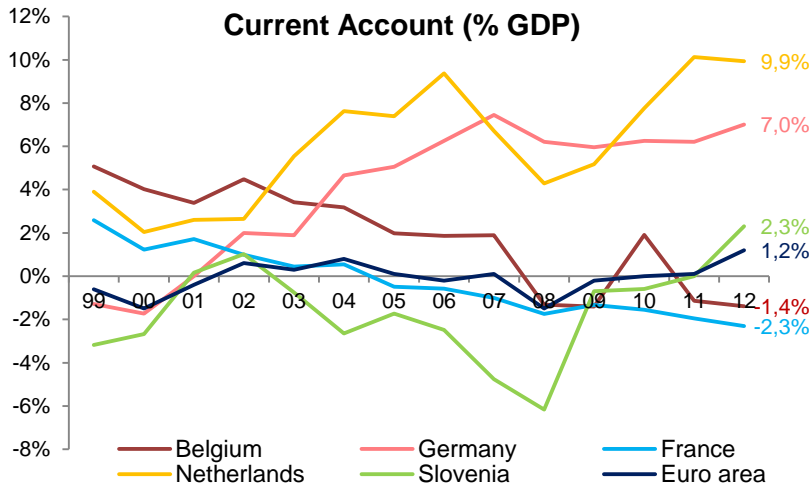


Source: OECD

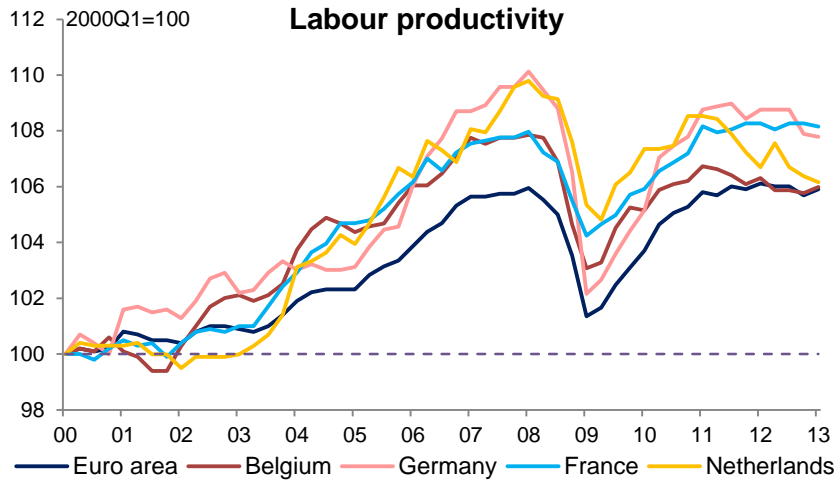


Note: Data from 2002 and 2005 for Ireland and Greece respectively (instead of 2001)  
Source: OECD

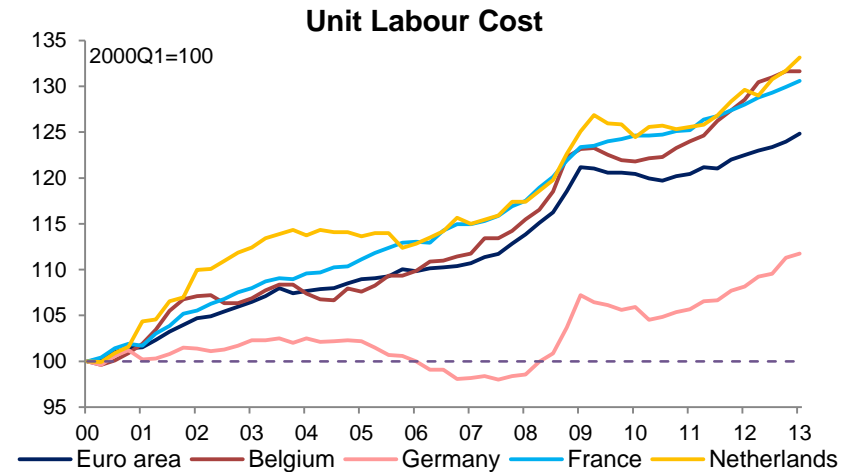
# Trade & Competitiveness



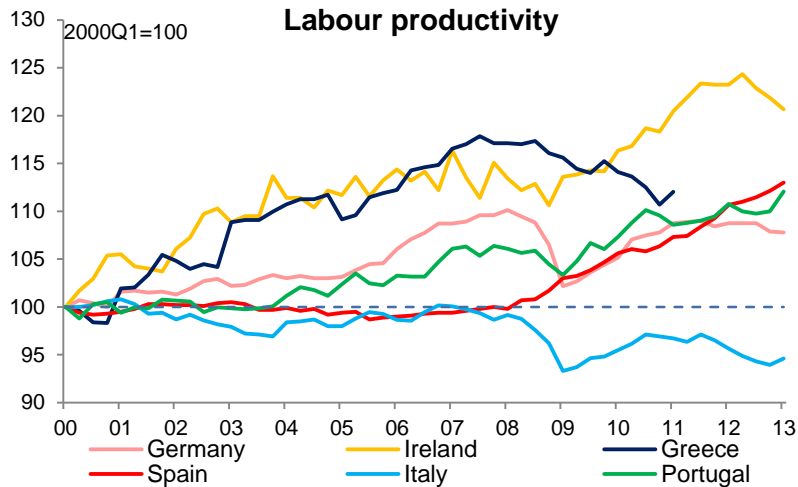
# Competitiveness



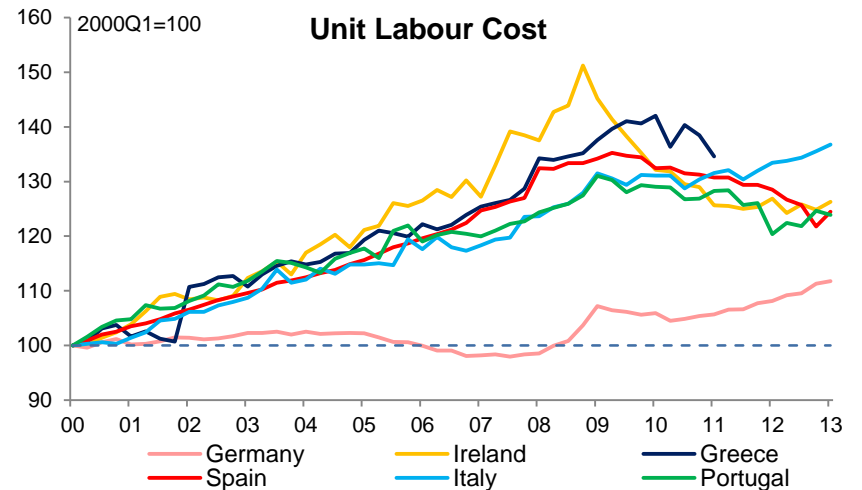
Source: Eurostat



Source: Eurostat



Source: Eurostat



Source: Eurostat

# Germany

## Latest economic and financial developments

- GDP up by 0.7% QoQ in Q2 (after 0.0% in Q1 due to the poor weather conditions) driven by strong consumption spending, a rebound in private investment and a positive contribution of net exports
- Robust performance of the labour market: unemployment stable at 5.4% in June; youth unemployment at 7.5%
- A special flood relief fund (worth €8bn) co-financed by the federal budget and 16 states has been set up in June for local repairs and reconstruction work
- General Government budget surplus of 0.6% of GDP in the 1<sup>st</sup> half of 2013 thanks to rising tax income (+3.8% compared to H1 2012); Government on track to beat its 2013 deficit target of 0.5% of GDP
- Government plans to reduce debt issuance in 2014 to €216bn from €240bn this year
- Employees in the metal and electrical industries secured a 2-stage wage rise of 5.6% in July 2013 and May 2014
- Germany's development bank KfW was agreed to lend €100m to a new €500m Greek growth Institution to be established in 2014
- The Constitutional Court held a hearing last June on ECB's bond-buying programme (OMT)

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	3,0	0,7	0,5	1,6
COM	3,0	0,7	0,4	1,8
OECD	3,1	0,9	0,4	1,9
IMF	3,1	0,9	0,3	1,3
<b>Unemployment rate (%)</b>				
Government	5,9	5,3	5,4	5,1
COM	5,9	5,5	5,4	5,3
OECD	5,7	5,3	5,0	4,8
IMF	5,9	5,5	5,6	5,5
<b>Budget Balance (%GDP)</b>				
Government	-0,8	0,2	-0,5	0,0
COM	-0,8	0,2	-0,2	0,0
OECD	-0,8	0,2	-0,2	0,0
IMF	-0,8	0,2	-0,4	-0,1
<b>Primary budget balance (%GDP)</b>				
Government	1,8	2,6	2,0	2,5
COM	1,8	2,6	2,3	2,3
OECD	-	-	-	-
IMF	1,2	2,4	1,8	1,8
<b>Public debt (%GDP)</b>				
Government	80,4	81,9	80,5	77,5
COM	80,4	81,9	81,1	78,6
OECD	80,5	81,9	80,6	77,8
IMF	80,5	82,0	81,3	79,3

Source: Stability Programme, European Commission, IMF, OECD



# Germany

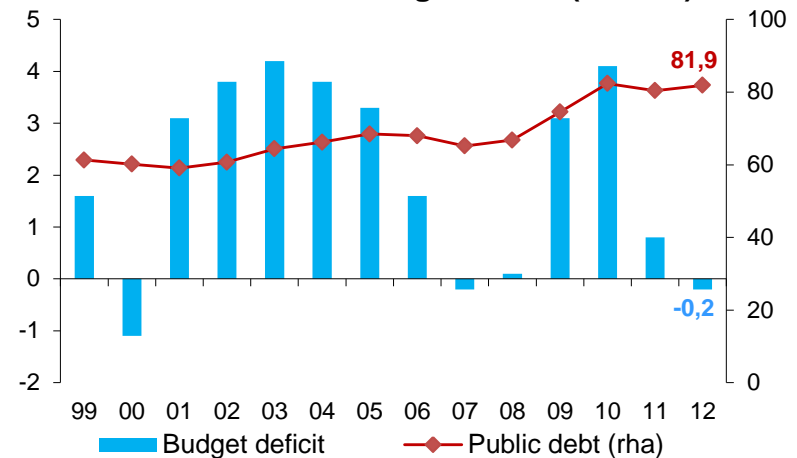
## Upcoming political events and economic/financial developments

- ❑ Federal elections on 22 September; Opinion polls (August average): CDU/CSU 40.4%, SPD 24.6%, Greens 12.6%, Linke 7.8%, FDP 5.7%, Pirates 2.6%, AfD 2.5% (source: Electionista)
- ❑ Local elections in Bavaria (15 September) and in Hesse (22 September)
- ❑ Ruling of the Constitutional Court on ECB's bond-buying programme (OMT), likely after the federal elections; potential conditions might be attached to it
- ❑ Progress on the creation of a Single Resolution Mechanism (SRM) including potential legal issues

## 2013 Country-Specific Recommendations

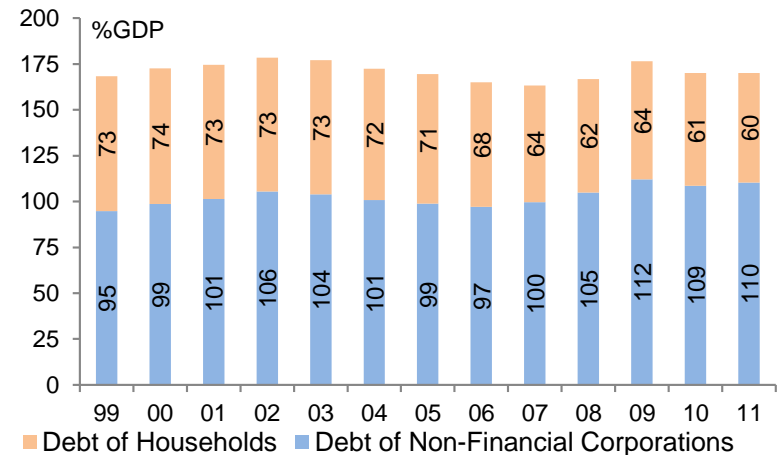
- ❑ Preserve the sound fiscal position
- ❑ Sustain conditions that enable wage growth to support domestic demand
- ❑ Improve the coordination of the energy policy with neighbouring countries
- ❑ Take measures to further stimulate competition in the services sectors

Public debt and budget deficit (% GDP)



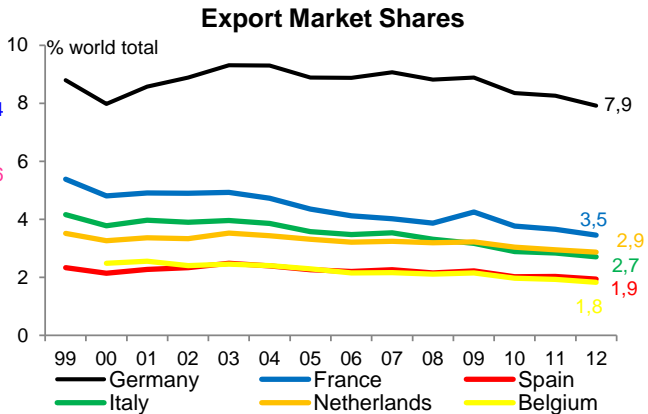
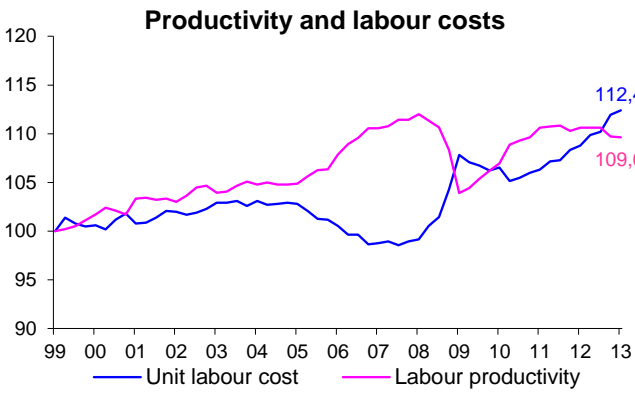
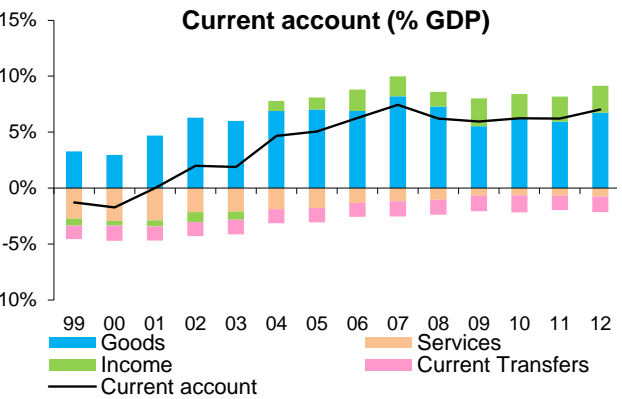
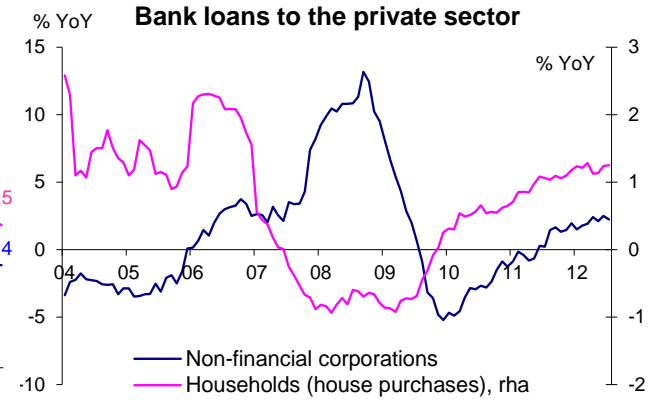
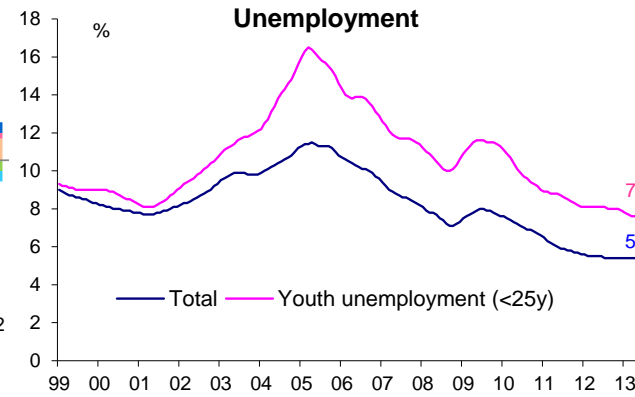
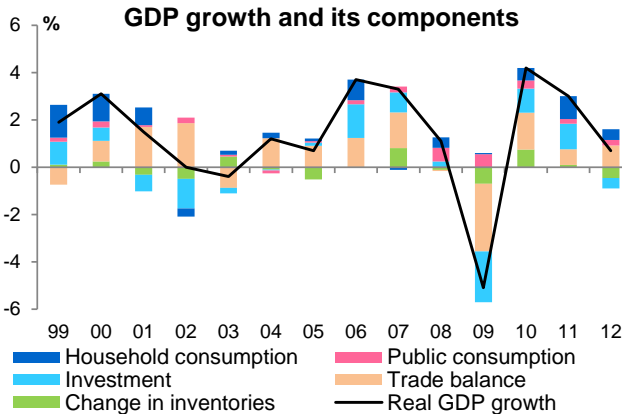
Source: Eurostat

Private-sector debt



Source: OECD

# Germany



# Ireland

## Latest macro and fiscal developments

- Ireland passed the 11th Troika review in July 2013 (programme “on track”) to receive a €3.4bn tranche (98% of the funding drawn down); maturities of EFSF/EFSM loans extended by 7 years
- Economy back into a mild recession after GDP shrunk by 0.6% QoQ in Q1 2013 (3<sup>rd</sup> consecutive quarter of contraction) on falling private consumption and weakening external demand
- Unemployment continued to decline to 13.5% in June from 14.9% one year earlier; employment picked up in 2012-13 (1<sup>st</sup> time since 2008); large increase in part-time jobs
- Haddington Road agreement between the Government and unions aimed to save €0.3bn this year and €1bn by 2015 through public-sector pay cuts and redundancies
- Government announced to use the €6.4bn remaining in Ireland’s National Pensions Reserve Fund to invest in local sectors with growth and jobs potential
- Government deficit on track to reach the 2013 deficit target; new local property tax from 1 July to replace a temporal local services charge
- Government swapped in February the remaining €28bn of promissory notes (to be paid off over the next 10 years) with low-yield, zero-coupon Government bonds with an average maturity of 34 years; Government expects to save up to €20bn over the next decade
- Government sold €5bn of new 10Y bonds at a low yield (1<sup>st</sup> time since Jan 2010); 2014 financing needs almost entirely pre-funded
- Rising mortgages in arrears (>90 days) at end-June 2013 to 12.7% from 11.9% in end-2012
- Residential property prices increased in June (+1,2%YoY) and July (+2.3% YoY); June was the 1<sup>st</sup> rise since 2008

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	1,4	0,9	1,3	2,4
COM	1,4	0,9	1,1	2,2
OECD	1,4	0,9	1,0	1,9
IMF	1,4	0,1	1,1	2,2
<b>Unemployment rate (%)</b>				
Government	14,7	14,7	14,0	13,3
COM	14,7	14,7	14,2	13,7
OECD	14,6	14,7	14,3	14,1
IMF	14,6	14,7	14,2	13,7
<b>Budget Balance (%GDP)</b>				
Government	-13,4	-7,6	-7,4	-7,3
COM	-13,4	-7,6	-7,5	-4,3
OECD	-13,3	-7,5	-7,5	-4,6
IMF	-13,4	-7,7	-7,5	-4,6
<b>Primary budget balance (%GDP)</b>				
Government	-10,0	-3,9	-2,5	0,5
COM	-10,0	-3,9	-2,4	0,6
OECD	-	-	-	-
IMF	-10,6	-4,6	-3,2	-0,1
<b>Public debt (%GDP)</b>				
Government	106,4	117,6	123,3	119,4
COM	106,4	117,6	123,3	119,5
OECD	106,4	117,6	123,6	120,7
IMF	106,5	117,1	122,0	120,2

Source: Stability Programme, European Commission, IMF, OECD

# Ireland

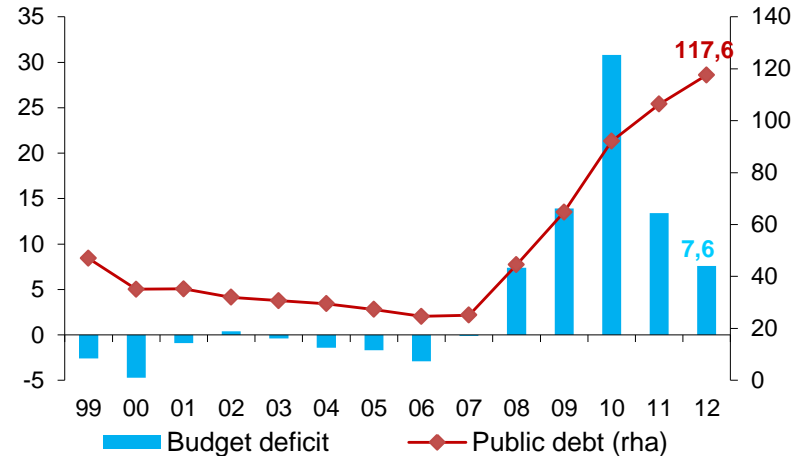
## Upcoming political events and economic/financial developments

- ❑ Next Troika review mission (October 2013); end of the financial assistance programme scheduled for November 2013
- ❑ Referendum on whether to abolish or retain Seanad (the Irish upper house) on 4 October
- ❑ Potential request for a Precautionary Conditioned Credit Line from the ESM along with potential ECB support through its bond-buying programme (OMT)
- ❑ Evolution of real estate prices (end of Irish housing bust gaining momentum) and the quality of loans to local SMEs; evolution of the level of mortgages arrears
- ❑ Capital stress tests of Irish banks delayed until 1<sup>st</sup> half of 2014 (whereas initially planned by the end of the bailout programme) but ahead of EU-wide stress testing exercise
- ❑ Establishment and implementation of a new Ireland Strategic Investment Fund (by end of 2013) succeeding to the National Pension Reserve Fund to invest in sectors with growth and jobs potential (e.g. infrastructure, education programmes)
- ❑ Next general elections due in 2016

## 2013 Country-Specific Recommendations

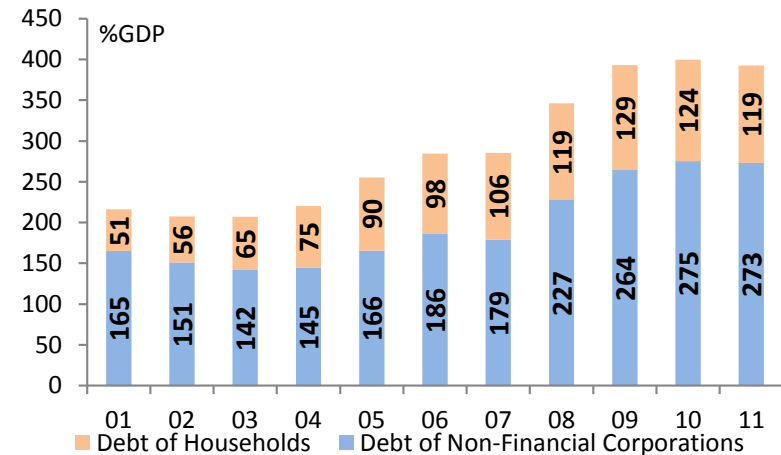
No CSRs to avoid duplication with measures set out in the Economic Adjustment Programme

Public debt and budget deficit (% GDP)



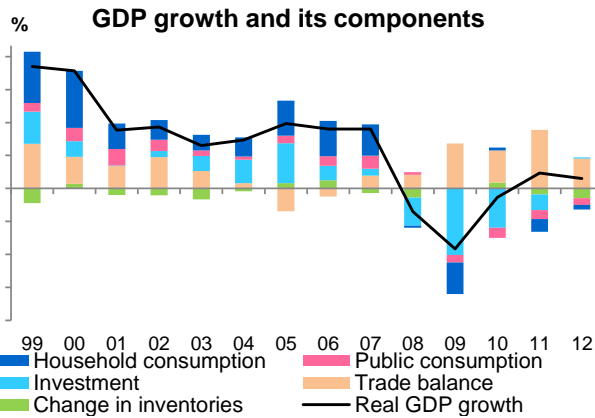
Source: Eurostat

Private-sector debt

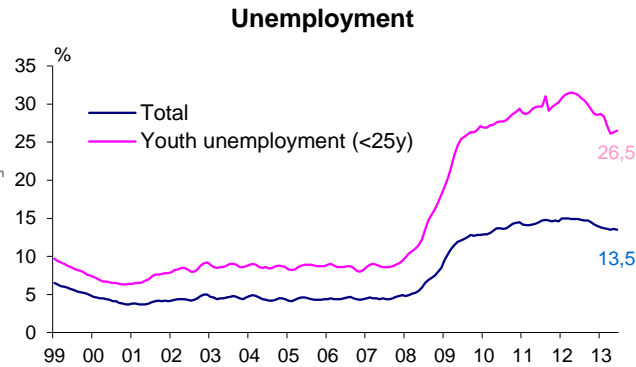


Source: OECD

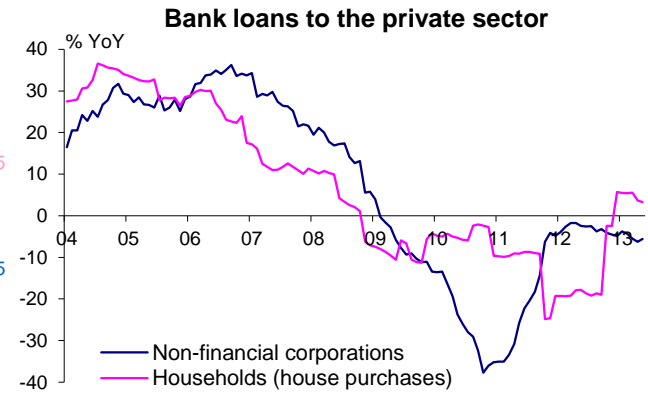
# Ireland



Source: Eurostat

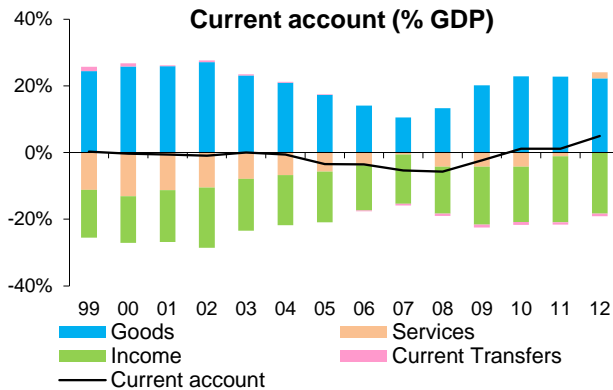


Source: Eurostat



Source: ECB

Source: Eurostat

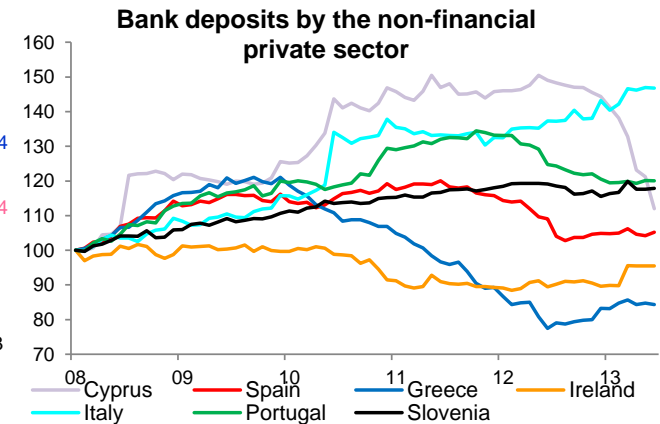


Source: Eurostat



Note: Index: 1999=100

Source: Eurostat



Note: Index: January 2008=100

Source: ECB

# Greece

## Latest economic and financial developments

- Government passed an omnibus bill in July to secure bailout lending enhancing the tax system, promoting privatisation, cutting healthcare and defense spending and reducing public-sector employment
- Finance ministry forecasts a €4.5bn financing gap in 2014 and €5bn in 2015 whereas the IMF estimates a combined €11.1bn.
- The Eurogroup authorised €6.8bn of programme loans to be disbursed in 3 tranches until October; the first 2 tranches (worth €5.8bn) already disbursed
- Greece passed the last Troika review; the programme is roughly “on track”
- GDP down 4.6% YoY in Q2 2013 (20<sup>th</sup> consecutive quarter of contraction) on a sharp fall in domestic demand but positive contribution to GDP of net trade (mainly due to falling imports)
- Very high unemployment rising to 26.9% in April from 26.1% at end-2012(youth unemployment at almost 60%); private-sector situation has already been improving
- Narrowing current account deficit in the first 5 months of 2013
- Central Government budget deficit declined to €1.9bn in Jan-July 2013 compared to €13.2bn one year ago and a target of €7.5bn; Primary surplus of €2.5bn recorded
- Privatisation programme behind schedule while 2013 revenue target revised downwards by €1bn to €1.6bn after the failure to sell the Public Gas Corporation
- Completion of the recapitalisation of the 4 largest banks by the HFSF last June; Piraeus bank acquired the Greek subsidiaries of the 3 largest Cypriot banks
- Deposits have rebounded since June 2012; Non-performing loans up to 29% of total assets in Q1 2013 (from 24.2% at end-2012)
- Germany accepted to lend €0.1bn to a new €0.5bn Greek growth fund

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	-7,1	-6,4	-4,2	0,6
COM	-7,1	-6,4	-4,2	0,6
OECD	-7,1	-6,4	-4,8	-1,2
IMF	-7,1	-6,4	-4,2	0,6
<b>Unemployment rate (%)</b>				
Government	17,7	23,2	25,8	24,8
COM	17,7	24,3	27,0	26,0
OECD	17,7	24,2	27,8	28,4
IMF	17,7	24,2	27,0	26,0
<b>Budget Balance (%GDP)</b>				
Government	-10,5	-10,0*	-3,8	-2,6
COM	-9,5	-10,0*	-3,8	-2,6
OECD	-9,6	-10,0*	-4,1	-3,5
IMF	-9,5	-6,4	-4,6	-3,4
<b>Primary budget balance (%GDP)</b>				
Government	-3,4	-5,0*	0,0	1,8
COM	-2,4	-5,0*	0,0	1,8
OECD	-	-	-	-
IMF	-2,6	-1,2	-	1,5
<b>Public debt (%GDP)</b>				
Government	170,3	156,9	175,2	175,0
COM	170,3	156,9	175,2	175,0
OECD	170,3	157,0	175,1	180,6
IMF	170,6	158,6	179,5	175,5

Source: National Reform Programme, COM, IMF, OECD

\* including the cost of bank recapitalisation

# Greece

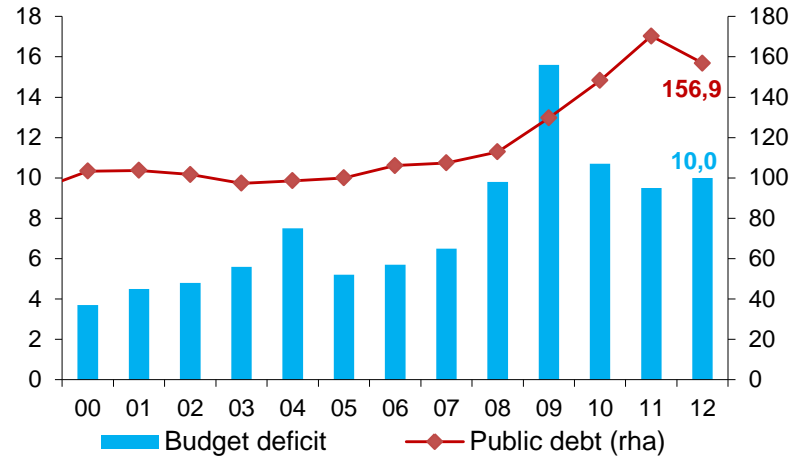
## Upcoming political events and economic/financial developments

- Next Troika review due in September
- 2014 budget draft and new Medium-Term Fiscal Strategy to 2016
- 2013 primary balance expected to record a surplus (1st time since 2002)
- Progress on the privatisation programme (sales of corporate assets and public real estate)
- Government to cut 15,000 public-sector jobs by end-2014
- Measures to keep the programme fully financed 12 months forward to meet IMF requirement
- Further debt relief to be discussed by April 2014
- End of the 2<sup>nd</sup> financial programme by Europeans is scheduled for next year compared to 2016 for the IMF
- Spillover effects from Cyprus on Greece's economic activity this year; Cyprus represents about 9% of Greece's exports
- Small bond issue in 2014 is envisaged according to Finance Minister Stournaras
- Stress tests of the banking sector to be concluded by the end of November by BlackRock (HFSF has €13bn remaining from the recapitalisation of the banks)

## 2013 Country-Specific Recommendations

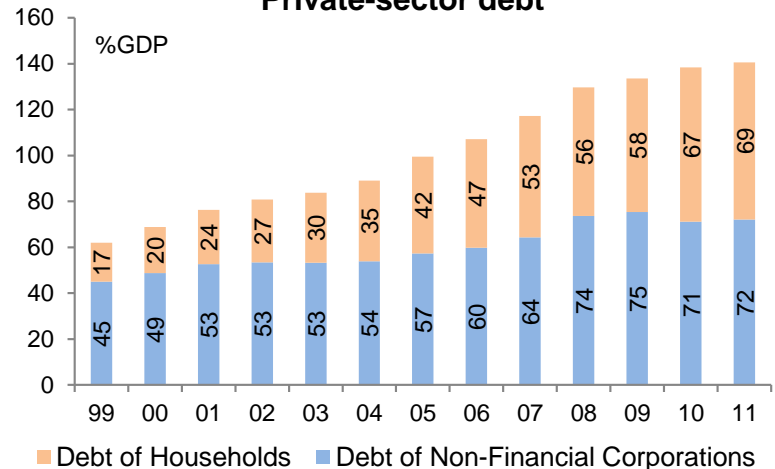
No CSRs to avoid duplication with measures set out in the Economic Adjustment Programme

Public debt and budget deficit (% GDP)



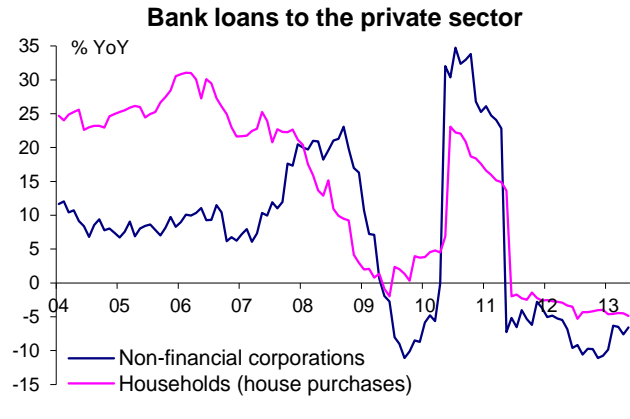
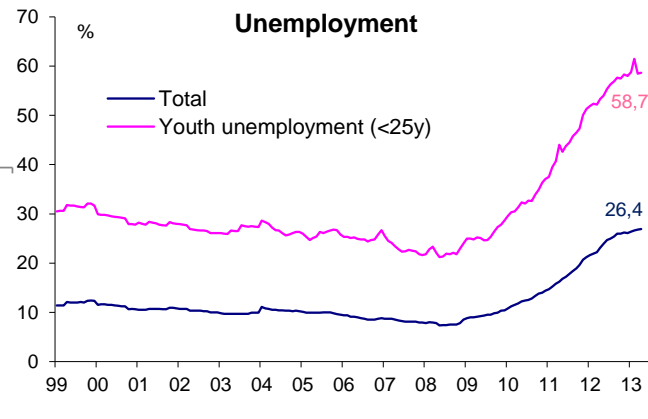
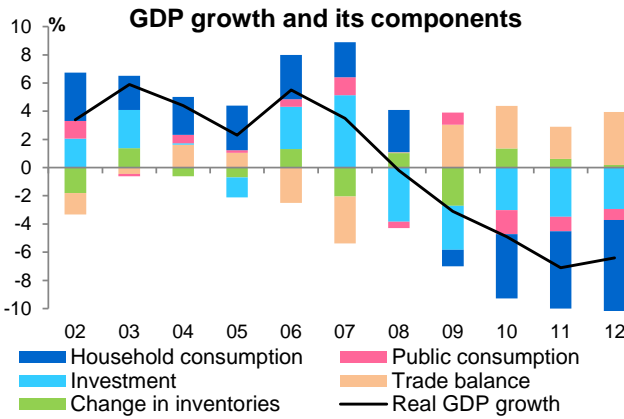
Source: Eurostat

Private-sector debt



Source: OECD

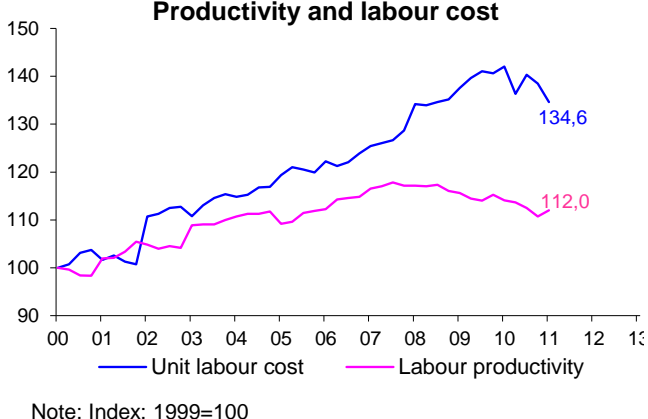
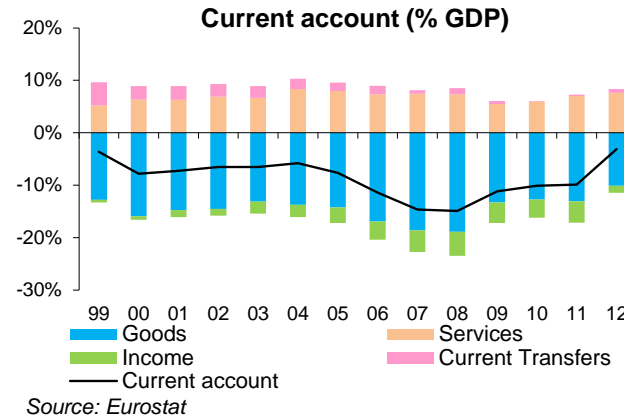
# Greece



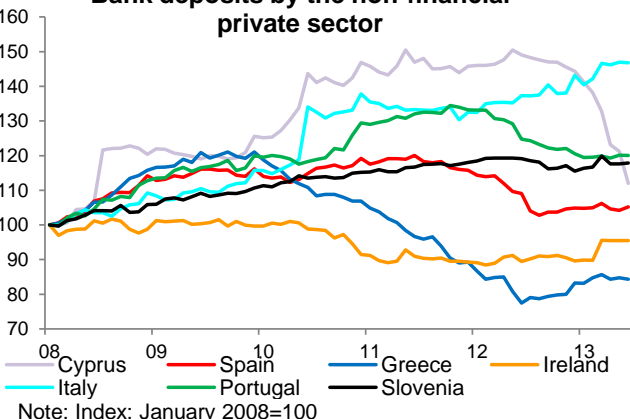
Source: Eurostat

Source: Eurostat

Source: ECB



Note: Index: 1999=100  
Source: Eurostat



Note: Index: January 2008=100  
Source: ECB



# Spain

## Latest economic and financial developments

- Recession is easing as GDP decreased by 0.1% QoQ in Q2 2013 (7<sup>th</sup> consecutive quarter of contraction) on a decline in domestic demand despite positive contribution of net exports
- Very high unemployment but declining from 26.5% in April to 26.3% in June; number of unemployed fell by 225.000 in Q2; youth unemployment increasing to 56% in June
- Deadline for EDP extended by 2 years to 2016
- Government introduced reforms to the electricity market to eliminate an annual deficit of €4.5bn and repay the outstanding debt of €26bn over 15 years
- Government budget deficit amounted to 3.8% GDP in the first 6 months of 2013 (vs 4.15% one year ago)
- Passed the 3<sup>rd</sup> review (in May) as the adjustment programme of the banking sector remains “on track”; the ESM has already disbursed (€41.3bn out of a max credit line of €100bn)
- Rising non-performing loans to 11.6% of total loans in June from 9.6% one year earlier, despite the completion of the transfers of assets to the ‘bad bank’ SAREB
- Current account returned to surplus (+€2.5bn in the first 5 months of 2013) – 1<sup>st</sup> time since end-1997
- Contracting credit to both households and non-financial corporations, with tight credit conditions; ongoing deleveraging process for both households and firms
- House prices fell by 6.6% QoQ (-14,3% YoY) in Q1 2013; sharpest drop since 2007

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	0,4	-1,4	-1,3	0,5
COM	0,4	-1,4	-1,5	0,9
OECD	0,4	-1,4	-1,7	0,4
IMF	0,4	-1,4	-1,6	0,0
<b>Unemployment rate (%)</b>				
Government	21,7	25,0	27,1	26,7
COM	21,7	25,0	27,0	26,4
OECD	21,6	25,0	27,3	28,0
IMF	21,7	25,0	27,2	27,0
<b>Budget Balance (%GDP)</b>				
Government	-9,4	-10,6*	-6,3	-5,5
COM	-9,4	-10,6*	-6,5	-7,0
OECD	-9,4	-10,6*	-6,9	-6,4
IMF	-9,4	-10,3*	-6,7	-5,9
<b>Primary budget balance (%GDP)</b>				
Government	-7,0	-7,7*	-3,0	-2,0
COM	-7,0	-7,7*	-3,2	-3,6
OECD	-	-	-	-
IMF	-7,5	-7,7*	-3,3	-2,3
<b>Public debt (%GDP)</b>				
Government	69,3	84,2	91,4	96,2
COM	69,3	84,2	91,3	96,8
OECD	69,3	84,1	91,4	97,0
IMF	69,3	84,1	91,8	97,6

Source: Stability Programme, European Commission, IMF, OECD

\* including the cost of bank recapitalisation

# Spain

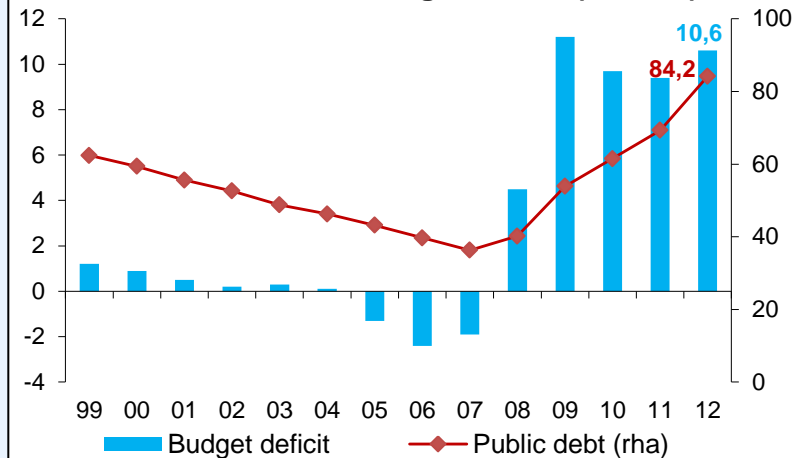
## Upcoming political events and economic/financial developments

- Leading economic indicators pointing to a mild recovery in the 2<sup>nd</sup> half of 2013
- Political developments in Catalonia (a referendum on independence is planned in 2014)
- Next review of the financial assistance programme scheduled for September 2013; availability period of the financial assistance to Spain's banking sector ends on 31 Dec 2013
- Management and divestment by SAREB of the portfolio of bad assets
- Tighter Bank of Spain classification rules for doubtful loans (worth about €200bn) from September forcing banks to increase their provisions by about €10bn
- Spanish banks exposure to Portugal
- Banking stress tests and asset quality review by the ECB and the EBA (H1 2014) ahead of the launch of the SSM
- Implementation of the reforms to the electricity market

## 2013 Country-Specific Recommendations

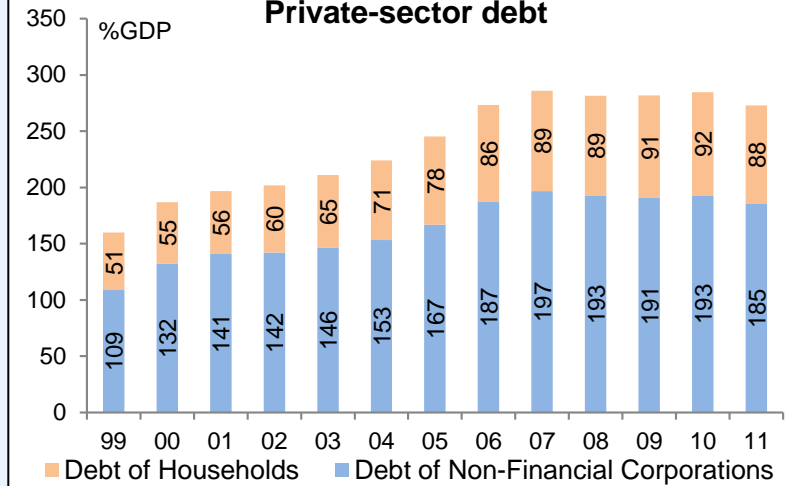
- Deliver the structural fiscal efforts as required under the EDP
- Conduct a systematic review of the tax system by March 2014.
- Implement the financial sector programme for the recapitalisation of the financial institutions
- Finalise the evaluation of the 2012 labour market reform
- Implement and monitor closely the effectiveness of the measures to fight youth unemployment
- Adopt and implement the necessary measures to reduce the number of people at risk of poverty and/or social exclusion
- Urgently adopt and implement the draft Law on Market Unity
- Tackle the electricity tariff deficit ; Adopt the reform of the local administration and reforms to enhance the efficiency of the judicial system

## Public debt and budget deficit (% GDP)



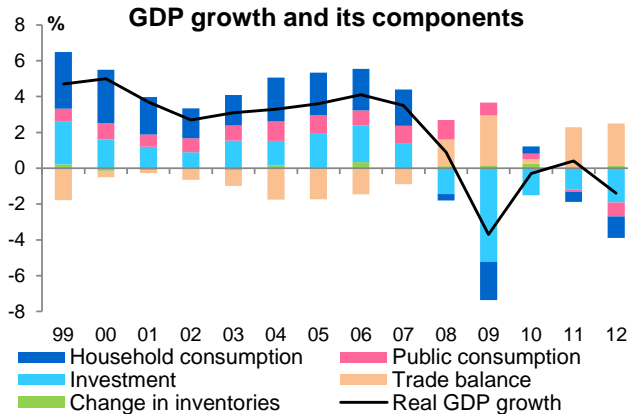
Source: Eurostat

## Private-sector debt

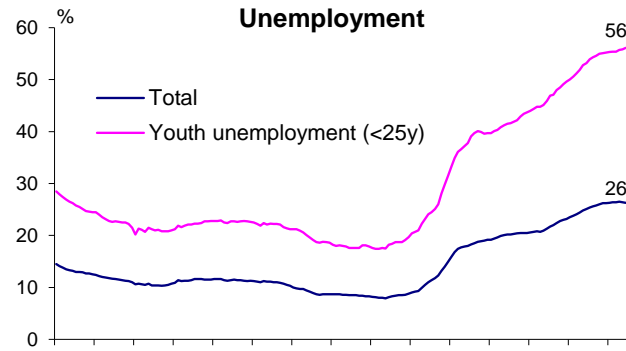


Source: OECD

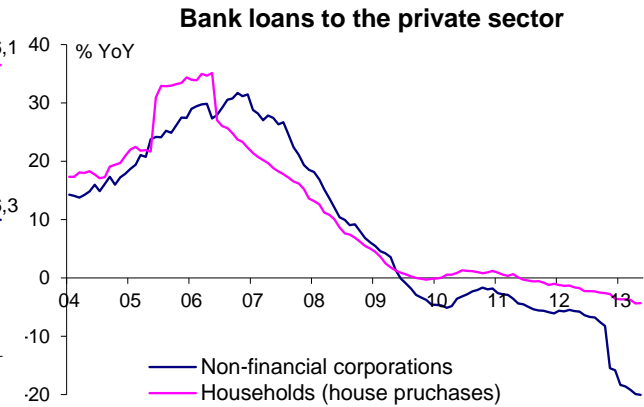
# Spain



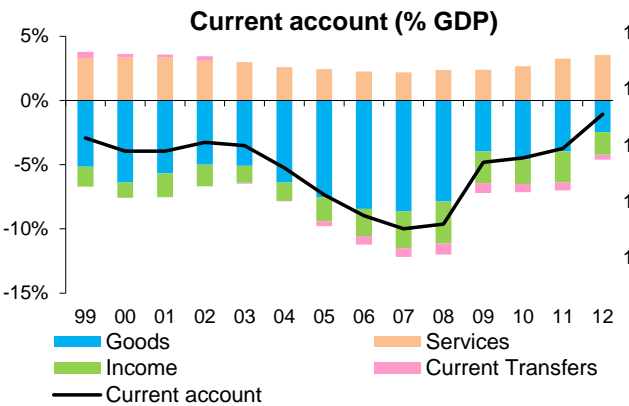
Source: Eurostat



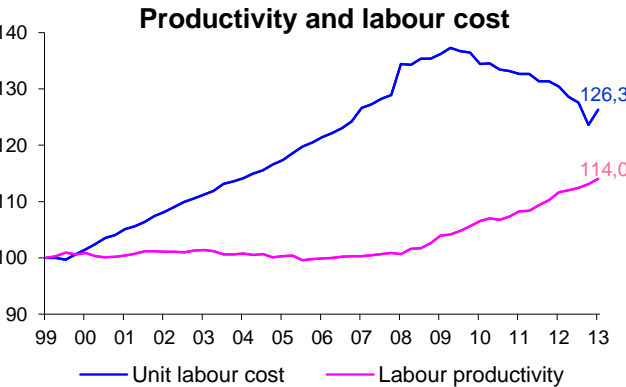
Source: Eurostat



Source: ECB

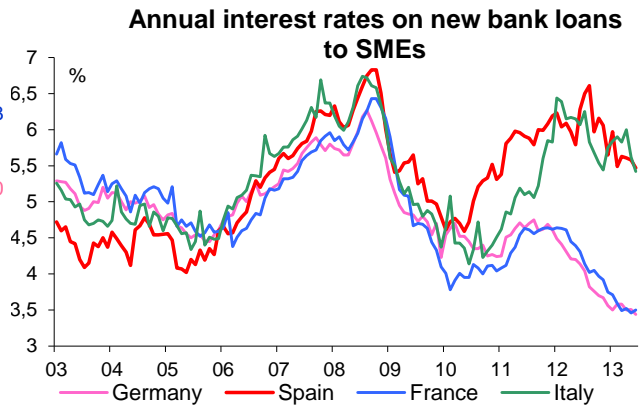


Source: Eurostat



Note: Index: 1999=100

Source: Eurostat



Note: Loans of up to €1bn and 1- to 5-year maturity

Source: ECB

# France

## Latest economic and financial developments

- GDP up by 0.5% in Q2 2013 after a mild recession (GDP contracted by -0.3% QoQ in both Q4 2012 and Q1 2013) on a rebound in consumption (+0.4% QoQ)
- Weak labour market data: unemployment hit a new record high at 11.0% in June (from 10.7% at end-2012); youth unempl > 25%
- EDP deadline extended by 2 years to 2015; deficit targets for 2013 and 2014 revised to 3.9% and 3.6% of GDP, respectively
- The 2013 deficit target was revised to 3.9% of GDP (from 3.7%) by the government
- Government cut family tax credits from 2014 and has started to sell state holdings in large companies to generate additional savings
- Government plans a €20bn fiscal effort for the 2014 budget skewed towards spending cuts (around ⅔ of the consolidation) after a 2013 budget including €10bn of spending savings and €20bn of tax increases
- PM Ayrault outlined a €12bn investment plan (*Investir pour la France*) in research & universities, the digital economy, aerospace and defense industries over 10 years from 2016
- Parliament approved the labour market reform in May 2013: more flexibility for employers (i.e. easier to lay off, reduced wages/working hours in economic slowdown) and more security for employees (generalisation of health insurance and higher taxes on short contracts)

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	1,7	0,0	0,1	1,2
COM	1,7	0,0	-0,1	1,1
OECD	1,7	0,0	-0,3	0,8
IMF	1,7	0,0	-0,2	0,8
<b>Unemployment rate (%)</b>				
Government	9,6	10,3	10,6	10,9
COM	9,6	10,2	10,6	10,9
OECD	9,2	9,9	10,7	11,1
IMF	9,6	10,2	11,2	11,6
<b>Budget Balance (%GDP)</b>				
Government	-5,3	-4,8	-3,7	-2,9
COM	-5,3	-4,8	-3,9	-4,2
OECD	-5,3	-4,9	-4,0	-3,5
IMF	-5,1	-4,6	-3,9	-3,5
<b>Primary budget balance (%GDP)</b>				
Government	-2,7	-2,3	-1,3	-0,4
COM	-2,7	-2,3	-1,4	-1,8
OECD	-	-	-	-
IMF	-2,7	-2,2	-1,4	-1,1
<b>Public debt (%GDP)</b>				
Government	85,8	90,2	93,6	94,3
COM	85,8	90,2	94,0	96,2
OECD	86,0	90,7	94,5	97,2
IMF	86,0	90,3	93,5	95,0

Source: Stability Programme, European Commission, IMF, OECD

# France

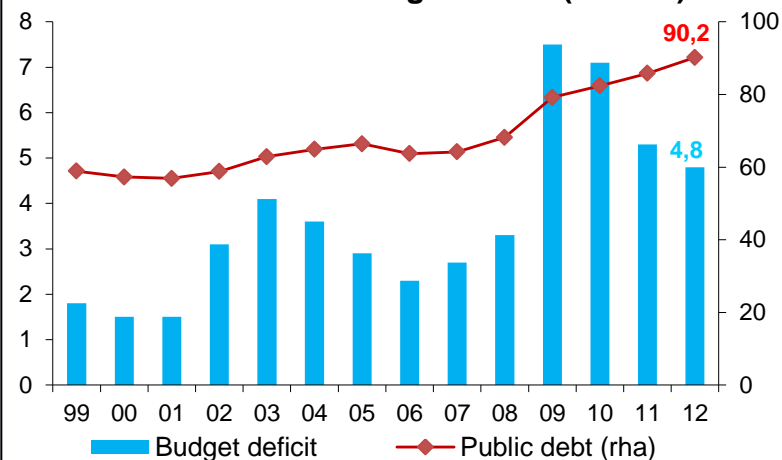
## Upcoming political events and economic/financial developments

- Pension reform to be presented in late August/early September 2013 after negotiations between government and social partners
- 2014 Budget draft to be submitted to Parliament by 15 October, including details on spending cuts
- Implementation of the latest competitiveness and employment measures (including the “competitiveness tax credits”) and their impact on the labour market and external competitiveness
- Implementation of France’s public investment bank, Bpifrance, aimed to promote state investment mainly in SMEs (an investment of €2bn is planned in 2013)
- Implementation of new investment programme
- Municipal elections (March 2014)

## 2013 Country-Specific Recommendations

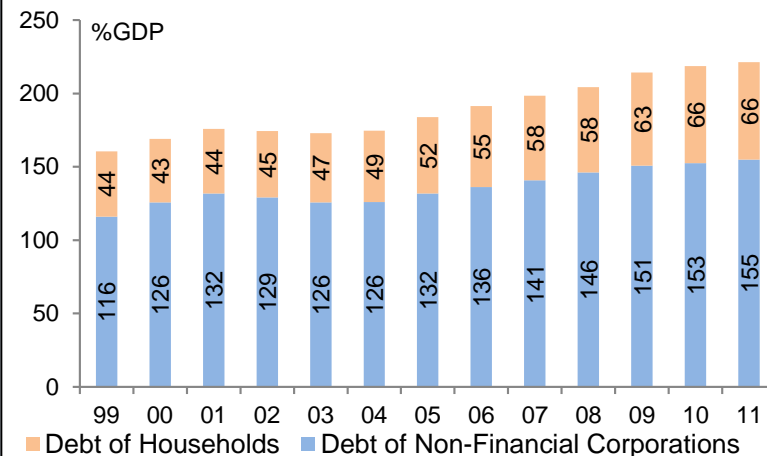
- Ensure a correction of the excessive deficit in a sustainable manner by 2015
- Ensure that the reduction in the labour cost ; Ensure that developments in the minimum wage are supportive of competitiveness and job creation
- Take further measures to improve the business environment and develop the innovation and export capacity of firms
- Take further action to combat labour-market segmentation and Launch urgently a reform of the unemployment benefit system
- Take action to enhance competition in services
- Pursue efforts to simplify the tax system and improve its efficiency

## Public debt and budget deficit (% GDP)



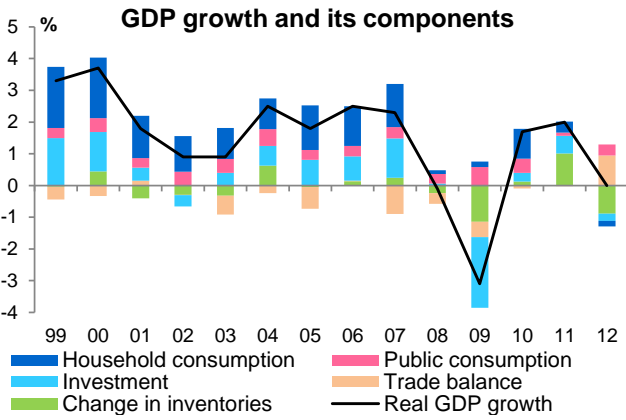
Source: Eurostat

## Private-sector debt

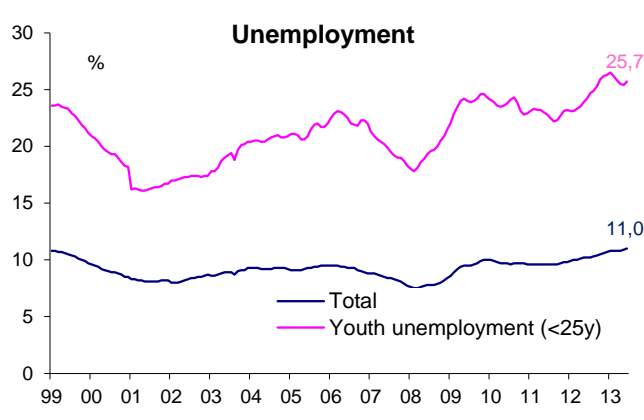


Source: OECD

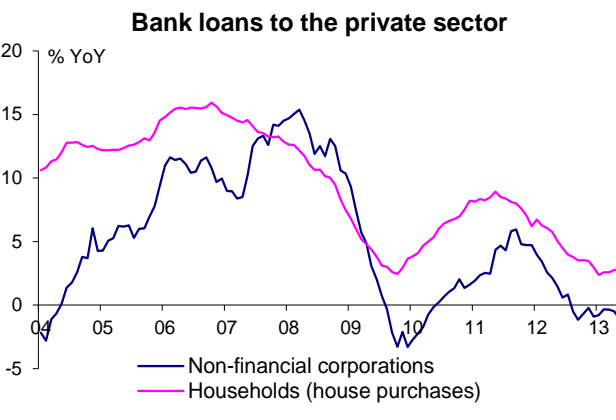
# France



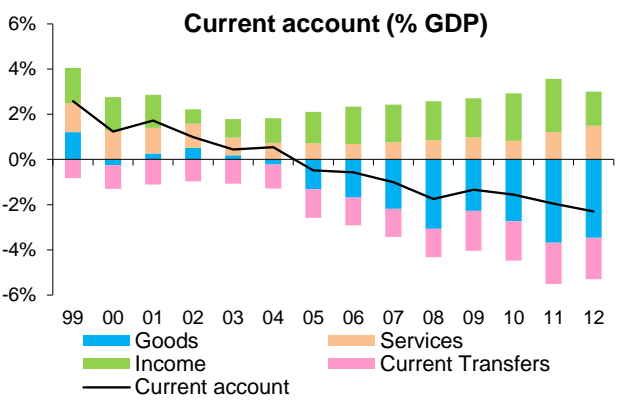
Source: Eurostat



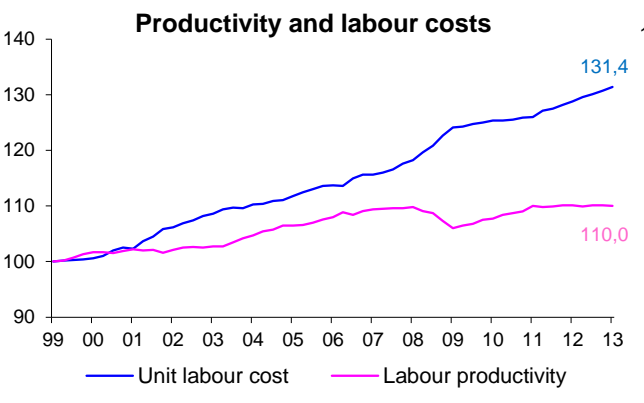
Source: Eurostat



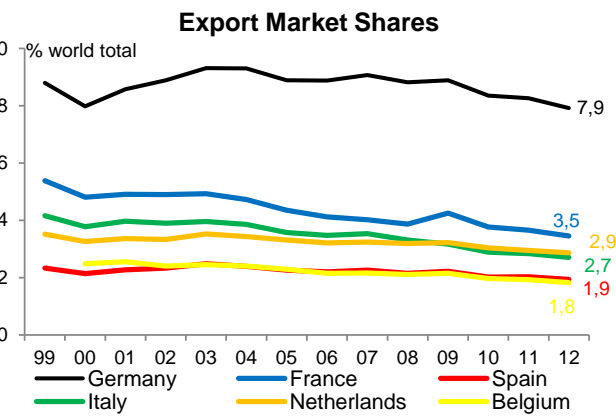
Source: Eurostat



Source: Eurostat



Note: Index: 1999=100  
Source: Eurostat



Source: Eurostat

# Italy

## Latest economic and financial developments

- Recession is easing a little: GDP contracted by 0.2% QoQ in Q1 2013 (8<sup>th</sup> consecutive quarter of contraction) on a likely fall in investment and private consumption but positive contribution of net exports
- Deteriorating labour market as unemployment rate rose to 12.1% in June from 11.4% at end-2012; youth unemployment at 39.1%
- EDP was abrogated by the European Council in July
- Government adopted a new budget-neutral package redirecting existing funds and includes the allocation of loans at reduced interest rates to SMEs (€5bn), infrastructure projects (€3bn); faster civil service system, cut in electricity bills for households and firms (€0.55bn)
- Government suspended the local property tax on primary residences by decree while the 1pp VAT hike due to come into force in July was cancelled; this represents a €6bn to €8bn shortfall in the 2013 budget
- Government passed a decree to allocate €1bn to the wage supplementation scheme to compensate private-sector workers for reduced employment hours and temporary redundancies
- Government passed a decree to pay € 40bn of arrears to the private sector in 2013-14; its implementation has begun
- General government budget deficit amounted to 7.3% of GDP in Q1 2013 compared to 6.6% one year earlier; deficit up by €2.3 explained partly by contributions to the ESM
- Tight credit conditions for both households and NFCs; non performing loans continued to rise in June (+22% YoY, Bank of Italy data)

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	0,4	-2,4	-1,3	1,3
COM	0,4	-2,4	-1,3	0,7
OECD	0,5	-2,4	-1,8	0,4
IMF	0,4	-2,4	-1,8	0,7
<b>Unemployment rate (%)</b>				
Government	8,4	10,7	11,7	12,1
COM	8,4	10,7	11,8	12,2
OECD	8,4	10,6	11,9	12,5
IMF	8,4	10,0	12,0	12,4
<b>Budget Balance (%GDP)</b>				
Government	-3,8	-3,0	-2,9	-1,8
COM	-3,8	-3,0	-2,9	-2,5
OECD	-3,7	-2,9	-3,0	-2,3
IMF	-3,7	-3,0	-2,6	-2,4
<b>Primary budget balance (%GDP)</b>				
Government	1,0	2,5	2,4	3,8
COM	1,2	2,5	2,4	3,1
OECD	-	-	-	-
IMF	1,0	2,3	2,7	2,9
<b>Public debt (%GDP)</b>				
Government	120,8	127,0	130,4	129,0
COM	120,8	127,0	131,4	132,2
OECD	120,8	127,0	131,7	134,3
IMF	120,8	127,0	130,6	130,8

Source: Stability Programme, European Commission, IMF, OECD



# Italy

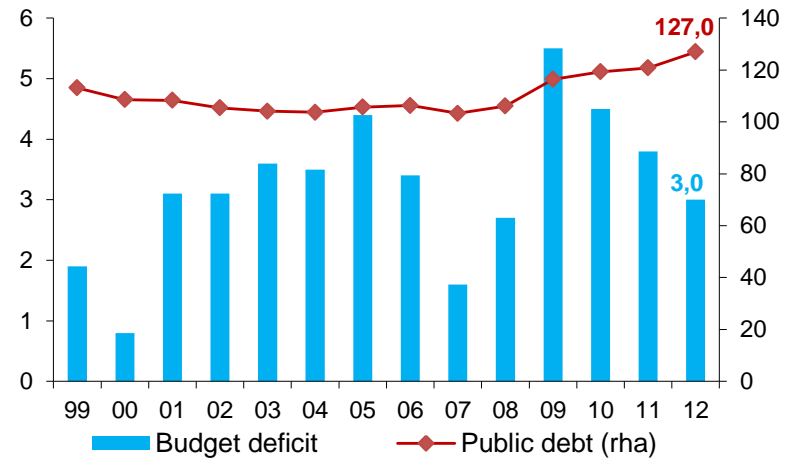
## Upcoming political events and economic/financial developments

- ❑ Senators to vote whether or not to expel S. Berlusconi from the Senate in mid-September
- ❑ Review on the property tax that has been suspended (by the end of August); budget deficit as VAT cancellation and property tax suspensions created a € 6bn financing gap
- ❑ Progress on structural economic reforms
- ❑ Judicial and electoral reforms; a new Commission is expected to issue a report by the end of 2014 on reforming the electoral law
- ❑ Effect of the government's payment of arrears on the private sector offsetting the tight credit conditions and high borrowing costs

## 2013 Country-Specific Recommendations

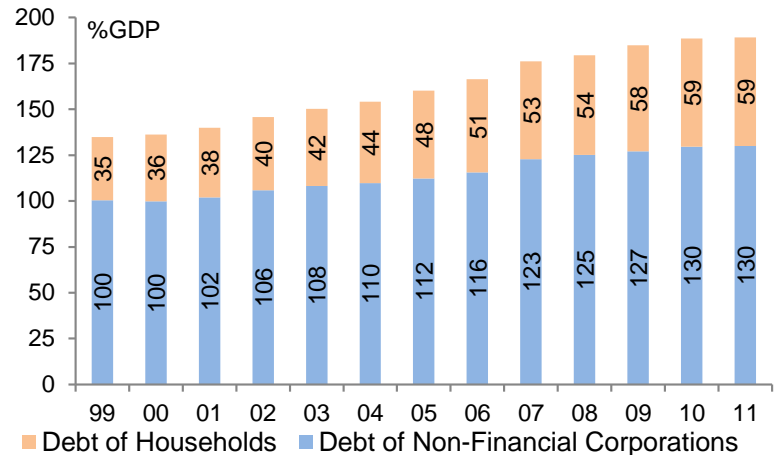
- ❑ Ensure that the deficit remains below 3% of GDP in 2013
- ❑ Ensure timely implementation of on-going reforms and improve coordination between layers of government
- ❑ Ensure the effective implementation of the labour market and wage setting reforms
- ❑ Shift the tax burden from labour and capital to consumption, property and the environment in a budgetary neutral manner; Pursue the fight against tax evasion
- ❑ Ensure the proper implementation of the measures aiming at market opening in the services sector
- ❑ Extend good corporate governance practices to the whole banking sector

## Public debt and budget deficit (% GDP)



Source: Eurostat

## Private-sector debt

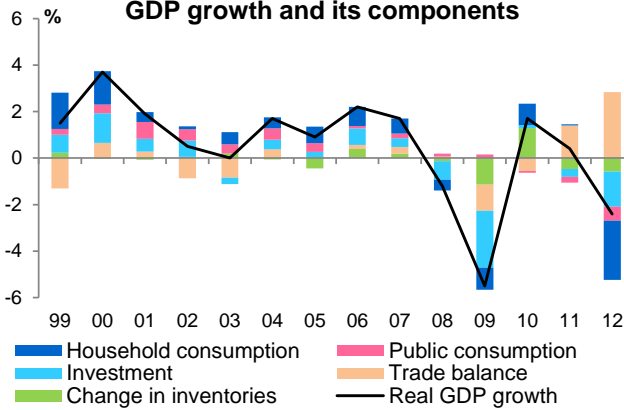


Source: OECD



# Italy

### GDP growth and its components



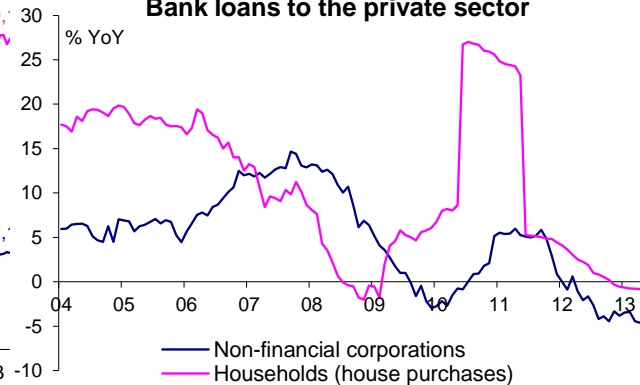
Source: Eurostat

### Unemployment



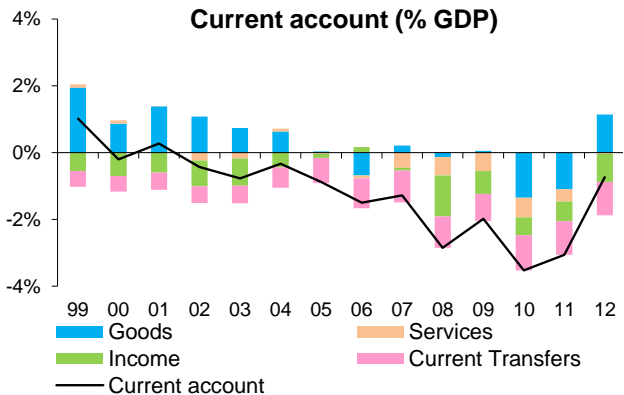
Source: Eurostat

### Bank loans to the private sector



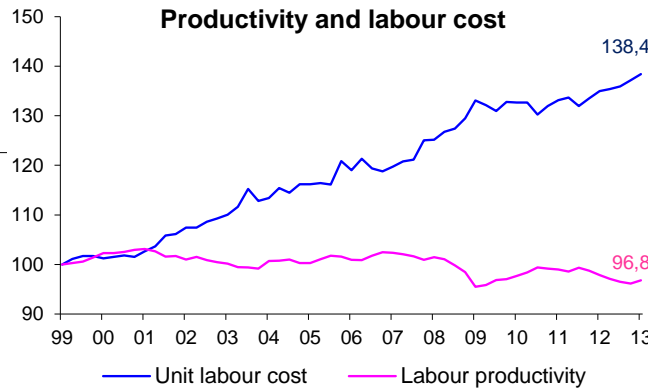
Source: ECB

### Current account (% GDP)



Source: Eurostat

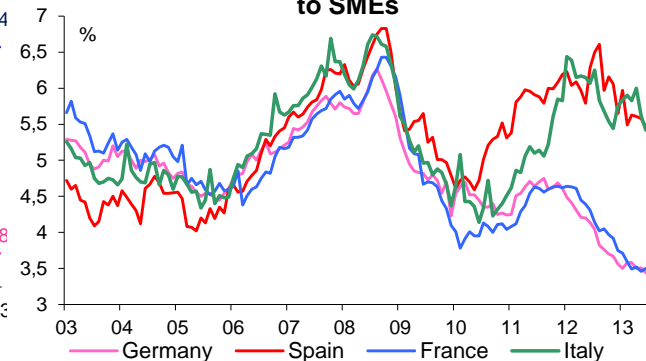
### Productivity and labour cost



Note: Index: 1999=100

Source: Eurostat

### Annual interest rates on new bank loans to SMEs



Note: Loans of up to €1bn and 1- to 5-year maturity

Source: ECB

# Cyprus

## Latest economic and financial developments

- €3bn already disbursed by the ESM in May and June (out of €9bn through the 1<sup>st</sup> quarter of 2016) and €0.1bn by the IMF (out of €1bn); the 1<sup>st</sup> Troika review in July concluded the programme was “on track”
- GDP down by 1.4% QoQ in Q2 2013 (8<sup>th</sup> consecutive quarter of contraction); sharp increase in unemployment to 17.3% in June 2013 from 13.8% at the end of 2012
- Central government recorded a budget deficit of 0.5% of GDP in the 1<sup>st</sup> quarter of 2013 (compared to -2% one year earlier) but a primary surplus
- Tourism dropped by 6.3% YoY in June
- Temporary capital controls introduced by Cyprus’ authorities since 15 March but gradually relaxed
- Bank of Cyprus fully recapitalised in late July by the conversion of 47.5% of uninsured deposits into shares dependent on the Central Bank’s Emergency Lending Assistance facility (worth about €11bn); Laiki (2<sup>nd</sup> largest bank) is effectively resolved while its good assets were transferred to Bank of Cyprus
- Bank deposits down by 20% in May 2013 compared to a peak in June 12
- Government approved bills strengthening anti-money laundering framework (21 August)
- Reports by Moneyval and Deloitte pointed out several deficiencies in the implementation of Anti-Money Laundering measures by Cyprus; the Central Bank of Cyprus contested these reports

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	0,5	2,4	-8,7	-3,9
COM	0,5	2,4	-8,7	-3,9
OECD	-	-	-	-
IMF	0,5	-2,4	-8,7	-3,9
<b>Unemployment rate (%)</b>				
Government	7,9	11,9	-	-
COM	7,9	11,9	15,5	16,9
OECD	-	-	-	-
IMF	7,9	12,1	15,5	16,9
<b>Budget Balance (%GDP)</b>				
Government	-6,3	-6,3	-6,0	-7,6
COM	-6,3	-6,3	-6,5	-8,4
OECD	-	-	-	-
IMF	-6,3	-5,7	-6,5	-8,4
<b>Primary budget balance (%GDP)</b>				
Government	-3,9	-3,1	-2,4	-4,2
COM	-3,9	-3,1	-2,4	-4,3
OECD	-	-	-	-
IMF	-4,4	-3,1	-2,4	-4,3
<b>Public debt (%GDP)</b>				
Government	71,1	85,8	108,8	118,4
COM	71,1	85,8	109,5	124,0
OECD	-	-	-	-
IMF	71,1	86,2	109,5	124,0

Source: National Reform Programme, COM, IMF, OECD

# Cyprus

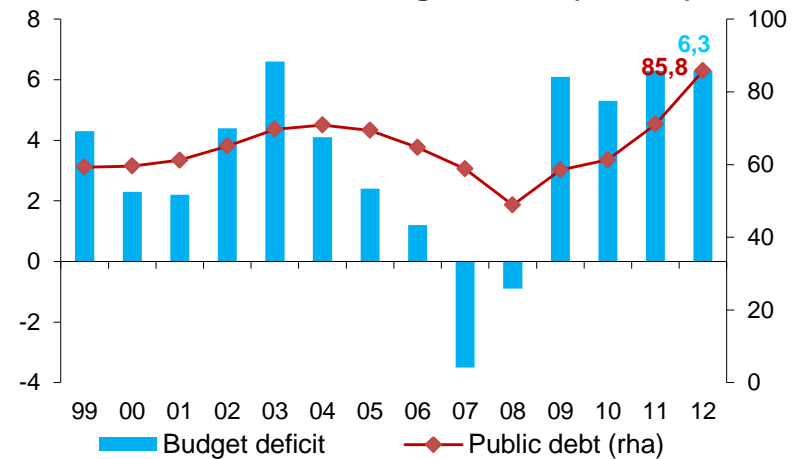
## Upcoming political events and economic/financial developments

- Approval of the conclusion of the 1<sup>st</sup> Troika review paving the way for a new tranche of €1.5bn by the ESM and €0.09bn by the IMF in September
- Bills strengthening anti-money laundering framework to be approved by Parliament (by 11 September)
- Asset quality review of Cyprus' banks to be completed in September
- Liquefied natural gas project agreement to be signed by the end of 2013 (first exports of natural gas expected for end-2019)

## 2013 Country-Specific Recommendations

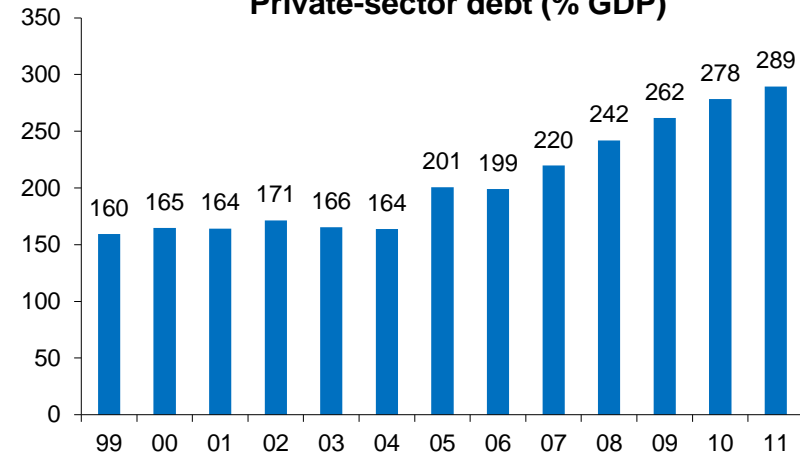
No CSRs to avoid duplication with measures set out in the Economic Adjustment Programme

Public debt and budget deficit (% GDP)



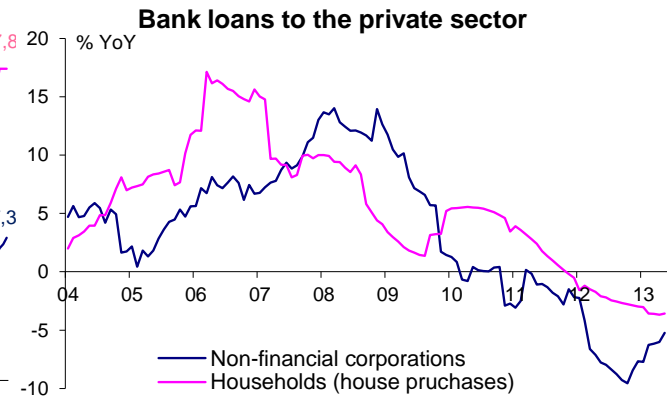
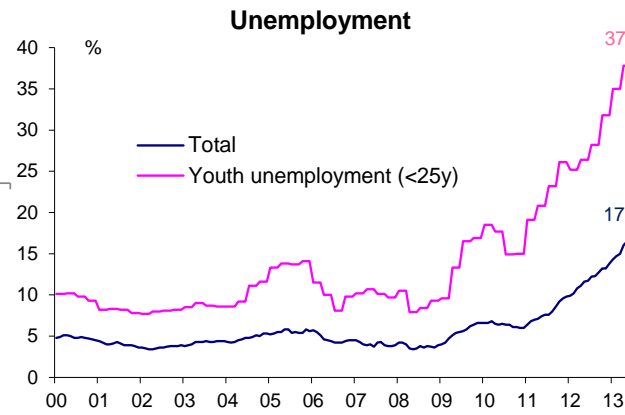
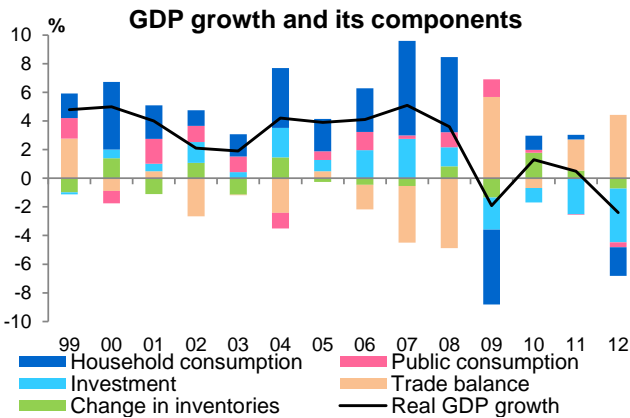
Source: Eurostat

Private-sector debt (% GDP)



Source: Eurostat

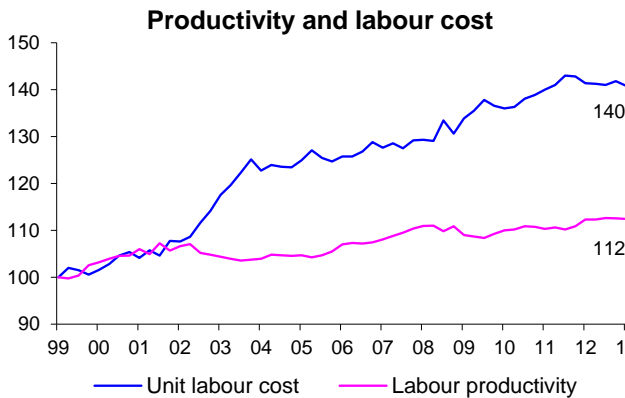
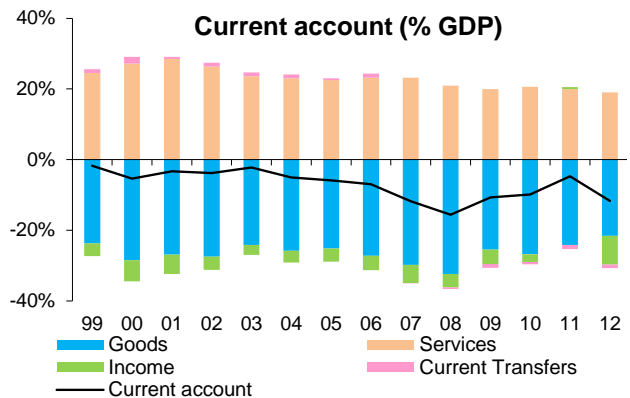
# Cyprus



Source: Eurostat

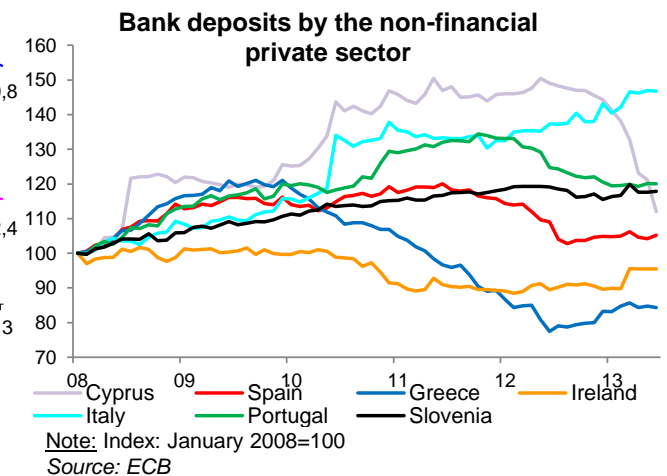
Source: Eurostat

Source: ECB



Note: Index: 1999=100

Source: Eurostat



Note: Index: January 2008=100

Source: ECB

# Portugal

## Latest economic and financial developments

- Passed the 7<sup>th</sup> Troika review (in March); €2bn disbursed (€66bn lent out of €78bn) ; relaxation of the deficit targets for 2013, 2014 and 2015; maturities of EFSF/EFSM loans extended by 7 years
- Deadline for EDP extended by 1 year to 2015
- GDP up by 1.1% QoQ in Q1 2013 (after 10 consecutive quarters of contraction) on a rebound in domestic demand (especially fixed investment) and positive contribution of net exports
- Unemployment marginally fell in June to 17.4% (from 17.8% in May) for the 1<sup>st</sup> time since Sep 2010
- Parliament approved amendments to the 2013 budget planning additional € 1.3bn savings after several public-sector spending cuts were rejected by the constitutional court in April
- Government has planned further savings of €4.7bn in 2013-14 (3%of GDP)
- Pro-investment measures unveiled targeted at SMEs: corporate tax rate cut from 31.5% to 17% gradually by 2018 (cost: €1.4bn) , agreement with Germany to support loans to Portuguese firms (through KfW), injection of € 2.6bn of new credits into the economy through state-owned bank CGD
- Budget deficit reached €3.85bn in H1 2013 (vs target of €6bn) on rising tax revenues (+8.4% YoY) offsetting the increase in public spending (+6.8%) ; rising surplus in social security accounts
- Government issued €3bn of 10Y bonds (yield: 5.67%) - 1<sup>st</sup> time since Feb 2011; 2013 financing needs fully covered while pre-financing for 2014

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	-1,6	-3,2	-2,3	0,6
COM	-1,6	-3,2	-2,3	0,6
OECD	-1,6	-3,2	-2,7	0,2
IMF	-1,6	-3,2	-2,3	0,6
<b>Unemployment rate (%)</b>				
Government	12,7	15,7	18,20	18,50
COM	12,9	15,9	18,2	18,5
OECD	12,7	15,6	18,2	18,6
IMF	12,7	15,7	18,2	18,5
<b>Budget Balance (%GDP)</b>				
Government	-4,4	-6,4	-5,5	-4,0
COM	-4,4	-6,4	-5,5	-4,0
OECD	-4,4	-6,4	-6,4	-5,6
IMF	-4,4	-4,9	-5,4	-4,0
<b>Primary budget balance (%GDP)</b>				
Government	-0,4	-2,0	-1,1	0,3
COM	-0,4	-2,0	-1,1	0,3
OECD	-	-	-	-
IMF	-0,6	-0,8	-1,4	-0,1
<b>Public debt (%GDP)</b>				
Government	108,3	123,6	122,3	123,7
COM	108,3	123,6	123,0	124,3
OECD	108,3	123,6	127,7	132,1
IMF	108,0	123,0	122,3	123,7

Source: Stability Programme, European Commission, IMF, OECD

# Portugal

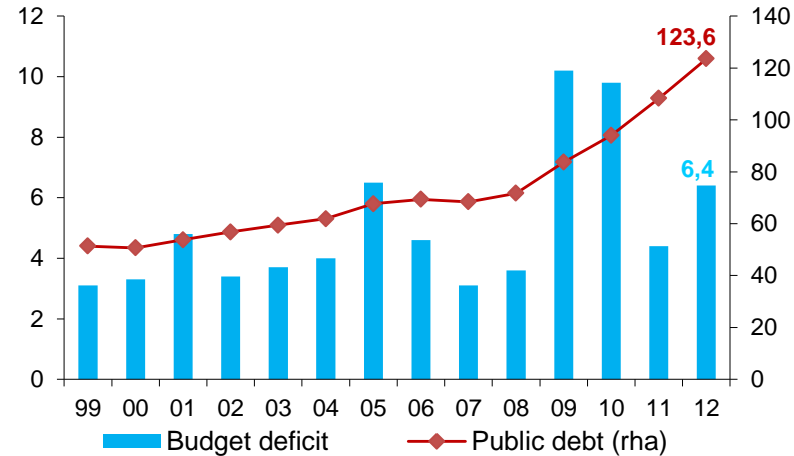
## Upcoming political events and economic/financial developments

- End of the financial assistance programme scheduled for mid-2014
- 8<sup>th</sup> and 9<sup>th</sup> Troika reviews are expected to take place in Sep 2013 simultaneously due to July's political crisis
- Downside risks to budget execution in H2 2013 (implementation of planned spending cuts, payment in Nov of public-sector holiday bonuses following constitutional court's decision in April 2013)
- 2014 budget draft to be submitted to Parliament by 15 October
- Implementation of the privatisation programme (2 state-owned companies to be sold by end-2013 in addition to shares of 2 other companies by 2014)
- Potential request for a Precautionary Conditioned Credit Line from the ESM along with potential ECB support through its bond-buying programme (OMT)
- Municipal elections to be held on 29 Sep 2013; next general elections scheduled for 2015; presidential elections in 2016

## 2013 Country-Specific Recommendations

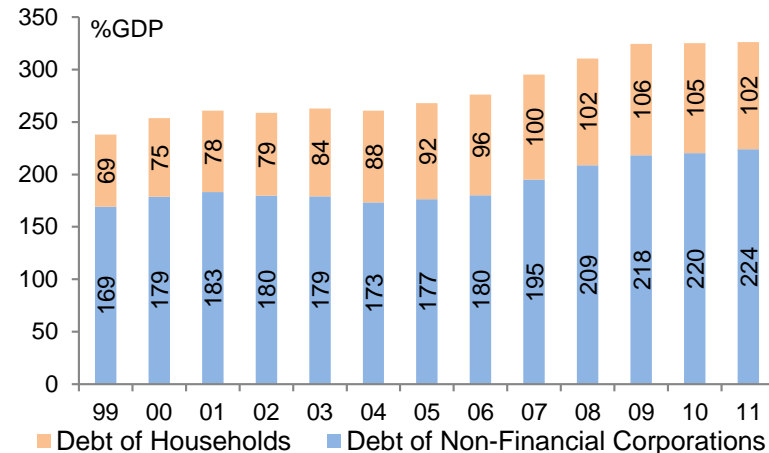
No CSRs to avoid duplication with measures set out in the Economic Adjustment Programme

Public debt and budget deficit (% GDP)



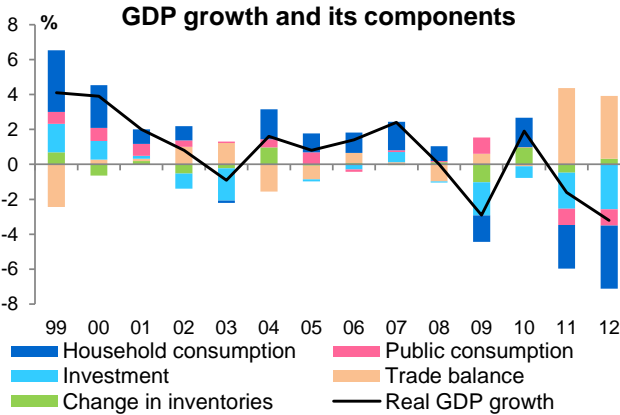
Source: Eurostat

Private-sector debt

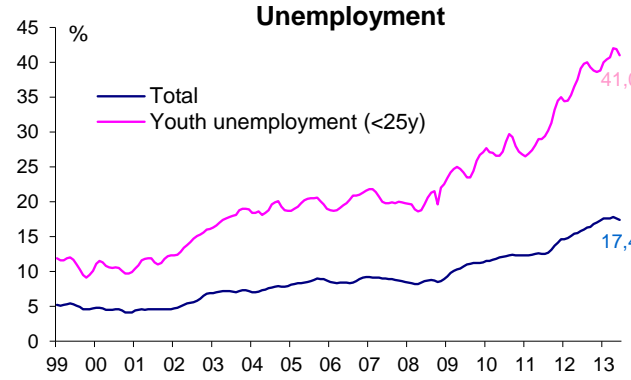


Source: OECD

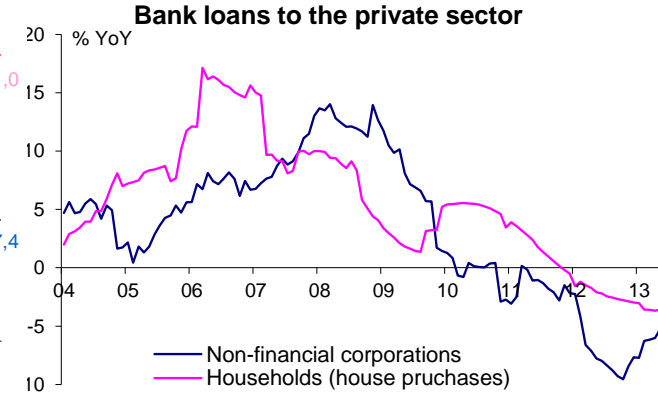
# Portugal



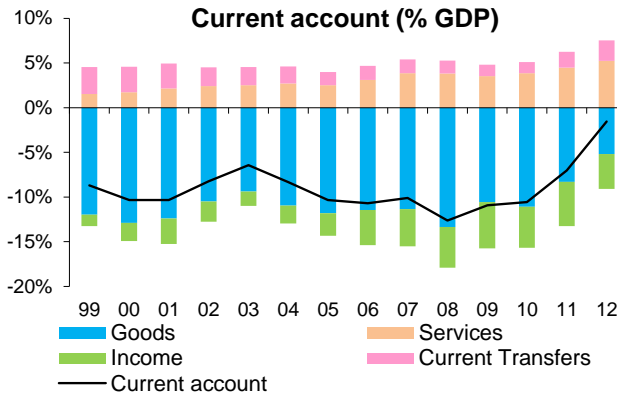
Source: Eurostat



Source: Eurostat



Source: ECB

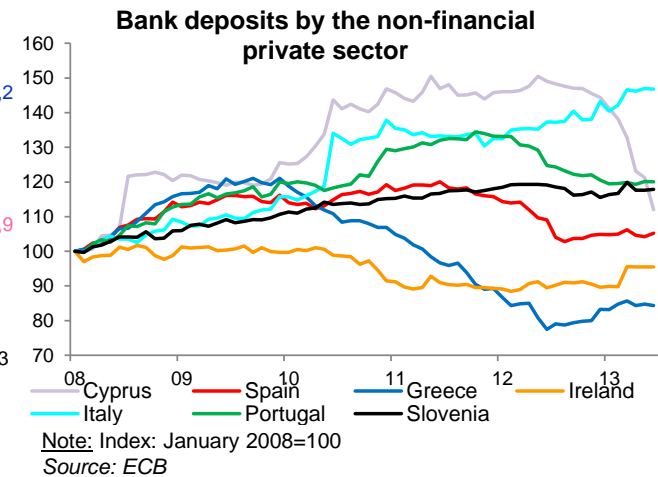


Source: Eurostat



Note: Index: 1999=100

Source: Eurostat



Note: Index: January 2008=100

Source: ECB

# Netherlands

## Latest economic and financial developments

- Dutch economy in recession: GDP declined by 0.2% QoQ in Q2 2013 (4<sup>th</sup> consecutive quarter of contraction), on a drop in domestic demand (especially investment) and slowing export growth
- Rising unemployment at 6.8% in June (from 5.8% at end-2012)
- Deadline for EDP extended by one year to 2014
- Government and social partners agreed on measures to increase renewable energy provision to reach EU 2020 targets in that field (12 July)
- Following tripartite negotiations, the Government has decided to delay for 2014 further austerity measures (worth €6bn) that were initially included in a fiscal consolidation package this year skewed towards higher healthcare contributions and social security spending cuts
- The tripartite deal also agreed on more flexibility in the labour market though reforms to redundancy law and unemployment benefits will be delayed until 2016
- Government plans to cut 150,000 public-sector jobs by 2018
- Government agreed in February on a set of housing market reforms aimed to boost the Dutch property market as house prices keep dropping.
- Government rescued SNS Reaal bank in Jan 2013 in a €3.7bn bailout spiralling property losses in Spain; the nationalisation will increase the budget deficit by 0.6% of GDP in 2013 according to the Dutch Central Bank

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	0,9	-1,2	-1,25	0,75
COM	1,0	-1,0	-0,8	0,9
OECD	1,1	-1,0	-0,9	0,7
IMF	1,0	-0,9	-0,5	1,1
<b>Unemployment (%)</b>				
Government	4,4	5,3	7,0	7,5
COM	4,4	5,3	6,9	7,2
OECD	4,3	5,2	6,4	7,0
IMF	4,4	5,3	6,3	6,5
<b>Budget Balance (%GDP)</b>				
Government	-4,3	-4,1	-3,0	-3,9
COM	-4,5	-4,1	-3,6	-3,6
OECD	-4,4	-4,0	-3,7	-3,6
IMF	-4,5	-4,2	-3,4	-3,7
<b>Primary budget balance (%GDP)</b>				
Government	-2,6	-2,1	-1,3	-1,6
COM	-2,4	-2,2	-1,7	-1,7
OECD	-	-	-	-
IMF	-3,2	-2,9	-2,2	-2,5
<b>Public debt (%GDP)</b>				
Government	65,7	71,3	74,5	76,3
COM	65,5	71,2	74,6	75,8
OECD	65,4	71,1	72,8	74,2
IMF	65,5	71,7	75,5	75,9

Source: Central Planning Bureau, COM, IMF, OECD



# Netherlands

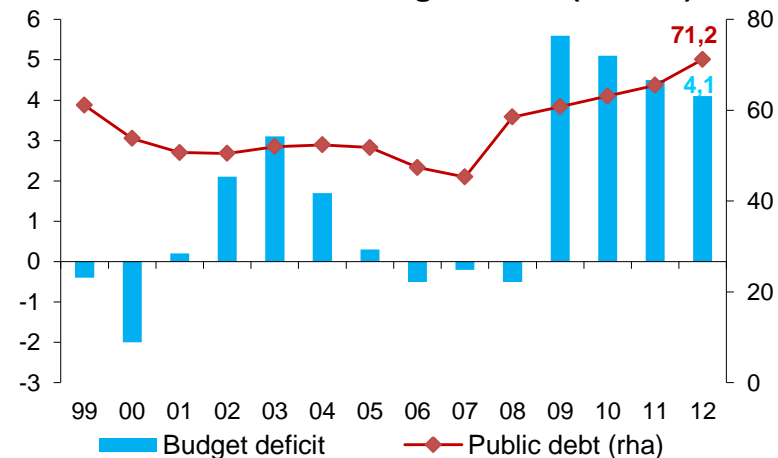
## Upcoming political events and economic/financial developments

- Finalisation of the additional austerity measures scheduled for 2014 (worth €6.0bn) by early September; negotiations are expected to be tough as the coalition government lacks majority in the Senate; the 2-party coalition government currently holds 30 seats out of 75 in the upper house
- Measures to reduce risks in the pension funds to be presented to the Upper House in September; implementation expected in 2015
- Municipal elections (March 2014); provincial elections (for the upper house) in May 2015

## 2013 Country-Specific Recommendations

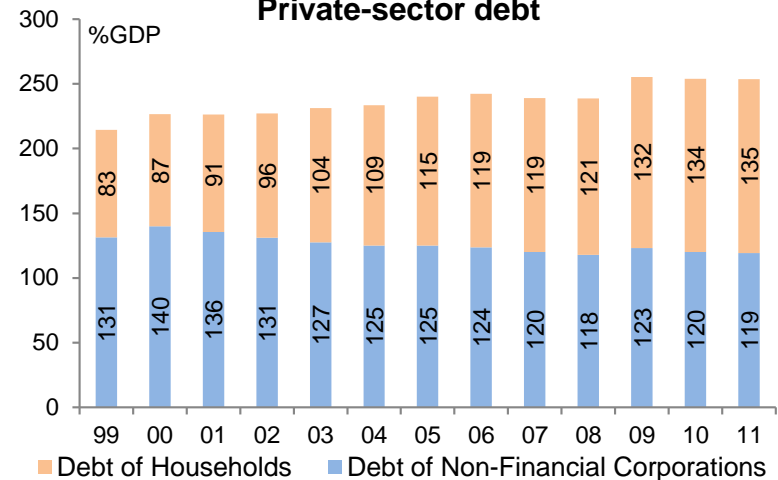
- Reinforce and implement the budgetary strategy for the year 2014 and beyond to ensure a timely correction of the excessive deficit by 2014
- Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility
- Adjust the second pension pillar to ensure an appropriate intra- and inter-generational division of costs and risks.
- Take further measures to enhance participation in the labour market. Continue to reduce tax disincentives on labour. Foster labour market transitions and address labour market rigidities

Public debt and budget deficit (% GDP)



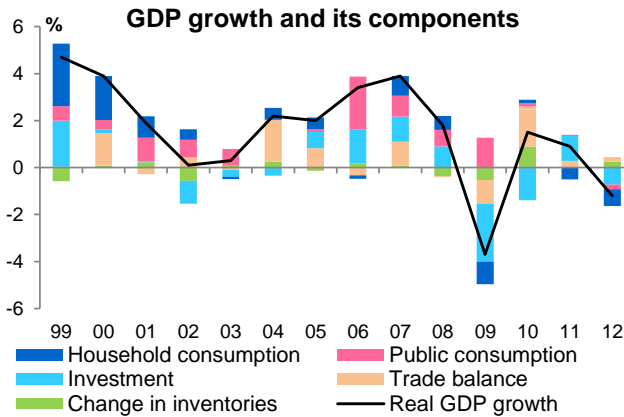
Source: Eurostat

Private-sector debt



Source: OECD

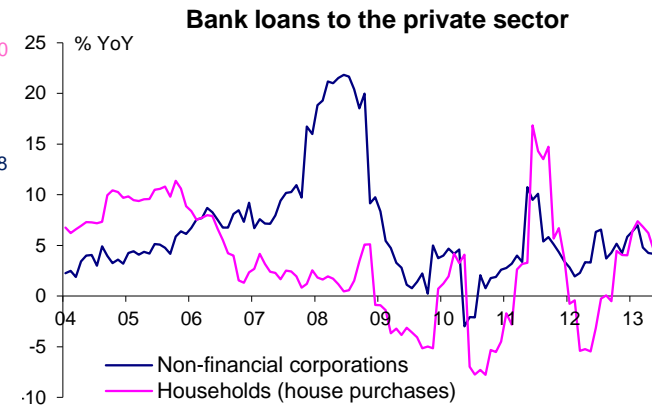
# Netherlands



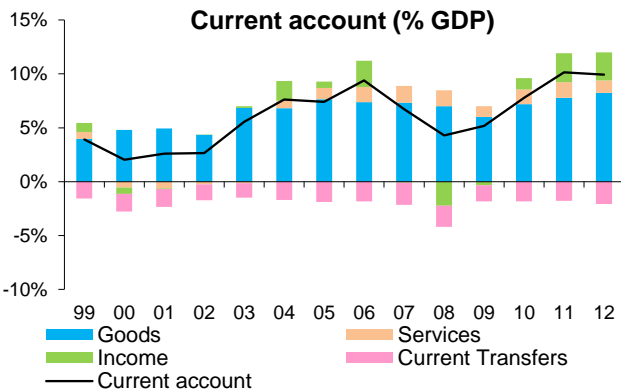
Source: Eurostat



Source: Eurostat



Source: ECB

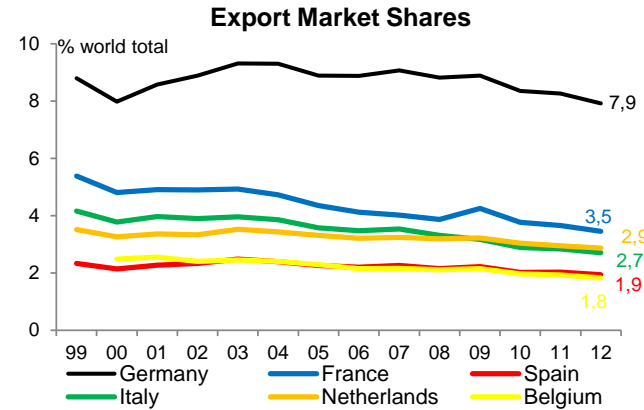


Source: Eurostat



Note: Index: 1999=100

Source: Eurostat



Source: Eurostat

# Slovenia

## Latest economic and financial developments:

- GDP fell by 0.7% QoQ in Q1 2013 on a sharp decrease in domestic demand (7th consecutive of contraction)
- Rising unemployment to 11.2% in June from 9.6% in end-2012; youth unemployment > 24% (from 21% in January)
- EDP procedure was extended by 2 years to 2015
- 2013 deficit target set by the EC likely to be missed due to bank recapitalisation (worth €0.9bn) and economic downturn
- VAT hike from 20% to 22% since 1 July; wage cut by 2 to 3% in the public sector; suspension of a gradual reduction in corporate tax introduced in 2012; introduction of a property tax in 2014
- Debt ceiling in the constitution from 2015
- Privatisation programme has started in June; 14 other state companies (inc. the 2<sup>nd</sup> largest bank Nova KBM) should be sold
- 2 successful debt issuance in May and June; debt maturing in 2013 almost entirely refinanced
- Non-performing loans increased from 11.8% in 2011 to 15.2 % in 2012 and are mainly concentrated in large state-controlled banks
- Transfer of bad loans (worth €3.3bn) from state banks to the Bank Assets Management Company is delayed as the EC waits for the completion of external stress testing of troubled banks

## Macroeconomic projections

	2011	2012	2013	2014
<b>Real GDP growth (%)</b>				
Government	0,6	-2,3	-1,9	0,2
COM	0,6	-2,3	-2,0	-0,1
OECD	0,6	-2,3	-2,3	0,1
IMF	0,6	-2,4	-2,0	1,5
<b>Unemployment rate (%)</b>				
Government	8,2	8,9	10,0	10,0
COM	8,2	8,9	10,0	10,3
OECD	8,2	8,8	10,2	10,3
IMF	8,2	9,0	9,8	9,4
<b>Budget Balance (%GDP)</b>				
Government	-6,4	-4,0	-7,9*	-2,6
COM	-6,4	-4,0	-5,3	-4,9
OECD	-6,4	-4,0	-7,8*	-5,6
IMF	-5,6	-3,2	-6,9	-4,3
<b>Primary budget balance (%GDP)</b>				
Government	-4,4	-1,9	-5,2*	-0,3
COM	-4,4	-1,9	-2,9	-2,1
OECD	-	-	-	-
IMF	-4,3	-1,5	-4,7	-1,4
<b>Public debt (%GDP)</b>				
Government	46,9	54,1	61,8	63,2
COM	46,9	54,1	61,0	66,5
OECD	46,9	54,1	63,8	68,1
IMF	46,9	52,6	68,8	71,7

Source: Stability Programme, European Commission, IMF, OECD  
 \* including the cost of bank recapitalisation

# Slovenia

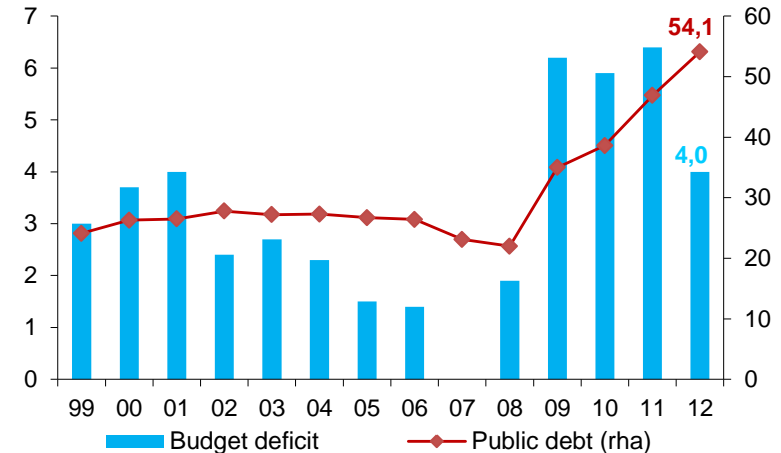
## Upcoming political events and economic/financial developments

- Completion of external stress testing of troubled banks (after summer holidays)
- Start of the transfer of bad loans to the 'bad bank' (expected by 30 Sept)
- Injection of fresh capital (worth €0.9bn) into troubled banks
- Implementation of the privatisation programme (15 state-owned companies in total)
- 2014 budget plans to be sent to Parliament by 15 October
- Tight credit conditions for the corporate sector due to ongoing bank deleveraging
- Next general elections scheduled for 2015; confidence vote for the ruling government in early 2014

## 2013 Country-Specific Recommendations

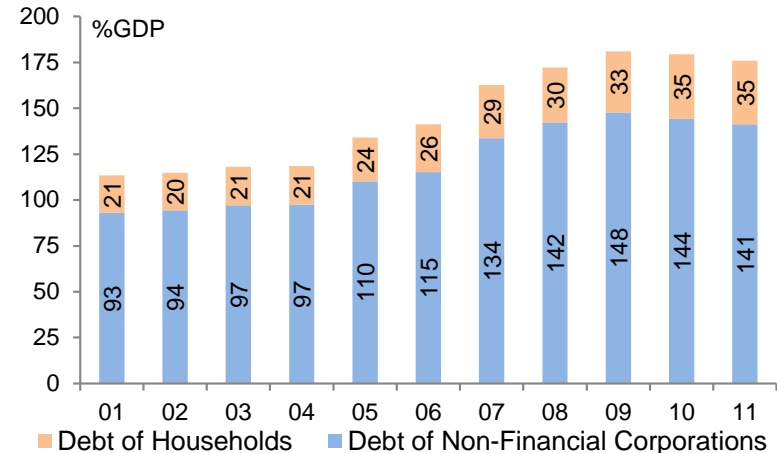
- Ensure the correction of the excessive deficit by 2015 in a sustainable manner and the improvement of the structural balance specified under the EDP
- Strengthen the long-term sustainability of the pension system beyond 2020
- Ensure that wage developments support competitiveness job creation
- Contract an independent external adviser in June 2013 to conduct a system-wide bank asset quality review.
- Review the bank regulatory framework by end 2013,
- Accelerate the reform of regulated services. Improve the business environment
- Further reduce the length of judicial proceedings
- Identify and start to work on removing all existing legal and administrative impediments to sustainable restructuring of over-indebted/undercapitalised but viable companies

## Public debt and budget deficit (% GDP)



Source: Eurostat

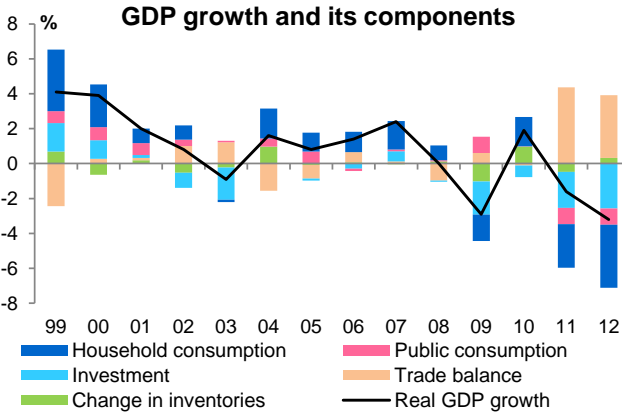
## Private-sector debt



Source: OECD

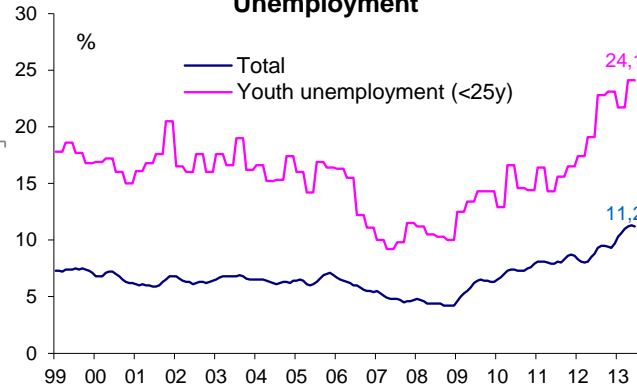
# Slovenia

**GDP growth and its components**



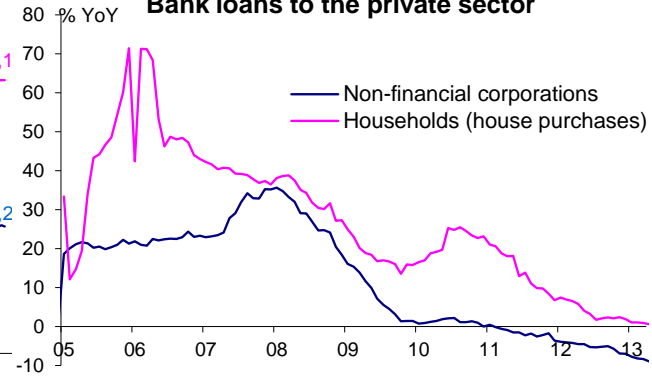
Source: Eurostat

**Unemployment**



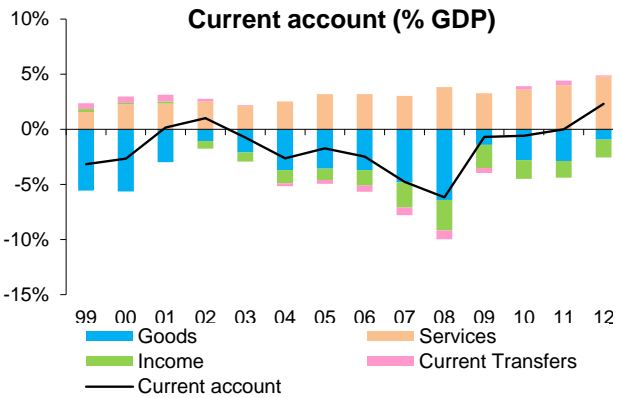
Source: Eurostat

**Bank loans to the private sector**



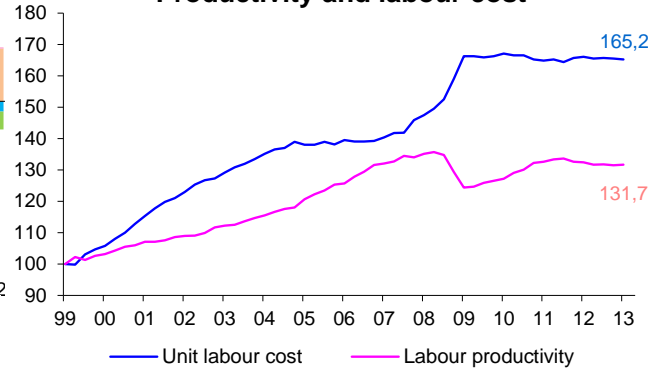
Source: ECB

**Current account (% GDP)**



Source: Eurostat

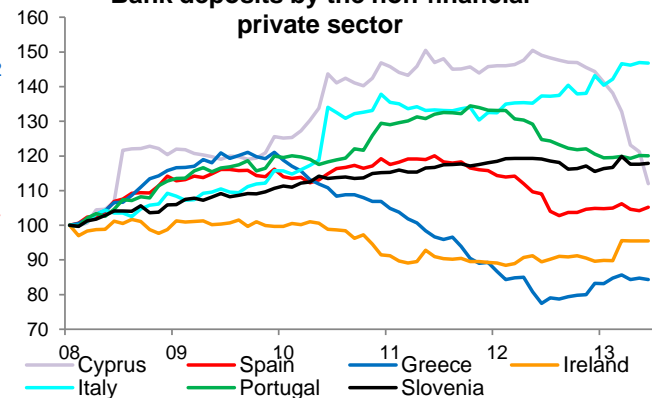
**Productivity and labour cost**



Note: Index: 1999=100

Source: Eurostat

**Bank deposits by the non-financial private sector**



Note: Index: January 2008=100

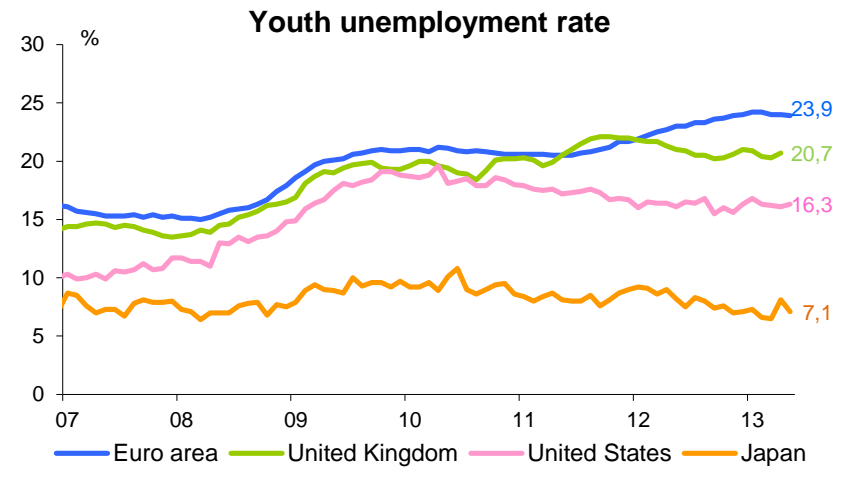
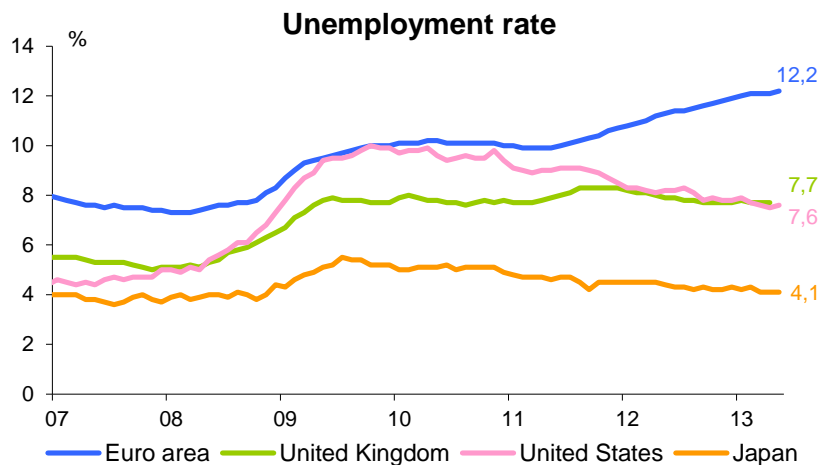
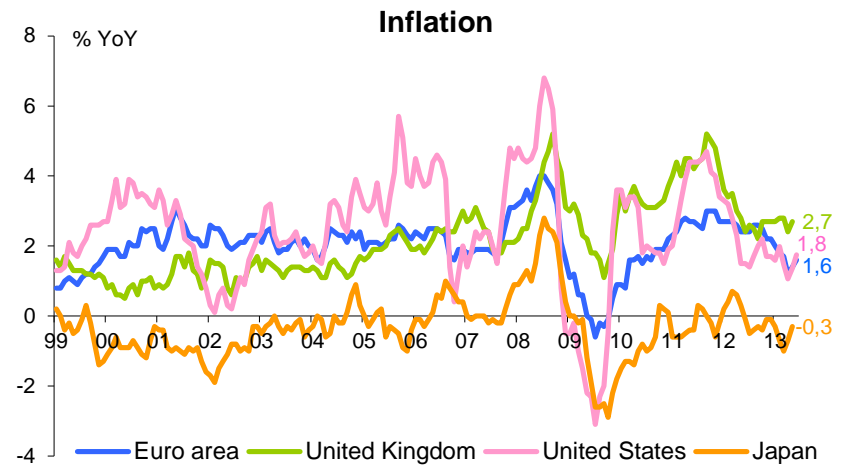
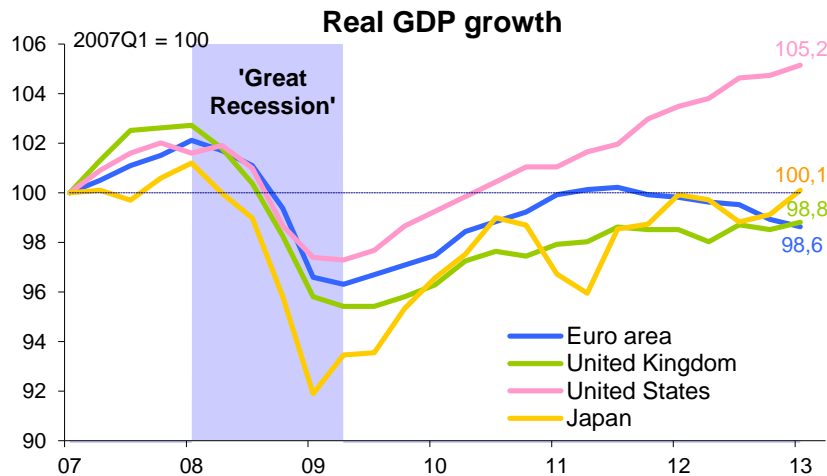
Source: ECB

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# The Euro Area compared to the United States, the United Kingdom and Japan

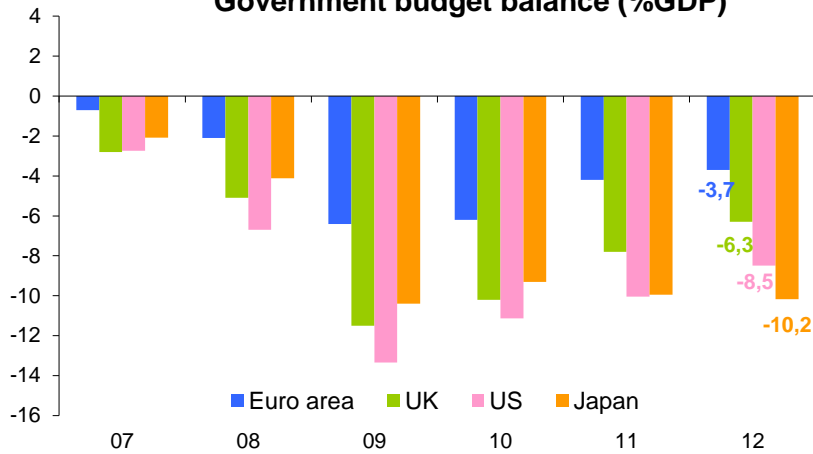
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# General economic indicators



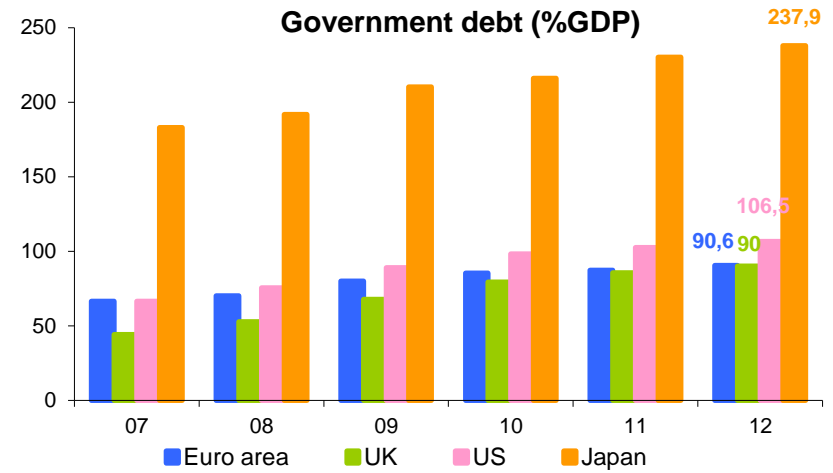
# Public finances

**Government budget balance (%GDP)**



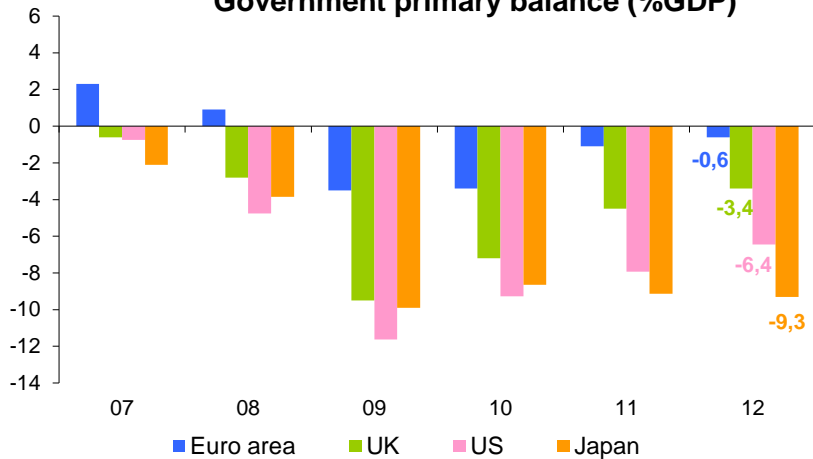
Source: Eurostat, IMF

**Government debt (%GDP)**



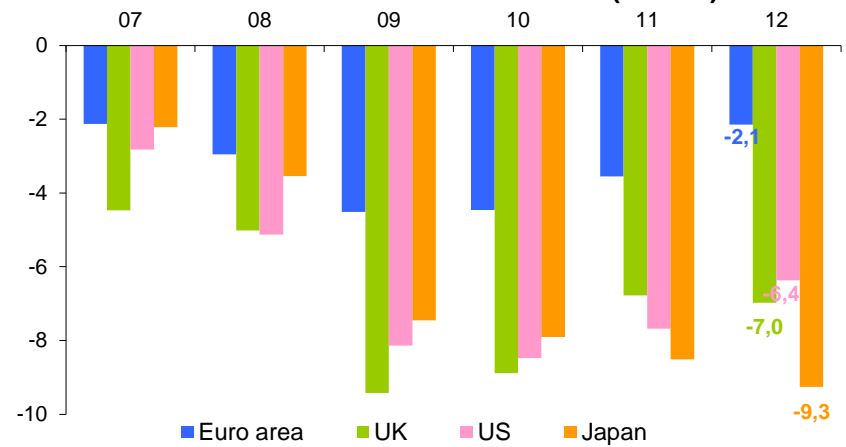
Source: Eurostat, IMF

**Government primary balance (%GDP)**



Source: Eurostat, IMF

**Government structural balance (%GDP)**



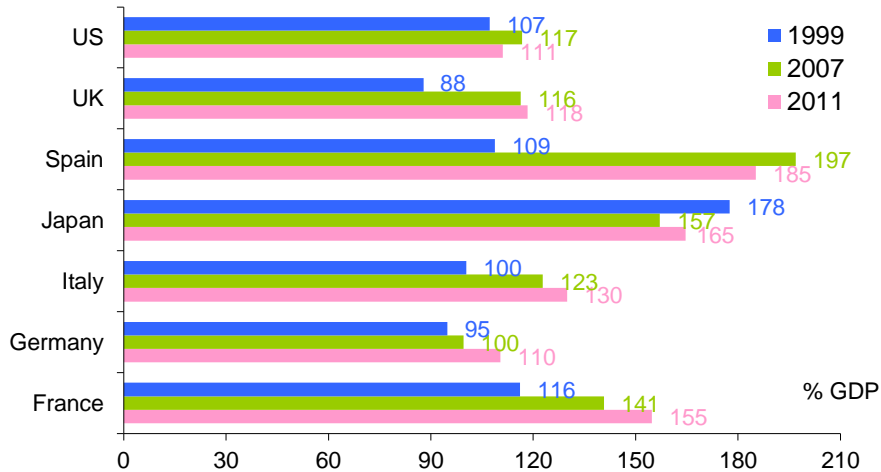
Note: The structural budget balance refers to the actual *budget balance* net of the cyclical component and one-off and other temporary measures.

Source: AMECO, IMF



# Private-sector debt & Inequalities

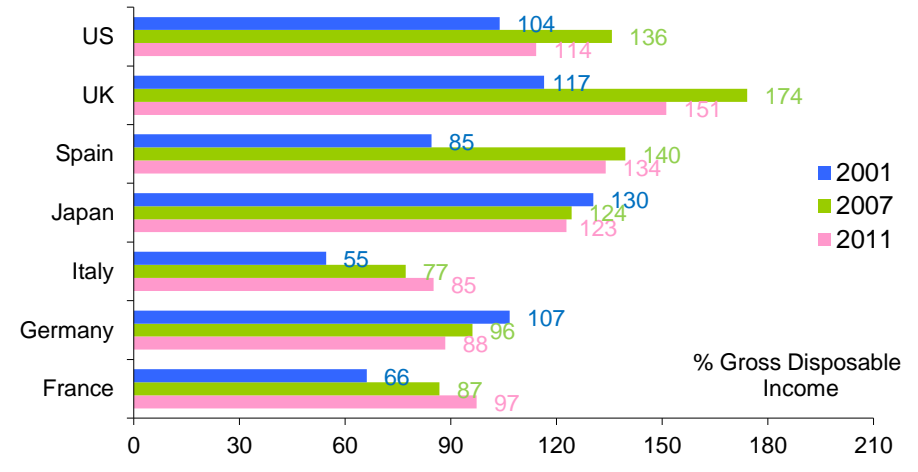
## Debt of Non-Financial Corporations



Note: data from 2012 for the US (instead of 2011)

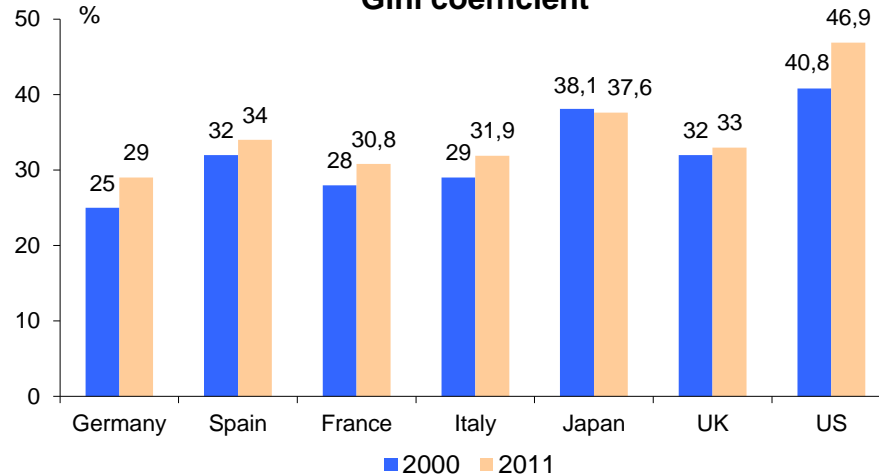
Source: OECD

## Debt of Households



Source: OECD

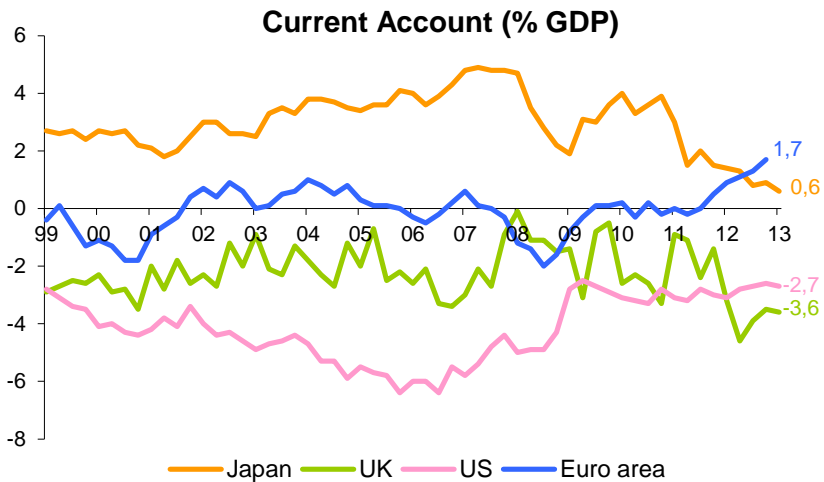
## Gini coefficient



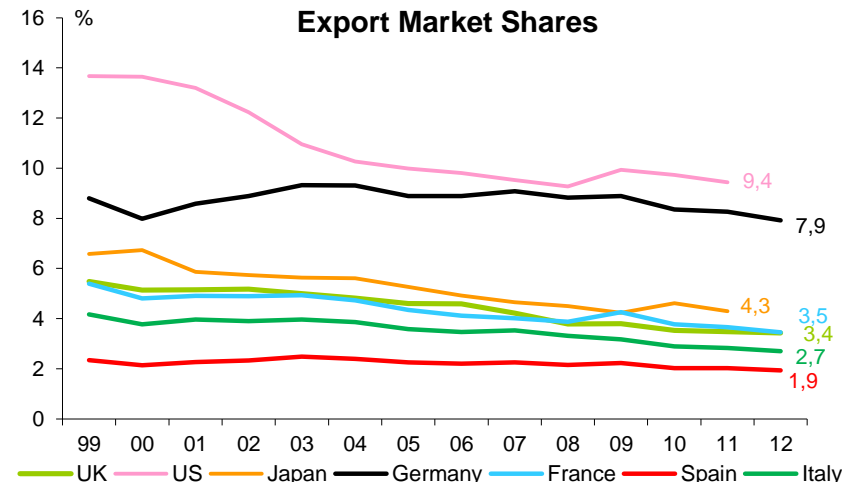
Note: For Japan and the US, data from (2002, 2008) and (2000, 2010), respectively

Source: Eurostat, World Bank, CIA

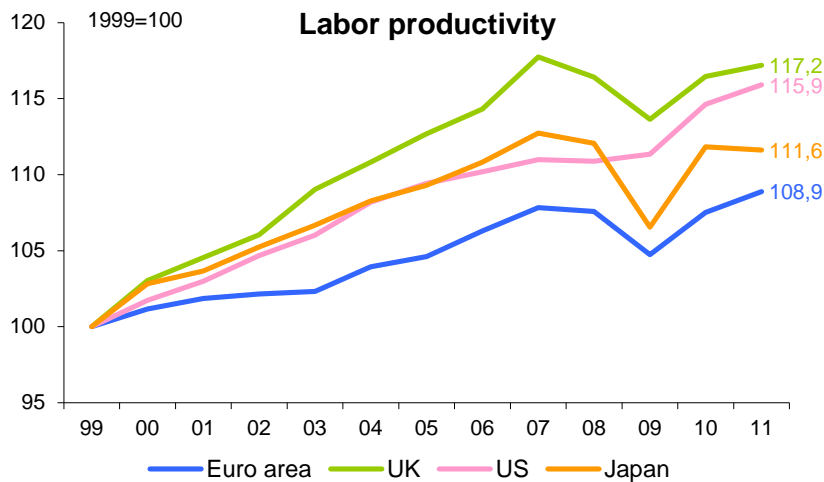
# Trade & Competitiveness



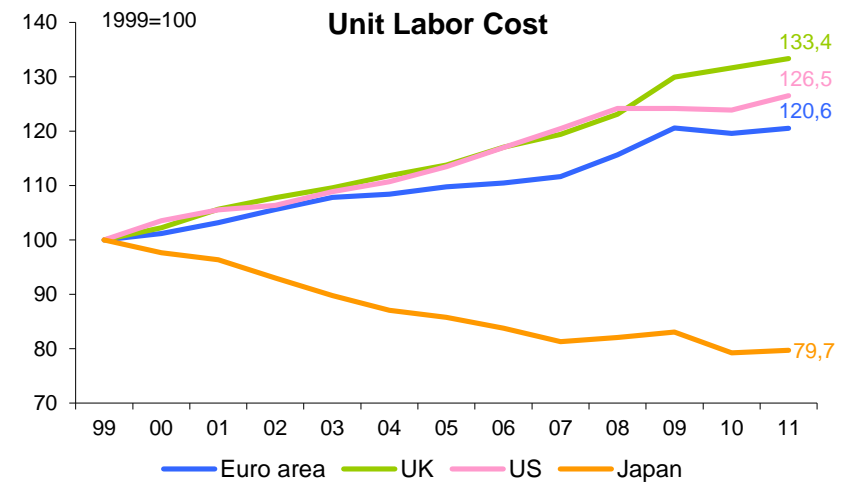
Source: Eurostat



Source: Eurostat



Note: Labour productivity per person employed Source: OECD



Note: ULC = Total Labour Cost / Real output Source: OECD