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Alert Mechanism Report 2023

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

{SWD(2022) 381 final}

European Commission

Alert Mechanism Report 2023

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This Alert Mechanism Report (AMR) initiates the twelfth annual round of the Macroeconomic Imbalance Procedure (MIP). The procedure aims at detecting, preventing and correcting imbalances that are adversely affecting, or have the potential to adversely affect, the proper functioning of the economy of a Member State, or of the economic and monetary union, or of the Union as a whole, and at eliciting appropriate policy responses. The implementation of the MIP is embedded in the European Semester of economic policy coordination to ensure consistency with the analyses and recommendations made under other economic surveillance tools (Articles 1 and 2 of Regulation (EU) No 1176/2011).

The AMR identifies Member States for which in-depth reviews (IDRs) should be undertaken to assess whether they are affected by imbalances in need of policy action (Article 5 of Regulation (EU) No 1176/2011). Taking into account discussions on the AMR with the European Parliament and within the Council and the Eurogroup, the Commission will then prepare IDRs for the Member States concerned. The IDRs will be published in spring 2023 and will provide the basis for the Commission assessment regarding the existence and severity of macroeconomic imbalances, and for the identification of policy gaps. The AMR also includes an analysis of the euro area-wide implications of the Member States macroeconomic imbalances.

The AMR analysis is based on the economic reading of a scoreboard of selected indicators, which provides a filtering device for detecting prima facie evidence of possible risks and vulnerabilities. In accordance with Regulation (EU) No 1176/2011, the role of the Commission is to undertake an economic reading of the scoreboard values that enables a deeper understanding of the overall economic context and taking into account country-specific considerations. [1] The AMR builds also on analytical tools and assessment frameworks, and additional published data, notably in-year data. [2]

Building on the approach taken in previous years, the first screening for imbalances in the AMR is forward looking with a view of detecting risks of emerging imbalances early on. This could entail opening IDRs when adverse trends indicate high risks of a build-up of imbalances. To that end, this report uses forecasts, nowcasts and projections to better gauge the possible evolution of risks for macroeconomic stability. Values of scoreboard variables for 2022 and subsequent years have been estimated using Commission forecast data and nowcasts are based on in-year data (see Annex 2 for details). There is substantial uncertainty underlying those forecasts and it is necessary to bear this in mind in order to uphold the principles of transparency about analysis and data used, and prudence on the conclusions.

The current approach to the AMR is consistent with the Commission's proposal on the future of the surveillance of macroeconomic imbalances put forward in the context of the economic governance review. [3] In particular, it aims at a stronger preventive role of the MIP in an environment characterised by new risks. The assessment of imbalances would be based more on evolution of risks and policy action. The reformed MIP would focus on macroeconomic issues affecting Member States and at the same time, give more visibility to the EU and euro area dimensions of imbalances.

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

[2] The cut-off date for the scoreboard data, i.e. the date on which data were extracted from the Eurostat database for the preparation of this report, was 21 October 2022. For any other data, the cut-off date was 3 November 2022.

[3] "Communication on orientations for a reform of the EU economic governance framework", Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, COM(2022) 583 final.

EXECUTIVE SUMMARY

This Alert Mechanism Report (AMR) considers the evolution of imbalances at a time when the EU economy is moving from a recovery from the COVID-19 pandemic to a strong slowdown in growth amid inflationary pressures. By early 2022, nearly all EU economies had made up for the GDP decline experienced in 2020 due to the outbreak of the pandemic and were growing strongly, despite some remaining supply side bottlenecks and rising labour shortages. Since the launch of Russia's war of aggression against Ukraine in February 2022, sharp increases in energy costs have resulted in a strong deterioration in the outlook for the EU economy. The current outlook is marked by a combination of high inflation, and declining consumer and producer confidence. Uncertainty, linked to the possible depth and duration of the energy crisis is high. Economic activity is declining, and growth is forecast to turn negative in the final quarter of 2022. Financing conditions have visibly tightened, even more so outside the euro area, as monetary authorities take measures to address the inflationary pressures. Outside the EU, global conditions are marked by a slowdown in China and jitters in emerging markets.

Prior to the deterioration in economic conditions, the deleveraging of some long-standing imbalances which had increased during the pandemic resumed, while house prices accelerated. With the recovery, the deleveraging of high private and public debt levels that had been underway for the last decade in a number of countries resumed in many cases, but from higher starting levels. External rebalancing was slowly returning. It had paused during the pandemic, as the current accounts deteriorated in a number of large net-debtor countries with substantial tourism sectors, while large current account surpluses persisted. Government debt, which had increased substantially with the COVID-19 crisis given the strong recession and the need to support the economy, was beginning to moderate as of 2021. House price growth accelerated during the pandemic and strong growth continued during the recovery. In some countries robust wage growth has added to concerns about cost competitiveness that had in some cases been building up in the pre-pandemic period.

The economic reading of the scoreboard, which reflects outcomes for 2021, is based on the central scenario of the Commission autumn 2022 forecast and in-year economic developments. In addition to the central scenario, there are increased risks and vulnerabilities that relate the heightened uncertainty about economic developments at the present juncture, which are discussed below. The economic reading leads to the following thematic conclusions:

- In 2021, the **current accounts** of most Member States reverted to close to their 2019 pre-COVID crisis positions, despite a residual impact in some countries with large tourism sectors. The current accounts of most net-debtor countries remained below the levels conducive for their swift correction, while some large current account surpluses ticked up. The large external stock positions mainly narrowed, thanks to higher GDP growth, but remain substantial. Throughout 2022 there has been a **strong reduction in current account balances, both deficits and surpluses**, driven by much higher energy prices. In some cases, these are accompanied by a reduction in non-energy trade balances, with exchange rate effects playing a role. Fiscal measures to alleviate the impact of the energy crisis shift the relative contribution of the government and private sectors' net lending and borrowing positions, and contribute to increased current account deficits and reduced surpluses.

- The evolution of **unit labour costs** has been difficult to interpret in recent years due to serious disruptions in the measurement of productivity, but they have been growing overall. Wages have increased strongly in some countries in 2021, which points to a risk of loss of **cost competitiveness** within the euro area, in particular in countries displaying sustained pressure already before the pandemic years. In some countries labour markets are particularly tight, which may be partly due to the specific impact of the pandemic. In 2022, wage increases have accelerated, unmatched by productivity, leading to further pressure on competitiveness; however, due to high inflation household real disposable income is falling. Inflation-based **real effective exchange rates have so far not appreciated overall** in the euro area, due to the depreciation of the single currency, but there is considerable variation across countries. The different impact of the energy price shock on price dynamics plays a role, driven by differences in the energy mix, structure of energy markets and government support. There is also marked variation in effective exchange rates based on core inflation, with countries with greater price pressures showing appreciation relative to the euro area in the course of the current year. For countries outside the euro area, there are both substantial depreciations and appreciations underway, partly reflecting different nominal exchange rate dynamics which in some, but not all, cases are driven by the monetary policy stance.

- In 2021, the **euro area current account surplus** increased to pre-pandemic levels. In-year data show a **sharp decline underway in 2022**, mostly driven by increased imports with energy imports being the most significant factor on account of marked price effects. As a result, the euro area current account is forecast to fall considerably in 2022, and to remain largely unchanged in 2023, despite real demand holding up. Changes in unit labour costs over the pandemic have resulted in a temporary stalling in the **symmetric adjustment of external positions within the euro area** cumulatively over 2020 and 2021. Increases have, on the whole, been broadly similar for countries with high positive and high net negative Net International Investment Positions. Starting in 2022, the symmetric adjustment should restart and continue over the forecast horizon, with unit labour costs growing most strongly in some surplus countries.

- **Corporate indebtedness** ratios decreased in 2021 as economic growth resumed. Corporates are marked by increased liquidity partly mitigating immediate risks associated to corporate debt stocks. Nevertheless, debt stocks remain sizeable in many Member States, and above pre-pandemic levels in some cases. A continuation of the reduction in corporate debt as a share of GDP is underway in 2022, as economic growth remains positive amid continued financing flows, but this is likely to be hampered by the difficult macroeconomic context. In some countries, increases in non-performing loans and business bankruptcies have begun in 2022.

- **House prices** accelerated in most Member States in 2021 following years of sustained growth. Price increased further in the first half of 2022, but are forecast to moderate. Household debt ratios resumed their downward trend in 2021, but remain high and above pre-pandemic levels in some countries. While it is forecast to continue to fall as a share of GDP in 2022, the interest burden on households is likely to increase. Outside the euro area, mortgage interest rates have increased significantly over the course of 2022, while in the euro area the increase of interest rates is more limited but expected to continue.

- **Government debt**-to-GDP ratios decreased in nearly all Member States in 2021, but remain considerably above their 2019 level in nearly all cases. Deficits remained high, but strong economic growth exerted a downward effect on the debt ratios. Government debt ratios overall declined in 2022 as a result of continued economic growth alongside a further reduction of deficits despite sizeable support packages for households and firms related to high energy prices. The outlook for 2023 is varied across countries, although with further declines in government debt ratios among the highest debt countries. New policy measures to alleviate the impact of the energy crisis may increase debt levels. Debt service costs have started to rise since 2021 amid a tightening of financial conditions after years of very supportive conditions. This has been most pronounced in the non-euro area countries, which have seen stronger rises in their sovereign bond yield spreads.

- The **banking sector** is well capitalised and proved to be resilient over the pandemic. The reduction of the legacy non-performing loans continued in 2021 and in-year in 2022, but the possibility of the development of feedback loops cannot be excluded. While bank profitability has recovered, it remains structurally weak and is expected to decline again despite increases in interest rate margins as the worsening economic outlook affects assets and credit risks. In 2021, credit provision continued even after expiry of public guarantees and some macroprudential tightening. Some increase of non-performing loans is expected amid some delayed impact of the withdrawal of support measures taken over the pandemic and the current worsening economic outlook.

Given the economic environment, there are specific risks that could lead to more accentuated imbalances. More adverse scenarios than the one described above could emerge, resulting in either more acute or longer lasting developments that may hamper macroeconomic stability and the functioning of the economies more generally:

- A protracted energy crisis, with **continued high energy costs**, could lead to a larger and longer downturn, increasing debt stocks both directly and indirectly and leading to a series of knock-on effects through the impact on consumers, workers, firms and the banking sector. Continued high energy costs could result in persistent larger current account deficits for some countries, putting pressure on their external sustainability.

- The prospect of a stronger **structural transformation** away from high energy dependency on fossil energy, in particular from Russia, is positive but entails risks and adjustment costs. A shifting of value chains away from more affected European firms facing globally higher input prices, could dampen profitability and lead to increased bankruptcies of firms, clustered in affected sectors and regions, and a fall in export shares and potential growth in more exposed countries.

- The **repricing of risk** across the world could reverberate through financial markets, leading to instability and driving up borrowing costs for sovereigns and private borrowers, possibly in idiosyncratic ways.

The worse economic conditions have increased vulnerabilities and risks associated with pre-existing imbalances. Despite the strong slowdown in activity underway, nominal GDP growth is forecast to help reducing debt ratios in both 2022 and 2023, mainly due to the impact of inflation. However, weaker economic activity and tighter financing conditions increase the risks associated with high debt levels. A rise in non-performing loans and bankruptcies is a risk for both the corporate and the household side. Firms face increases in production costs and may be limited in their ability to pass these on, with more vulnerable firms clustered sectorally and geographically. Households face reduced real disposable income in most countries, with wage increases being lower than inflation but higher than productivity growth. House price growth is undergoing a correction in many Member States, amid increasing mortgage interest rates and pressure on disposable income. Continued strong house price growth in some countries would pose a risk of a disorderly reversal, particularly where accompanied by mortgage loans at variable interest rates. Corporate and household stress could compound each other and spread throughout the economy, with consequences for the financial sector too. Additional measures to support vulnerable households and more exposed firms would shift part of the cost of the energy crisis on the government sector and add to government debt, which for those countries with high starting debt and deficit levels may be a particular challenge, calling for measures to be targeted and temporary and common European solutions. Concretely, the Commission will reassess the needs for RePowerEU. Moreover, higher interest rates and weaker or negative GDP growth hamper government debt deleveraging, especially for high debt countries. This can have a knock-on effect on other sectors, with a negative impact on growth.

As the strong post-pandemic growth stalls, new imbalances may emerge, with a risk of divergent price effects resulting from the common supply shock. Despite the commodity price increases and gas supply risks being a common shock to the EU, there is considerable divergence in its impact. Although inflation is expected to gradually start falling, there may be a step change in the relative price and cost levels of different countries when it recedes. This could result in cost competitiveness losses that may be costly to unwind. This is particularly for euro area countries and where external deficits have emerged, although higher inflation in large current account surplus countries could facilitate euro area rebalancing. In some non-euro area countries, currency depreciations may preserve cost competitiveness by offsetting some strongly rising labour costs but could further fuel inflation. In turn it may lead to tighter financing conditions whereas depreciations also increase the costs of external borrowing and debt services.

The euro area is showing some signs of rebalancing in the short term, but its overall performance going forward requires continued close coordination of policy responses Some rebalancing within the euro area is supported by stronger unit labour cost developments in some net-creditor countries. Recent current account dynamics, resulting from the adverse external shock, are also broadly supportive of a rebalancing, with net-creditor countries showing greater reductions in their large surpluses. Differences in the magnitude of policy interventions aimed at mitigating the impact of high energy prices, and which shift the burden of the energy crisis between the corporate, household, and public sectors, and the prevalence of untargeted price measures are a concern. The type and composition of these measures, in terms of how they affect energy demand and energy prices, as well as of their effects on companies and households, may entail spillovers for the rest of the euro area and jeopardise the level playing field. This calls for those measures to be targeted and temporary. Uncoordinated policy measures can result in increased divergence, impeding monetary transmission and amplifying the heterogeneous impact of the energy crisis.

The analysis presented in this AMR points to the need to closely monitor developments and risks related to common trends, which affect both Member States with pre-existing imbalances and those with newly emerging vulnerabilities. The fallout from Russia's war in Ukraine along with global supply side constraints and inflationary pressures constitute common shocks that may imply risks for macroeconomic stability and the functioning of the EU economy as a whole and the euro area in particular. Given their common nature, these need to be considered within a common framework to provide context to any differentiated country-specific analysis.

As part of the analytical underpinning of the upcoming country-specific IDRs, the Commission services will carry out in-depth thematic assessments on three issues of key relevance at the current juncture. These assessments will cover issues that are common to a number of Member States. They will identify common factors relevant for the country-specific analysis and focus in more detail on the countries assessed in this AMR as the most affected by those issues. The assessments will also be presented to the Economic Policy Committee in early 2023, and the relevant Member States will be invited to provide input to inform a discussion. This will inform the country-specific IDRs in the spring package of the European Semester. The following thematic notes will be prepared:

- An in-depth thematic note on **housing market developments** will look at the risks and drivers associated with house price developments and mortgage markets and household debt. The note will focus on Czechia, Estonia, Germany, Hungary, Latvia, Lithuania, Luxembourg, the Netherlands, Portugal, Slovakia and Sweden.

- An in-depth thematic note on **competitiveness dynamics** will assess the extent and impact of the pass-through of energy costs to inflation, and the evolution of wages. This note will focus on Czechia, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia.

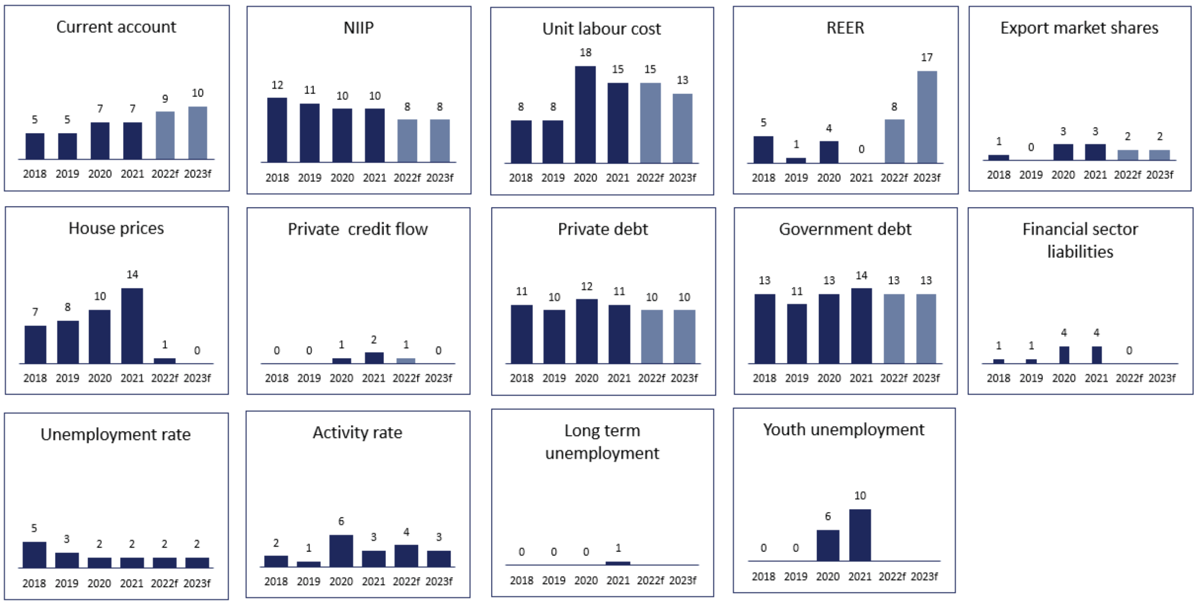
- An in-depth thematic note on **external sustainability and balances** will look at the reduction in trade balances within a horizontal approach. This note will focus on Cyprus, Greece, Germany, Hungary, Latvia, Lithuania, the Netherlands, Portugal, Romania and Slovakia.

Building on the assessment in the AMR, the IDRs will also cover additional concerns and country-specific issues. That will include the impact of current developments on imbalances identified in the 2022 IDRs (**Cyprus, France, Germany, Greece, Italy, the Netherlands, Portugal, Romania, Spain**, and **Sweden**).

This AMR concludes that IDRs are warranted for those Member States with existing excessive imbalances or imbalances. For Member States that have previously been identified as experiencing imbalances or excessive imbalances, the 2023 IDRs will assess if those imbalances are aggravating, under correction, or corrected, with the view to update existing assessments and assessing possible remaining policy needs. That will be case for **Cyprus, France, Germany, Greece, Italy, the Netherlands, Portugal, Romania, Spain**, and **Sweden.**

In addition, IDRs will be undertaken for Member States with particular risks of newly emerging imbalances. The IDRs will be informed by the in-depth thematic assessment notes, which will form the background for the analysis. The AMR concludes that IDRs are also warranted for **Czechia, Estonia, Hungary, Latvia, Lithuania, Luxembourg and Slovakia**, which have not been subject to IDRs in the previous cycle, but which could potentially be subject to particular risks of macroeconomic imbalances.

Graph 1: **Number of Member States recording scoreboard variables beyond threshold**



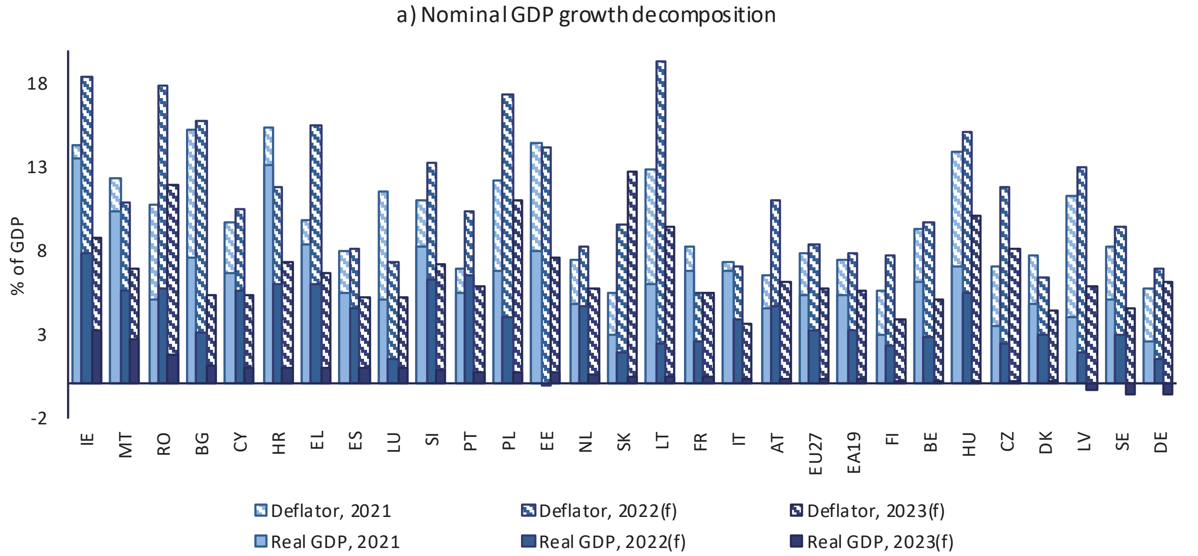
The number of Member States recording scoreboard variables beyond relevant thresholds in a certain year is based on the vintage of the scoreboard published with the respective annual AMR. Possible ex-post data revisions may imply a difference in the number of values beyond thresholds computed using the latest figures for the scoreboard variables compared with the number reported in the graph above; for instance, the increase in the number of Member States with current account readings outside the thresholds between 2019 and 2020 data vintages observed in the graph above is mostly due to data revisions. Forecasts for financial sector liabilities are performed for 2022 only; no forecasts are performed for long-term unemployment and youth unemployment.

Source: Eurostat and Commission services calculations (see Annex 2)

1. MACROECONOMIC CONTEXT

In the aftermath of Russia's invasion of Ukraine, the EU economy finds itself at a turning point, moving from a recovery from the COVID-19 pandemic to a slowdown in growth amid inflationary pressures. By early 2022, nearly all EU economies had made up for the GDP decline experienced with the pandemic in 2020 and were growing strongly. With Russia's invasion of Ukraine in February 2022, the outlook for the EU economy changed significantly. According to the Commission autumn 2022 forecasts, real growth in the EU is set to fall from 5.4% in 2021, to 3.3% in 2022 and 0.3% in 2023, with solid output growth in the first half of 2022 masking the in-year deterioration that is underway (Graph 1.1). [4] By September 2022, inflation reached a new record high of 10.9% on a year-on-year basis in the EU, compared to a pre-pandemic inflation rate below 2%. In the euro area alone, inflation reached an all-time high of 10.7% in October. EU countries relying more on gas as a source of energy are expected to be more impacted by the recent shock (Graph 1.2 b). Consumer and producer confidence has fallen amid high uncertainty. Financing conditions have visibly become more challenging, as monetary authorities have started to tighten policy to address the high inflationary pressures, which are expected to remain relatively elevated in 2023.

Graph 1.1: **GDP slowdown**



a) Nominal GDP growth decomposition

Source: Eurostat and Ameco. Countries ordered by real GDP growth forecast for 2023.

Soaring energy prices have been the main driver of inflation, but a number of other factors have broadened overall price pressures. The rapid global recovery following the first wave of the pandemic drove up demand for and prices of energy and other commodities. This was the first stage of the energy-inflation surge. [5] In the EU, this was combined with demand pressure,

[4] European Commission (2022), European Economic Forecast, Autumn 2022, Institutional Paper 187, November 2022. Starting in 2022, annual figures correspond to European Commission Forecasts.

[5] See C. Buelens and V. Zdarek, (2022), "Euro area inflation shaped by two years of COVID-19 pandemic," Quarterly Report on the Euro Area (QREA), Directorate General Economic and Financial Affairs (DG ECFIN), European Commission, vol. 21(1), pages 7-20, for an analysis of inflation in the euro area prior to the military aggression of Russia against Ukraine.

stemming from pent-up consumption and the unwinding of the high household savings accumulated during the acute phase of the pandemic, which led to a rapid expansion of domestic demand when restrictions eased. [6] Fiscal stimulus also continued to support demand in the EU, beyond the acute early pandemic period. This demand pressure was accompanied by effective supply bottlenecks, which put upward pressure on the prices of manufacturing products. After Russia's invasion of Ukraine in February 2022, the disruption of the supply of Russian gas to Europe sent energy prices soaring, making energy prices the main drivers of HICP inflation (Graph 1.2 a).

Household income developments over the pandemic paved the way for a strong rebound once restrictions were lifted, and labour market conditions started to tighten in some countries and sectors. A range of policy measures including employment support measures protected household incomes in 2020 and 2021. As a result, real household disposable income grew between 2019 and 2021 in most EU countries, although with significant variation. In parallel, in many countries, households accumulated net savings over the pandemic with curtailed consumption opportunities playing a role. Higher increases in disposable income over 2021 have enabled households to withstand more broad-based increases in prices without a reduction in demand, which in turn has allowed some non-financial corporations to preserve or even boost profits in this period. [7] This effect is likely to recede as real gross disposable income is forecast to decline in most EU countries in 2022 (see Section 2.4). While unemployment was stabilised by policy measures, overall labour market slack increased over 2020. Since then, it has been falling with the recovery in demand and the steep increase in vacancies in 2021. [8] The longer-term trend reduction in working-age populations due to ageing and changes in migration trends may also have contributed to tighter labour markets in various EU countries. Labour market slack in the second quarter of 2022 was low in a number of EU countries reporting high core inflation (Graph 1.2 d).

Despite extensive policy measures to contain energy prices, they are the source of major economic pressure and uncertainty. The rise in energy prices represents a terms of trade shock that imposes costs on the EU economy. Throughout the EU, governments have sought to limit the burden of higher energy prices to firms and households by redistributing the burden, but they cannot eliminate the overall economic impact. Measures vary significantly across countries, from price freezes and tax cuts to income support schemes, and further support is being considered. These measures cannot fully compensate for the full impact of the energy price increases on households and firms, which face much increased costs, although with large variation depending on their energy use and exposure to higher retail prices. Electricity price inflation itself has varied across the EU, not just due to government policies, but also as a result of the countries' energy mix and contractual arrangements and the related pass-through of wholesale electricity prices to retail prices. It represents a major change in costs and relative prices that could result in significant and lasting structural shifts across sectors and countries, depending on its duration and intensity.

High inflationary pressures have broadened beyond energy, bringing a risk that inflation divergences become entrenched. Core inflation has increased significantly in all EU and euro area countries in 2022, with some of the broadening reflecting the indirect effect of higher energy prices. There are large cross-country differences in 2022 core inflation, which ranges from 2.8% to

[6] See also R. Reis (2022), "The Burst of High Inflation in 2021-22: How and Why Did We Get Here?", CEPR discussion paper SP17514, for a discussion of the role of the fast recovery in driving inflation.

[7] See also Czech National Bank (2022), Monetary Policy Report Summer 2022, Box 1.

[8] According to Eurostat, labour market slack refers to the sum of all unmet employment demands and includes four groups: (1) unemployed people as defined by the International Labour Organisation (ILO), (2) underemployed part-time workers (i.e. part-time workers who want to work more), (3) people who are available to work but are not looking for work, and (4) people who are looking for work but are not available for work.

11.5% across EU countries, and from 2.8% to 9.8% within the euro area. The heterogeneity in the policy response to the energy price shock is reflected in various measures of inflation, including trade deflators and the GDP deflator. While the pass-through of energy inflation plays a role, other factors such as supply bottlenecks and residual pent-up demand are likely to be significant. Second-round effects stemming from an increase in wage costs are not yet visible, but may be developing in some EU countries. House prices have risen to very high levels, fuelled by longstanding supply constraints, and their continued rise, despite increasing financing costs, could be a further push on inflation over time.

Supply chain bottlenecks may be easing but continue to constrain supply in a number of sectors. There are continuing pressures resulting from supply chain disruptions still in 2022, although these pressures may be easing in some sectors. [9] The January/February 2022 data for the Purchasing Managers' Indices (PMIs) for suppliers' delivery times (SDT) and dynamic factor analysis including other indicators (backlogs of work, the orders-to-inventories ratio, intermediate input prices and shipping costs) suggest that supply chain pressures, while still historically high, have peaked and started to ease in the EU. The October 2022 PMI continues to indicate a drop in delivery times and the falling in demand easing supply bottlenecks. [10] However, possible disruptions linked to the war in Ukraine might lead to a setback. Increasing energy prices combined with wider geopolitical tensions are causing significant disruptions in key sectors, such as energy intensive industries, and limiting their access to critical raw materials. Depending on supply chain participation, these developments can also lead to different core inflation developments across the EU.

Despite increasing unit labour costs in a number of countries, nominal wages are overall not keeping up with inflation resulting in a reduction in purchasing power. In 2022 compensation per employee is expected to grow at 4.2% [11] in the euro area and labour productivity at 1.2% leading to an increase in unit labour costs of 3%. Unit labour costs developments have, however, varied across countries (Graph 1.2 e). Nominal wages are not expected to keep up with inflation. While this helps to protect firms from a further increase in production costs and preserves employment, it brings with it a loss of purchasing power for households. The loss of purchasing power affects demand and raises the risk of balance sheet stress for vulnerable households.

Monetary policy has started to normalise, driving funding costs up and prompting asset price corrections. This July, the ECB followed its reduction in asset purchase volumes with a further step on its policy normalisation path, raising the three key policy rates by 50 basis points, signalling further normalisation and approving the Transmission Protection Instrument (TPI). Further rises in policy rates were effected in September and October. Higher funding costs for banks have passed partially through to higher bank lending rates, in particular for households, while asset prices in some cases have adjusted down. In the euro area, credit standards have tightened for all loan categories in the second quarter of 2022 and continued tightening in the third quarter, due to concerns regarding the risks faced by borrowers in an uncertain macroeconomic environment. Euro area government yields have been volatile and increased markedly in 2022, although the risk of significant nominal interest rate differentials between euro area countries is expected to be mitigated by the introduction of the TPI. Monetary conditions have also tightened in non-euro area

[9] https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202202_01~272e32f7f4.en.html

[10] https://ihsmarkit.com/research-analysis/flash-pmi-data-to-highlight-recession-risks-and-varying-inflation-trends-at-start-of-fourth-quarter-October2022.html

[11] Workers returning to work following job retention schemes, who were in receipt of direct transfers rather than wages, raise the estimated unit labour costs due to the shift in their compensation.

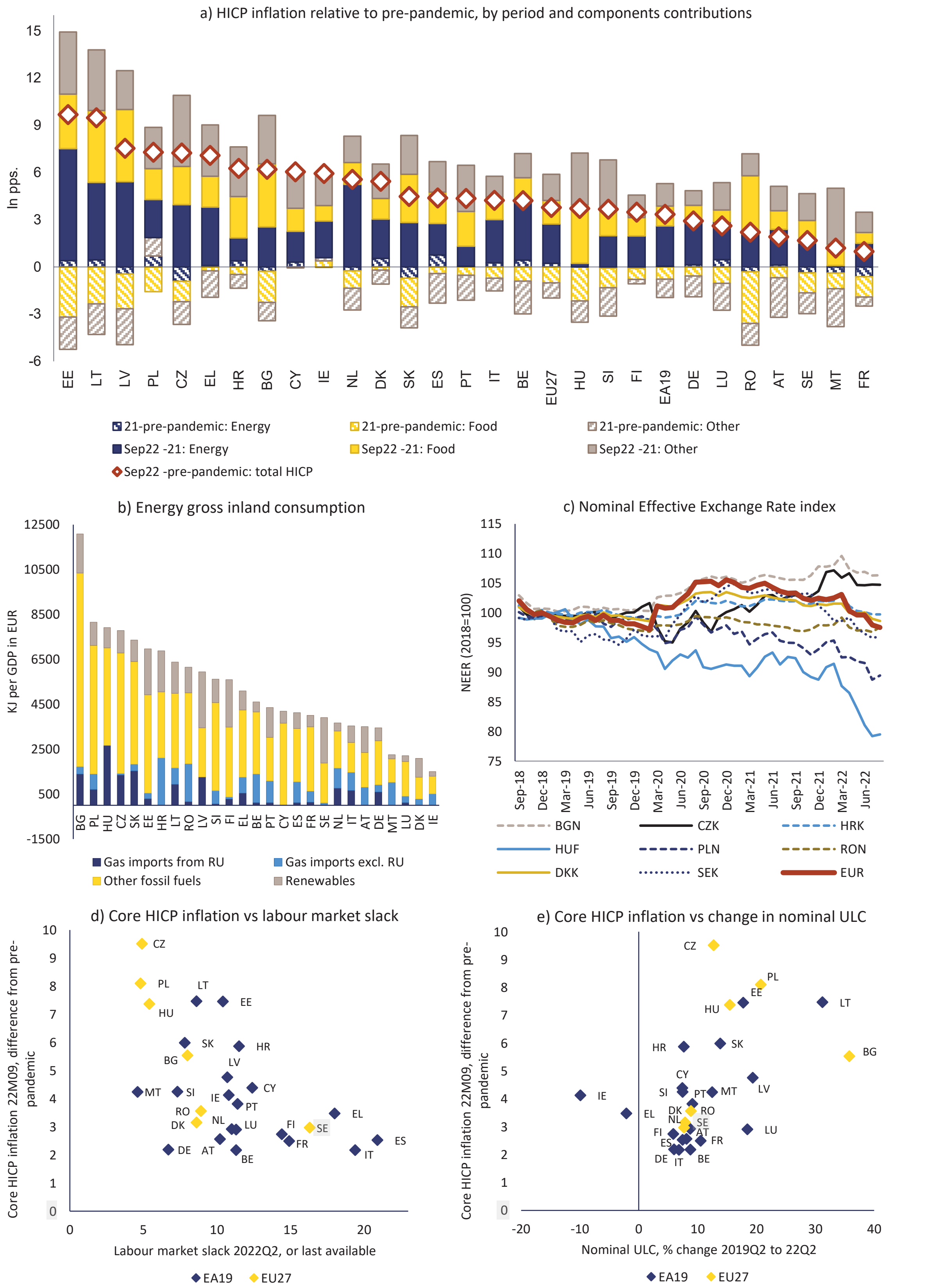
Member States, as non-euro area EU central banks have tightened their policy stance amid high inflation, leading to an increase in financing costs for the government and the private sector.

The euro nominal effective exchange rate has weakened and changes in EU non-euro area currencies have been mixed. The euro has experienced considerable volatility against the dollar in 2022 but the pressure has been for euro depreciation as the US central bank has tightened monetary policy faster than the ECB. The euro is also exposed to geopolitical and economic risks related to the war in Ukraine that are specific to the EU, while the dollar is benefiting from safe-haven flows, as it usually does in times of uncertainty. Given the different exposures of euro area Members States to extra-EU trade and financial flows, movements of the euro by itself represent asymmetric shocks possibly leading to different movements in nominal effective exchange rates (NEER), a fact that has been documented in the literature. [12] Among EU non-euro area currencies, the Czech koruna has experienced significant appreciation amid marked tightening of monetary policy coupled with exchange rate intervention (Graph 1.2 c). The Polish złoty and, especially, the Hungarian forint have been on a continued depreciating trend despite domestic monetary tightening. In March 2022, the currencies of both countries depreciated strongly amid increased uncertainty following the Russian aggression on Ukraine and tightening of global financial conditions. Croatia has acted to continue stabilising its currency relative to the euro, while Denmark has maintained its long-standing euro peg and Bulgaria operates a euro-anchored currency board. After more than two years of the kuna's participation in ERM II without frictions, Croatia is set to join the euro area in January 2023. [13] The Swedish krona depreciated over last year despite ongoing monetary policy tightening.

[12] See P. Honohan and P.R. Lane (2003), “Divergent inflation rates in EMU”, Economic Policy, 18(37), 357-394; and, I. Angeloni and M. Ehrmann (2007), “Euro area inflation differentials”, The BE Journal of Macroeconomics, 7(1).

[13] The conversion rate set by the Council is 7,53450 HKR/EUR. COUNCIL REGULATION amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Croatia, July 2022.

Graph 1.2: **Macroeconomic context**



(1) Pre-pandemic inflation corresponds to the average annual rate of change observed over 2017-2019 for the HICP index. Core inflation for 2022 M09 is calculated as the average of the HICP index excluding energy, food, alcohol and tobacco over the first nine months of 2022, compared with the average for the same period in 2021.

Source: Eurostat and Ameco

Box 1.1: Employment and social developments

Before Russia's military aggression against Ukraine, a robust labour market recovery took place in the EU. The strong economic recovery that followed the COVID-19 recession was accompanied by strong job creation and a decline in unemployment (Graph 1.3 a). The EU unemployment rate (15-74 years old) reached 6.4% in end 2021 and continued to decline in 2022 reaching 6% in August and September, the lowest rates for more than two decades. The overall labour market conditions continued to improve into 2022 driven by the full opening of the economies, improvements of the epidemiological situation, the effect of pent-up demand, and the good tourism season following eased mobility. Yet employment in manufacturing continued to stagnate. On the back of a rapid increase in demand, labour shortages reached new highs and although shortages emerged in various sectors, they increased more in services than in manufacturing. Employment growth was close to 1½% with the EU employment rate (20-64 years old) reaching 74.1% in the fourth quarter of 2021, although it remained 2 percentage points (pps.) below its pre-pandemic levels in manufacturing. In contrast, job creation was quite robust in less contact intensive services (such as health, public administration, and ICT) and construction (Graph 1.3 b).

The labour market is expected to slow down in view of the deteriorating economic outlook. In 2022, the labour market has remained resilient due to still positive effect of the recovery that followed the reopening of the economy after the lockdown. Yet the rise in energy prices represents a major risk also for the labour market going forward. While the higher cost of energy is strongly felt by the more energy-dependent sectors, it has knock-on effects on almost all sectors. The employment impact of a gas price shock might differ across countries depending on their competitiveness. Econometric estimates suggest that a 10% increase in natural gas prices may reduce output by 0.6% after two years, while employment would decline by 0.3% and real wages by 0.2%. [14] The impact on employment might be softened by a reduction of the hours worked per person employed. The contribution to the increase in unemployment might be larger for services than for manufacturing since labour hoarding is more common in the latter, while employment is more responsive over the business cycle in the former, which is has a relatively higher share of temporary workers. [15]

- Compared to the 2021 yearly figure, in the second quarter of 2022 the unemployment rate declined in all countries, notably in Greece (-2.5 pp), Spain (-2.3), Ireland (-1.9), Austria (-1.8), and Lithuania (-1.6 pp). The gap between the highest unemployment rate in Spain (12.5%) and the lowest in Czechia (2.4%) dropped to 10.1 pp, the lowest gap since October 2008.

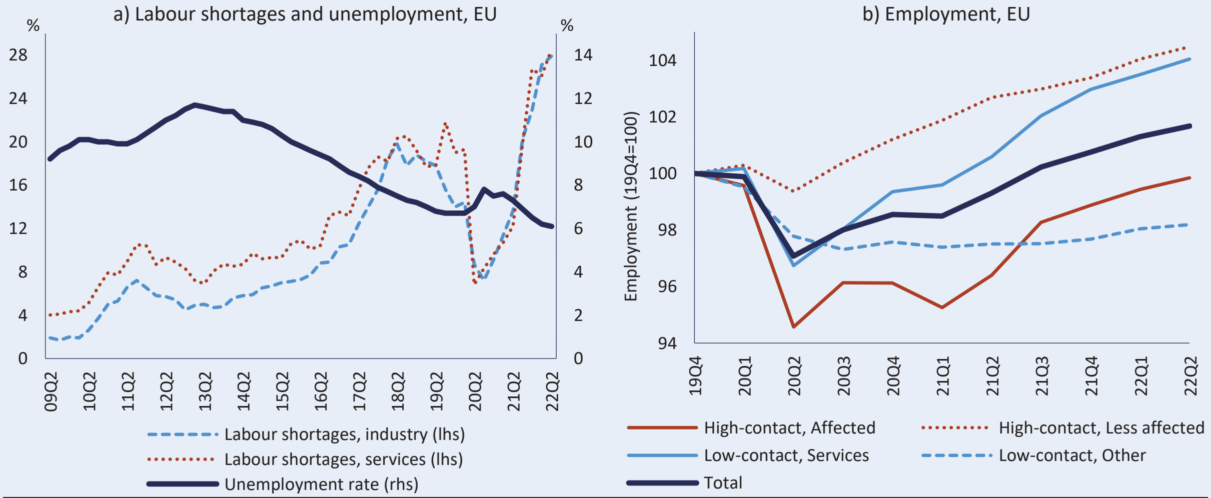
- In 2021, in almost all Member States employment rates (20-64) swiftly rebounded and surpassed their pre-pandemic levels. Between 2020 and 2021, the largest increases were observed in Greece (4.3 pp), Ireland (2.8), Poland (2.7), Spain (2), and Luxembourg (2 pp). The employment rate declined only in Latvia (-1.6 pp). In the first half of 2022, the employment rate continued to increase in all countries, notably in Ireland (+3.6 pp on average in the first half of 2022 relative to the annual figure of 2021) and Greece (+3.8 pp on average in the first half of 2022 relative to the annual figure of 2021).

[14] For a more in-depth discussion, see European Commission, 2022 Labour Market and Wage Developments in Europe report (forthcoming).

[15] During the COVID-19 recession, the decline in total hours worked by temporary workers occurred mainly through job losses, while for permanent workers it resulted from a drop in hours per worker.

- In the second quarter of 2022, employment in manufacturing remained largely below its pre-pandemic levels in few Member States, including Bulgaria, Romania, Spain, Poland, Slovakia, and Germany.

Graph 1.3: **Employment, unemployment, and labour shortages**



Notes: (1) High-contact, affected sectors: wholesale and retail; transports, accommodation, arts, households' activities. High-contact, less affected sectors: construction, public administration, health, education. Low-contact, services: information and communication, financial, professional activities, real estate. Low-contact, other: manufacturing, mining, water and agriculture.

Source: European Commission services

2. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS

2.1. EXTERNAL SECTOR

The current accounts of most Member States displayed small or moderate changes in 2021, often only partially reversing the changes from a year ago. In particular, recovering travel balances contributed to a partial improvement of current accounts in some large net-debtor countries. Despite the improvement, in 2021 the current accounts of some of these EU countries remained in large deficit and with their net international investment positions (NIIPs) still deeply negative. At the same time, some large current account surpluses increased, coming in close to their 2019 levels after a small decline in 2020. Overall, the high current account surpluses of some countries continued to significantly exceed what can be explained by fundamentals. ([16]) Some other countries saw small reductions and in a few cases balances came in considerably below those recorded in 2019 (Graph 2.1.1 a).

Current account balances are declining strongly in 2022, driven primarily by high energy prices (Graph 2.1.1 a). The two most important driving forces behind the changes in current accounts in 2021 and year to date in 2022 have been the lower energy trade balance ([17]) and, working in the opposite direction, the recovery in international travel. The recovery in tourism is mostly benefiting net-debtor countries, but remains partial; most countries with a strong reliance on tourism exports still display travel balances below their pre-pandemic level, although the data for the main tourist season are still to come for the third quarter of 2022. Moreover, the improvement in travel balances is often surpassed by the impact of high energy prices which affect nearly all countries (Graphs 2.1.3 d and e). For a number of countries, a noticeable deterioration of non-energy trade balances is also underway in 2022. In some cases, this is driven by resilient domestic demand. The overall effect is a strong decline in current accounts in 2022, with a number of countries with surpluses in previous years going into deficit. The forecast for 2023 indicates some mild increases in current accounts for many, but not all, EU countries, but often clearly smaller than the deteriorations recorded in 2022.

Strong nominal GDP growth in 2021 helped to narrow both negative and positive net international investment positions. In 2021, the strong denominator effect thanks to a marked recovery in economic growth reduced, but did not always fully undo, the dispersion in NIIPs that had occurred in 2020 (Graph 2.1.1 b and Graph 2.1.3 a). That pattern has continued into 2022 with

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

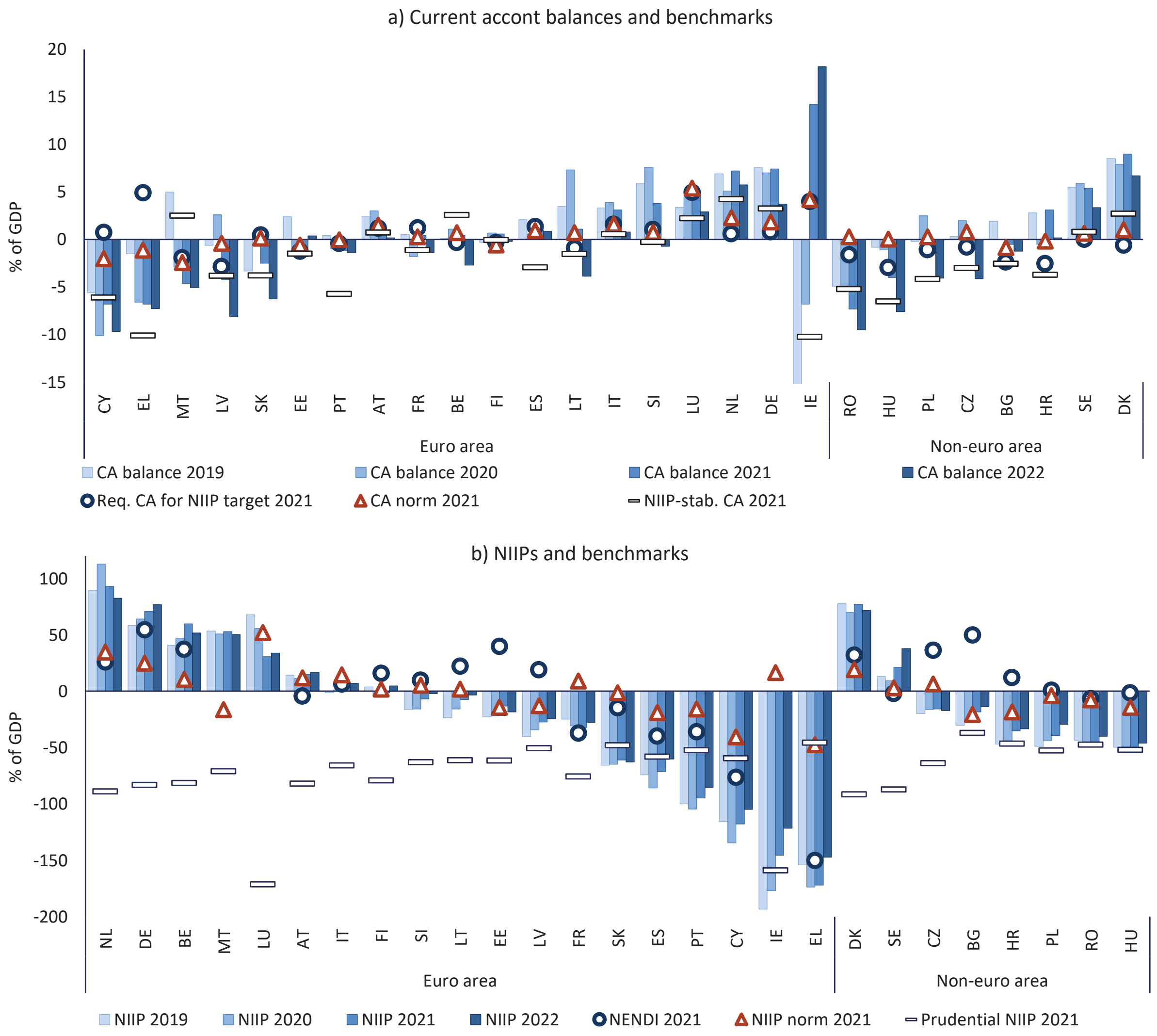
([17]) Energy balance corresponds to balance of trade in goods under item “3 Mineral fuels, lubricants and related materials” in the Standard International Trade Classification (SITC).

NIIPs-to-GDP ratios of large net-debtor countries often recording further sizeable improvements, although most of them remain below the NIIP prudential levels. [18] For most of these net-debtor countries, the recent current account outturns are below the levels conducive for the swift correction of their negative stocks, as captured by the current account required to reach a specific NIIP target, even if only slightly in case of Spain and Portugal (Graph 2.1.1 a and b). Conversely, the NIIPs of several net-creditor countries have remained considerably higher than suggested by economic fundamentals.

From a sectoral perspective, household net lending positions are declining in 2022 as a result of the reduced purchasing power. In 2021, the net lending/borrowing positions in most Member States were characterised by net borrowing by governments and positive net lending by the private sector, both households and corporates (Graph 2.1.3 b). There was a slight reversal of the exceptional fiscal support pursued in 2020 to mitigate the pandemic crisis, broadly offsetting a small decline in the private sectors' net lending positions. In 2022, fiscal support is expected to remain in place, even if most Member States are expected to continue recording further improved government net positions (Graph 2.1.3 c). At the same time, the decline in household net lending is expected to dominate, contributing to lower overall net borrowing/lending positions in most cases.

[18] The NIIP-stabilising current account benchmark is defined as the current account required to stabilise the NIIP at the current level over the next 10 years. The current account required to reach a specific NIIP target is the current account required to reach the prudential threshold over the next 10 years, or to halve the gap to the NIIP in line with fundamentals, whichever is higher. NIIP prudential thresholds are determined from the maximisation of the signal power in predicting a balance of payment crisis, taking into account country-specific information summarised by per-capita income. NIIP in line with fundamentals (NIIP norms) are obtained as the cumulation over time of the values of the current account norms. For the methodology for the computation of NIIP prudential and fundamental benchmarks, see A. Turrini and S. Zeugner (2019), "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper 097/2019.

Graph 2.1.1: **Current account balances and net international investment positions (NIIPs)**


a) Current accont balances and benchmarks

b) NIIPs and benchmarks

Countries are ranked in increasing order of current account balances in 2021, and in decreasing order of the NIIP-to-GDP ratios in 2021. CA stands for current account. NENDI is the NIIP excluding non-defaultable instruments. Current account norms: see footnote 16. For the concepts of NIIP norm, NIIP prudential threshold, and NIIP-stabilising current account benchmark and required CA for reaching specific NIIP target: see footnote 18.
Source: Eurostat and Commission services calculations.

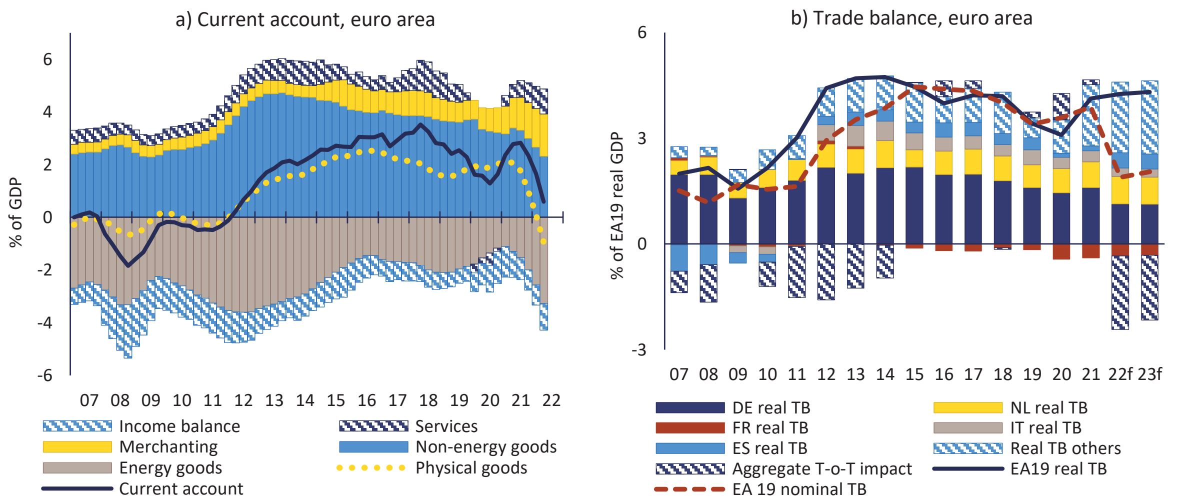
Global monetary tightening, amid high inflation, as well as elevated geopolitical risks, could affect the external financing conditions of some non-euro area Member States. As set out in Section 1, both the pandemic and, more recently increased uncertainty following the Russia's aggression of Ukraine, have resulted in changes to some non-euro area exchange rates, with the Polish złoty and the Hungarian forint depreciating. If external (re-)financing risks were to emerge, countries with substantial foreign exchange reserve stocks, as well as those recording solid surpluses in external flows, would be less exposed. External financing needs, including these of the government sector, play a role in this context (see Section 2.6 on the government sector).

The euro area current account surplus is falling sharply in 2022. Energy costs are the key factor for the strong in-year reduction of the euro area current account (Graph 2.1.2 a). Since 2021, global supply problems have led to marked rises in import prices for goods beyond commodities. This is reflected in the euro area trade balance vis-à-vis China, which has declined by more than one percentage point of GDP compared to 2019. High inventory imports and import prices from China explain part of the strong decline in the trade surplus of Germany in particular. In addition, global demand for European exports is decelerating, as the slowdown in China and monetary tightening in the US have implications for demand not only in these two trading partners, but also in most emerging markets. As set out in Section 1, the euro has depreciated strongly, in particular vis-à-vis the US dollar. This weighs on the euro area trade balance as the share of dollar-denominated imports, particularly for energy goods, largely exceeds the dollar denomination of exports. However, income from dollar-denominated foreign assets as well as merchanting and revenue from the global commodity trade has somewhat cushioned the overall impact of the terms-of-trade shock on the external balance.

The decline in the euro area trade balance in 2022 has been driven by the terms of trade shock, with real demand remaining strong. The terms of trade shock that has been underway in 2022 on account of much higher energy import prices and weaker euro has driven the decline in the euro area nominal trade balance – and by extension current account (Graph 2.1.2 b). When measured in real terms, i.e. at constant prices, the trade balance is forecast to strengthen somewhat in 2022, as real aggregate demand should grow slightly less than GDP. Real demand growth is forecast to outpace output growth in 2022 in large net-creditor countries and has reduced their contribution to the euro area current account surplus (Graph 2.1.2 b). This is forecast to persist in 2023. Several net-debtor countries improved their real trade balance by demand not keeping up with recovering GDP growth. It is the total of smaller countries that are driving the stability of the real trade balance in 2022, and counteracting the decline in the real balance of Germany, the largest contributor to the euro area.

The forecast for 2023 is for an overall stability in the euro area trade balance, including its composition, but this is subject to much uncertainty. Supply chain bottlenecks and import prices are likely to ease somewhat in 2023 but should continue weighing on the euro area trade balance. Decelerating global demand will dampen export prospects but may provide some relief for commodity prices. As a result, the impact of terms of trade is forecast to lessen somewhat, providing a marginal improvement in the overall euro area trade balance. Instead, domestic demand growth remains a key factor for the dynamics of the euro area external balance in 2023. In terms of its composition, the readjustment away from the contribution of large net-creditor countries is forecast to persist.

Graph 2.1.2: **The euro area current account and trade balance**



'Physical goods' is the balance of trade of SITC total; 'Energy goods' corresponds to balance of trade for the SITC3 category, while 'Non-energy goods' is the difference between the two. 'Merchanting' is the difference between balance of trade in goods from the Balance of Payments and 'Physical goods'.

Source: European Commission services

Countries with current account balance (three year average) in % of GDP above 6% or below -4% in 2021 in blue																										
BE	BG	CZ	**DK**	**DE**	EE	**IE**	**EL**	ES	FR	HR	IT	**CY**	LV	LT	LU	HU	MT	**NL**	AT	PL	PT	**RO**	SI	SK	FI	SE

Countries with NIIP below -35% in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	**IE**	**EL**	**ES**	FR	**HR**	IT	**CY**	LV	LT	LU	**HU**	MT	NL	AT	**PL**	**PT**	**RO**	SI	**SK**	FI	SE

At country level, the following developments are worth highlighting:

- In 2021, the current account balances, based on 3-year averages, of four Member States stood below the lower scoreboard threshold of -4% of GDP: Cyprus, Greece, Ireland, and Romania. At the same time, three Member States had averages above the upper threshold of 6% of GDP: Denmark, Germany, and the Netherlands. As for the NIIP readings, for ten Member States they were below the scoreboard threshold of -35% of GDP: Croatia, Cyprus, Greece, Hungary, Ireland, Poland, Portugal, Romania, Slovakia, and Spain.

- Current accounts of some large net-debtor countries, such as Cyprus, and especially Greece, remained in sizeable deficits, even though Cyprus has recorded moderate improvements. While the small surplus of Spain increased slightly, the moderate deficit of Portugal was largely unchanged in 2021. In these countries, apart from Spain, the current accounts remain below the levels suggested by economic fundamentals, even if by different margins. In the first two quarters of 2022, a further solid recovery of international travel, coupled with rising prices in the sector, is lending a strong support to their surpluses in travel balances, especially for Portugal and, to a slightly lesser extent, also for Cyprus, Greece, and Spain, with the main tourist season still to come in the third quarter of the year. However, bar Spain, for these countries a deterioration of their current account readings is expected for this year as a whole, chiefly reflecting worse energy balances. Their clearly negative NIIPs have been improving mostly due to the strong nominal economic growth, but the improvement was somewhat weakened by the negative valuation effects in the case of Greece.

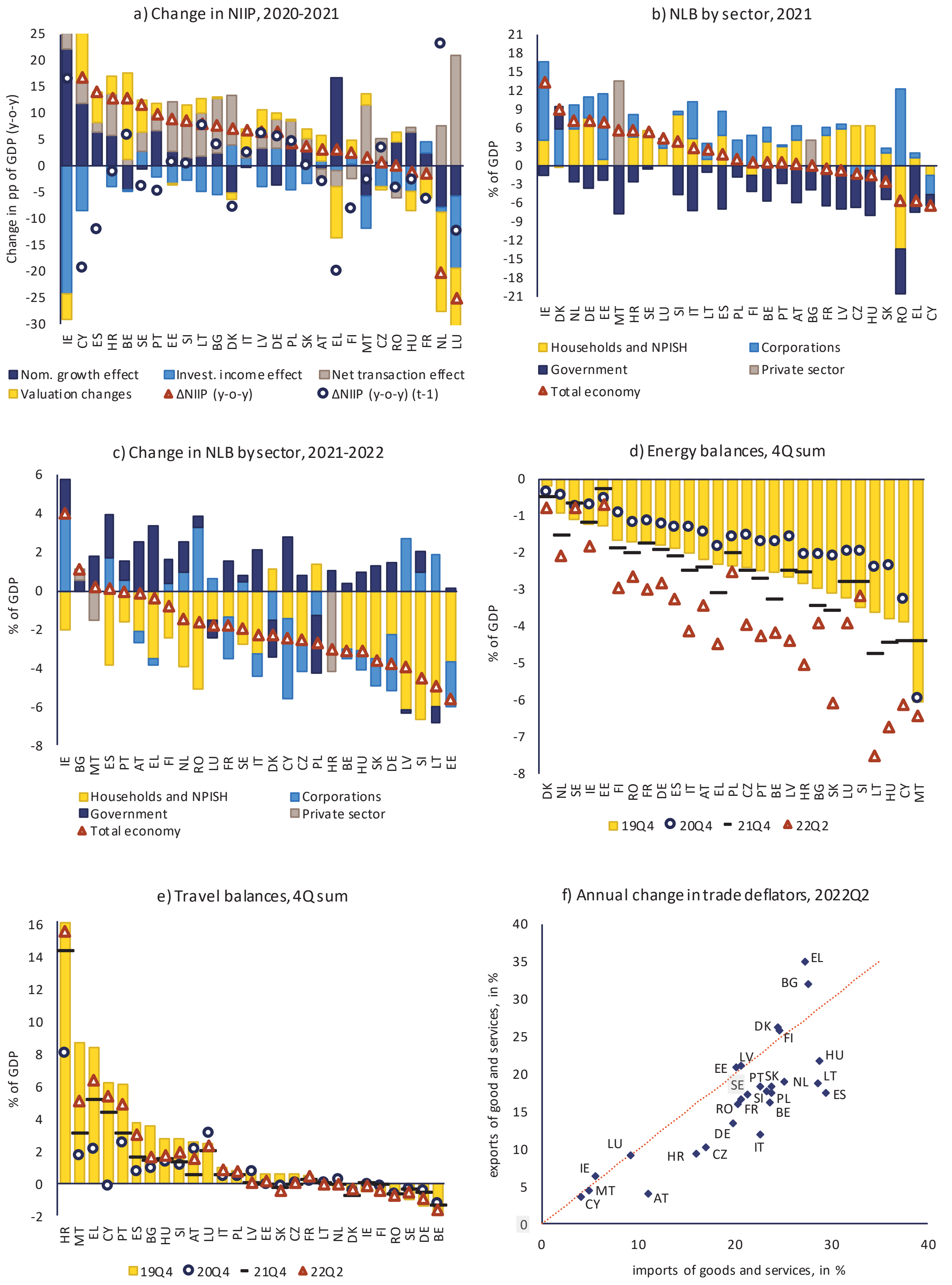
- Current account deficits are very sizeable and at their highest levels in years in the case of Hungary and Romania. Romania's current account deteriorated from an already elevated deficit and continues to worsen in 2022 with no expectation of a significant improvement next year.

Hungary is also recording a noticeable deterioration, with only a mild improvement expected in 2023, showing one of the sharpest deteriorations in its energy balance. The depreciation of the Hungarian forint adds to concerns about its external sector developments. For both countries, NIIPs are clearly negative but inward foreign direct investments represent a considerable portion of that. This renders their NIIPs, excluding non-defaultable instruments (NENDI), more favourable.

- In Latvia, Malta, and Slovakia, the current accounts in 2021 were in non-negligible deficit. In many cases substantial deteriorations are projected for 2022 and 2023. In Czechia, Bulgaria, and Poland the mild current account deficits of 2021 are forecast to increase. The depreciation of the złoty adds to concerns about external sector developments in Poland. Belgium and Lithuania are forecast to move into noticeable deficit in 2022. Slovakia and Lithuania have recorded some of the greatest deteriorations in trade balances as a result of worsened energy balances. The deficit of Slovakia is expected to further expand exceeding its pre-pandemic level. For Poland and Slovakia, which have pronounced negative NIIPs, as well as for other Member States in central and eastern Europe, inward foreign direct investments represent a considerable portion of their external liabilities. Consequently, their NENDIs are more favourable.

- The large surpluses of Denmark, Germany, the Netherlands, and Sweden remain above their current account norms. While the current account surpluses increased in those countries, bar Sweden, in 2021, they are expected to record a marked decline in 2022. In particular, the current accounts of Germany, the Netherlands, and Sweden have been declining noticeably and, in excess of the worsening of the energy balance. The surplus of Denmark has been increasing in the first half of the year, but overall, a decline is forecast for 2022. The NIIPs of the Netherlands, Denmark, Germany, and Belgium are far above the levels suggested by economic fundamentals.

Graph 2.1.3: **External sector: selected graphs**



Source: European Commission services

2.2. COMPETITIVENESS

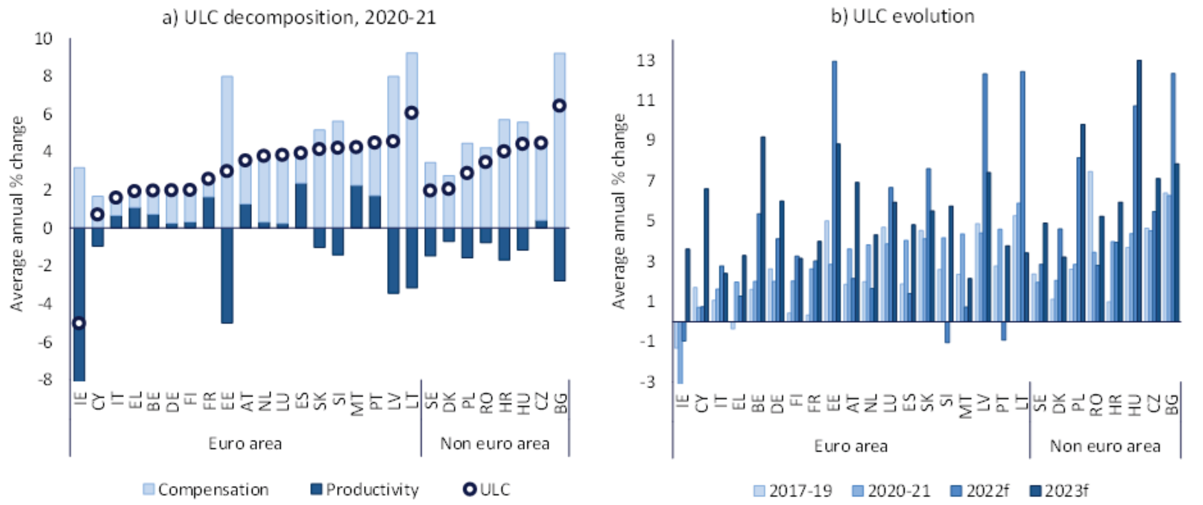
Unit labour costs grew faster over 2020-21 than in the pre-pandemic period, and their growth rate is accelerating in 2022. A strong increase in unit labour costs had been observed in most Member States in 2020, driven by mechanical drops in measured productivity, as job retention schemes mitigated the fall in employment despite the markedly lower output. In 2021, this trend partly reversed as the recovery in productivity led to either unit labour costs declines, or to a visible deceleration in their growth, in nearly the entire EU (Graph 2.2.1 a). Unit labour costs are forecast to rise this year and next, substantially in some cases (Graph 2.2.1 b). The increase in unit labour costs is expected to be driven by strongly rising nominal compensation per employee that should considerably exceed real labour productivity growth in almost all EU countries (Graph 2.2.3 a and b) often against a backdrop of low and falling unemployment. In some cases, these effects may be the continuation of trends that led to concerns about potential overheating pressures before the COVID-19 crisis. As the economic momentum slows down, productivity gains will be lower and will dampen unit labour costs less than they have done recently.

Real exchange rate dynamics have not yet been substantial overall, although there has been divergence, particularly outside the euro area. The changes in HICP-based real effective exchange rates (REER) remained contained in 2021, although small depreciations were observed in more countries than in 2020. The changes in HICP-based and GDP deflator-based REER over three years up to 2021 were also limited (Graph 2.2.3 c). In 2022, the nominal effective exchange rate (NEER) has so far depreciated in nearly all euro area Member States reflecting the depreciation of the euro, while changes in the HICP-based REER have remained moderate except for the few cases in which inflation was either much higher than elsewhere or where the NEER depreciated more sharply (Graph 2.2.3 e). In some non-euro area countries, in-year changes in the REER have been more marked. The GDP deflator-based REER does not show strong signs of deteriorating price competitiveness for most Member States although with some notable variation across countries (Graph 2.2.3 d). Going forward, challenges may emerge in intra-euro area REERs on account of divergence in inflation rates and differences in exposures to euro nominal exchange rate changes across the different euro area countries. More heterogeneity is expected across non-euro area countries, partly reflecting different nominal exchange rate dynamics.

High and divergent inflation rates are a risk to competitiveness to the extent they become entrenched, with particular risks within the euro area. As set out in Section 1, inflation rates are not only high, but very divergent, including within the euro area. Overall, this divergence is rooted in varying energy-intensity across economies, and is affected by the scale and composition of government measures. Despite the fact that inflation is largely driven by the increase in energy costs, and is expected to fall, divergence in inflation rates brings a risk to competitiveness from two angles. First, energy prices may not return to their previous levels, but stabilise at higher levels. This would entail major costs for specific sectors, such as energy intensive industries. To the extent that these costs become permanent, countries with higher inflation due to the direct impact of energy costs would have permanently higher price levels. This relative increase could have a negative impact on their competitiveness and may lead to risk of relocation, ultimately resulting in a fall in export shares and potential growth in the more exposed countries. Over time, this may make a change in their business model necessary, and could involve costly structural shifts. Second, inflation differences can lead to increases in prices beyond energy. Cross-country differences relate not just to overall inflation rates but are also increasingly marked in core inflation. Box 2.2.1 discusses the risk that these may become entrenched and bring about further increases, including to wages. Such widening differentials can result in real appreciations, reducing competitiveness. The resulting relative changes to competitiveness could lead to a rebalancing in the euro area, if countries with pre-existing competitiveness weaknesses gain relative to their peers. However, at present, the most marked differences in inflation are not affecting large net creditors or net debtors, on the whole. Furthermore, heterogeneous inflation expectations in some cases might lead to increased vulnerabilities within the euro area, if too low expected real interest rates in some countries result in excessive debt accumulation. Outside the euro area, currency depreciations entail other risks, for instance in terms of external borrowing and debt service costs.

The current context in which inflation differentials are rising is different than that of the run-up to the global financial crisis, but could still entail risks of macroeconomic imbalances. In the run up to the financial crisis, high inflation in some euro area countries resulted in a cycle where low real interest rates fed excessive demand and debt accumulation, fuelling real exchange rate appreciations. This time, however, the shock experienced is predominantly a contractionary cost-push energy shock, rather than an expansionary one. While this time high inflation in the most affected countries may work to keep real interest rates low and provide some cushioning of the more adverse impact on demand in the near term due to higher energy bill, the emergence of entrenched increases in prices or wages could complicate efforts to bring down inflation leading to competitiveness losses that may dampen economic growth going forward.

Graph 2.2.1: **Unit labour costs**



(1) Countries are presented in increasing order of ULC in 2020-21
Source: Ameco; 2022 and 2023 data come from the European Commission autumn 2022 economic forecast. The data refer to the number of employees and of persons employed

Export market share developments in 2021 reflect a partial reversal of the COVID-19 crisis effects but are likely to fall in the immediate future, amid the higher energy costs and a slowdown in trade. An effect of the pandemic was to reduce export market shares of economies with important international tourism sectors, several of which have more negative external positions, and to increase export market shares for several net-creditor countries relative to their pre-crisis levels. Export shares are forecast to fall in most EU countries in 2023, negatively affected by the particularly high energy cost increase in Europe, with some supply chain disruptions also playing a role. A stronger effect is forecast for some net-creditor countries with substantial manufacturing sectors.

Changes in competitiveness have once again become generally conducive for more symmetric rebalancing of external positions within the euro area. (Graph 2.2.3 f). Developments in unit labour costs are somewhat more moderate in net-debtor countries than in net-creditor ones. However, developments in inflation, and particularly in core inflation, have been either broadly similar or sometimes more contained in net-creditor countries, which might dampen the rebalancing going forward, unless wage developments continue to diverge in view of differences in labour market slack. While, net-creditor countries generally tend to gain more from a depreciation of the euro given their higher share of extra-euro area trade, in this case export market shares dynamics point to external rebalancing as net-debtor countries are regaining some of the lost export market, while net-creditors' shares are expected to decline going forward.

Countries with nominal unit labour cost growth (3 year % change) above 9% (EA) or 12% (non-EA) in 2021 in blue																										
BE	**BG**	**CZ**	DK	DE	**EE**	IE	EL	**ES**	FR	HR	IT	CY	**LV**	**LT**	**LU**	**HU**	**MT**	**NL**	**AT**	PL	**PT**	**RO**	**SI**	**SK**	FI	SE

Countries with REER, HICP deflator (3 year % change) above +/- 5% (EA) and +/- 11 (non-EA) in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE

Countries with export market share, % of world exports (5 year % change) below -6% in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	IE	EL	**ES**	**FR**	HR	**IT**	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE

At country level, the following competitiveness developments are worth highlighting:

- Unit labour cost growth, cumulated over the three years to 2021, was above the scoreboard threshold in 15 Member States: Austria, Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Romania, Slovenia, Slovakia, and Spain. For the HICP-based REER, the three-year changes were more contained and no Member State exceeded the scoreboard thresholds. The five-year changes in export market shares were below the scoreboard threshold in France, Italy, and Spain in 2021. While a decline in France was mainly driven by the declining share of exports of goods, in Spain and Italy the fall was caused by decreasing export shares of services. In all three countries, the aforementioned declines were most pronounced during 2020 pandemic.

- Concerns about cost pressures have been significant in some countries over a number of years and are increasing, or not sufficiently abating, including in Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, Luxembourg, Romania, and Slovakia. They were typically already sizeable before the COVID-19 crisis, in most cases continued in 2021 and the first half of 2022 amid comparatively tight labour markets. Unit labour costs growth is forecast to remain high or to increase strongly again next year in most of these countries. Several of them face additional risks to their competitiveness, relating to the surge in inflation, which is much higher than in the rest of the EU and in the euro area peers. While for most of these countries the REER are forecast to depreciate in 2023, a mild appreciation is expected for Slovakia.

- Malta and Slovenia have displayed similar effects as the countries mentioned above in the pre-COVID-19 period, but concerns about competitiveness losses, if any, were more moderate in 2021 and are expected to remain small this year too. In Belgium and Poland, unit labour costs are forecast to increase strongly over this year and next. Conversely, unit labour cost increases have been, and are forecast to continue being, more muted in Italy, pointing to a small relative gain in competitiveness.

- Concerns about cost competitiveness have been receding in some large net-debtor countries, including Cyprus, Greece, Portugal, and Spain. In particular, unit labour costs have been growing slightly less than in trading partners and the rest of the euro area.

Box 2.2.1: Potential entrenchment of inflation and competitiveness losses

High and divergent inflation, which has been observed across the EU since late 2021, can adversely affect competitiveness especially if persistent. If aggregate wage rises fully or partially compensate for the loss in purchasing power of workers, these wage increases will be reflected in higher unit labour costs unless they are offset by productivity increases. Such unit labour cost increases can then lead to second-round effects and risks of higher future inflation. ([19]) Divergences in competitiveness across euro area Member States can emerge if the inflation shock is very different across countries or if very different second round effects develop in the wake of that inflation shock. However, if demands for wage increases take into account that inflation is likely to recede, then the risk of a price-wage spiral remains limited. The Commission's 2023 Euro Area Report discusses the role of inflation expectation in wage increases. ([20]) The soaring energy prices account for a large share of the price level increases in most Member States. However, if inflation has largely broadened beyond energy to other goods and services, living standards cannot be maintained unless income growth keeps up, even when energy prices fall. Energy and food components of the overall price indexes can be quite volatile, and are relatively unaffected by monetary policy decisions, as they are typically strongly influenced by international markets, at least beyond short term, i.e. in absence of regulatory or fiscal policy intervention. As a result, central banks use measures of core inflation to better capture the underlying inflation trend. ([21])

Unit labour costs for several EU countries, including Estonia, Latvia, Lithuania, and Luxembourg and two non-euro area Member States, Bulgaria and Poland, surged over the year up to the second quarter of 2022 (Graph 2.2.2 a). The jump was driven by very strong growth in compensation per employee, which exceeded or came very close to the 10% mark. Nonetheless in only four Member States the compensation per employee increased by more than prices, with the differential being especially large in Bulgaria. Productivity changes were insufficient to mitigate growth in unit labour costs, and in some cases they reinforced it. In Bulgaria and Luxembourg, unit labour costs increased by more than prices, while in Estonia, Latvia, Lithuania, and Poland their growth exceeded the core inflation. While the latter holds true also for Belgium, France, Italy, and Romania, their unit labour costs growth has been somewhat more contained. Those excesses of unit labour costs over prices growth create risks of further price hikes in order for firms to preserve price-cost margins.

Divergent core inflation and unit labour cost developments could have considerable and more persistent consequences to some countries' competitiveness, which is particularly relevant for the euro area countries. The change in core inflation-based REER (Graph 2.2.2 b) suggests non-negligible losses of competitiveness for Estonia, Lithuania, and Slovakia due to much higher core inflation than in the rest of the euro area. For the latter two countries this is compensated for by REER changes with respect to non-euro area countries. Conversely, the competitiveness of Germany, and to a lesser extent Finland, France and Italy, benefit from lower core inflation than in the rest of the euro area. REER depreciation with respect to non-euro area countries, observed broadly, contributes further to competitiveness gains of these countries.

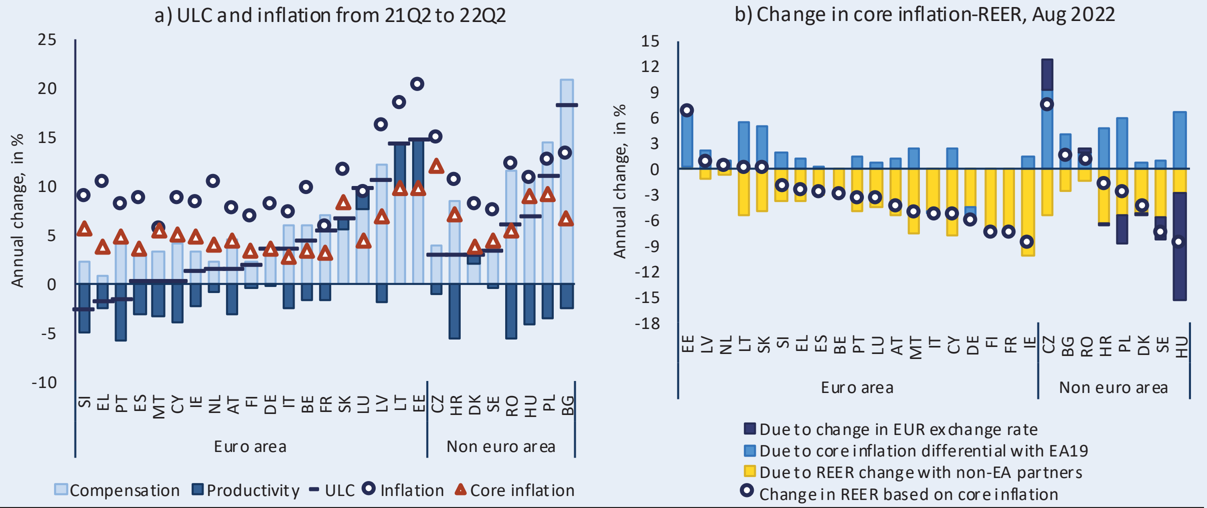
[19] A recent IMF's analysis indicates that the risks of wage-price spirals may be relatively contained. The conclusion is based on the comparisons of current inflation, wage, and unemployment developments with similar historical episodes for advanced economies, with the caveat that those episodes need not be fully representative of the current events, especially given the distinctive nature of the COVID-19 shock. Moreover, the analysis does not consider the developments in 2022 during which the energy price shock kicked-in with full intensity in most of EU countries. See IMF (2022), "Wage dynamics post-COVID-19 and wage-price spiral risks", in: World Economic Outlook: Countering the cost-of-living crisis. Chapter 2, October 2022.

[20] SWD(2022) 382. Commission staff working document. 2023 Report on the euro area accompanying the Recommendation for a Council Recommendation on the economic policy of the euro area

[21] See M. Ehrmann, et al. (2018), "Measures of underlying inflation for the euro area", ECB Economic Bulletin, Issue 4/2018.

For some non-euro area countries nominal exchange rate movements strongly affected the REER. Most striking is the case of Hungary, where the strong nominal depreciation led to competitiveness gains despite comparatively high core inflation. Similar effects can be observed in Poland and Sweden. Conversely, Czechia experienced an appreciation in the (effective) nominal exchange rate, which along the relatively high core inflation rate has led to strong real appreciation. It should be noted that while currency devaluations may mitigate cost pressures, they may entail other risks such as higher debt service costs of foreign-currency denominated debt, both domestic and external. This may constrain the use of nominal devaluations as an instrument in mitigating the impact of increased costs on competitiveness.

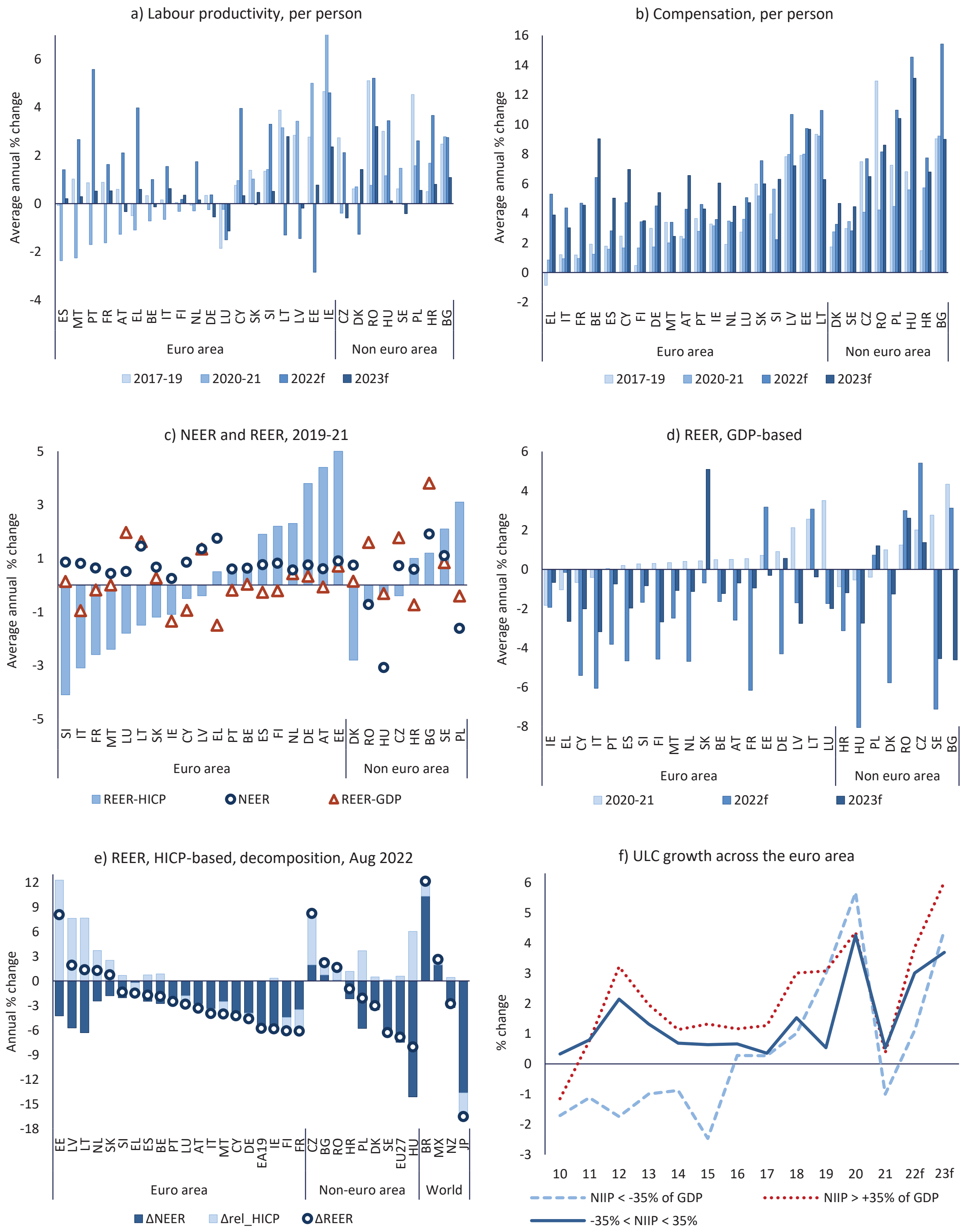
Graph 2.2.2: **Unit labour cost, (core) inflation and competitiveness**



Countries are presented in the increasing order of the ULC change, i.e. in decreasing order of the core inflation-based REER. The core inflation measure excludes energy, food, alcohol and tobacco. The core inflation-based REER has been computed for analytical purposes, in which the core inflation rates for the trading partners China and Japan were proxied with their overall CPI growth as the core measure was not available.

Source: Eurostat and Commission services calculations.

Graph 2.2.3: **Competitiveness: selected graphs**



Source: European Commission services

2.3. NON-FINANCIAL CORPORATIONS

Non-financial corporate debt-to-GDP ratios remained sizeable in many countries in 2021, although they continued to decrease. Following the substantial deleveraging that took place over the last decade in many Member States, non-financial corporate (NFC) debt-to-GDP ratios in 2021 were below their pre-pandemic peak in most EU countries. Nonetheless, in 2021, debt ratios were above levels suggested by both economic fundamentals and by levels related to prudential concerns in almost half of the EU countries and in many countries above levels registered in 2019, before the COVID-19 pandemic started (Graph 2.3.1 a and b). ([22]) In 2021, the corporate debt-to-GDP ratio decreased in most Member States, largely due to the marked recovery in GDP growth (Graph 2.3.3 a). Net credit to NFCs was positive across the EU and started to pick up in most EU countries in 2021, including in a number of cases with high NFC debt, in light of the pickup in investment (Graph 2.3.3 c).

The deleveraging process that restarted in 2021 continued into 2022, but going forward is likely to be hampered by the difficult macroeconomic context. The corporate debt-to-GDP ratio continued to decrease in almost all Member States in the first half of 2022, despite the increase in credit, which may also reflect rising liquidity needs. The effect of new net credit on corporate debt-to-GDP ratio was more than offset by real GDP growth and the sharp increase in inflation (Graph 2.3.3 b). Passive deleveraging is overall expected to continue, driven by rising inflation rather than real GDP growth, but there is a considerable risk that the decrease in debt ratios may slow or reverse. The increase in inflation may squeeze profit margins if increasing costs cannot be passed on to customers and reduce demand overall. The profit share of corporates started to moderate in the first half of 2022, but remains above its pre-COVID-19 level. In almost all euro area countries a high share of new lending to corporates with short maturities implies that tightening lending conditions and rising interest rates can affect corporates rather quickly. ([23]) In several non-euro area Member States, there was a notable increase in lending rates for corporates and besides a high share of corporate loans denominated in foreign currency represents source of additional vulnerabilities.

Increasing concerns related to corporate non-performing loans and bankruptcies add to overall corporate and financial sector vulnerabilities after the COVID-19 shock. Some industries, such as accommodation and transport, have been strongly affected by the COVID-19 crisis. ([24]) Non-performing loans ratios and business bankruptcies have been declining in most Member States since 2020, even after debt repayments moratoria have been phased out. However, the share of vulnerable firms after COVID-19 is particularly high in some countries with a high

[22] Country-specific debt benchmarks have been developed by the European Commission in cooperation with the EPC LIME Working Group (European Commission, "Benchmarks for the assessment of private debt", Note for the Economic Policy Committee, ARES (2017) 4970814) and J.-C. Bricongne, L. Coutinho, A. Turrini and S. Zeugner, "Is Private Debt Excessive?", Open Economies Review, 3, 471-512, 2020. Fundamentals-based benchmarks assess private debt from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds represent the debt level beyond which the probability of a banking crisis is relatively high by minimising the probability of missed crisis and of false alerts.

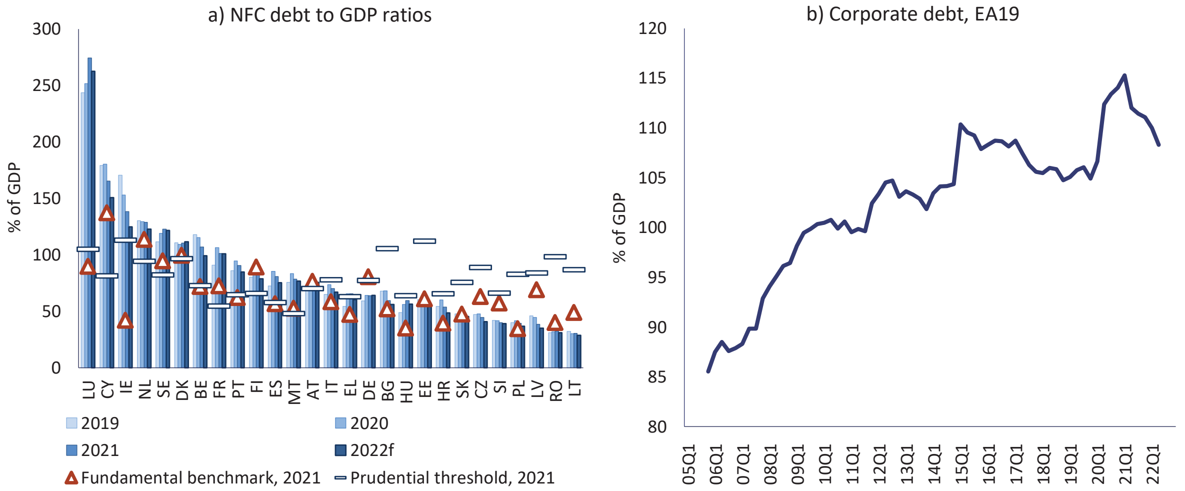
[23] European Central Bank (2022), Financial Stability Review – May 2022. Data for 2021. https://www.ecb.europa.eu/pub/pdf/fsr/ecb.fsr202205~f207f46ea0.en.pdf

[24] See L. Archanskaia, P. Nikolov and W. Simons (2022), Estimates of corporate cleansing during COVID-19 – using firm-level data to measure its productivity impact, Quarterly Report on the Euro Area (QREA), Vol. 21, No. 2 (2022).

share of non-performing loans (Graph 2.3.3 f). While the corporate non-performing loans ratio continued to decrease in most Member States still in the first half of 2022, in some they started to increase (Graph 2.3.3 e). Also, business bankruptcies started to rise in some Member States in the first half of 2022. In addition, while credit continues to increase strongly, credit standards are tightening substantially and are now at their highest levels since 2013 (Graphs 2.3.3 c and d). While liquidity buffers and net savings have increased in recent years, the difficult macroeconomic context, combined with structural transformations and supply chain disruptions, could lead to deteriorating balance sheets, squeezing profit margins and affecting debt servicing and corporate savings and investments (see Box 2.3.1).

The energy crisis will affect some industries particularly strongly, through price increases and supply disruptions, and may have a lasting effect resulting in structural transformations. Energy-intensive industries are particularly exposed and may face pressure on their balance sheets. Structural transformations are being accelerated by the energy crisis. While it is expected that energy prices and supplies will normalise, there may be a permanent structural change, that can have widespread effects on the productive capacity and potential growth of more affected countries depending on their energy intensity and specialisation of production. The acute phase of the energy crisis may result in a closure of firms and/or a shift of demand to production from other – less affected – locations, resulting in a permanent off-shoring. The normalisation of prices, and wages, may be to a higher level, which could compound the costs associated with the energy transition, and overall may lead to a loss of competitiveness, particularly in some energy-intensive industries and with a differential impact across countries.

Graph 2.3.1: **Non-financial corporations' debt**



Countries are presented in decreasing order of the NFCs debt-to-GDP ratio in 2021.
Source: Eurostat sectoral financial balance sheet accounts – loans (F4) plus debt securities (F3), Ameco and Commission services estimates.

Policy interventions play an important role in protecting national economies from corporate stress, but a lack of coordination could raise concerns from a euro area and an internal market perspective. National policy interventions distribute the burden of the energy crisis between the corporate, household and public sectors more fairly. These will be particularly important in protecting exposed industries and avoid reductions in activity, closures, offshoring and loans defaults. Without such measures, corporate stress could be propagated throughout national economies. While there is no evidence so far, financial conditions and available fiscal space might eventually play a role in the possible scale and scope of national interventions and different approaches between countries may amplify the divergence of corporate liquidity or solvency risks, in particular in case the crisis would deepen or become protracted. This in turn would have an impact on prices, as differences in corporate investment and price setting behaviour could lead to divergences in demand growth and monetary policy transmission, given the existing and the emerging inflation and competitiveness differentials in the euro area. Further integration efforts can help to overcome this combination of challenges as well as reduce corporate vulnerabilities and divergence in growth and productivity. On the national side, appropriate insolvency regimes are important to minimise the long-term economic impact of any corporate insolvencies.

At country level, the following developments are worth highlighting:

- Non-financial corporate debt is very high, beyond 100% of GDP, and above fundamental and prudential benchmarks in Sweden and Denmark, and there are additional signs of vulnerabilities. In Sweden, the corporate debt-to-GDP ratio is still above its pre-COVID-19 crisis peak and increasing. In Denmark, corporate deposits declined from an already low level.

- Belgium, Cyprus, Ireland, Luxembourg, and the Netherlands also have very high non-financial corporate debt-to-GDP ratios beyond 100% and above fundamental and prudential benchmarks. However, that is also due to a sizeable share of foreign direct investment loans and cross-border intracompany borrowing, which may partly limit vulnerabilities.

- High non-financial corporate debt-to-GDP ratios, above fundamental and prudential benchmarks, in France, Greece, Malta, and Portugal, are on a declining path. In France and Malta, the high level of debt is partly mitigated by sizeable liquidity buffers. In Austria, the corporate debt to GDP ratio is above the prudential threshold and credit growth has been strong. The COVID19 crisis disproportionately affected a number of industries, leaving corporate sectors vulnerable in countries such as Greece and Italy.

- The corporate debt-to-GDP ratio in Spain is above fundamental and prudential benchmarks. In Bulgaria, the corporate debt-to-GDP ratio is moderate, although beyond the fundamental benchmark and higher than in regional peers.

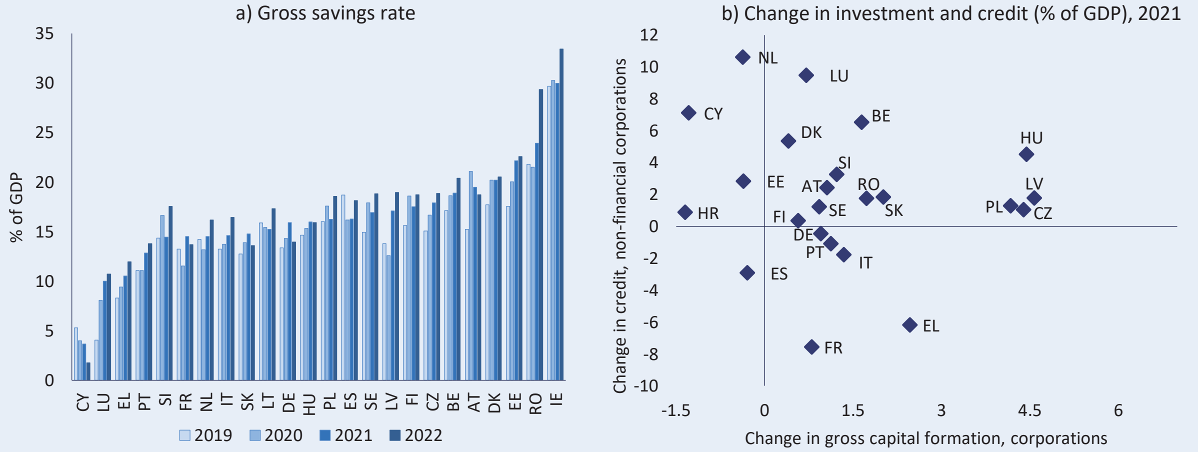
Box 2.3.1: Corporate savings and investment developments

Corporate savings and investment developments can provide useful insights about corporate soundness and vulnerabilities associated to corporate debt stocks. An increase in corporate debt to finance investment is economically different to increases to cover unexpected costs, as additional borrowing to finance investment tends to increase productivity and production capacity and thus corporate soundness. At the same time, corporate vulnerabilities associated to high debt can be partly mitigated by increasing savings or deposits. This Box looks in more detail at the role of corporate savings and investment developments in mitigating corporate vulnerabilities in the context of the recovery from the COVID-19 pandemic and the recent economic slowdown.

Corporate savings increased in many Member States since the COVID-19 pandemic (Graph 2.3.2 a). Many corporates built up precautionary savings at the onset of the COVID-19 pandemic to improve their liquidity position, partly facilitated by support measures. Corporate gross savings started to decline in the fourth quarter of 2021 and continued declining sharply in the first half of 2022 from one year earlier, but in most countries remain above the pre-COVID-19 level. However, corporate savings, in percentage of GDP, are forecast to increase in most Member States in 2022 overall (Graph 2.3.2 a). Deposits started to decline in the first half of 2022 in the majority of Member States, as many corporates require substantial liquidity to address the sharp rise in input costs, but remained above their 2019 level. The non-financial corporate profit share in the EU started to moderate in the first half of 2022, but remains above its level pre-COVID-19 level.

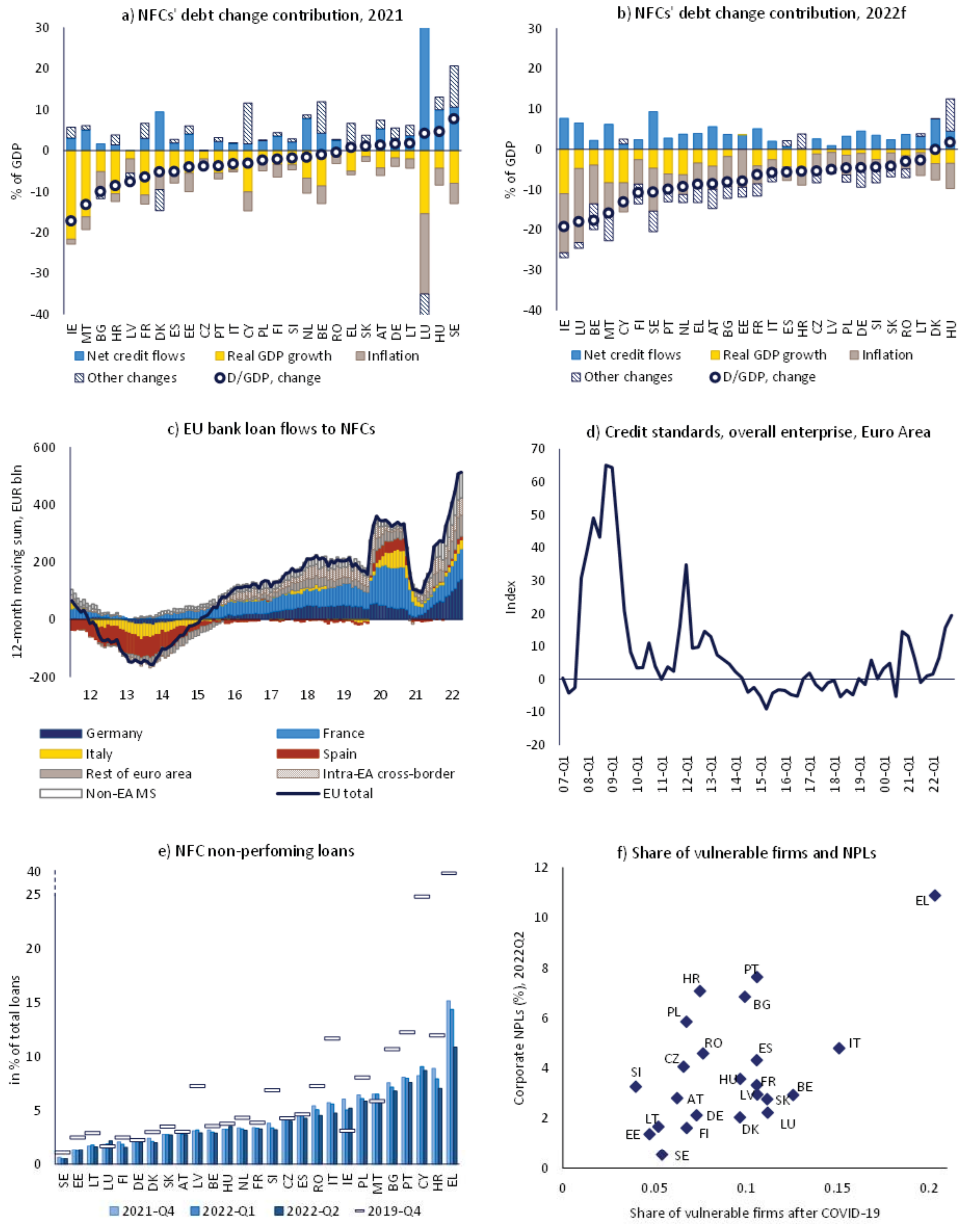
Investment of corporates declined sharply with the COVID-19 crisis, but recovered in most countries in 2021. The recovery was strong, with corporate gross capital formation to GDP ratios in 2021 having exceeded their 2019 levels in 16 of the 24 Member States for which data are available, except Austria, Cyprus, Germany, Ireland, Luxembourg, the Netherlands, Slovakia, and Spain. In 2021, investment and net credit flows, both in percentage of GDP, increased in many Member States (Graph 2.3.2 b). This suggests that in some countries additional borrowing was used to finance investment. The need to finance fixed investments has become a considerably less important factor for loan demand in the course of 2022, according to the ECB's Bank Lending Survey. In real terms, investment for the EU as a whole continued to slightly increase in the first half of 2022, but at a much lower pace than previously and it did not yet return to its 2019 level.

Graph 2.3.2: **Investment, credit and savings of non-financial corporates**



(1) Ireland was removed from the right panel because investment was very volatile in 2021.
Source: Eurostat and Ameco

Graph 2.3.3: **Non-financial corporations: selected graphs**



Net credit flows (debt transactions) correspond to transaction of loans (F4) and debt securities (F3) from the Eurostat sectoral financial transactions accounts.

The average credit standards for enterprise, loan supply, weighted net percentage (tightened minus eased or reverse) based on the share of each country in the total loan outstanding amounts of the area aggregate. For the definition of vulnerable firms, see footnote 24.

Source: Ameco, Eurostat, ECB.

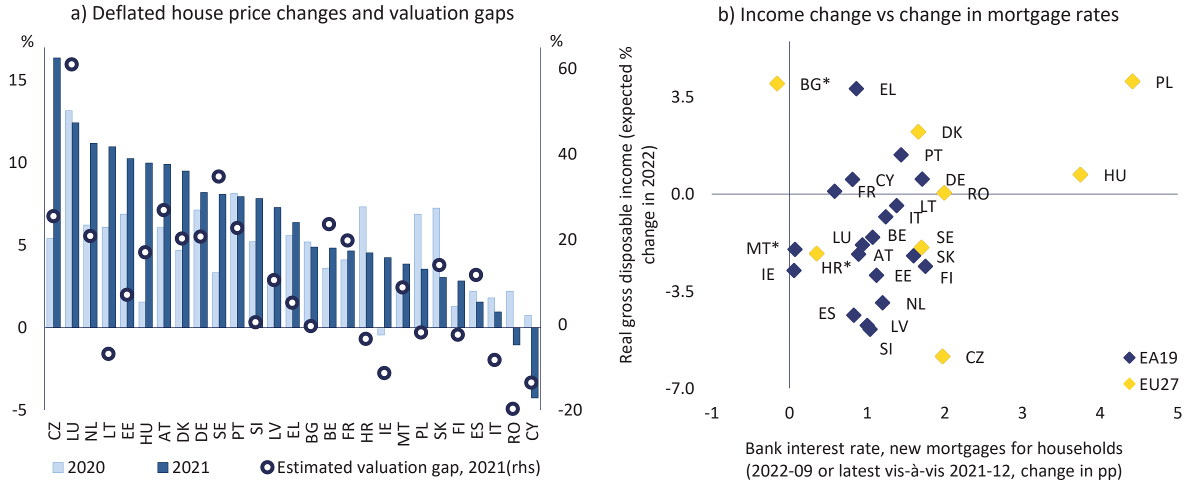
2.4. HOUSING MARKETS AND HOUSEHOLD DEBT

House prices accelerated further in 2021 and are estimated to be overvalued by more than 10% in half of the EU countries. Since the COVID-19 pandemic outbreak, house price growth accelerated and prices were estimated to be overvalued by more than 10% in several Member States, and in many by over 20%, at the end of 2021 (Graph 2.4.1 a). [25] The acceleration of house prices is more evident in nominal terms but even deflated house prices, in a period of high inflation, accelerated in most countries. Supply constraints are still present in the housing market and together with high construction costs, contribute to higher house prices alongside strong demand.

In the first half of 2022, house prices displayed record growth rates while in the short to medium term moderation is expected. Low mortgage rates and income growth were associated with the increase in both credit and house prices over the last decade, although since the pandemic outbreak the acceleration is too sizeable to be explained by these factors. The increase of interest rates is expected to foster some moderation in house prices and recent 2022 in-year data show that this is underway in many, but not all, EU countries. Mortgage rates remain considerably lower than inflation, yielding record negative real interest rates and an incentive to further real estate purchases, but the expected increase in the cost of new mortgages should moderate housing demand and house prices going forward. Likewise, the fall in purchasing power caused by higher inflation as well as the uncertainty about the strength of the economy and household incomes should also temper demand for housing and in that way also contribute to dampen house price growth. In some countries mortgage rates have already increased significantly while real incomes are declining or stagnant in most EU countries (Graph 2.4.1 b).

[25] House price valuation gaps are computed with respect to benchmarks to capture country-specific effects. Synthetic valuations gaps are based on the gap obtained from different benchmarks: (i) price-to-income deviation with respect to its long-term average; (ii) price-to-rent deviation from its long-term average; (iii) deviation from regressions-based benchmarks taking into account demand and supply economic fundamentals (see N. Philiponnet and A. Turrini (2017), "Assessing House Price Developments in the EU", European Commission Discussion Paper 048, May 2017).

Graph 2.4.1: **House price developments and fundamentals**



(1) On panel a, countries are presented in decreasing order of deflated house price growth in 2021. For details and methodology see footnote 25.
(2) On panel b, bank interest rates on new mortgages for households are the average of total loans calculated by weighting the volumes with a moving average (defined for cost of borrowing purposes) for euro area countries (blue diamonds) and the monthly average without weighting the volumes for non-euro area countries (yellow diamonds). (*) Real gross disposable income is proxied by real compensation of employees. Latest interest rate available for Hungary is 2022-08.
Source: Eurostat, Ameco, ECB, European Commission autumn 2022 economic forecast, and Commission services estimates for estimated house price valuation gaps in 2021.

After the increase in 2020, household debt-to-GDP ratios fell in 2021 in most EU countries, although net credit flows picked up. Household debt-to-GDP ratios decreased in 2021 relative to 2020 due to the increase in GDP but remained higher than in 2019 in several countries and are not expected to fundamentally change in 2022 (Graph 2.4.3 a and b). Net credit flows to households, however, were positive in almost all EU countries, increasing even where household debt is already high. Household debt appears high in close to half of the EU when compared with benchmarks that account for country-specific economic fundamentals and with thresholds that account for prudential concerns. [26]

Bank credit developments in 2022 have been uneven across the EU, with credit growth decelerating especially in the non-euro area. Outside the euro area, mortgage interest rates increased significantly together with money market rates. This is particularly the case among countries facing a depreciation in their nominal exchange rate. In the euro area, developments are more uneven, but the cost of credit has also increased recently (Graph 2.4.1 b). Net bank credit flows decelerated only in a very limited number of euro area countries, while in non-euro area countries the deceleration is more visible (Graph 2.4.2 b).

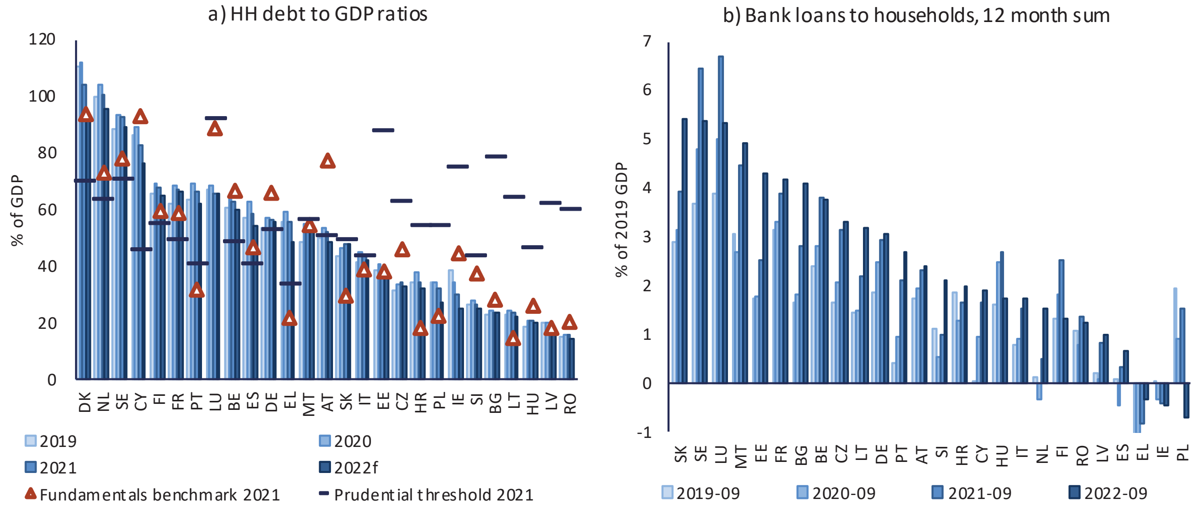
Going forward, there are risks associated with households' abilities to meet mortgage payments. In most Member States, the share of loans with interest rates fixed for a period of up to five years is high, above 80% in eight EU countries and between 40% and 80% in another nine, making households in those countries more vulnerable to interest rate increases. Household incomes will be under pressure, with rising energy bills reducing available income for other expenditures. These two effects create a risk of balance sheet stress despite very low and even negative real interest rates. A deeper or longer lasting economic downturn with a negative impact on employment may trigger further loan repayment difficulties and forbearance.

[26] See footnote 22.

Risks to the economy from a substantial downward adjustment of house prices are somewhat mitigated by lower weights of the sector in the economy and by macroprudential measures, but cannot be discounted. In 2021, construction activity was higher in countries where house prices are overvalued the most but still below peak levels. This may reduce the impact of any downward adjustment on prices, as value added and employment would be less affected than before the global financial crisis, although household consumption growth could be reduced by wealth effects. In addition, any reduction in house prices is likely to be more muted, as the structural factors that have led to housing supply being constrained would remain in place. The macroprudential measures in place have also reduced the risks for the overall financial stability related to the housing market (see Box 2.4.1). Despite these mitigating factors, risks remain that could spill over into other sectors and create negative feedback loops exposing systemic weaknesses.

Different housing market country dynamics compounded with the common monetary policy could lead to divergent trends within the euro area. Even if the risk of large house price corrections appears muted, there are challenges related with high levels of mortgage indebtedness, particularly when interest rates have low fixation period, mortgages have long maturities and house valuations are above fundamentals. The situation varies widely across the euro area members, which may raise some challenges against the backdrop of a common monetary policy. The current tightening of the monetary and financing conditions in the euro area may be insufficient to moderate the housing price in countries where house supply is very constrained. On the contrary, in countries with more flexible supply, tightening of financial conditions can drive house prices down with adverse impact in the construction sector. This may raise the stakes for country-specific policies, especially those related to housing taxation and household debt and repayments, as well as macroprudential measures and policies on the supply side.

Graph 2.4.2: **Household debt and bank loans to households**



(1) On panel a, countries are presented in decreasing order of the household debt-to-GDP ratio in 2021. Debt comprises loans (F4) and debt securities (F3). For details and methodology reference see footnote 25.
(2) On panel b, countries are presented in decreasing order of the bank loans ratio to GDP. Loans are adjusted loans (net flows) as reported by the ECB. No data available for Denmark.
Source: Eurostat, Ameco, ECB, European Commission autumn 2022 economic forecast, and Commission services estimates

Countries with growth of deflated house price index above 6% in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE

At country level, the following housing market and household debt developments are worth highlighting:

- In 2021, deflated house prices growth surpassed the 6% scoreboard threshold in 14 Member States: Austria, Czechia, Denmark, Estonia, Germany, Greece, Hungary, Latvia, Lithuania, Luxembourg, the Netherlands, Portugal, Slovenia, and Sweden. In the second quarter of 2022, house prices were still accelerating and growing more than 20% in nominal terms from one year earlier in Czechia, Estonia, Lithuania, and Hungary; in other 12 Member States, Austria, Bulgaria, Croatia, Germany, Ireland, Latvia, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, and Slovenia, price growth was between 10% and 20%.

- Member States with house prices are estimated to be overvalued by more than 20% include Austria, Belgium, Czechia, Denmark, Germany, Luxembourg, the Netherlands, Portugal, and Sweden. In France and Sweden, household debt is above prudential levels, credit to households is high and household debt is estimated to be higher at the end of 2022 than in 2019. While in the case of France, most mortgages are at fixed rates, in Sweden, over two thirds of mortgages have variable interest rates with a fixed period only up to one year, which exposes households more to the risks of increased mortgage payments due to higher interest rates. In Luxembourg, house prices overvaluation is the highest in the EU and household debt is very high in relation to household income; furthermore, credit is expanding fast. In Austria, Czechia, and Germany, household debt is below or in line with prudential levels but credit flows to households are elevated. Austria and Germany recently received recommendations from the ESRB on its residential real estate market. In Belgium household debt is above prudential levels, and in Portugal is above both prudential and fundamental levels. Also in Portugal, two thirds of mortgages have interest rates fixed for only up to one year, with the remaining mortgage mostly having rates fixed for a period between one and five years.

- In Estonia, France, Greece, Hungary, Latvia, Malta, Slovakia, and Spain, house prices were also overvalued in 2021 and increasing fast in the first half of 2022. In these countries, except Estonia and Latvia, also household debt is above the prudential threshold or increasing and approaching the benchmarks. In Slovakia, household debt has been increasing over time, it is higher than the fundamental benchmark and is forecast to cross the prudential threshold this year.

- In Bulgaria, Croatia, Ireland, Lithuania, Poland, and Slovenia nominal house prices are also increasing at a fast pace, above 10% from one year earlier in the first half of 2022.

- In Cyprus and Finland, house prices do not seem overvalued but there are issues relating to household debt. In Cyprus, household debt is decreasing and below the fundamental benchmark but estimated to be way above the prudential threshold. In Finland, household debt is also above fundamental and prudential levels. In both countries, more than 90% of mortgages have variable interest rates or are fixed for only up to one year.

Box 2.4.1: Assessment of residential real estate vulnerabilities by the ESRB

The European Systemic Risk Board (ESRB) has assessed systematically medium-term residential real estate (RRE) vulnerabilities in the European Economic Area (EEA) countries since 2016 ([27]). The ESRB has been active in assessing RRE vulnerabilities across the EEA and, after issuing a first set of warnings in 2016, it then issued a set of country-specific recommendations in 2019, along with further warnings on medium-term vulnerabilities in the RRE sector. The ESRB can issue warnings if it sees the need to flag vulnerabilities and trends that have the potential to disrupt financial stability, while recommendations are issued not only to flag financial stability risks but also to point to necessary remedial actions. The last assessment was published in February 2022.

The February 2022 ESRB assessment concludes that RRE risks due to rapid house price growth and increasing household indebtedness have continued to increase in several countries. The key vulnerabilities highlighted by the ESRB assessment are of a medium-term nature and, depending on the country, relate to rapid house price growth and possible overvaluation of RRE (as the gap between house price growth and household disposable income widens), the level and dynamics of household indebtedness, the growth of housing credit and signs of a loosening of lending standards. The specific vulnerabilities vary from country to country, and the details for the more concerning cases can be found in the individual warnings and recommendations. Beyond macroprudential policy considerations, in a number of countries, some underlying vulnerabilities would be mitigated more efficiently with the help of reforms of housing and taxation policies.

Table 2.4.1:

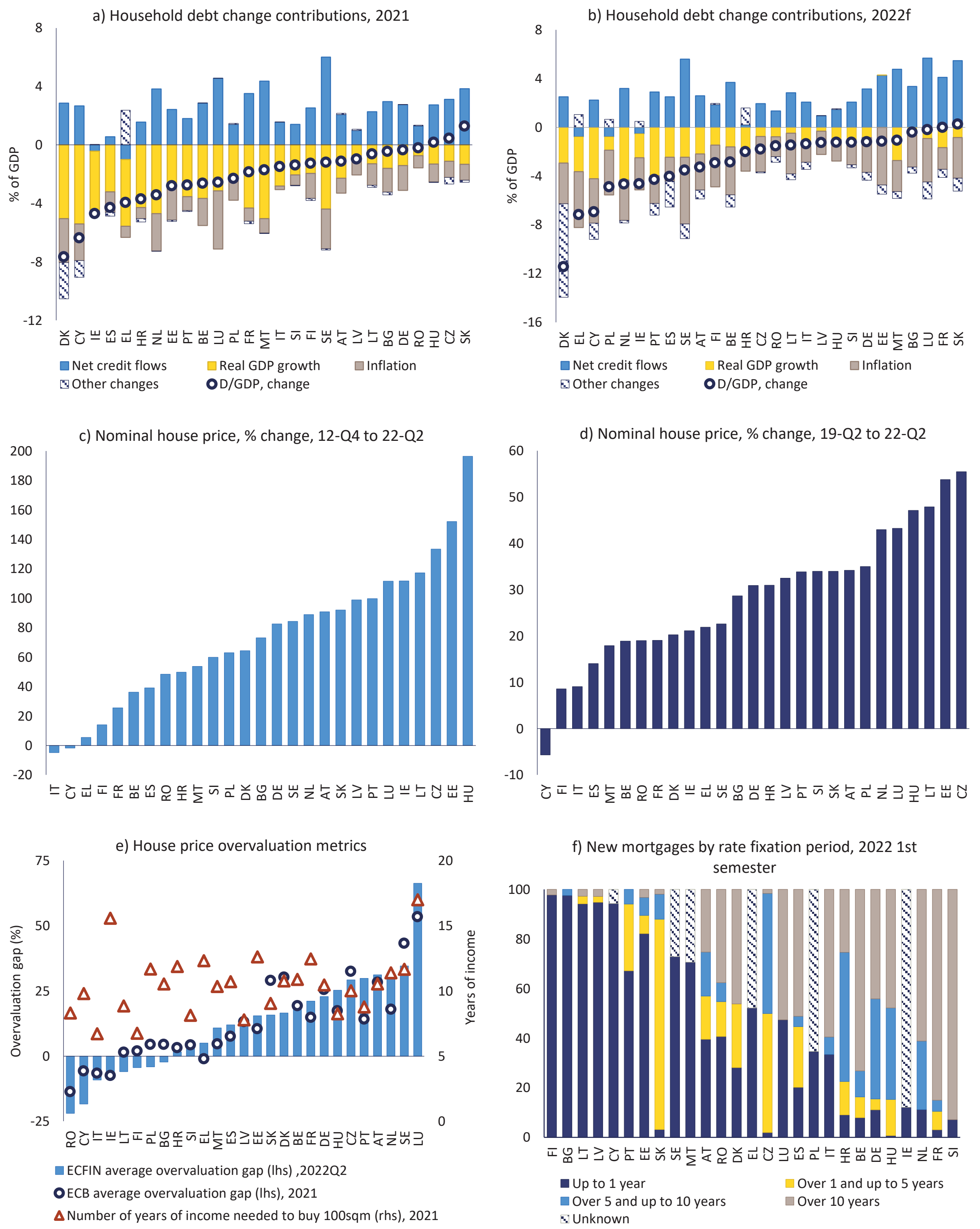
		LU	SE	NL	DK	AT	CZ	DE	PT	BE	SK	MT	EE	HU	SI	HR	BG	LT	FR	PL	FI	IE	LV	ES	EL	IT	CY	RO
ESRB risk assessment 2022	Stock risks	H	H	H	H	M	M	M	M	M	M	M	M	L	L	L	L	L	M	M	M	M						
	Flow risks	H	H	H	H	H	H	H	H	H	H	H	H	H	H	H	H	H	M	M	M	M						
	Overall risk	H	H	H	H	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	NA	NA	NA	NA	NA	NA
Policy appropriate and sufficient, 2022		**No**	**No**	**No**	**No**	**No**	Yes	**No**	Yes	Yes	**No**	Yes	Yes	**No**	Yes	**No**	**No**	Yes	Yes	Yes	**No**	Yes						
Warning (W) or Recommendation (R) in	2016	W	W	W	W	W				W											W							
	2019	**R**	**R**	**R**	**R**		W	W		**R**									W		**R**							
	2022					**R**		**R**			W			W		W	W											

(1) NA - Not Assessed.
Source: ESRB

Following its assessment, the ESRB issued four country-specific warnings and two recommendations on medium-term RRE vulnerabilities to EU countries. Warnings were issued to four EU countries with newly identified vulnerabilities: Bulgaria, Croatia, Hungary, and Slovakia. Recommendations were issued to Austria and Germany, which had already received ESRB warnings in 2016 and 2019 respectively, and whose vulnerabilities have not been addressed sufficiently. RRE vulnerabilities have remained elevated in the countries that received ESRB recommendations in 2019. In Denmark, Finland, Luxembourg, the Netherlands and Sweden, vulnerabilities have persisted in spite of recent measures introduced to address them. In most of these cases, house prices have continued rising or have grown even faster than before, resulting in unchanged or increased house price overvaluation. The risks related to household indebtedness have also remained unchanged or increased in several countries. For the remaining EEA countries, either the ESRB has not identified a build-up of material vulnerabilities in the RRE sector, or such vulnerabilities have been identified but the current policy stance is assessed as sufficient to address them.

[27] ESRB (2016), "Vulnerabilities in the EU residential real estate sectors", November 2016, ESRB (2019), "Vulnerabilities in the residential real estate sectors of the EEA countries", September 2019 and ESRB (2022), "Vulnerabilities in the residential real estate sectors of the EEA countries", February 2022.

Graph 2.4.3: **Household debt and house prices: selected graphs**



a) Household debt change contributions, 2021

b) Household debt change contributions, 2022f

c) Nominal house price, % change, 12-Q4 to 22-Q2

d) Nominal house price, % change, 19-Q2 to 22-Q2

e) House price overvaluation metrics

f) New mortgages by rate fixation period, 2022 1st semester

Source: Ameco, Eurostat, ECB, Commission services

2.5. GOVERNMENT SECTOR

Government debt ratios decreased in most Member States in 2021 but remain well above pre-pandemic levels. In 2021, the debt-to-GDP ratio decreased in nearly all the EU countries, with the EU aggregate declining by some two percentage points. This decrease is the result of the recovery of nominal GDP after 2020 while favourable financing conditions continued. Conversely, fiscal deficits, while lower than in 2020, often remained sizeable, averaging 5.1% of GDP for the euro area and 4.6% of GDP for the EU as fiscal policies remained expansionary. In particular, fiscal deficits continued to reflect the impact of sizeable COVID-19 emergency temporary measures to support households and firms affected by the pandemic, which corresponded to around 3¼% of GDP for the EU aggregate.

The government-to-GDP ratio is expected to decrease further in most of the EU countries in 2022. In most Member States, government debt is forecast to fall in 2022 by 3½ percentage points on aggregate, but to still remain higher than its 2019 levels, in some cases by close to 15 percentage points. The improvement is a result of continued nominal economic growth, which is higher than the implicit cost of debt, alongside a further reduction of deficits despite sizeable support packages for households and firms related to high energy prices, following two years of substantial fiscal support provided in the context of the COVID-19 pandemic. The declines in the debt ratio have been more sizeable in the most indebted countries as economic growth has a stronger deleveraging effect when debt-to-GDP ratios are larger. In some countries with low or moderate government debt ratios, these are expected to grow further.

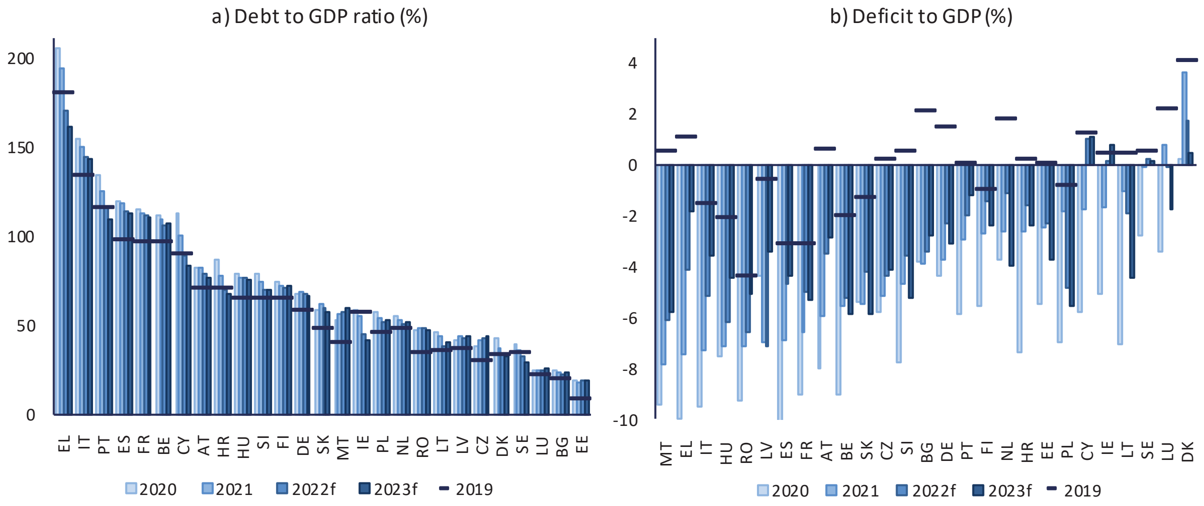
The outlook for 2023 points to milder declines or a stabilisation of government debt ratios in most EU countries. In 2023, the weakening of economic activity is forecast to bring smaller reductions of the debt ratio whereas government deficits are expected to edge up on aggregate, with some differentiation across countries. Government debt ratios are forecast to reach their pre-COVID-19 readings by 2023 only in a minority of Member States (Graph 2.5.1). In the coming months there may be additional targeted measures to support vulnerable households and firms, which would shift part of the cost of the energy crisis on the government sector and add to government debt. In addition, further tightening of financing conditions or exchange rate movements may have an adverse impact on the fiscal performance, especially in the non-euro area countries, where the share of debt denominated in foreign currency is often significant. Higher inflation could act to reduce the debt burden insofar as it increases nominal GDP, but higher risk premia and weaker economic activity may contribute to increasing the government debt ratios and, in turn, pose challenges not just to fiscal sustainability, but also to other parts of the economy (see Box 2.5.1).

Debt service costs may increase due to higher nominal interest rates. In real terms interest rates are currently forecast to remain negative in the euro area. Sovereign bond yields have been rising across the euro area in 2022, with spreads increasing somewhat as markets price in risk. Despite the tightening of monetary policy, real interest rates are still forecast to remain negative and euro area government bond yields remain among the lowest in the world. However, bond yields of Member States with large debts recorded somewhat stronger increases during the third quarter, but longer debt maturities help to cushion the impact. The possibility of a rise in interest rates and negative nominal GDP, which would be a situation that is more adverse than the current forecast, cannot be discounted. In this case, interest rates could exceed nominal GDP growth, raising pressure to improve fiscal positions in some high debt countries. The introduction of the

Transmission Protection Instrument by the ECB in July 2022 to ensure orderly monetary transmission across all euro area Member States provides some insurance against a strong deterioration of financing conditions, as long as its conditions relating to economic policy are met.

Non-euro area Member States face higher debt service costs due to widening sovereign bond yield spreads and exposure to debt denominated in foreign currencies. The global tightening of financing conditions has had a more pronounced impact outside the euro area. Sovereign bond yields are especially high in Hungary, Poland, and Romania. In addition, non-euro area countries have a significant share of government debt denominated in foreign currencies, especially Bulgaria [28] (74%), and Romania (52%), but also Hungary (22%), Poland (22%), and Sweden (17%).

Graph 2.5.1: **Government debt and deficit to GDP**



(1) Countries are presented in decreasing order of the debt-to-GDP and deficit-to-GDP ratios in 2021.
Source: Ameco and European Commission services

Countries with government debt-to-GDP ratio above 60% in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE

At country level, the following government sector developments are worth highlighting:

- At the end of 2021, the government debt-to-GDP ratios were above 60% in Austria, Croatia, Finland, Germany, Hungary, Slovenia, and Slovakia, and above 100% in Greece, Italy, Portugal, Spain, France, Belgium, and Cyprus. The debt-to-GDP ratios decreased in all those Member States in 2021, except Germany and Slovakia, and are forecast to continue decreasing in most of them in 2022 and 2023.

- Greece has been identified as displaying high fiscal sustainability risks in the short term (see Box 2.5.1). Its government debt-to-GDP ratio is the highest in the EU and well above 100% and the fiscal deficit remains sizeable but is expected to decline markedly. Gross financing needs are expected to decrease over the next years.

- Over the medium-term, nine Member States are assessed as facing high fiscal sustainability risks, namely Belgium, France, Greece, Italy, Portugal, Romania, Slovakia, Slovenia, and Spain.

[28] Bulgaria maintains a fixed exchange rate vis-à-vis the euro via a currency board arrangement and joined ERM II in July 2020.

Countries with the highest debt ratios are particularly vulnerable to changes in financing conditions. Under a scenario of a 1 pp. increase in the growth-interest differential, debt would raise by more than 10pp. of GDP by 2023 in Italy, Greece, Spain, and Portugal (see Box 2.5.1).

- Romania and Hungary are characterised by persistently high fiscal deficits and increasing bond yields, and debt denominated in foreign currencies is relevant for both countries, especially the former. In Hungary, the government debt is also above 60% of GDP and the government gross financing needs are high. In Romania, the government debt-to-GDP ratio is forecast to slightly decrease in light of expected better fiscal outturns.

Box 2.5.1: Change in financing conditions – an adverse scenario of 'r-g'

The Commission assesses the short, medium- and long-term sustainability risks of Member States. It finds that short-term vulnerabilities are present for Greece due to both fiscal and macro-financial variables. [29] Over the medium-term, nine Member States are assessed as facing high fiscal sustainability risk, namely Belgium, France, Greece, Italy, Portugal, Romania, Slovakia, Slovenia, and Spain. The risks are a result of:

- high or increasing debt ratios, notably linked to a weak fiscal position,
- increased uncertainty around the baseline projections,
- vulnerability to adverse macro-financial scenarios,
- the size of the required fiscal adjustment to bring the debt-to-GDP ratio to 60% in the medium term, i.e. S1 indicator.

Impact of an adverse 'r-g' scenario on projected debt level in 2032 (p.p)

country	Impact
IT	11.86
EL	10.92
FR	8.62
ES	8.42
BE	7.89
PT	7.48
HU	5.97
HR	5.61
AT	5.47
SI	5.20
FI	5.00
DE	4.95
PL	4.65
CY	4.45
NL	4.33
SK	4.23
MT	4.21
RO	4.00
CZ	3.62
LT	2.75
LV	2.72
BG	2.20
IE	1.98
DK	1.85
EE	1.84
LU	1.66
SE	1.38

Source: European Commission services

Beyond the debt analysis and risk classification there are other factors that may affect fiscal sustainability. [30] On the downside, contingent liabilities that are high for the EU as a whole but also with large cross-country differences may have a significant impact on public debt and deficit. This applies also to the contingent liabilities' risk coming from the banking sector. On the upside, fiscal sustainability risks are mitigated by lengthening debt maturity that has been observed in recent years or the impact of the RRF reforms and investment on GDP growth that is expected rather in the medium to long term.

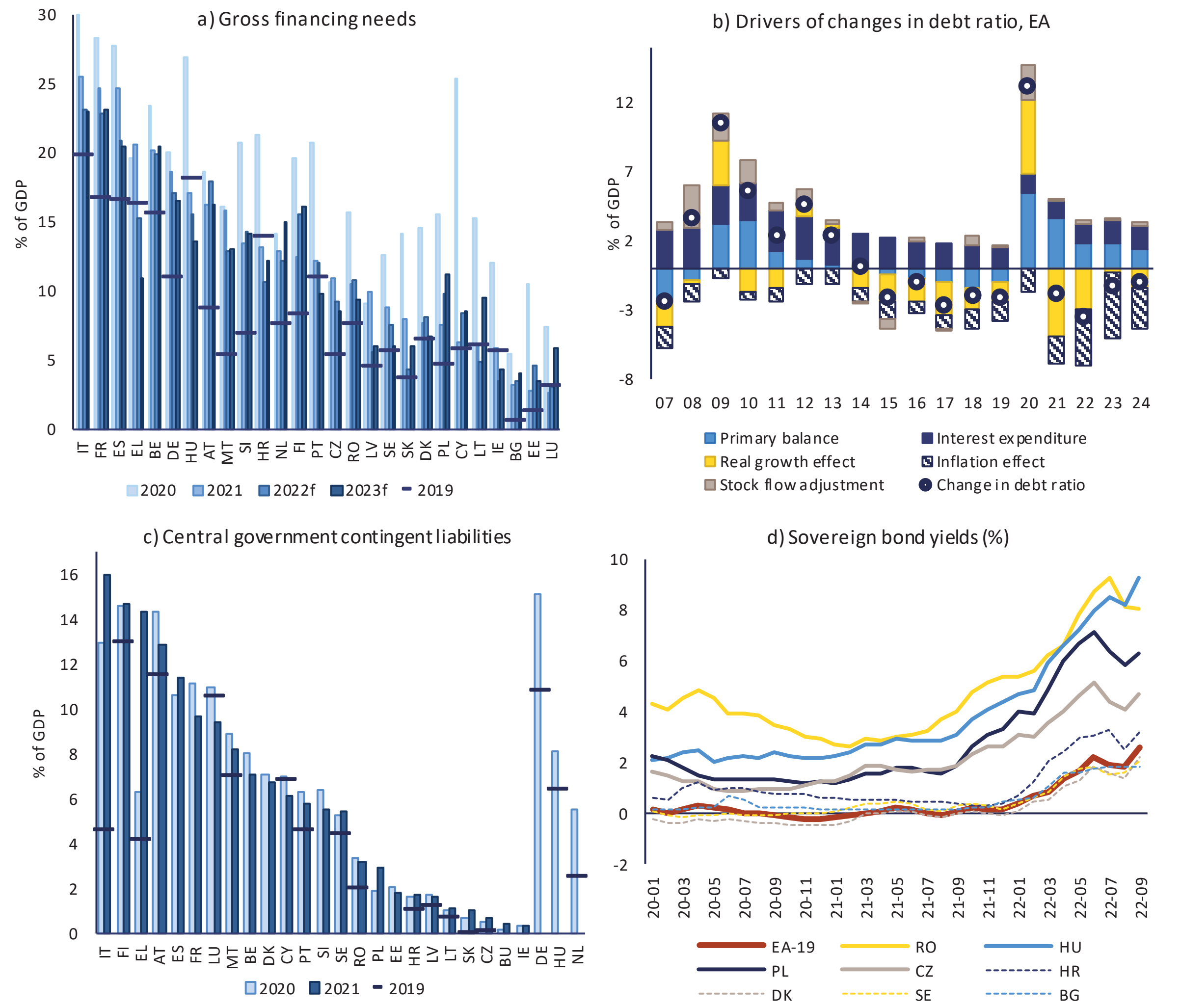
Uncertainty and changing economic environment may play a crucial role in fiscal sustainability. Financing conditions have been favourable over the past decade as the low interest rate surrounding resulted from ageing societies, lower productivity growth and monetary policy run by central banks. A negative 'r-g', where economic growth exceeds interest rates, mitigates fiscal challenges to some extent but does not eliminate them as the differential can be reversed as conditions change. This is precisely why the assessment of sustainability risks is of particular importance currently when r is increasing as g falls, due to the change in financing conditions and the weakening of the economic situation overall.

Weaker growth outcomes or higher interest rates over the next decade could lead to higher debt ratios in the absence of policy action. The baseline fiscal sustainability analysis has been carried out with the assumption of favourable financing conditions. In addition, an adverse scenario has been designed to capture an increase or even a reversal in 'r-g'. Under this scenario, in most EU countries the 'r-g' projection is expected to remain negative in 2032 but would be higher than assumed in the baseline scenario. As a result, the projected debt in the adverse scenario would be higher by 2032 compared to the baseline,.

[29] The fiscal sustainability risk classification is based on the Commission Spring Forecast 2022 (presented also in the Country section of this Alert Mechanism Report).

[30] European Commission (2022): Fiscal Sustainability Report, Institutional Paper 171.

Graph 2.5.2: **Government sector: selected graphs**



Source: European Commission services

2.6. FINANCIAL SECTOR

The EU banking sector showed resilience to the impact of the pandemic in 2021 but has remained challenged by structurally low profitability. The Common Equity Tier 1 (CET1) ratio remained high and stable in the last year (2021Q3 – 2022Q2) (Graph 2.6.1 a). The return on equity has recovered above pre-pandemic levels in amid higher operating income and lower provisions recorded over this period but profitability lingers as a structural challenge across the EU due to the overcapacity and low cost-efficiency. [31] The disposal of the legacy non-performing loans (NPLs) continued in 2021 and the first half of 2022, while there was no notable increase of new NPLs despite the gradual withdrawal of moratoria on loan repayments introduced after the COVID-19 pandemic outbreak (Graph 2.6.1 b). Credit provision to non-financial corporations continued despite gradual expiration of the government guarantees granted during the COVID-19 outbreak and, in some countries, macro-prudential tightening. Credit for household expanded steadily in 2021 against a backdrop of spiking housing prices across the EU (Graph 2.6.2 a). Credit conditions started to tighten in the second half of 2021 and lending rates increased alongside monetary tightening, especially in the non-euro area countries (Graphs 2.6.2 b and c).

Going forward, the worsening economic outlook is likely to have an adverse impact on asset quality and banking profitability. While the impact of the Russia's invasion of Ukraine on the EU financial sector has been limited so far due to low direct financial exposures, there are risks of the second-round effects. The worsening economic outlook and a delayed impact of the withdrawal of support measures may drive NPL ratios up, which for the median large EU bank stood at 1.8% at the end of the second quarter of 2022. [32] This is supported by high forbearance and share of loans categorised as underperforming (Stage 2 loans) (Graph 2.6.2 d), which stood at 9.5% in the euro area in the second quarter of 2022. [33] [34] This is well above the pre-pandemic levels and the inflow continues for sectors that have not fully recovered from the pandemic. [35] Capital ratios have slightly decreased at the beginning of 2022 amid increases of risk weighted assets but remained stable in the second quarter of 2022, with the aggregate CET1 ratio for large banks staying at 15%. [36] The return on equity stood at 7.9% in the second quarter of 2022 supported by net interest income. [37] Higher energy prices and the deterioration of the economic outlook constrains many borrowers and the expected increase in credit risks have been already reflected in the decline of financial sector valuations in 2022, though broadly in line with the overall market trend. Bank lending surveys of the euro area suggest that banks kept tightening their lending standards for both households and enterprises in 2022 and a notable tightening

[31] ECB Financial Stability Review, May 2022.

[32] EBA Key Risk Indicators.

[33] Under IFRS 9, applicable entities must now place financial instruments into three distinct stages, including "performing" (Stage 1), "underperforming" (Stage 2) and "non-performing" (Stage 3). Stage 2 refers to loans with significant increase of credit risk since initial recognition.

[34] ECB Supervisory Banking Data.

[35] The European Banking Authority (EBA) launched its annual 2022 EU-wide Transparency exercise in September 2022 and expects to release the information on banks' exposures and asset quality at the beginning of December, along with the EBA Risk Assessment Report.

[36] EBA Key Risk Indicators. EBA published in July 2022 its 2023 EU-wide stress test draft methodology, which is being discussed with the industry. The methodology covers all risk areas and builds on the one prepared for the 2021 EU wide stress test with some methodological improvements and larger sample of banks.

[37] EBA Risk Dashboard, Q2 2022 and ECB supervisory banking statistics, Q2 2022.

occurred in the third quarter of 2022. [38]. In September 2022 the General Board of the European Systemic Risk Board (ESRB) issued a warning on vulnerabilities in the financial system of the EU stressing that risks to the financial stability in the EU and the probability of tail-risk scenarios materialising have increased. The identified risks pertain to: (i) the deterioration of the macroeconomic outlook, (ii) risks to the financial stability stemming from a possible sharp asset price correction, and (iii) the implications of such developments for asset quality. [39]

Increasing interest rates represent both an opportunity and a challenge for the European financial sector, with an increase in risk. The persistent low interest rate environment challenged the EU financial sector in the previous decade and was one of the reasons behind its low profitability. While increased interest rates lift bank interest income, going forward they can also drive up their funding costs. Moreover, higher interest rates can have a negative impact on the valuations of banking assets and collateral, including real estate, and securities. Banks and institutional investors, notably insurance companies, could also be challenged by flat or inverted yield curves in an environment of looming recession risks. The increase in funding costs coupled with high inflation and low economic growth can be expected to put pressure on vulnerable borrowers. [40] Persisting or increased fragmentation of sovereign funding cost in the euro area may have an adverse impact on banking sectors with a strong domestic bias. While higher interest rates are a positive development for insurance companies with asset portfolios mostly invested in the low-risk assets, the investment and pension funds may suffer from valuation losses on their fixed return portfolio. Rising interest rates along with asset price reassessment also affect commercial real estate (CRE) that banks are increasingly exposed to. [41] However, CRE market complexity with the presence of non-banks and international subjects as well as significant data gaps complicate the risk assessment. [42]

[38] ECB Euro area Bank Lending Survey, Third quarter of 2022.

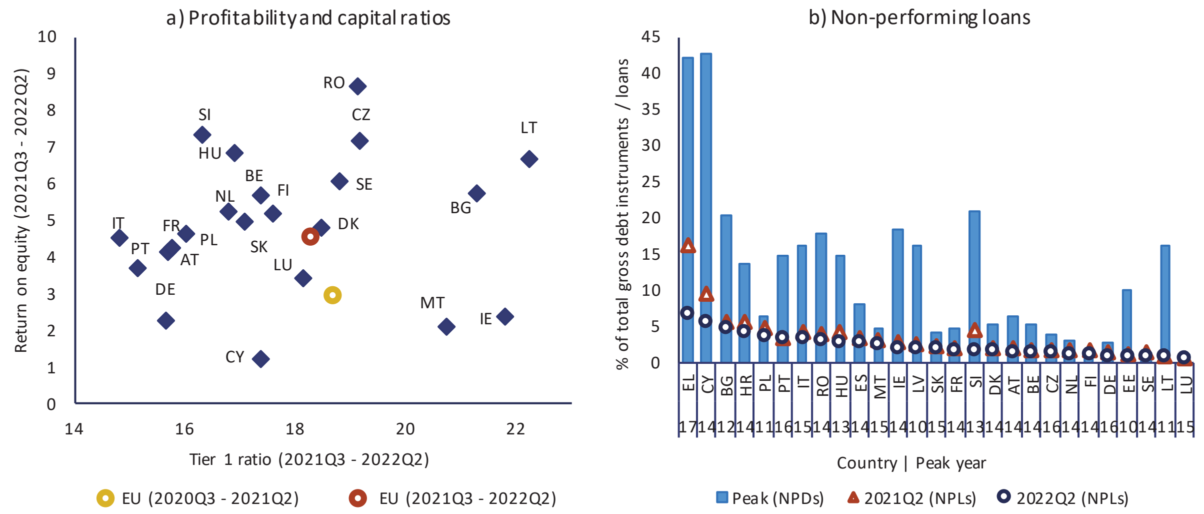
[39] ESRB/2022/7

[40] ECB Financial Stability Review, May 2022.

[41] CRE accounts for more than 9% of euro area bank risk exposure. In the euro area, of the 12.6% NFC loans growth between 2019Q4 and 2022Q2, almost half (5.6 pp) was dedicated to real estate and professional services.

[42] "Commercial real estate and financial stability – new insights from the euro area credit register", ECB Macroprudential Bulletin, Issue 19, October 2022.

Graph 2.6.1: **Banks: profitability, capital ratios and non-performing loans**



The Common Equity Tier 1 (CET1) ratio encompasses ordinary shares and retained earnings. Tier 1 ratio and return on equity are average of quarterly data over the last year (2021Q3 – 2022Q2). The average value for the EU is unweighted by the economy size. EL featuring deeply negative return on equity (-6%) is not included in the left panel. Data concerning the "peak" refer to the ratio of gross non-performing debt instruments (NPDs) over total gross debt instruments; NPL ratios are reported for 2021Q2 and 2022Q2; numbers below the country codes indicate the year when NPDs peaked

Source: ECB Consolidated Banking Data, European Commission services

Global financial stability risks have significantly increased over the last year. In 2022 the financial stability risks have increased across the globe amid high inflation, tightening of financial conditions and elevated market volatility. [43] The repricing of risk across the world can reverberate through financial markets and can lead to instability as well as drive up borrowing costs for sovereigns and private borrowers, sometimes even in idiosyncratic ways. This represents different challenges for different parts of financial sector and the interconnectedness of the global financial system makes it difficult to predict where vulnerabilities could materialise.

The financial system is exposed to new systemic risks, which may have a differentiated impact within both the EU and the euro area. The probability of some adverse systemic risks, in particular risks of market malfunctioning and liquidity drying up, have increased for the whole EU and can impact both banking and non-banking financial institutions. [44] A materialisation of these systemic risks may have a differentiated impact across the EU. While in the euro area divergent developments can be precipitated by heterogenous policy interventions by Member States, the non-euro area Member States are subject to additional risks related to liquidity drying up and the exchange rate market functioning. Operational risks are expected to remain high, which is linked to a higher risk of cyber-attacks amid increasing digitalisation. [45] Climate risks and an increasing exposure towards crypto assets represent a particular challenge for some non-banking financial institutions.

Countries with private sector credit flow, consolidated (% of GDP) above 14% in 2021 in blue																										
BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE

[43] IMF (2022): Global Financial Stability Report: Navigating the High-Inflation Environment, October 2022.

[44] ESRB Warning on vulnerabilities in the financial system of the EU (ESRB/2022/7), October 2022.

[45] EBA Risk Dashboard, Q2 2022.

Countries with total financial sector liabilities, non-consolidated (1-year % change) above 16.5% threshold in 2021 in blue																										
BE	BG	CZ	DK	DE	**EE**	**IE**	EL	ES	FR	HR	IT	CY	LV	**LT**	LU	HU	MT	NL	AT	PL	PT	RO	SI	**SK**	FI	SE

At country level, the following financial sector developments are worth highlighting:

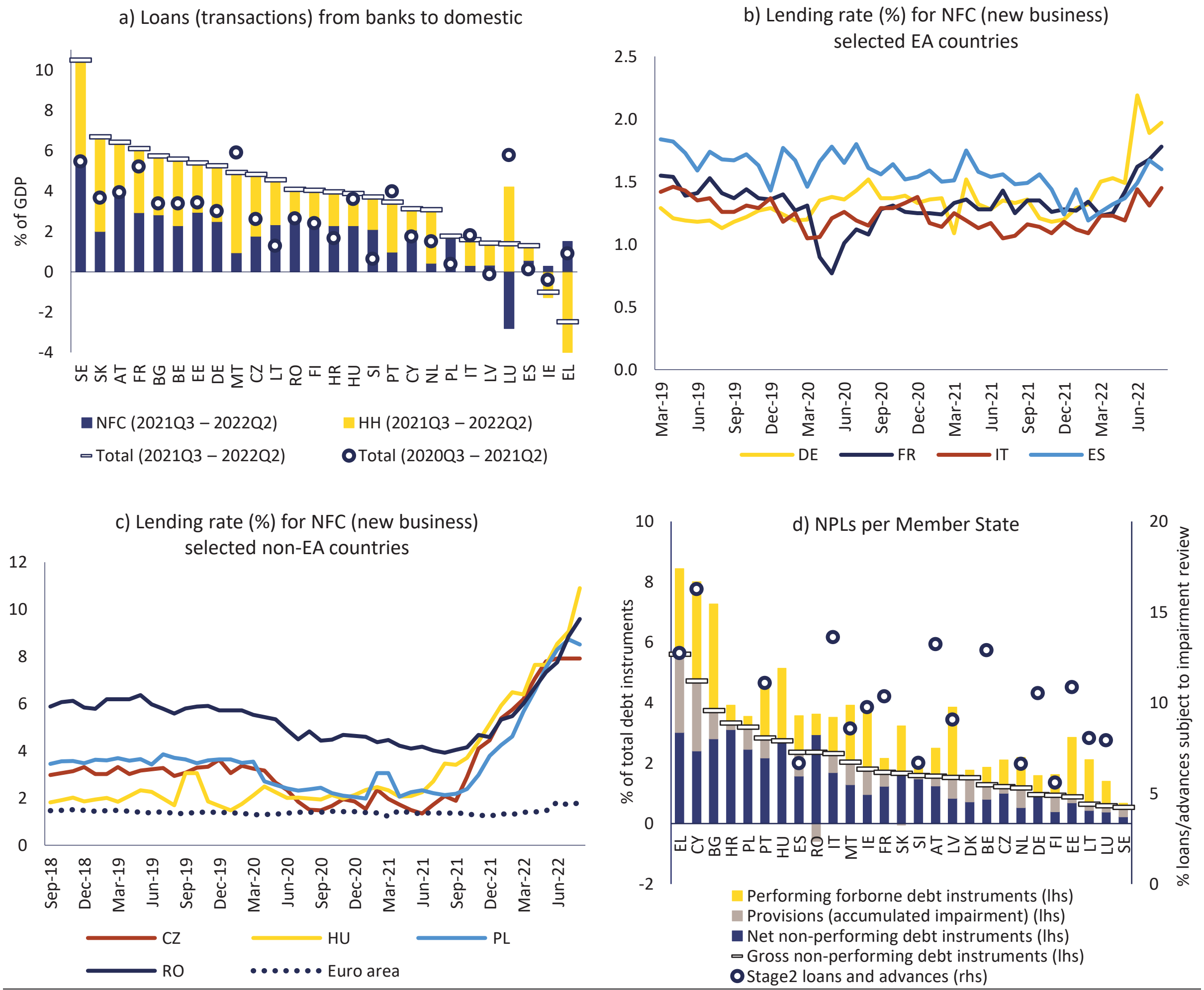
- A few countries, including Cyprus, Greece, and Italy, suffer from a combination of weak financial sector profitability, vulnerable corporate sector, and high government debt, which increases the risk of negative feedback loops. All three countries have recorded big improvements in their NPL ratios, which nonetheless remain above the EU average (only slightly for Italy), while Stage 2 loans and forborne loans are elevated. In Greece, the NPL ratio of banks has declined significantly due to sales of NPLs, which eliminated risk for banks but partially shifted it to some financial institutions outside the banking sector. Additional concerns arise from the negative profitability of banks and negative credit flows in 2021 while the capital ratio remained among the lowest in the EU. Cypriot banks have also recorded very low profitability in 2021, while the capital ratio has been close to the EU average. Italian banks record a below-average capital ratio and high exposure to government debt.

- The quality of banks' assets is an issue in Bulgaria, where NPLs remain elevated even if declining, in the context of elevated forborne debt. In the euro area, Stage 2 loans are particularly high in Austria. The ratio of forborne debt significantly increased in Hungary in 2021.

- The banking sectors in Germany, Malta, and Ireland continue to be marked by a very low profitability and the deteriorating economic outlook poses risks of further dampening it.

- The financial sector liabilities grew in 2021 above the MIP scoreboard threshold of 16.5% in Estonia, Ireland, Lithuania, and Slovakia. Private sector credit flow crossed the MIP scoreboard threshold of 14% in Luxembourg and Sweden.

Graph 2.6.2: **Financial sector: selected graphs**



Source: ECB

3. COUNTRY SECTION

3.1. BELGIUM

In Belgium, private sector and government debt-to-GDP ratios are high, although associated risks appear to be limited. Cost competitiveness concerns are emerging, with nominal unit labour costs set to increase strongly. Belgium's government debt remains large despite its recent reductions.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Belgium. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Belgium.

Real GDP growth is forecast at 2.8% in 2022 and 0.2% in 2023. Inflation is high. Year-on-year, it increased to 13.1% in October, with core inflation estimated at 4.8%. Prices are set to rise faster than wages.

The scoreboard reading for Belgium shows that in 2021 three indicators were beyond their indicative thresholds, namely private sector debt, government debt and the change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **Cost competitiveness** concerns are emerging. Nominal unit labour costs declined slightly in 2021, following a strong pandemic-related increase in 2020, but are forecast to increase markedly in 2022 and 2023, due to relatively strong nominal wage increases. This increase marks an acceleration relative to the immediate pre-pandemic period and is more marked than for Belgium's euro area peers. The HICP-based real effective exchange rate appreciated marginally in 2021. However, year-on-year, it depreciated by August 2022.

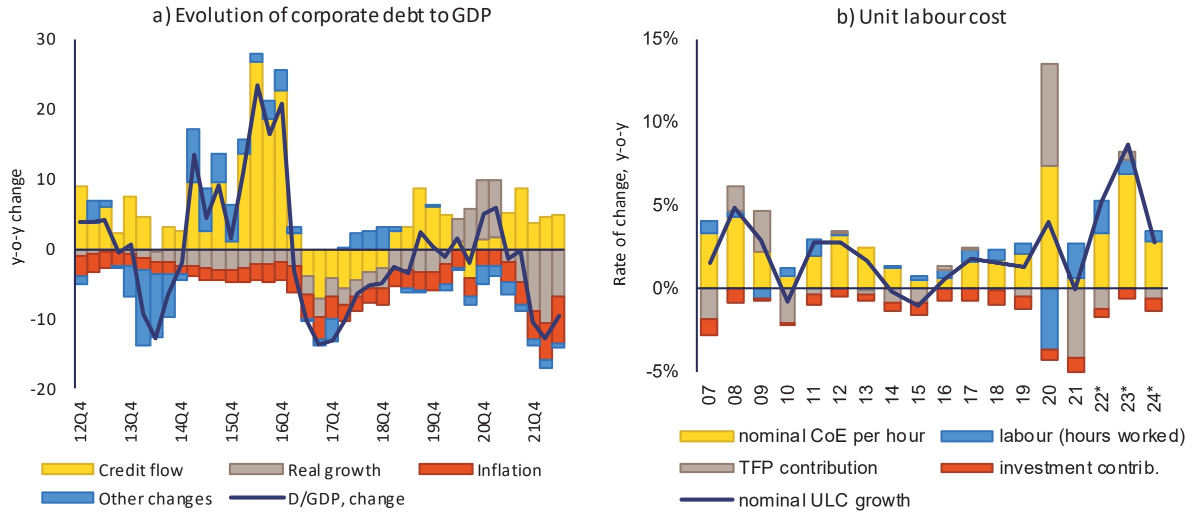
- The **non-financial corporation debt**-to-GDP ratio remains among the highest in the EU, but is on a declining path. It fell moderately, to 106.9% in 2021, as strong growth offset a resumption in credit flows. It continued decreasing in the first half of 2022, but there are risk factors associated to the macroeconomic environment. Debt is now 11 percentage points lower than in 2019, but it remains above both prudential and fundamental benchmarks. The high share of cross-border intra-group lending in corporate debt reduces risks.

- The **household debt-**to-GDP ratio is edging down but remains elevated. Following a strong increase in 2020, it declined in 2021, as net credit flows are expected to remain moderate. The household debt ratio slightly declined also in the first half of 2022, to close to its pre-pandemic level. Nominal output growth is still likely to support deleveraging in 2022 given the rate of inflation. Household debt is above the fundamental benchmark but below the prudential-based one. Household non-performing debt remains low; the high share of mortgages with long fixed rates and the projected real increase in compensation, reduces the risks associated with household debt in the short term.

- Concerns associated to **house price** developments are increasing. Nominal house price growth accelerated to 7.1% in 2021. Nominal year-on-year house price growth came in at 5.9% in the second quarter of 2022. House prices were estimated to be 23.4%overvalued in 2021.

- There are risks associated with Belgium's high **government debt**. Government debt decreased in 2021, to 109.2% of GDP, as strong growth delivered a marked denominator effect. It is still some 12 percentage points above its 2019 level. Government debt is projected to decline again in 2022, but is forecast to edge up over 2023 and 2024. The government deficit remains high, although it declined to 5.6% in 2021 and is forecast to narrow slightly in 2022 before edging up again. Fiscal sustainability risks are high, both in medium and long term due to long-term projections of debt developments and raising ageing related costs.

Graph 3.1.1: **Selected graphs: Belgium**



a) Evolution of corporate debt to GDP

b) Unit labour cost

Source: Ameco, Eurostat and European Commission services

Table 3.1.1: **Key economic and financial indicators, Belgium**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**0.0**	**0.1**	**0.5**	**-0.4**	**-1.7**
Current account balance, balance of payments (% of GDP)		0.8 (1)	2.2 (2)	0.1	1.1	0.4	-2.7	-2.9
Net international investment position (% of GDP)	**-35%**	**-81.5 (3)**	**11.1 (4)**	**40.9**	**47.0**	**59.9**	**51.7**	**45.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				36.1	34.6	37.3		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**4.8**	**7.1 p**	**5.4 p**	**9.6**	**15.0**
Nominal unit labour cost index (% y-o-y change)				1.4	4.1 p	-0.1 p	5.4	9.2
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.7**	**2.5**	**0.6**	**-1.9**	**-5.0**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.2	1.3	0.5	-3.6	-2.0
Export market share - % of world exports (5 year % change)	**-6%**			**-2.3**	**10.1**	**2.4**	**2.2**	**2.4**
Export market share - % of world exports (1 year % change)				-0.5	4.7	-0.5	0.1	-1.3
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**178.3**	**180.9 p**	**169.0 p**	**159.9**	**154.1**
Private sector credit flow, consolidated (% of GDP)	**14%**			**4.7**	**-3.3 p**	**3.8 p**	**5.9**	**7.6**
Household debt, consolidated (% of GDP)		48.8 (6)	66.8 (7)	60.4	65.6	62.1	60.7	60.3
Non-financial corporate debt, consolidated (% of GDP)		72.3 (6)	71.9 (7)	117.9	115.3	106.9	99.2	93.8
Housing market								
House price index, deflated (1 year % change)	**6%**			**2.5**	**3.3**	**4.5**	**-2.1**	**-1.4**
House price index, nominal (1 year % change)		23.4 (8)		4.0	4.2	7.1	3.5	1.1
Government debt								
General government gross debt (% of GDP)	**60%**			**97.6**	**112.0**	**109.2**	**106.2**	**107.9**
General government balance (% of GDP)				-1.9	-9.0	-5.6	-5.2	-5.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**5.8**	**8.8**	**7.5**	**6.1**	
Return on equity (%)				8.6	5.9	9.9		
Common Equity Tier 1 ratio		10.6 (9)		15.5	17.1	17.6		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				2.1e	2.1e	1.6p	1.4	
Labour market								
Unemployment rate (3 year average)	**10%**			**6.2 b**	**5.8**	**5.9**	**6.0**	**6.2**
Unemployment rate (year level)		6.4 (10)		5.5	5.8	6.3	5.8	6.4
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.4**	**0.4 b**	**1.1**	**1.9**	**2.3**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.6**	**-1.0**	**0.0**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-5.8**	**-3.5**	**2.2**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.2. BULGARIA

In Bulgaria, there are concerns related to cost competitiveness and corporate debt, although associated risks appear to be limited. Nominal unit labour costs have been increasing strongly in recent years and are expected to continue rising, in a context of very high core inflation and strong nominal wage increases. Non-financial corporate debt is decreasing, but remains comparatively high.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Bulgaria. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Bulgaria.

Real GDP growth is forecast at 3.1% in 2022 and 1.1% in 2023. Inflation is high, including in comparison to many of Bulgaria's euro area trading partners. Year-on-year, it increased to 15.6% in September, with core inflation estimated at 9.4%. Wages are set to rise rapidly, in line with prices.

The scoreboard reading for Bulgaria shows that in 2021 one indicator was beyond its indicative threshold, namely nominal unit labour cost growth. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns are not strongly pronounced. The current account recorded a small deficit of 0.5% of GDP in 2021, which is expected to deepen going forward. The negative net international investment position (NIIP), largely consisting of foreign direct investment, improved in 2021 and is expected to come close to balance by 2024. The NIIP net of non-defaultable instruments is positive and high.

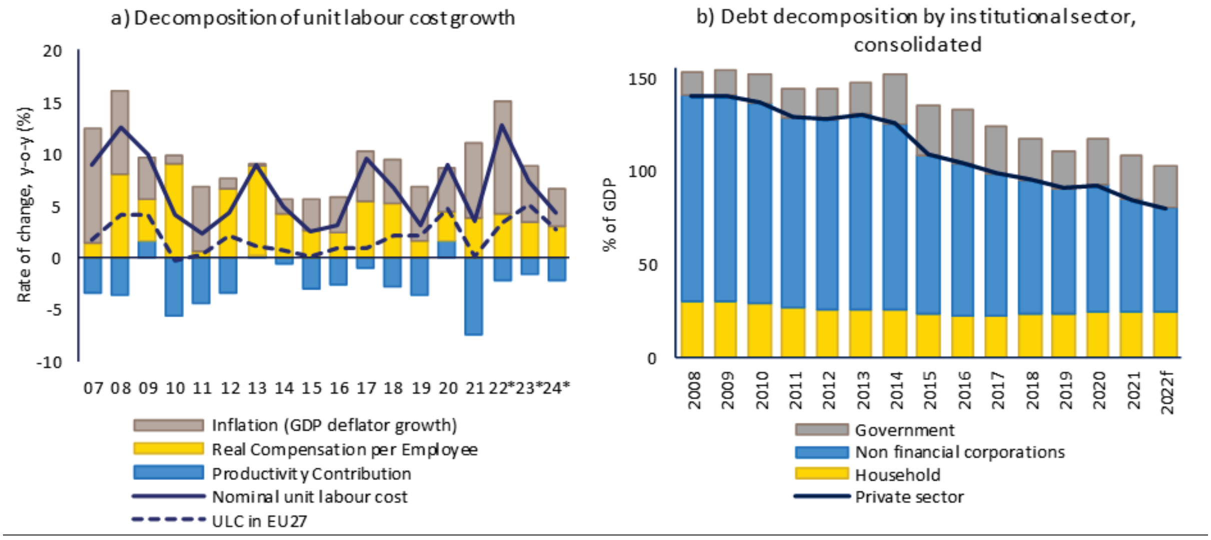
- **Cost competitiveness** pressures, which existed already before the COVID-19 pandemic, persist. Nominal unit labour costs have been increasing strongly in recent years and are expected to continue doing so, in context of very high core inflation, labour shortages and strong nominal wage increases. The HICP-based real effective exchange rate appreciated marginally in 2021 and appreciated further by August 2022.

- **Non-financial corporate debt** remains high compared to regional peers and is in excess of fundamentals, but is on a declining path. After some edging up in 2020 amid the COVID-19 crisis, the non-financial corporate debt-to-GDP ratio decreased again in 2021, to 59.5%. It decreased further in the first half of 2022, but there are risks associated to the macroeconomic environment. As for many other non-euro area Member States, the share of corporate loans denominated in foreign currency is high. Corporate indebtedness is flanked by high liquidity buffers, which mitigates risks, but non-performing loans are present. The household debt-to-GDP ratio is below prudential and fundamentals-based benchmarks, but the predominance of variable rates for housing loans exposes indebted households to the risks of higher interest rates.

- Concerns associated to **house price** developments are present. Nominal house price growth accelerated from 4.6% to 8.7% in 2021. Nominal year-on-year house price growth increased to 14.6% in the second quarter of 2022. Valuation gap metrics do not show signs of potential overvaluation, though.

- In the **banking sector**, concerns mostly related to the quality of its assets remain. The non-performing loans ratio declined further to 4.8% in 2021 but it remains well above the EU average. The ratio of underperforming (stage 2) loans and forborne loans, which increased after the pandemic, remains high as well. The private loan moratorium expired only in December 2021. While the tier-1 capital ratio is well above the EU average, the return on equity is low.

Graph 3.2.1: **Selected graphs: Bulgaria**



Source: Ameco, Eurostat and European Commission services

Table 3.2.1: **Key economic and financial indicators, Bulgaria**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**2.0**	**0.9**	**0.5**	**-0.6**	**-1.6**
Current account balance, balance of payments (% of GDP)		-0.8 (1)	-4.0 (2)	1.9	0.0	-0.5	-1.2	-3.0
Net international investment position (% of GDP)	**-35%**	**-37.2 (3)**	**-20.9 (4)**	**-30.2**	**-26.1**	**-18.4**	**-13.7**	**-13.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				40.2	47.9	49.8		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**20.4**	**19.9**	**16.4**	**26.9**	**25.5**
Nominal unit labour cost index (% y-o-y change)				3.1	9.0	3.6	12.3	7.8
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**4.6**	**7.1**	**3.8**	**4.6**	**-1.6**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.0	2.9	0.8	1.0	-3.5
Export market share - % of world exports (5 year % change)	**-6%**			**15.1**	**15.7**	**12.2**	**10.6**	**9.2**
Export market share - % of world exports (1 year % change)				2.7	-0.7	5.0	3.1	-1.1
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**90.7**	**92.5**	**84.4**	**80.0**	**75.2**
Private sector credit flow, consolidated (% of GDP)	**14%**			**5.6**	**3.6**	**4.4**	**7.1**	**6.0**
Household debt, consolidated (% of GDP)		78.6 (6)	28.5 (7)	23.0	24.4	24.9	24.1	25.5
Non-financial corporate debt, consolidated (% of GDP)		105.3 (6)	52.0 (7)	67.7	68.1	59.5	55.9	49.7
Housing market								
House price index, deflated (1 year % change)	**6%**			**3.9**	**5.2**	**2.5 p**	**0.9**	**0.5**
House price index, nominal (1 year % change)		-0.5 (8)		6.0	4.6	8.7	9.3	5.3
Government debt								
General government gross debt (% of GDP)	**60%**			**20.0**	**24.5**	**23.9**	**22.5**	**23.6**
General government balance (% of GDP)				2.1	-3.8	-3.9	-3.4	-2.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**5.2**	**10.6**	**9.5**	**2.6**	
Return on equity (%)				11.2	4.9	8.8		
Common Equity Tier 1 ratio		10.6 (9)		18.4	22.0	22.0		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				6.5e	5.9e	4.8p	4.3	
Labour market								
Unemployment rate (3 year average)	**10%**			**6.2**	**5.8**	**5.5**	**5.5**	**5.2**
Unemployment rate (year level)		4.9 (10)		5.2	6.1	5.3	5.2	5.2
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**4.5**	**0.9**	**0.6**	**0.6**	**1.7**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-2.1**	**-1.2**	**-1.0**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-8.3**	**1.3**	**-0.1**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.3. CZECHIA

In Czechia, concerns related to cost competitiveness and house price developments, which existed already before the COVID-19 pandemic, persist. Nominal unit labour costs are set to grow further, with an appreciation of the real effective exchange rate being underway and core inflation being very high compared to Czechia's euro area peers. Nominal house price growth has been amongst the highest in the EU, while house prices are estimated as being overvalued.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Czechia. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Czechia.

Real GDP growth is forecast at 2.5% in 2022 and 0.1% in 2023. Inflation is currently very high compared to Czechia's euro area trading partners, alongside restrictive monetary policy. Year-on-year, it increased to 17.8% in September, while the main monetary policy rate rose to 7%. Core inflation was estimated at 13.7% in September. Prices are set to rise faster than wages.

The scoreboard reading for Czechia shows that in 2021 two indicators were beyond their indicative thresholds, namely nominal unit labour cost growth and real house price growth. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns remain limited. After seven years of surpluses, the current account balance moved to a deficit of 0.8% of GDP in 2021, driven by a reduced goods surplus amid rising imports, and higher energy costs. The deficit is forecast to expand, with in-year data pointing to a further reduction in the goods balance. However, the mildly negative net international investment imposition (NIIP) further improved, but is forecast to slightly deteriorate going forward. The NIIP net of non-defaultable instruments is positive and large.

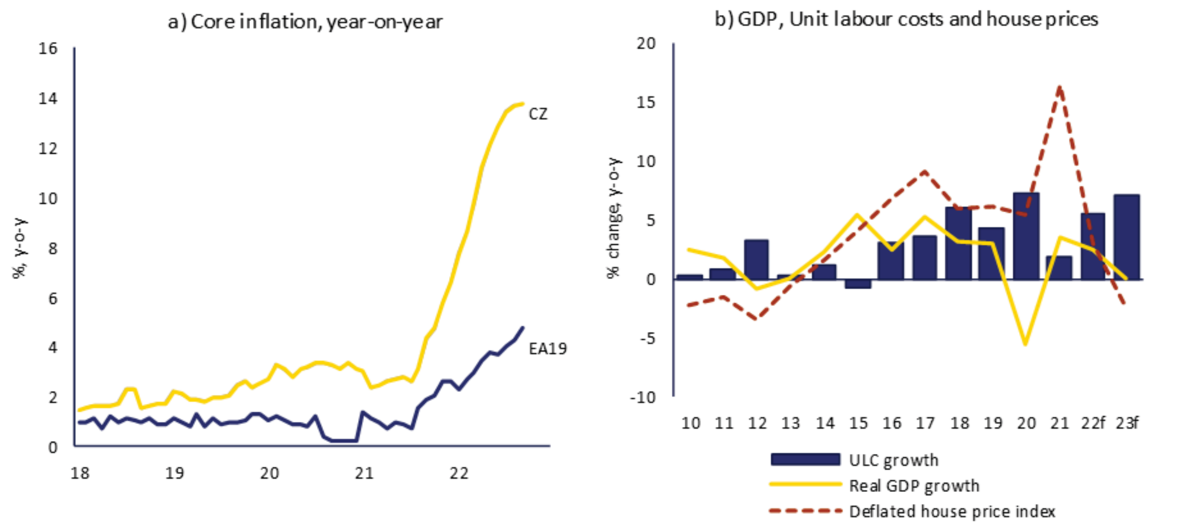
- **Cost competitiveness** concerns, which existed already before the COVID-19 pandemic, persist. Nominal unit labour costs have been increasing strongly in recent years, amidst a tight labour market. After a temporary moderation in 2021, unit labour cost growth is projected to be high again in 2022 and 2023. The HICP-based real effective exchange rate appreciated in 2021 and an appreciation is also underway in 2022. Both the inflation differential and the strengthening of the nominal effective exchange rate vis-à-vis the euro area contributed to this increase.

- Very high **house price** growth continues being of concern. Nominal house price growth accelerated from 8.5% in 2020 to 19.7% in 2021 and grew at one of the highest paces in the EU. Nominal year-on-year house price growth increased to 23.1% in the second quarter of 2022. House prices were estimated to be 25% overvalued in 2021. There was also significant increase of mortgage credit in 2021, including new loans in expectation of monetary tightening. This trend was reversed in 2020 after strict macroprudential measures were introduced and mortgage rates significantly increased. The household debt-to-GDP ratio remained broadly unchanged while remaining below benchmarks.

- **Government debt** related risks remain relatively low. The government debt-to-GDP ratio is still relatively low, although it increased to 42% in 2021 and is forecast to continue increasing slightly. The government deficit narrowed to 5.1% in 2021 and is forecast to continue improving going forward. Moreover, the long-term fiscal sustainability risks are high due to an ageing population.

- The **banking sector** is stable and resilient. The banks are well capitalised and their profitability is high. The non-performing loans ratio remains low. A significant increase of lending rates may drive down the relatively high lending volumes and contribute to some correction of house prices.

Graph 3.3.1: **Selected graphs: Czechia**



Source: Eurostat and European Commission services

Table 3.3.1: **Key economic and financial indicators, Czechia**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**0.8**	**0.9**	**0.5**	**-1.0**	**-3.5**
Current account balance, balance of payments (% of GDP)		0.8 (1)	-2.9 (2)	0.3	2.0	-0.8	-4.1	-5.4
Net international investment position (% of GDP)	**-35%**	**-64.0 (3)**	**6.5 (4)**	**-19.8**	**-16.3**	**-15.6**	**-17.1**	**-15.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				30.2	37.3	36.4		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**14.5**	**18.7**	**13.9**	**15.2**	**15.0**
Nominal unit labour cost index (% y-o-y change)				4.3	7.3	1.8	5.5	7.1
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**8.7**	**5.6**	**5.0**	**8.7**	**7.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.3	0.7	3.9	3.9	-0.3
Export market share - % of world exports (5 year % change)	**-6%**			**4.8**	**8.1**	**-1.1**	**-1.6**	**-2.4**
Export market share - % of world exports (1 year % change)				-1.0	2.4	-4.5	0.7	0.1
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**78.6**	**81.7**	**78.8**	**74.9**	**69.4**
Private sector credit flow, consolidated (% of GDP)	**14%**			**1.4**	**0.6**	**2.9**	**5.9**	**5.6**
Household debt, consolidated (% of GDP)		62.8 (6)	46.3 (7)	31.5	33.9	34.4	34.1	33.7
Non-financial corporate debt, consolidated (% of GDP)		88.5 (6)	63.1 (7)	47.1	47.8	44.4	40.8	35.7
Housing market								
House price index, deflated (1 year % change)	**6%**			**6.2**	**5.4**	**16.4**	**3.8**	**-4.4**
House price index, nominal (1 year % change)		25.3 (8)		9.2	8.5	19.7	15.1	2.8
Government debt								
General government gross debt (% of GDP)	**60%**			**30.0**	**37.7**	**42.0**	**42.9**	**44.2**
General government balance (% of GDP)				0.3	-5.8	-5.1	-4.3	-4.1
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**4.6**	**4.8**	**7.9**	**0.2**	
Return on equity (%)				13.9	6.7	10.6		
Common Equity Tier 1 ratio		10.6 (9)		18.2	20.3	19.8		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.7e	1.9e	1.7p	1.4	
Labour market								
Unemployment rate (3 year average)	**10%**			**2.4**	**2.3**	**2.5**	**2.7**	**2.9**
Unemployment rate (year level)		2.7 (10)		2.0	2.6	2.8	2.7	3.3
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.7**	**0.5**	**0.0**	**-1.7**	**-0.9**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.1**	**-0.4**	**0.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-4.9**	**0.1**	**1.5**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.4. DENMARK

In Denmark, house price growth and private debt are high, although associated risks appear to be limited. The current account surplus is sizeable. Nominal house price growth has been among the highest in the EU, amidst an estimated moderate overvaluation of house prices. Household and non-financial corporate debt-to-GDP ratios are high and above both prudential and fundamentals-based benchmarks, but are declining.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Denmark. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Denmark.

Real GDP growth is forecast at 3.0% in 2022 and 0% in 2023. Inflation is high, alongside significant monetary policy tightening. Year-on-year, inflation increased to 11.1% in September, with core inflation estimated at 5.2%. Prices are set to rise faster than wages.

The scoreboard reading for Denmark shows that in 2021 three indicators were beyond their indicative thresholds, namely the current account balance, real house price growth and private sector debt. An economic reading of the scoreboard highlights the following relevant developments:

- **External sector** issues relate to very high current account surplus, which increased to 9% of GDP in 2021. The surplus is forecast to decline in 2022, but remain clearly above the upper MIP threshold, as the services balances gains strength. Accumulated surpluses have led to a high net international investment position (NIIP) that reached 77% of GDP in 2021, although it is forecast to decrease going forward. The large NIIP generates positive net primary income, which reinforces the large current account surplus.

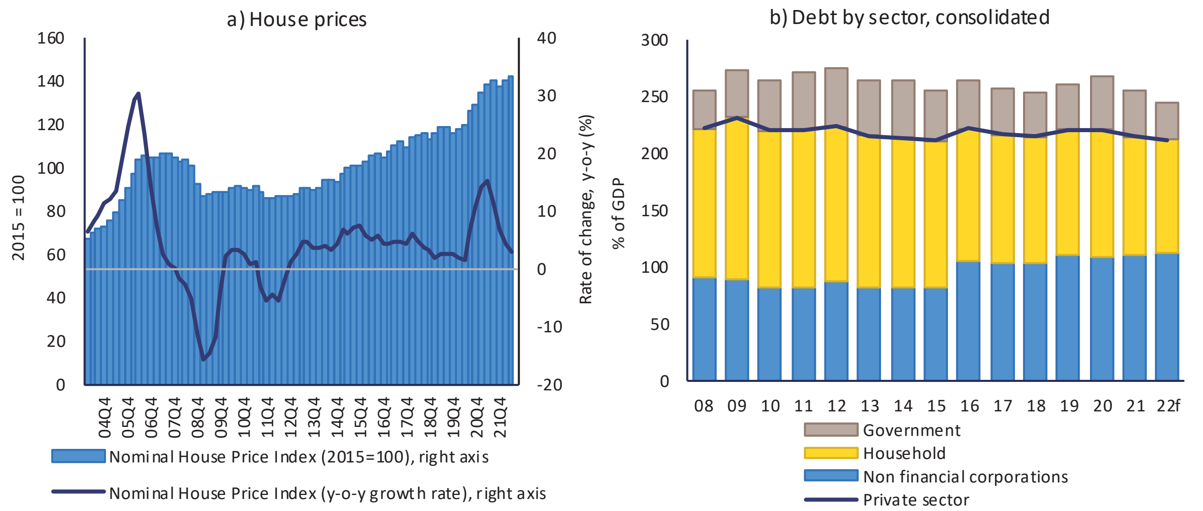
- **Cost competitiveness** concerns continue to be limited. Nominal unit labour costs edged up in 2021 and are forecast to increase more strongly in 2022 and 2023. The HICP-based real effective exchange rate depreciated marginally in 2021. Year-on-year, it continued depreciating by August 2022.

- **Non-financial corporate (NFC) debt** is high, and increased moderately to 110.4% of GDP in 2021. It remains above both prudential and fundamental benchmarks. NFC credit flows in % of GDP are high but decreased in the second quarter of 2022.

- The **household debt**-to-GDP ratio remains the highest in the EU, above both prudential and fundamentals-based benchmarks. However, it has declined in 2021 and continued to decline in the first half of 2022, as net credit flows remain moderate. Nominal GDP is still expected to support deleveraging in 2022. Household non-performing debt remains low. Around half of mortgages have variable interest rates or are fixed up to five years.

- Very high **house price growth** continues being of concern. Nominal house price growth accelerated from 5.1% to 11.7% in 2021 and grew at one of the highest paces in the EU. Nominal year-on-year house price growth decelerated to 2.8% in the second quarter of 2022. House prices were estimated to be 20% overvalued in 2021.

Graph 3.4.1: **Selected graphs: Denmark**



Source: Eurostat, ECB and European Commission services

Table 3.4.1: **Key economic and financial indicators, Denmark**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	forecast *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**7.9**	**7.9**	**8.5**	**7.9**	**7.7**
Current account balance, balance of payments (% of GDP)		1.1 (1)	2.7 (2)	8.5	7.9	9.0	6.7	7.4
Net international investment position (% of GDP)	**-35%**	**-91.7 (3)**	**19.9 (4)**	**77.7**	**70.0**	**77.0**	**71.7**	**80.6**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				29.0	32.6	32.1		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**3.4**	**6.7**	**6.1**	**8.9**	**8.6**
Nominal unit labour cost index (% y-o-y change)				1.9	3.5	0.6	4.6	3.2
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**-0.2**	**0.9**	**-1.1**	**-4.9**	**-8.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.8	1.5	-0.9	-5.5	-2.5
Export market share - % of world exports (5 year % change)	**-6%**			**1.7**	**10.6**	**6.5**	**8.7**	**9.3**
Export market share - % of world exports (1 year % change)				2.3	6.6	-2.3	1.5	1.0
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**221.2**	**221.3**	**214.7**	**212.2**	**206.9**
Private sector credit flow, consolidated (% of GDP)	**14%**			**10.5**	**5.0**	**12.3**	**10.4**	**13.6**
Household debt, consolidated (% of GDP)		69.7 (6)	93.7 (7)	110.6	111.9	104.3	100.5	97.8
Non-financial corporate debt, consolidated (% of GDP)		96.2 (6)	99.6 (7)	110.6	109.4	110.4	111.7	109.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**1.4**	**4.7**	**9.5**	**-6.3**	**-1.6**
House price index, nominal (1 year % change)		20.0 (8)		2.4	5.1	11.7	1.1	-0.7
Government debt								
General government gross debt (% of GDP)	**60%**			**33.7**	**42.2**	**36.6**	**33.7**	**32.8**
General government balance (% of GDP)				4.1	0.2	3.6	1.8	0.5
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**13.4**	**5.6**	**11.7**	**0.3**	
Return on equity (%)				8.7	4.5	8.2		
Common Equity Tier 1 ratio		10.6 (9)		18.0	19.1	18.7		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.9e	1.9e	1.8p	1.5	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.3 b**	**5.2**	**5.2**	**5.1**	**5.0**
Unemployment rate (year level)		4.7 (10)		5.0	5.6	5.1	4.5	5.5
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.6 b**	**1.1 b**	**1.4**	**3.0**	**2.6**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-0.4**	**-0.3**	**0.0**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-2.1**	**-0.8**	**0.3**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.5. GERMANY

Germany's large current account surplus has recently decreased substantially, as a result of the deterioration of terms of trade driven by the adverse external shock. Until early 2022, nominal house price growth has been among the highest in the EU, and house prices are estimated to be overvalued. Core inflation and wage increases in Germany may facilitate euro area rebalancing.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Germany is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for Germany.

Real GDP growth is forecast at 1.6% in 2022 and -0.6% in 2023. At 11.6% year-on-year, inflation was high and increasing in October, albeit lower than in most euro area countries, with core inflation estimated at 5.1%. Prices are set to rise faster than wages.

The scoreboard reading for Germany shows that in 2021 three indicators were beyond their indicative thresholds, namely, the current account balance, real house price growth and government debt. An economic reading of the scoreboard highlights the following relevant developments:

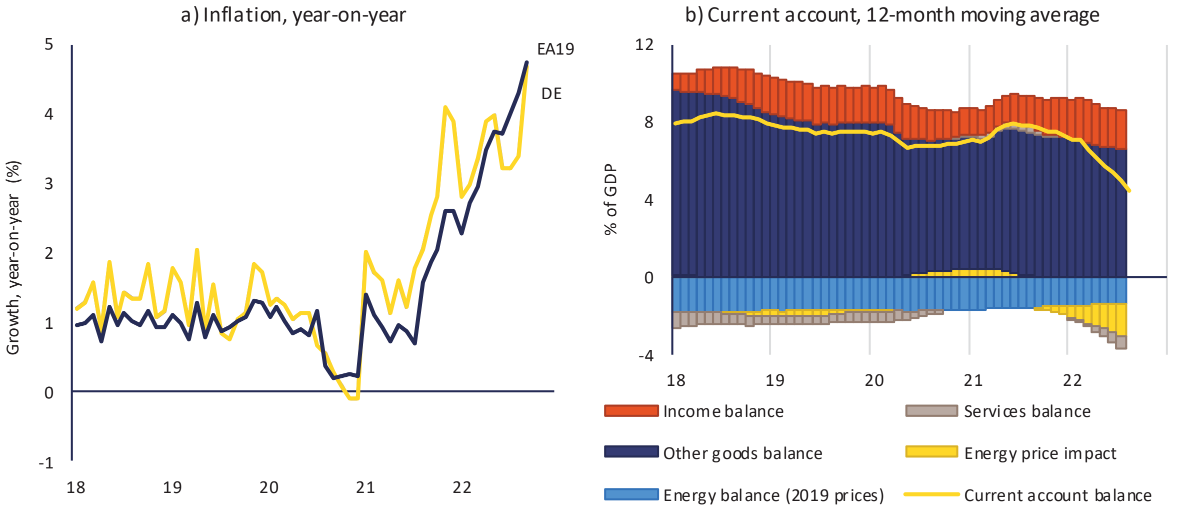
- The **current account surplus** increased slightly, to 7.4% of GDP in 2021, linked to subdued private and public investment despite favourable financing conditions. In 2022, the current account surplus is on course to decline to well below 6% of GDP for the first time since 2010. This decrease reflects surging energy prices and an associated deterioration of terms of trade, relatively resilient domestic demand and inventory growth. The surplus is forecast to increase again in 2023, while remaining well below 6% of GDP.

- **Cost competitiveness** developments may facilitate euro area rebalancing. Nominal unit labour cost growth has remained muted, despite a tight labour market, but is forecast to pick up in 2022 and 2023. The HICP-based real effective exchange rate declined in 2022.

- **House price** growth continues being of concern. Nominal house price growth accelerated from 7.8% to 11.5% in 2021 and grew at one of the highest paces in the EU. Nominal house prices accelerated further and reached 10.2% year-on-year in the second quarter of 2022, with a broadly unchanged price to income ratio. House prices were estimated to be 21% overvalued in 2021.

- **Government debt** risks remain contained. The government debt-to-GDP ratio exceeded the indicative scoreboard threshold of 60% of GDP, rising to 68.6% in 2021. It is forecast to decrease going forward, with fiscal sustainability risks in the long-term being considered medium. The fiscal deficit narrowed to 3.7% of GDP in 2021, representing a smaller deficit than the euro area average. It is forecast to continue narrowing in 2022, but to widen in 2023.

Graph 3.5.1: **Selected charts: Germany**



Source: Eurostat and European Commission services

Table 3.5.1: **Key economic and financial indicators, Germany**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**7.8**	**7.5**	**7.3**	**6.0**	**5.2**
Current account balance, balance of payments (% of GDP)		1.9 (1)	2.9 (2)	7.6	7.0	7.4	3.7	4.6
Net international investment position (% of GDP)	**-35%**	**-83.3 (3)**	**25.1 (4)**	**58.5**	**64.1**	**70.7**	**76.8**	**76.4**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				51.0	54.9	54.6		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**8.1 p**	**10.3 p**	**7.4 p**	**8.3**	**11.0**
Nominal unit labour cost index (% y-o-y change)				3.3 p	3.4 p	0.6 p	4.1	6.0
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.0**	**2.4**	**0.5**	**-2.3**	**-5.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.5	1.4	0.8	-4.3	-2.0
Export market share - % of world exports (5 year % change)	**-6%**			**-1.2**	**0.9**	**-5.9**	**-7.0**	**-7.3**
Export market share - % of world exports (1 year % change)				-1.9	2.1	-3.6	-2.4	-1.7
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**112.7 p**	**121.2 p**	**120.4 p**	**120.2**	**111.3**
Private sector credit flow, consolidated (% of GDP)	**14%**			**6.4 p**	**6.4 p**	**5.7 p**	**7.7**	**5.2**
Household debt, consolidated (% of GDP)		52.8 (6)	65.9 (7)	53.4	57.0	56.7	56.1	55.2
Non-financial corporate debt, consolidated (% of GDP)		76.9 (6)	80.6 (7)	59.3	64.2	63.7	64.1	56.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.4**	**7.1**	**8.2 p**	**4.6**	**-0.9**
House price index, nominal (1 year % change)		20.5 (8)		5.8	7.8	11.5 p	8.2	2.2
Government debt								
General government gross debt (% of GDP)	**60%**			**58.9**	**68.0**	**68.6**	**67.4**	**66.3**
General government balance (% of GDP)				1.5	-4.3	-3.7	-2.3	-3.1
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**7.3**	**11.4**	**7.2**	**9.7**	
Return on equity (%)				2.1	2.2	4.0		
Common Equity Tier 1 ratio		10.6 (9)		15.5	16.0	15.7		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.2e	1.2e	1.1p	1.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**3.3**	**3.3 b**	**3.4 b**	**3.5**	**3.4**
Unemployment rate (year level)		3.3 (10)		3.0	3.7 b	3.6	3.1	3.5
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.3**	**0.3 b**	**1.2**	**1.5**	**1.9**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-0.5**	**-0.4 b**	**-0.2**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-1.3**	**0.8 b**	**0.3**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.6. ESTONIA

In Estonia, concerns related to cost competitiveness are increasing. Nominal unit labour cost growth is set to rise and core inflation is high compared with Estonia's euro area peers. Nominal house price growth is among the highest in the EU, amidst an estimated moderate overvaluation of house prices.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Estonia. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Estonia.

Real GDP growth is forecast at -0.1% in 2022 and 0.7% in 2023. Inflation is high, even compared to Estonia's euro area trading partners. Year-on-year, it decreased to 22.4% in October, with core inflation estimated at 12.5% in September. Prices are set to rise faster than wages.

The scoreboard reading for Estonia shows that in 2021 five indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth, financial sector liability growth, the change in activity rate and the change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns remain contained. While the current account balance recorded a deficit of 1.8% of GDP in 2021, it is forecast to move to a slight surplus in 2022 and improve further going forward. The government deficit has narrowed to 2.4% of GDP in 2021, and is forecast to remain broadly unchanged in 2022, but to start widening in 2023. The net international investment position (NIIP) is negative, but improved in 2021. After a temporary deterioration in 2022, it is forecast to continue improving in 2023. As the accumulated stock of FDI represents most of the liabilities, the NIIP net of non-defaultable instruments is positive and high.

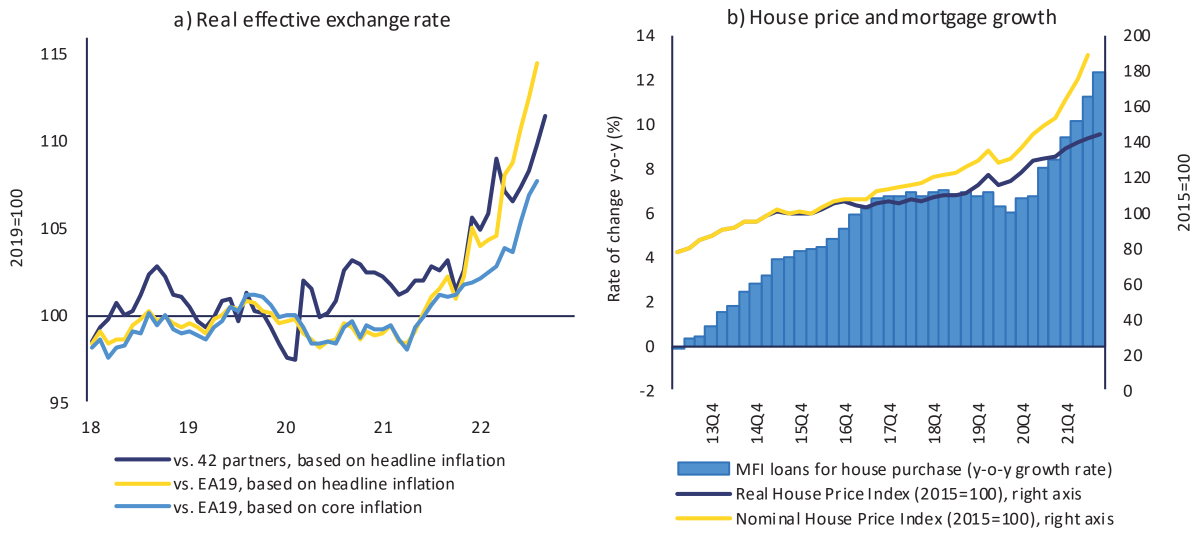
- **Cost competitiveness** concerns are increasing. Nominal unit labour costs edged up in 2021 and are forecast to increase strongly in 2022 and 2023, in the context of Estonia's high nominal wage increases not matched by productivity. The HICP-based real effective exchange rate appreciated in 2021 and stronger appreciation is underway in 2022.

- High **house price growth** continues being a concern. Nominal house price growth accelerated from 6% in 2020 to 15.1% in 2021, one of the highest paces in the EU in recent quarters and reaching 27.4% in the second quarter of 2022. One of the highest price-to-income ratios in the EU raises affordability concerns. House prices were estimated to be 7% overvalued in 2021.

- The **household debt**-to-GDP ratio is close to the fundamentals-based benchmark and below the prudential threshold. Net credit flows to households have been moderate up to 2021 at around 2% of GDP. While net credit flows have increased in 2022 to close to 4% of GDP, the debt-to-GDP ratio continued to decline in the first half of 2022.

- The **unemployment rate** decreased to 6.2% in 2021 and is forecast to slightly decrease in 2022, but to increase in 2023. The activity rate decreased in 2021, still reflecting pandemic restrictions; it is set to pick up again going forward. Youth unemployment remains elevated, although it has decreased.

Graph 3.6.1: **Selected graphs: Estonia**



Source: Eurostat, ECB (BSI) and European Commission services

Table 3.6.1: **Key economic and financial indicators, Estonia**

	Thresholds	Benchmark I	Benchmark II	2019	2020	2021	forecast 2022	2023
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**1.8**	**0.8**	**-0.1**	**-0.8**	**-0.2**
Current account balance, balance of payments (% of GDP)		-0.6 (1)	-2.6 (2)	2.4	-1.0	-1.8	0.4	0.7
Net international investment position (% of GDP)	**-35%**	**-61.6 (3)**	**-14.3 (4)**	**-22.6**	**-21.9**	**-13.0**	**-18.4**	**-14.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				31.0	41.5	39.9		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**15.8**	**15.7**	**10.7**	**19.5**	**25.2**
Nominal unit labour cost index (% y-o-y change)				4.7	3.9	1.8	12.9	8.8
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**6.1**	**5.3**	**1.9**	**0.0**	**-3.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.0	0.7	1.2	-2.1	-2.9
Export market share - % of world exports (5 year % change)	**-6%**			**1.7**	**16.4**	**17.8**	**19.4**	**16.0**
Export market share - % of world exports (1 year % change)				2.6	4.8	7.8	1.2	-1.1
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**98.9**	**101.4**	**95.3**	**91.3**	**81.5**
Private sector credit flow, consolidated (% of GDP)	**14%**			**3.4**	**3.0**	**6.5**	**7.8**	**3.9**
Household debt, consolidated (% of GDP)		87.8 (6)	38.2 (7)	38.6	40.7	37.8	37.3	37.5
Non-financial corporate debt, consolidated (% of GDP)		111.8 (6)	61.0 (7)	60.3	60.7	57.5	54.0	44.0
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.4**	**7.0**	**10.4**	**1.3**	**-0.6**
House price index, nominal (1 year % change)		6.9 (8)		7.0	6.0	15.1	20.8	7.0
Government debt								
General government gross debt (% of GDP)	**60%**			**8.5**	**18.5**	**17.6**	**18.7**	**19.3**
General government balance (% of GDP)				0.1	-5.5	-2.4	-2.3	-3.7
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**11.6**	**17.9**	**17.5**	**1.5**	
Return on equity (%)				8.3	7.4	9.5		
Common Equity Tier 1 ratio		10.6 (9)		25.7	27.0	23.3		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.6e	1.6e	1.1p	1.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.2**	**5.6**	**5.9**	**6.4**	**6.3**
Unemployment rate (year level)		6.2 (10)		4.5	6.9	6.2	6.1	6.6
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.3**	**0.4**	**-0.2**	**4.8**	**2.0**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.3**	**-0.8**	**0.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-2.4**	**6.2**	**4.7**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.7. IRELAND

In Ireland, external, household and non-financial corporate and government debt-to-GDP ratios are high but continue to decline markedly. As a result, associated concerns appear to remain limited. Debt ratios in Ireland are affected by the presence of multinational enterprises. Nominal house price growth is accelerating and housing affordability is a concern.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Ireland was no longer experiencing macroeconomic imbalances. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Ireland.

Real GDP growth is forecast at 7.9% in 2022 and 3.2% in 2023. Inflation is high. Year on year, it increased to 9.6% in October, with core inflation estimated at 5.1% in September. Prices are set to rise faster than wages.

The scoreboard reading for Ireland shows that in 2021 four indicators were beyond their indicative thresholds, namely the current account balance, net international investment position, private sector debt and financial sector liabilities growth. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns abated substantially in recent years. The external sector is strongly inflated by the activities of multinational companies. The current account has recorded a strong surplus of 14.2% of GDP in 2021 and is forecast further increase in 2022. The current account surplus corrected for the impact of the multinational enterprises also remained high in 2021. The net international investment position (NIIP) improved to -145.5% of GDP in 2021. A continued improvement in the NIIP is forecast for the next two years.

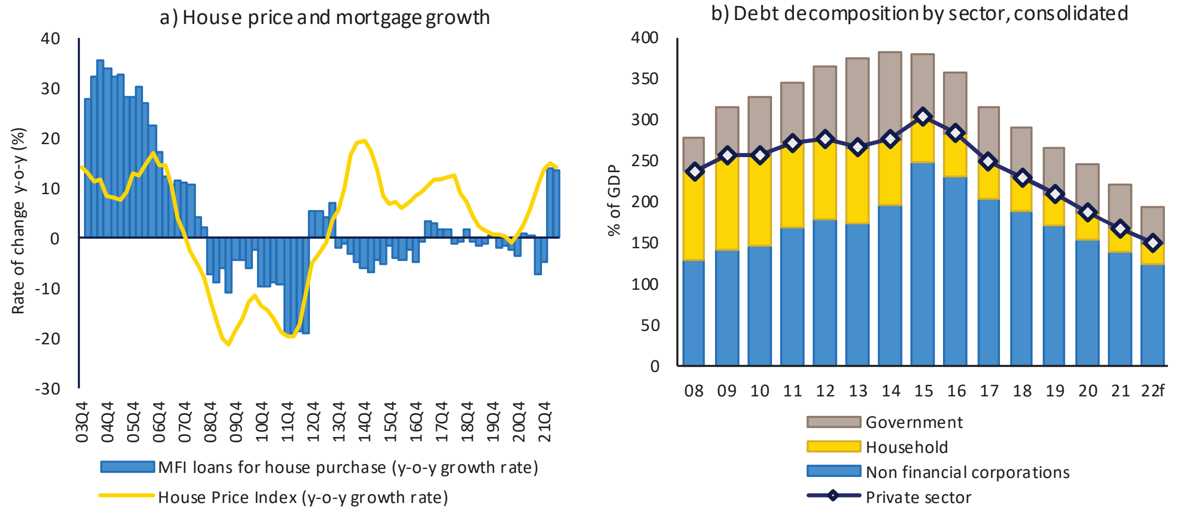
- **Non-financial corporate debt** is high, but on a declining path. It declined moderately, to 138% of GDP, or 252% of modified gross national income (GNI) in 2021. The non-financial corporate debt ratio decreased in the first half of 2022, but there are risk factors associated to the macroeconomic environment. It remains above both fundamental and prudential thresholds, although the high share of cross-border intra-group lending in corporate debt reduces risks. The share of corporate loans denominated in foreign currency (12%) is one of the highest among the euro area countries but is related to the presence of the multinational enterprises. The **household debt**-to-GDP ratio is relatively low and on a declining path. It is below the benchmarks, but the Irish GDP is overstated by the activities of multinationals. As a share of household gross domestic income, household debt declined significantly but remains close to 100%. The share of variable rate mortgage loans is relatively low, at 20% in 2021.

- Concerns associated to the **house price** developments are increasing. Nominal house price growth accelerated from 0.3% to 8.3% in 2021. Nominal year-on-year house price growth was at 14.4% in the second quarter of 2022. One of the highest price-to-income ratios in the EU raises affordability concerns. The Commission services' valuation gap metrics do not show signs of potential overvaluation.

- The **banking sector** is overall stable. Banks are well-capitalised and profitability increased in 2021, though it remained low compared to the European peers. Non-performing loans continued to decline, even if underperforming (stage 2) loan exposures, in particular towards NFCs, remain relatively high. The Irish non-bank financial sector is very large, but only marginally interlinked with the domestic economy.

- **Risks related to the government debt**-to-GDP ratio are rather low. It decreased to 55.4% in 2021 and is forecast to continue falling strongly in 2022. In contrast, the government debt relative to GNI remains large, at about 100%. The government balance is forecast to turn into a slight surplus in 2022 and is forecast to continue improving. The long-term fiscal sustainability risks are medium.

Graph 3.7.1: **Selected graphs: Ireland**



Source: Eurostat, ECB (BSI) and European Commission services

Table 3.7.1: **Key economic and financial indicators, Ireland**

	Thresholds	Benchmark I	Benchmark II	2019	2020	2021	forecast 2022	2023
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-4.7**	**-7.2**	**-4.2**	**8.5**	**16.9**
Current account balance, balance of payments (% of GDP)		4.3 (1)	-4.9 (2)	-19.8	-6.8	14.2	18.2	18.3
Net international investment position (% of GDP)	**-35%**	**-159.0 (3)**	**17.0 (4)**	**-193.4**	**-177.0**	**-145.5**	**-121.4**	**-93.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-282.6	-294.4	-335.1		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**-3.9**	**-6.3**	**-7.9**	**-10.0**	**-1.7**
Nominal unit labour cost index (% y-o-y change)				1.3	-5.1	-4.2	-1.0	3.6
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**-1.4**	**-1.2**	**-2.6**	**-6.1**	**-7.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-2.7	0.3	-0.1	-6.3	-0.9
Export market share - % of world exports (5 year % change)	**-6%**			**73.1**	**51.5**	**39.9**	**47.3**	**41.3**
Export market share - % of world exports (1 year % change)				9.7	23.2	-4.0	6.8	1.9
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**209.3 p**	**187.3 p**	**168.1 p**	**149.4**	**144.0**
Private sector credit flow, consolidated (% of GDP)	**14%**			**-9.6 p**	**-3.6 p**	**2.6 p**	**7.2**	**13.2**
Household debt, consolidated (% of GDP)		74.6 (6)	44.9 (7)	38.6p	34.4p	29.7p	24.6	22.9
Non-financial corporate debt, consolidated (% of GDP)		112.8 (6)	42.0 (7)	170.7	152.9	138.4	124.8	121.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**0.5**	**-0.5**	**4.2**	**5.5**	**0.4**
House price index, nominal (1 year % change)		-11.5 (8)		2.3	0.3	8.3	12.5	12.7
Government debt								
General government gross debt (% of GDP)	**60%**			**57.0**	**58.4**	**55.4**	**44.7**	**41.2**
General government balance (% of GDP)				0.5	-5.0	-1.7	0.2	0.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**15.4 p**	**7.4 p**	**18.8 p**	**2.1**	
Return on equity (%)				3.7	-2.2	4.5		
Common Equity Tier 1 ratio		10.6 (9)		22.3	22.3	22.2		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				3.4e	3.4e	2.4p	2.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.8**	**5.6**	**5.7**	**5.5**	**5.1**
Unemployment rate (year level)		5.1 (10)		5.0	5.9	6.2	4.4	4.8
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.6**	**-1.8**	**1.8**	**1.6**	**3.5**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-2.6**	**-1.6**	**-0.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-4.3**	**1.4**	**0.7**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.8. GREECE

In Greece, concerns related to government and external debt-to-GDP ratios remain, although they resumed their declining path after the COVID-19 crisis. The current account deficit has continued to increase and is forecast to remain large. Concerns about the banking sector, which is burdened by a high, albeit significantly reduced, stock of nonperforming loans, remain. Labour market weaknesses persist, despite notable improvements.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Greece is experiencing excessive macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of excessive imbalances or their unwinding in an in-depth review for Greece.

Real GDP growth is forecast at 6% in 2022 and 1% in 2023. Inflation is high. Year-on-year, it decreased to 9.8% in October, with core inflation estimated at 6.9%. Prices are set to rise faster than wages.

The scoreboard reading for Greece shows that in 2021 six indicators were beyond their indicative thresholds, namely, the current account balance, net international investment position, real house price growth, government debt, change in unemployment and change in activity rate. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** remains a concern. The current account deficit increased, to 6.8% of GDP in 2021. The strong tourist season is expected to improve the service balance and partially, but should not fully offset the deteriorating balance of trade in goods, including energy. The current account deficit is forecast to widen in 2022 and remain significantly larger than its pre-pandemic levels. The NIIP stays large and negative at -171.9% of GDP in 2021, slightly less than in 2020, and is forecast to continue improving. A large share of the NIIP liabilities is government debt extended at concessional terms and long maturities.

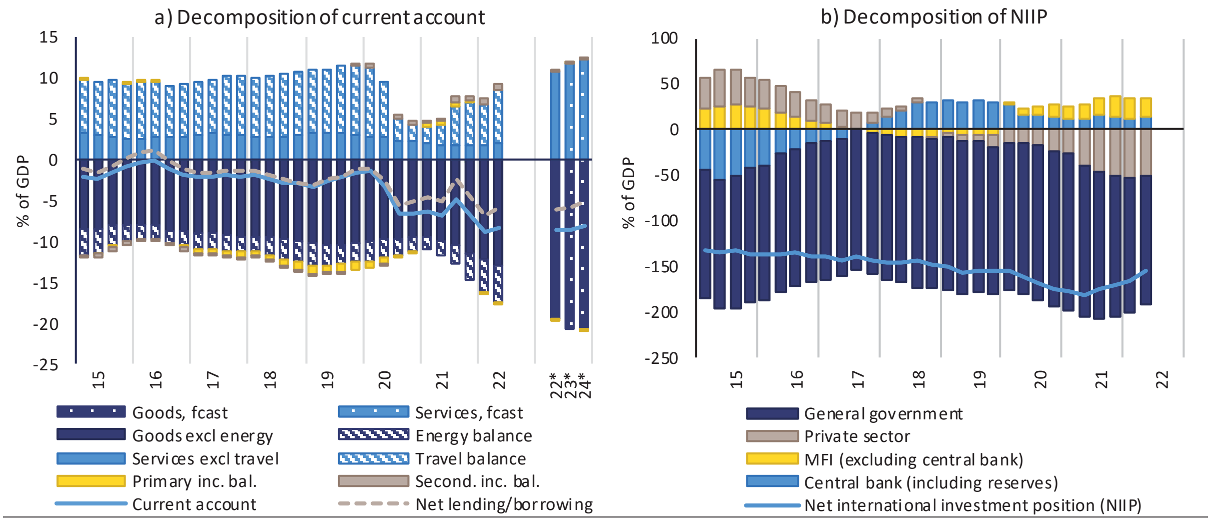
- Concerns related to **household and non-financial corporate debt**-to-GDP ratios remain. Both are above the prudential and fundamental benchmarks, but on a declining path. Household and non-financial corporate debt ratio decreased in the first half of 2022. More than half of mortgages have variable interest rates.

- **Government debt** is very high. The government debt-to-GDP ratio is among the highest in the EU, although it decreased by 12 percentage points in 2021, to 194.5% of GDP and is forecast to decrease further in 2022, below the 2019 level, and 2023. The government deficit remains high, although it narrowed to 7.5% in 2021 and is forecast to continue narrowing. As Greece's debt is predominantly held by official lenders, the favourable interest rates of these loans ensure that interest expenditure is contained in the short- and medium-term. In addition, Greece continues to hold a sizeable cash buffer which allows for efficient liquidity management and reduces rollover risks. The sovereign bond spreads have increased but have now stabilised at a rate higher than the EA average. Short and medium-term fiscal sustainability risks are high, but are medium in the long-term.

- Concerns about the **banking sector** remain. It continues to be burdened by a high, albeit significantly reduced, stock of non-performing loans (NPLs). Associated risks are present in the economy, as part of the legacy private non-performing debt is on balance sheets of financial institutions outside the banking sector. Over the past year, the net creation of new NPLs remains at a limited rate, but the underperforming (stage 2) loans and share of forborne loans are above the euro area average. Profitability turned deeply negative in 2021 and the common equity tier-1 capital ratio remains one of the lowest in the EU. House price growth remains elevated, but moderate in early 2022.

- **Labour market** weaknesses continue being a concern, despite notable improvements. The unemployment rate declined substantially, but at 14,7% in 2021, it remains among the highest in the EU. It is set to continue decreasing in 2022 but remain broadly unchanged in 2023. The activity rate is relatively low, although it increased in 2021. Youth and long-term unemployment rates declined but remain the highest in the EU.

Graph 3.8.1: **Selected graphs: Greece**



Source: European Commission services

Table 3.8.1: **Key economic and financial indicators, Greece**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-2.1**	**-3.7**	**-5.0**	**-6.9**	**-7.1**
Current account balance, balance of payments (% of GDP)		-1.1 (1)	-2.6 (2)	-1.5	-6.6	-6.8	-7.3	-7.4
Net international investment position (% of GDP)	**-35%**	**-45.7 (3)**	**-47.6 (4)**	**-154.1**	**-173.8**	**-171.9**	**-147.3**	**-143.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-133.5	-155.1	-150.2		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**-1.1**	**6.2 p**	**4.0 p**	**5.3**	**1.4**
Nominal unit labour cost index (% y-o-y change)				0.0	7.2 p	-3.1 p	1.3	3.3
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.5**	**0.4**	**-3.1**	**-5.0**	**-9.9**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-2.1	0.4	-1.4	-3.9	-5.0
Export market share - % of world exports (5 year % change)	**-6%**			**3.2**	**-10.7**	**9.6**	**13.3**	**6.7**
Export market share - % of world exports (1 year % change)				0.7	-19.7	20.1	8.5	1.2
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**110.3**	**124.9 p**	**120.7 p**	**107.6**	**102.0**
Private sector credit flow, consolidated (% of GDP)	**14%**			**-1.0**	**5.1 p**	**-0.1 p**	**3.1**	**4.0**
Household debt, consolidated (% of GDP)		33.8 (6)	21.6 (7)	55.9	59.5	55.2	47.3	43.9
Non-financial corporate debt, consolidated (% of GDP)		62.7 (6)	47.0 (7)	54.4	65.4	65.5	60.3	58.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**7.2 e**	**5.7 e**	**6.4 e**	**-0.9**	**-1.5**
House price index, nominal (1 year % change)		5.0 (8)		7.2	4.5	7.5	6.0	2.1
Government debt								
General government gross debt (% of GDP)	**60%**			**180.6**	**206.3**	**194.5**	**171.1**	**161.9**
General government balance (% of GDP)				1.1	-9.9	-7.5	-4.1	-1.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**11.6**	**27.5**	**14.3**	**1.9**	
Return on equity (%)				0.7	-7.9	-20.1		
Common Equity Tier 1 ratio		10.6 (9)		16.2	15.0	13.6		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				35.5e	26.5e	8.6p	6.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**19.8**	**18.4**	**16.7**	**15.0**	**13.3**
Unemployment rate (year level)		8.8 (10)		17.9	17.6	14.7	12.6	12.6
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.3**	**-2.9**	**-0.8**	**-0.7**	**1.3**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-4.1**	**-3.8**	**-3.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-10.7**	**-6.5**	**-5.7**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.9. SPAIN

In Spain, concerns related to household and non-financial corporate, government and external debt-to-GDP ratios remain, although they resumed their declining path after the COVID-19 crisis with external and private debt falling solidly in a context of strong nominal GDP growth. The government debt-to-GDP ratio is very high and the fiscal deficit is sizeable, despite a slight improvement. The unemployment rate, while still high, is already below pre-crisis levels and it is expected to remain stable next year.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Spain is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for Spain.

Real GDP growth is forecast at 4.5% in 2022 and 1% in 2023. Inflation is high. Year-on-year, it decreased to 7.3% in October, with core inflation estimated at 4.8% in September. Prices are set to rise faster than wages.

The scoreboard reading for Spain shows that in 2021 six indicators were beyond their indicative thresholds, namely the net international investment position, export market share, nominal unit labour cost growth, private sector debt, government debt and change in unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns remain despite some improvements. The negative net international investment position (NIIP) improved substantially, to -71.5% of GDP in 2021, mainly due to strong positive valuation effects and high nominal GDP growth. The NIIP is set to continue improving, albeit at lower pace. The improvement was mainly related to the NIIP excluding non-defaultable instruments, which moved from -52.1% to -39.7% of GDP. The current account balance remained in a small surplus, at 1.2% of GDP in 2021, but is forecast to decrease slightly. The strong tourist season is expected to improve the service balance and partially offset the deteriorating balance of trade in goods, including energy, in 2022.

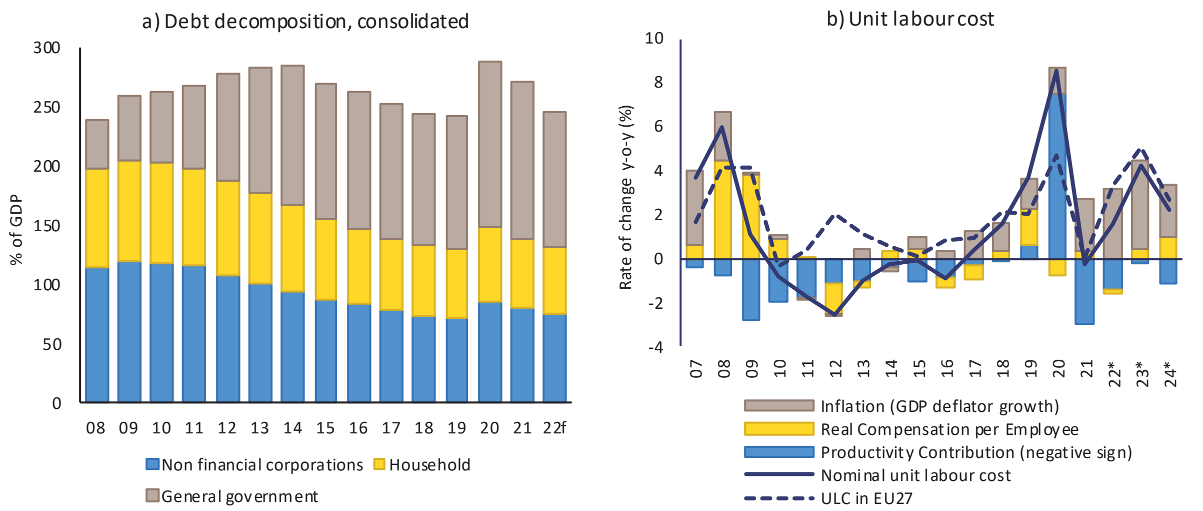
- Some **cost competitiveness** concerns remain limited. Nominal unit labour costs (ULC) increased slightly in 2021 and are forecast to increase further with the rise in core inflation. The HICP-based real effective exchange rate appreciated marginally in 2021. However, year-on-year, it depreciated by August 2022.

- Concerns related to the **non-financial corporate debt**-to-GDP ratio remain, although it is on a declining path. It declined moderately, to 80% in 2021 and continued to decrease in the first half of 2022, but there are risk factors associated to the macroeconomic environment. It remains above both prudential and fundamental benchmarks and is still 8 percentage points higher than in 2019. The **household debt**-to-GDP ratio is still above but close to both prudential and fundamentals-based benchmarks and back on a declining path.

- Concerns related to **government debt** remain high. It decreased slightly in 2021, reaching 118.3% of GDP and is forecast to decline again in 2022 and 2023. The government deficit remained high, although it narrowed to 6.9% in 2021. It is projected to further decrease in 2022 and 2023. Fiscal sustainability risks are high in the medium-term and medium in the long-term, also in part due to costs related to the ageing population.

- **Labour market** weaknesses remain a concern, despite marked improvements. The unemployment rate declined substantially over the past decade, but remains among the highest in the EU, at 14.8% in 2021, particularly among the youth and long-term segments. It is forecast to decrease in 2022 but remain broadly unchanged afterwards. Youth and long-term unemployment rates remain among the highest in the EU, despite the recent rapid falls. Labour market resilience benefits from the reforms undertaken as part of the Recovery and Resilience Plan, supporting the labour market in the context of a deteriorating economic outlook.

Graph 3.9.1: **Selected charts: Spain**



Source: Eurostat and European Commission services

Table 3.9.1: **Key economic and financial indicators, Spain**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**2.3**	**1.5**	**1.2**	**0.8**	**0.9**
Current account balance, balance of payments (% of GDP)		0.9 (1)	-1.6 (2)	2.1	0.6	1.0	0.9	0.8
Net international investment position (% of GDP)	**-35%**	**-58.0 (3)**	**-18.8 (4)**	**-73.7**	**-85.7**	**-71.5**	**-60.2**	**-54.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-46.1	-52.1	-39.7		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**5.7**	**14.3 p**	**12.3 p**	**9.8**	**6.0**
Nominal unit labour cost index (% y-o-y change)				3.7	8.6 p	-0.3 p	1.4	4.8
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**1.7**	**1.1**	**-0.5**	**-3.2**	**-6.4**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.7	0.7	0.5	-4.3	-2.7
Export market share - % of world exports (5 year % change)	**-6%**			**2.3**	**-7.2**	**-10.5**	**0.9**	**2.1**
Export market share - % of world exports (1 year % change)				-0.9	-10.5	2.0	12.8	0.0
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**129.3**	**148.1 p**	**139.1 p**	**131.8**	**129.4**
Private sector credit flow, consolidated (% of GDP)	**14%**			**1.5**	**4.7 p**	**2.5 p**	**3.2**	**7.2**
Household debt, consolidated (% of GDP)		40.8 (6)	46.6 (7)	56.8	62.7	58.4	56.5	55.2
Non-financial corporate debt, consolidated (% of GDP)		57.4 (6)	56.6 (7)	72.5	85.4	80.7	75.3	74.2
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.1**	**2.2**	**1.5**	**-2.3**	**-2.7**
House price index, nominal (1 year % change)		11.5 (8)		5.2	2.2	3.7	6.0	0.8
Government debt								
General government gross debt (% of GDP)	**60%**			**98.2**	**120.4**	**118.3**	**114.0**	**112.5**
General government balance (% of GDP)				-3.1	-10.1	-6.9	-4.6	-4.3
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**1.6**	**9.8**	**6.6**	**2.5**	
Return on equity (%)				6.7	-3.5	10.2		
Common Equity Tier 1 ratio		10.6 (9)		12.5	13.2	13.3		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				3.1e	2.8e	2.9p	2.7	
Labour market								
Unemployment rate (3 year average)	**10%**			**15.5**	**15.0**	**14.8 d**	**14.3**	**13.4**
Unemployment rate (year level)		11.8 (10)		14.1	15.5	14.8 d	12.7	12.7
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**-0.4**	**-1.7**	**0.0 d**	**-0.5**	**1.8**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-4.2**	**-2.7**	**-0.2 d**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-11.9**	**-0.3**	**0.5 d**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.10. FRANCE

In France, concerns related to cost competitiveness and the high government debt-to-GDP ratio remain. In addition, high private debt warrants close monitoring. Core inflation is lower than in many other euro area countries. Nonetheless, external sustainability and competitiveness concerns continue to warrant close monitoring. Albeit declining, the government debt-to-GDP ratio and government deficit remain high. Non-financial corporate debt is on a declining path following a sharp increase during the pandemic.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that France is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for France.

Real GDP growth is forecast at 2.6% in 2022 and 0.4% in 2023. Inflation is high, albeit lower than in most euro area countries. Year-on-year, it increased to 7.1% in October, with core inflation estimated at 4.1%. Prices are set to rise faster than wages.

The scoreboard reading for France shows that in 2021 three indicators were beyond their indicative thresholds, namely the change in export market shares, private sector debt and government debt. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** issues warrant close monitoring. The current account turned into a slight surplus of 0.4% of GDP in 2021 and returned to pre-pandemic levels. A deficit is forecast for 2022 and 2023. The NIIP continued worsening in 2021, to -32.1% of the GDP, driven by negative current account balance and valuation effects. It is forecast to improve going forward.

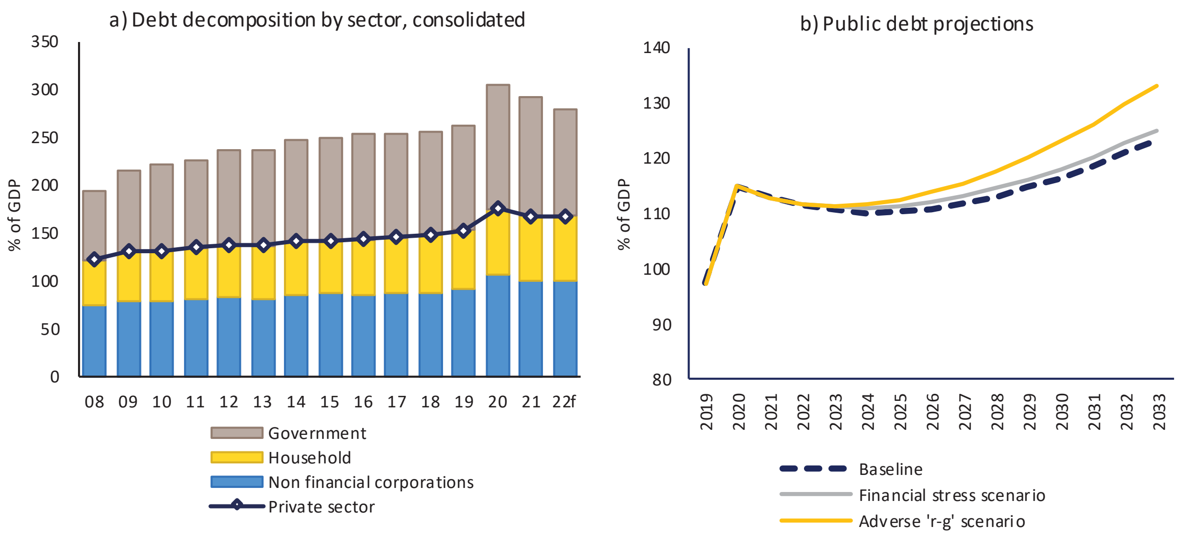
- **Cost competitiveness** concerns, which existed already before the COVID-19 pandemic, remain relevant. Nominal unit labour costs (ULC) edged up in 2021 and are forecast to increase more strongly going forward, in context of lower core inflation than in most other euro area countries. The HICP-based real effective exchange rate depreciated marginally in 2021. Year-on-year, it continued depreciating by August 2022.

- Despite the decline to 101% in 2021, the **non-financial corporate debt**-to-GDP ratio remains high. Non-financial corporate debt continued to decrease in the first half of 2022. It remains above both prudential and fundamental benchmarks and is still 10 percentage points higher than in 2019. Corporate indebtedness is flanked by high and increasing corporate liquidity buffers, which mitigates risks.

- Concerns associated to **house price** developments increase. Nominal house price growth accelerated from 5.2% to 6.3% in 2021. Nominal year-onyear house price growth increased to 7.1% in the second quarter of 2022. House prices were estimated to be 20% overvalued in 2021. **Household debt** as a ratio to GDP is above both prudential and fundamentals-based benchmarks and credit flows to households are high. However, risks are mitigated by the high share of loans at fixed rates, prudent lending standards and macro-prudential policy measures.

- Concerns associated with **government debt** are significant. The already high government debt-to-GDP ratio, exceeding the scoreboard threshold, decreased slightly in 2021 to 112.8% of GDP and is forecast to remain broadly stable over the forecast horizon, above the 2019 level. The government deficit remains high, although it narrowed to 6.5% in 2021 and is forecast to continue narrowing in 2022. The fiscal sustainability risks remain high in the medium term and medium in the long-term.

Graph 3.10.1: **Selected graphs: France**



a) Debt decomposition by sector, consolidated

b) Public debt projections

The ‘adverse interest-growth rate’ scenario assumes a less favourable snowball effect than in the baseline (i.e. the differential between market interest rates and nominal GDP growth is permanently 1 pp. higher). In the ‘financial stress’ scenario, the country tempora¬rily (one year) faces higher market interest rates in 2023 (i.e. market interest rates are assumed to increase temporarily by 1 pp. in 2023).

Source: Eurostat and European Commission services

Table 3.10.1: **Key economic and financial indicators, France**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-0.4**	**-0.7**	**-0.3**	**-0.9**	**-0.4**
Current account balance, balance of payments (% of GDP)		0.3 (1)	-1.7 (2)	0.5	-1.8	0.4	-1.4	-0.1
Net international investment position (% of GDP)	**-35%**	**-75.8 (3)**	**9.4 (4)**	**-24.6**	**-30.7**	**-32.1**	**-27.6**	**-27.5**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-35.2	-41.3	-37.2		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**0.9 p**	**5.0 p**	**4.6 p**	**8.5**	**7.6**
Nominal unit labour cost index (% y-o-y change)				-0.7 p	4.8 p	0.5 p	3.0	4.0
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**1.6**	**2.7**	**-0.4**	**-5.9**	**-9.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.4	1.5	-0.5	-6.8	-2.2
Export market share - % of world exports (5 year % change)	**-6%**			**-0.7**	**-8.5**	**-11.4**	**-5.2**	**-5.1**
Export market share - % of world exports (1 year % change)				-1.0	-6.9	-1.1	3.7	0.4
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**153.1 p**	**175.0 p**	**167.8 p**	**168.4**	**158.2**
Private sector credit flow, consolidated (% of GDP)	**14%**			**8.4 p**	**13.5 p**	**6.5 p**	**9.2**	**7.3**
Household debt, consolidated (% of GDP)		49.1 (6)	58.6 (7)	62.2	68.6	66.7p	67.4	67.0
Non-financial corporate debt, consolidated (% of GDP)		54.2 (6)	72.5 (7)	90.9	106.4		101.0	91.2
Housing market								
House price index, deflated (1 year % change)	**6%**			**2.5**	**4.1**	**4.7**	**2.5**	**-0.5**
House price index, nominal (1 year % change)		19.6 (8)		3.3	5.2	6.3	5.2	1.2
Government debt								
General government gross debt (% of GDP)	**60%**			**97.4**	**115.0**	**112.8**	**111.7**	**110.8**
General government balance (% of GDP)				-3.1	-9.0	-6.5	-5.0	-5.3
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**6.0 b**	**11.3**	**7.3 p**	**4.3**	
Return on equity (%)				6.0	4.1	7.1		
Common Equity Tier 1 ratio		10.6 (9)		15.2	16.0	16.2		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				2.5e	2.2e	1.9p	1.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**8.9**	**8.5**	**8.1 d**	**7.9**	**7.9**
Unemployment rate (year level)		8.1 (10)		8.4	8.0	7.9 d	7.7	8.1
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.3**	**-0.4**	**0.2 d**	**1.3**	**2.4**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-0.8**	**-1.0**	**-0.2 d**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-5.3**	**-2.0**	**-3.1 d**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.11. CROATIA

In Croatia, the government, private and external debt-to-GDP ratios continue to decline, and associated risks appear to be limited. The government debt-to-GDP ratio remains high but the fiscal deficit is shrinking. Nominal house price growth is accelerating but valuation gap metrics do not show signs of potential overvaluation of house prices.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Croatia was no longer experiencing macroeconomic imbalances. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Croatia.

Real GDP growth is forecast at 6% in 2022 and 1% in 2023. Inflation is high and is set to remain above the EA average in 2022 and 2023. Year-on-year, it remained at 12.6% in September, with core inflation at 9.8%. Prices are set to rise faster than wages.

The scoreboard reading for Croatia shows that in 2021 two indicators were beyond their indicative thresholds, namely the net international investment position and government debt. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns have abated substantially. The current account increased to a surplus of 3.1% of GDP in 2021. The moderately negative net international investment position (NIIP), at -35.1% of GDP in 2021, is forecast to continue improving in 2022. The NIIP excluding net of non-defaultable instruments turned positive and equalled 12% of GDP in 2021.

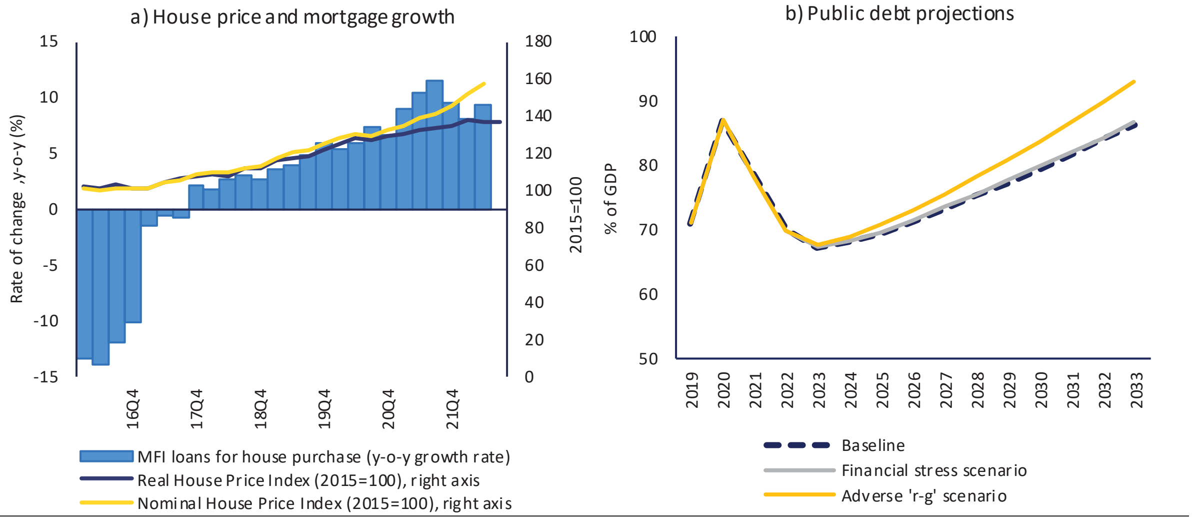
- **Cost competitiveness** concerns seem limited. High inflation is a risk, although wage indexation is not prevalent. Nominal unit labour costs decreased in 2021 but are forecast to increase strongly in 2022 and 2023. The HICP-based real effective exchange rate appreciated marginally in 2021. Year-on-year, a mild depreciation has been observed by August 2022.

- The **household debt**-to-GDP ratio is above its fundamentals-based benchmark, but well below prudential. Net credit flows to households have been moderate in 2021 and 2022. The household debt-to-GDP ratio continued to decline in the first half of 2022. The share of variable rate housing loans is relatively low.

- Concerns associated to **house price developments** are increasing. Nominal house price growth decelerated to 7.3% in 2021, but year-on-year it increased to 13.6% in the second quarter of 2022. Valuation gap metrics do not show signs of potential overvaluation. While **the banking sector** is well capitalised and its profitability is high, it is also characterised by a relatively high, although declining, non-performing loans ratio. Underperforming (stage 2) loans increased significantly since the onset of the pandemic and have not substantially subsided since.

- The government debt related risks are non-negligible. The **government debt**-to-GDP ratio decreased to 78.4%, in 2021, remaining beyond the 60% scoreboard threshold. It is forecast to decrease further, dipping below its 2019 level in 2022. The sovereign bond yield spreads have decreased but remain above the euro area average. The exchange rate risk related to the government debt will be eliminated with the euro adoption, as of 1 January 2023. The government deficit narrowed to 2.6% of GDP in 2021 and is forecast to narrow further in 2022. Fiscal sustainability risks are medium in the short- and long-term.

Graph 3.11.1: **Selected graphs: Croatia**



The 'adverse interest-growth rate' scenario assumes a less favourable snowball effect than in the baseline (i.e. the differential between market interest rates and nominal GDP growth is permanently 1 pp. higher). In the 'financial stress' scenario, the country temporarily (one year) faces higher market interest rates in 2023 (i.e. market interest rates are assumed to increase temporarily by 1 pp. in 2023).

Source: Eurostat and European Commission services

Table 3.11.1: **Key economic and financial indicators, Croatia**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**2.6**	**1.3**	**1.8**	**0.9**	**0.9**
Current account balance, balance of payments (% of GDP)		-0.2 (1)	-4.0 (2)	2.8	-0.5	3.1	0.2	-0.6
Net international investment position (% of GDP)	**-35%**	**-46.7 (3)**	**-18.5 (4)**	**-47.0**	**-48.1**	**-35.1**	**-33.3**	**-26.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				1.2	3.0	12.0		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**2.8**	**13.7 p**	**6.4 p**	**12.4**	**8.8**
Nominal unit labour cost index (% y-o-y change)				0.0	9.8 p	-3.1 p	3.9	5.9
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**1.5**	**0.5**	**-1.5**	**-4.7**	**-7.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.5	-0.5	0.5	-4.6	-3.6
Export market share - % of world exports (5 year % change)	**-6%**			**22.0**	**-1.3**	**7.9**	**27.8**	**25.2**
Export market share - % of world exports (1 year % change)				4.2	-16.1	19.1	21.2	-0.9
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**88.3**	**98.0 p**	**88.5 p**	**80.5**	**79.4**
Private sector credit flow, consolidated (% of GDP)	**14%**			**1.1**	**1.3 p**	**3.0 p**	**2.8**	**4.4**
Household debt, consolidated (% of GDP)		54.6 (6)	18.3 (7)	34.1	38.0	34.7	32.0	33.1
Non-financial corporate debt, consolidated (% of GDP)		65.2 (6)	39.3 (7)	54.2	60.0	53.8	48.5	46.3
Housing market								
House price index, deflated (1 year % change)	**6%**			**7.8**	**7.3**	**4.5**	**0.8**	**-0.5**
House price index, nominal (1 year % change)		-3.4 (8)		9.0	7.7	7.3	9.8	4.2
Government debt								
General government gross debt (% of GDP)	**60%**			**71.0**	**87.0**	**78.4**	**70.0**	**67.2**
General government balance (% of GDP)				0.2	-7.3	-2.6	-1.6	-2.4
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**6.8**	**7.3**	**11.7**	**0.7**	
Return on equity (%)				9.1	4.7	7.7		
Common Equity Tier 1 ratio		10.6 (9)		21.7	22.7	23.8		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				5.2e	5.3e	4.2p	3.7	
Labour market								
Unemployment rate (3 year average)	**10%**			**8.8**	**7.5**	**7.2**	**7.1**	**6.7**
Unemployment rate (year level)		7.4 (10)		6.6	7.5	7.6	6.3	6.3
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.9**	**0.7**	**2.4**	**2.6**	**2.3**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-4.2**	**-2.5**	**-0.6**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-14.7**	**-6.3**	**-1.8**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.12. ITALY

In Italy, concerns related to the high government debt-to-GDP ratio remain unchanged. Labour market weaknesses could increase again. Despite improvements in the banking sector, the risk of feedback loops is increasing due to the macroeconomic context and warrants close monitoring.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Italy is experiencing excessive macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of excessive imbalances or their unwinding in an in-depth review for Italy.

Real GDP growth is forecast at 3.8% in 2022 and 0.3% in 2023. Inflation is high. Year-on-year, it increased to 12.8% in October, with core inflation estimated at 4.5%. Prices are set to rise faster than wages.

The scoreboard reading for Italy shows that in 2021 three indicators were beyond their indicative thresholds, namely the change in export market share, government debt and change in activity rate. An economic reading of the scoreboard highlights the following relevant developments:

- **Cost competitiveness** concerns seem to be limited. Nominal unit labour costs remained unchanged in 2021, but are forecast to increase going forward. The HICP-based real effective exchange rate depreciated marginally in 2021. Year on year, it continued depreciating by August 2022. By contrast, productivity growth has been lagging behind EU peer countries for decades.

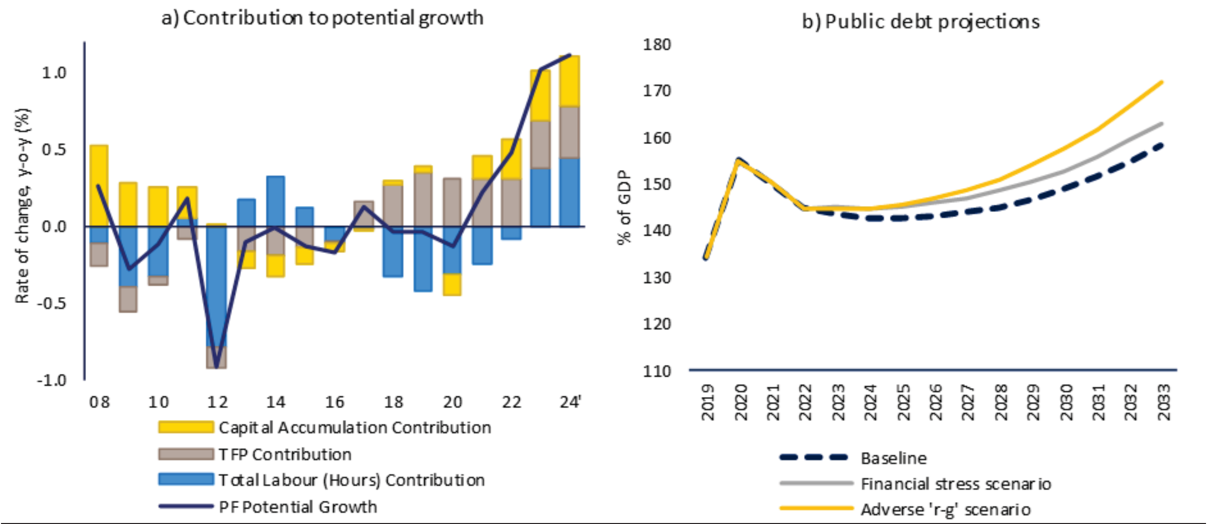
- The **household debt** -to-GDP ratio remains close to benchmarks and net credit flow to households remained moderate in 2021 and 2022. The household debt-to GDP ratio remained broadly stable in the first half of 2022. The share of variable rate loans is relatively low.

- **Government debt** remains high despite its ratio to GDP having declined to 150.3% in 2021. While the debt ratio is forecast to continue decreasing, it is set to remain well above the 2019 level. The government deficit remains high, although it narrowed to 7.2% in 2021 and it is forecast to continue narrowing. The sovereign bond yield spreads diverged significantly from the EA average, which raises funding costs, albeit rather gradually given the increased average maturity of outstanding debt. Fiscal sustainability risks are high in the medium-term, while the projected decline in ageing costs lowers the risk to medium in the long-term.

- The **banking sector** experienced substantial improvements in recent years. The reduction of the non-performing loans (NPLs) ratio continued, having reached around 3.5% in 2021. While this ratio remains only slightly above the euro area average, the underperforming (stage 2) loans increased since 2020. A significant sovereign bank nexus and the link with some corporate sector vulnerabilities can increase the risk of feedback loops.

- **Labour market** weaknesses continue being a concern. The unemployment rate increased to 9.5% in 2021 and remains relatively high although it is below the 10% threshold. It is forecast to decline in 2022 but increase again in 2023. The activity rate is very low, especially for women, despite having increased in 2021. Youth and long-term unemployment rates remain among the highest in the EU.

Graph 3.12.1: **Selected graphs: Italy**



The 'adverse interest-growth rate' scenario assumes a less favourable snowball effect than in the baseline (i.e. the differential between market interest rates and nominal GDP growth is permanently 1 pp. higher). In the 'financial stress' scenario, the country temporarily (one year) faces higher market interest rates in 2023 (i.e. market interest rates are assumed to increase temporarily by 1 pp. in 2023).
Source: Eurostat and European Commission services

Table 3.12.1: **Key economic and financial indicators, Italy**

	Thresholds	Benchmark I	Benchmark II	2019	2020	2021	forecast 2022	2023
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**2.9**	**3.3**	**3.4**	**2.6**	**1.2**
Current account balance, balance of payments (% of GDP)		1.6 (1)	0.2 (2)	3.3	3.9	3.1	0.8	-0.2
Net international investment position (% of GDP)	**-35%**	**-65.8 (3)**	**14.7 (4)**	**-1.2**	**1.4**	**8.1**	**7.2**	**7.4**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-0.1	1.2	6.4		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**3.2**	**6.6**	**4.6**	**6.1**	**5.3**
Nominal unit labour cost index (% y-o-y change)				1.3	3.2	0.0	2.8	2.4
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.2**	**0.6**	**-1.8**	**-5.7**	**-9.4**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-2.2	0.9	-0.5	-6.1	-3.2
Export market share - % of world exports (5 year % change)	**-6%**			**-2.4**	**-2.9**	**-6.2**	**0.8**	**1.1**
Export market share - % of world exports (1 year % change)				-1.4	-2.8	-0.8	6.7	-0.4
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**106.0**	**118.5**	**113.5**	**109.7**	**106.4**
Private sector credit flow, consolidated (% of GDP)	**14%**			**0.3**	**4.0**	**3.3**	**4.0**	**4.5**
Household debt, consolidated (% of GDP)		43.8 (6)	39.0 (7)	41.1	44.9	43.4	42.6	42.5
Non-financial corporate debt, consolidated (% of GDP)		77.7 (6)	58.4 (7)	64.9	73.6	70.1	67.1	63.9
Housing market								
House price index, deflated (1 year % change)	**6%**			**-0.7**	**1.8**	**0.9**	**-2.2**	**-3.5**
House price index, nominal (1 year % change)		-8.4 (8)		-0.1	1.9	2.6	4.9	1.6
Government debt								
General government gross debt (% of GDP)	**60%**			**134.1**	**154.9**	**150.3**	**144.6**	**143.6**
General government balance (% of GDP)				-1.5	-9.5	-7.2	-5.1	-3.6
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**4.7**	**7.3**	**6.2**	**0.9**	
Return on equity (%)				4.9	1.0	5.7		
Common Equity Tier 1 ratio		10.6 (9)		13.9	15.5	15.1		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				6.7e	4.5e	3.5p	3.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**10.6**	**9.9**	**9.6**	**9.0**	**8.8**
Unemployment rate (year level)		9.6 (10)		9.9	9.3	9.5	8.3	8.7
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.9**	**-1.8**	**-1.1**	**0.8**	**2.4**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.2**	**-1.8**	**-1.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-8.5**	**-4.8**	**-2.5**		

Notes: See Annex 1
Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.13. CYPRUS

In Cyprus, concerns related to household and non-financial corporate, government and external debt-to-GDP ratios remain, although they resumed their declining path after the COVID-19 crisis. Despite improvements, non-financial corporate and household debt-to-GDP ratios continue to be among the highest in the EU. The large current account deficit narrowed, but is forecast to increase again, amid the worsening external environment. The banking sector proved resilient, although risks remain, including those associated with non-performing loans.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Cyprus is experiencing excessive macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of excessive imbalances or their unwinding in an in-depth review for Cyprus.

Real GDP growth is forecast at 5.6% in 2022 and 1% in 2023. Inflation is high. Year-on-year, it decreased to 8.6% in October, with core inflation estimated at 5.9%. Prices are set to rise faster than wages.

The scoreboard reading for Cyprus shows that in 2021 four indicators were beyond their indicative thresholds, namely the current account balance, the net international investment position, private sector debt and government debt. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** remains a concern. The current account deficit remains large despite some narrowing to 6.8% of GDP in 2021. The improvement was driven by the partial recovery in travel balance, which more than offset the deterioration of balance of trade in energy goods. A negative contribution came from the worsening primary income balance. The current account deficit is forecast to increase in 2022, before falling again while remaining large, and is not conducive to maintaining the net international investment position (NIIP) at prudent levels. While the NIIP remained substantial and negative at -117.8% of GDP in 2021, it largely reflects the activities of special purpose entities with reportedly limited links to the domestic economy. The NIIP is forecast to continue decreasing.

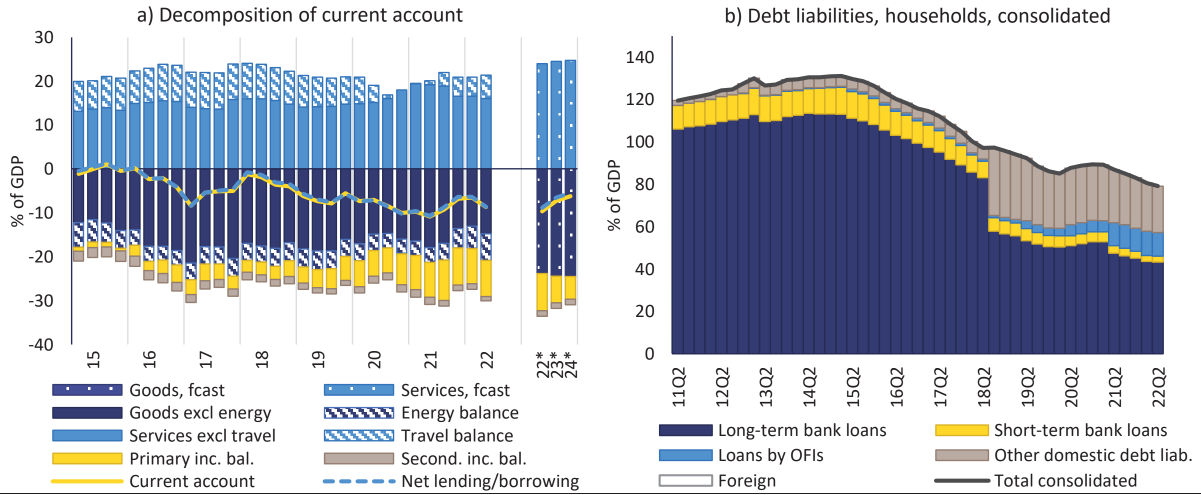
- **Cost competitiveness** concerns are limited. Nominal unit labour costs slightly declined in 2021, but are forecast to somewhat increase, in light of high core inflation. There is a partial indexation of wages to inflation. The HICP-based real effective exchange rate depreciated marginally in 2021. Year-on-year, it continued depreciating by August 2022.

- The **non-financial corporate debt**-to-GDP ratio remains among the highest in the EU, but it is on a declining path. It continued to decrease in the first half of 2022 but remains still above both prudential and fundamental benchmarks. The high share of foreign debt of non-financial ship-owning special purpose entities and high liquidity buffers mitigate risks. Corporate non-performing loans (NPLs) of banks remain elevated and there are also NPLs held by credit acquiring companies. The household debt-to-GDP ratio is also among the highest in the EU and it is above its estimated prudential benchmark. However, the ratio declined in 2021 and continued to decrease in the first half of 2022. Part of the household debt is in form of non-performing loans held by banks or credit acquiring companies. The repeated suspension of foreclosures undermines payment discipline. Higher interest rates are likely to put pressure on the debt servicing capacity of NFCs and households, as variable interest rate debt prevails.

- Concerns related to the **government debt**-to-GDP ratio remain. The government debt ratio decreased to 101% of GDP in 2021 and is forecast to decrease further, to below the 2019 level in 2022. Sovereign bond spreads tend to be higher than in other EA members. The fiscal balance is forecast to turn into a surplus in 2022 and the projected primary surpluses are expected to keep government gross financing needs at relatively low levels. Furthermore, Cyprus has sizeable cash buffers. The fiscal sustainability risks are medium both in the medium and long-term.

- The **banking sector** proved resilient, albeit remaining challenges. In 2021 the stock of NPLs further declined to around 5.6% on the back of asset sales, while in 2022 it remains stable. The impact of the pandemic is visible in the increased share of loans classified as exhibiting increased risk. The stage 2 loan ratio and the share of forborne loans are well above the EA average. Nevertheless, new defaults following the lifting of the moratoria have been limited so far. While the tier-1 capital ratio is close to the EU average, return on equity is one of the lowest in the EU and turned only marginally positive in 2021. Higher interest rates are expected to increase banks net interest income, given the significant amount of banks' cash holdings and the predominance of floating rates loans. However, asset quality could deteriorate with the squeeze of private sector balance sheets.

Graph 3.13.1: **Selected graphs: Cyprus**


a) Decomposition of current account

b) Debt liabilities, households, consolidated

Source: Eurostat, Comext and European Commission services

Table 3.13.1: **Key economic and financial indicators, Cyprus**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-4.9**	**-6.5**	**-7.5**	**-8.8**	**-7.9**
Current account balance, balance of payments (% of GDP)		-2.0 (1)	-1.3 (2)	-5.6	-10.1	-6.8	-9.7	-7.3
Net international investment position (% of GDP)	**-35%**	**-59.4 (3)**	**-40.1 (4)**	**-115.4**	**-134.5**	**-117.8**	**-104.8**	**-108.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-155.3	-111.4	-76.4		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**5.2**	**6.9**	**4.1 p**	**2.2**	**5.9**
Nominal unit labour cost index (% y-o-y change)				2.7	2.9	-1.4 p	0.7	6.6
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.0**	**0.1**	**-2.4**	**-5.8**	**-8.8**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-2.2	0.5	-0.8	-5.8	-2.9
Export market share - % of world exports (5 year % change)	**-6%**			**25.3**	**38.9**	**24.9**	**25.1**	**19.5**
Export market share - % of world exports (1 year % change)				5.3	13.6	-2.7	3.9	-1.2
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**265.5**	**269.8**	**248.4 p**	**228.2**	**213.0**
Private sector credit flow, consolidated (% of GDP)	**14%**			**-0.5**	**-1.2**	**4.3 p**	**3.4**	**-0.4**
Household debt, consolidated (% of GDP)		45.6 (6)	93.1 (7)	86.2	89.4	83.0	77.4	74.5
Non-financial corporate debt, consolidated (% of GDP)		81.2 (6)	137.2 (7)	179.3	180.4	165.4	150.8	138.5
Housing market								
House price index, deflated (1 year % change)	**6%**			**3.4**	**0.7**	**-4.3**	**-5.5**	**-4.0**
House price index, nominal (1 year % change)		-13.7 (8)		3.7	-0.2	-3.4	0.9	3.3
Government debt								
General government gross debt (% of GDP)	**60%**			**90.4**	**113.5**	**101.0**	**89.6**	**84.0**
General government balance (% of GDP)				1.3	-5.8	-1.7	1.1	1.1
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**7.5**	**-7.1**	**-0.8**	**-0.2**	
Return on equity (%)				3.5	-3.3	0.6		
Common Equity Tier 1 ratio		10.6 (9)		17.4	17.6	17.6		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				18.1e	11.0e	5.6p	5.6	
Labour market								
Unemployment rate (3 year average)	**10%**			**8.9**	**7.7**	**7.4**	**7.4**	**7.3**
Unemployment rate (year level)		8.9 (10)		7.1	7.6	7.5	7.2	7.2
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.6**	**1.9**	**1.7**	**-0.9**	**0.1**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-3.7**	**-2.4**	**-0.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-12.5**	**-6.5**	**-3.1**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.14. LATVIA

In Latvia, concerns related to cost competitiveness and house price developments existed already before the COVID-19 pandemic and are increasing. Nominal unit labour costs are set to continue increasing driven by weakening productivity growth. Nominal house price growth remains rapid and has picked up more recently, leading to a slight overvaluation, although household debt is low. The surge in energy prices has spilled over to core inflation, which is among the highest in the EU and has contributed to a weakening of the current account.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Latvia. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Latvia.

Real GDP growth is forecast at 1.9% in 2022 and -0.3% in 2023. Inflation is among the highest in the euro area. Year-on-year, it decreased to 21.8% in October, with core inflation estimated at 8.9% in September. Prices are set to rise faster than wages.

The scoreboard reading for Latvia shows that in 2021 four indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth, change in activity rate and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** risks are limited despite the worsening outlook**.** The current account turned negative in 2021, reaching -4.2%, and is forecast to deteriorate further in 2022, mainly due to rising costs of energy imports. The government deficit widened significantly during the COVID-19 crisis, having reached 7% in 2021, and is forecast to remain at about this level in 2022 before narrowing in 2023. However, the net international investment position (NIIP) continued improving and reached -27.4% of GDP in 2021. Since Latvia's liabilities largely consist of government bonds and foreign direct investment, the NIIP excluding non-defaultable instruments is positive.

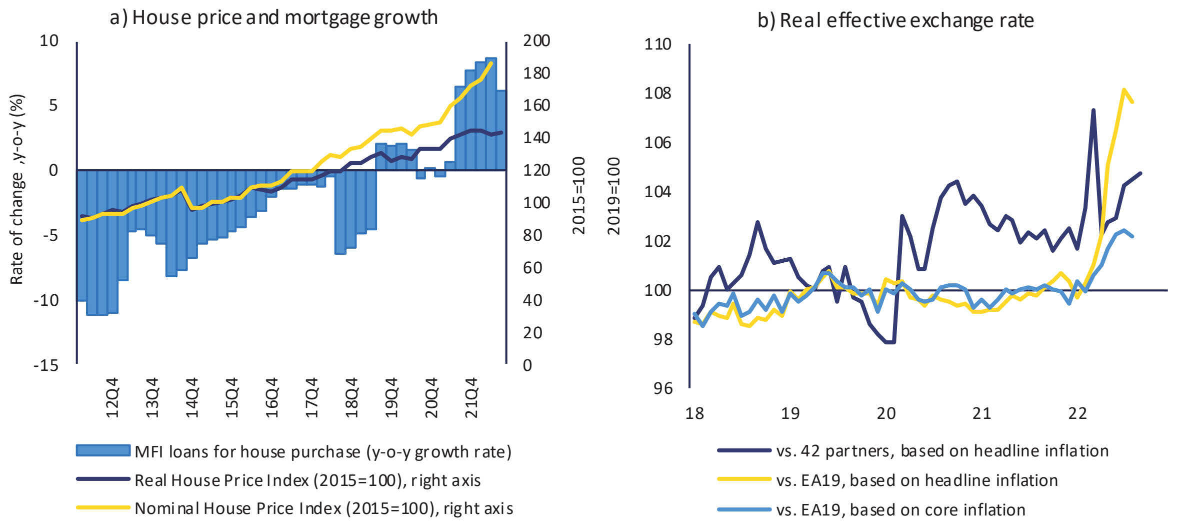
- **Cost competitiveness** concerns existed already before the COVID-19 pandemic and remain pertinent. Nominal unit labour cost growth decelerated to 4% in 2021, but is forecast to pick up again strongly in 2022 and remain high in 2023. The high inflation may put additional pressure on wage growth and the worsening economic outlook is expected to reduce productivity growth. While inflation has been particularly high, the HICP-based real effective exchange rate appreciated marginally in 2021, and year-on-year also appreciated by August 2022.

- High **house price** growth continues being of concern. Nominal house price growth stood at 10.9% in 2021 and accelerated significantly in the first half of 2022. Nominal year-on-year house price growth was at 16.5% in the second quarter of 2022. This acceleration follows a decade where house price growth remained broadly in step with wage growth. In 2021, house prices were estimated to be 10% overvalued. Mortgage lending is moderate and household debt low and decreasing.

- **The banking sector** is sound and well capitalised. Profitability improved in 2021 above the EU average and the non-performing loans ratio declined by more than 2 percentage points to 2.1%. Credit dynamics have been muted and the private sector debt has continued declining.

- The **labour market** deteriorated during the COVID-19 crisis and has not fully recovered. The unemployment rate decreased to 7.6% in 2021 and is forecast to decrease in 2022 before increasing again in 2023. The activity rate fell significantly in 2021 breaking an almost decade long trend of improvement, but it is forecast to start increasing again in 2022. Youth unemployment has failed to improve after the increase in 2020.

Graph 3.14.1: **Selected graphs: Latvia**



Source: Eurostat and European Commission services

Table 3.14.1: **Key economic and financial indicators, Latvia**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**0.2**	**0.6**	**-0.7**	**-3.2**	**-6.9**
Current account balance, balance of payments (% of GDP)		-0.4 (1)	-3.8 (2)	-0.6	2.6	-4.2	-8.1	-8.4
Net international investment position (% of GDP)	**-35%**	**-50.5 (3)**	**-13.3 (4)**	**-40.3**	**-34.1**	**-27.4**	**-24.4**	**-25.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				5.8	14.1	18.9		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**15.3**	**16.1**	**14.5**	**22.4**	**25.5**
Nominal unit labour cost index (% y-o-y change)				5.0	4.8	4.0	12.3	7.4
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**3.8**	**5.9**	**2.3**	**-2.9**	**-7.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.0	2.0	0.3	-5.2	-2.8
Export market share - % of world exports (5 year % change)	**-6%**			**3.3**	**19.7**	**13.4**	**15.6**	**10.0**
Export market share - % of world exports (1 year % change)				-1.3	11.8	-1.8	3.7	-2.1
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**66.2**	**64.7**	**58.0**	**53.1**	**51.4**
Private sector credit flow, consolidated (% of GDP)	**14%**			**1.1**	**-1.9**	**0.9**	**1.8**	**3.0**
Household debt, consolidated (% of GDP)		61.9 (6)	18.2 (7)	20.2	20.3	19.4	18.1	18.1
Non-financial corporate debt, consolidated (% of GDP)		83.5 (6)	68.9 (7)	46.0	44.4	38.6	35.0	33.3
Housing market								
House price index, deflated (1 year % change)	**6%**			**5.8**	**2.7**	**7.3**	**-2.5**	**-2.2**
House price index, nominal (1 year % change)		10.3 (8)		9.0	3.5	10.9	11.1	-0.4
Government debt								
General government gross debt (% of GDP)	**60%**			**36.5**	**42.0**	**43.6**	**42.4**	**44.0**
General government balance (% of GDP)				-0.6	-4.3	-7.0	-7.1	-3.4
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**4.6**	**10.8**	**13.2**	**1.8**	
Return on equity (%)				9.6	5.2	4.5		
Common Equity Tier 1 ratio		10.6 (9)		22.0	25.7	29.2		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				3.9e	4.6e	2.1p	1.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**7.5**	**7.3**	**7.3**	**7.6**	**7.6**
Unemployment rate (year level)		7.4 (10)		6.3	8.1	7.6	7.1	8.1
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.1**	**1.1**	**-1.8**	**2.0**	**2.5**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.7**	**-1.2**	**-1.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-4.8**	**-2.1**	**2.6**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.15. LITHUANIA

In Lithuania, concerns related to cost competitiveness existed before the COVID-19 pandemic and current developments bring them to the fore. Nominal unit labour cost growth has been strong in recent years and is set to remain high, while core inflation has also been high compared with Lithuania's euro area peers. Nominal house price growth is among the highest in the EU, and loan growth continues.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Lithuania. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Lithuania.

Real GDP growth is forecast at 2.5% in 2022 and 0.5% in 2023. Inflation is high, including compared to Lithuania's euro area trading partners. Year-on-year, it decreased to 22% in October 2022, with core inflation estimated at 11.9% in September. Prices are set to rise faster than wages.

The scoreboard reading for Lithuania shows that in 2021 five indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth, financial sector liabilities growth, change in long-term unemployment and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

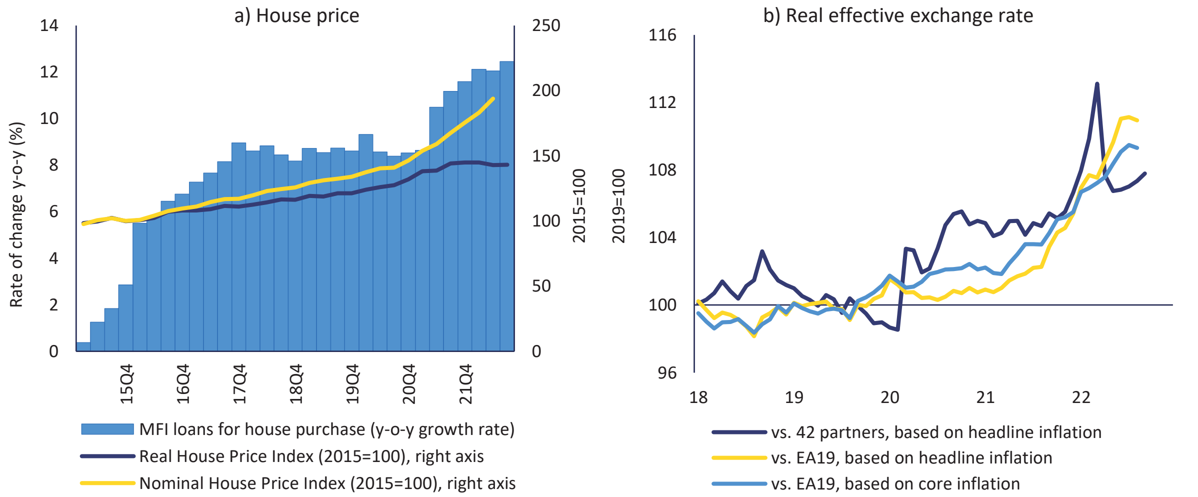
- **External sustainability** concerns remain contained despite the worsening outlook. The current account surplus narrowed to 1.1% in 2021, undoing its temporary increase during the pandemic and driven by a worsening balance of trade in both energy and other goods. A deterioration of the current account balance to a sizeable deficit is forecast for 2022. After having narrowed substantially in 2021, the government deficit is forecast to widen to 1.9% in 2022 and continue widening in 2023. The net international investment position (NIIP) is nearly balanced and projected to continue improving. As its liabilities largely consist of foreign direct investment, the NIIP net of non-defaultable instruments is positive.

- **Cost competitiveness** concerns, which existed before the COVID-19 pandemic, remain acute. Nominal unit labour costs have been increasing strongly in recent years and their growth is forecast to accelerate in 2022, in the context of Lithuania's strong nominal wage increases. Further rises, though considerably less pronounced, are forecast for the rest of the forecast horizon. The HICP-based real effective exchange rate appreciated in 2021. However, year-on-year, it had remained broadly unchanged by August 2022.

- High **house price growth** continues being of concern. Nominal house price growth accelerated from 7.3% in 2020 to 16.1% in 2021, among the highest paces in the EU. Nominal year to year house price growth increased to 22.1% in the second quarter of 2022. For 2021, house prices metrics do not point to potential signs of overvaluation. Household loans have picked up in recent months.

- The **unemployment rate** resumed its decreasing trend, reaching 7.1% in 2021 and is forecast to decrease also in 2022 before increasing again in 2023. The unemployment rate remains higher than in many other EU countries, whereas the vacancy rate increased to a historically high level. The long-term unemployment rate slightly increased in 2021. The youth unemployment rate decreased in 2021.

Graph 3.15.1: **Selected graphs: Lithuania**



Source: Eurostat and European Commission services

Table 3.15.1: **Selected economic and financial indicators, Lithuania**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**1.5**	**3.7**	**4.0**	**1.5**	**-1.8**
Current account balance, balance of payments (% of GDP)		0.7 (1)	-2.5 (2)	3.5	7.3	1.1	-3.9	-2.8
Net international investment position (% of GDP)	**-35%**	**-61.2 (3)**	**1.5 (4)**	**-23.5**	**-15.6**	**-7.4**	**-3.4**	**-4.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				5.6	15.2	22.2		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**16.6**	**17.4**	**19.2**	**26.0**	**24.2**
Nominal unit labour cost index (% y-o-y change)				6.3	4.9	6.8	12.4	3.4
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**3.8**	**6.9**	**4.4**	**-0.7**	**-8.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.7	3.3	1.8	-5.5	-5.2
Export market share - % of world exports (5 year % change)	**-6%**			**16.4**	**38.7**	**37.9**	**30.0**	**21.7**
Export market share - % of world exports (1 year % change)				6.5	8.9	3.4	3.3	-1.7
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**55.2**	**54.4**	**53.9**	**51.1**	**46.8**
Private sector credit flow, consolidated (% of GDP)	**14%**			**2.6**	**0.3**	**5.9**	**6.0**	**5.6**
Household debt, consolidated (% of GDP)		63.9 (6)	14.9 (7)	23.0	24.2	23.6	22.6	22.7
Non-financial corporate debt, consolidated (% of GDP)		86.7 (6)	48.8 (7)	32.2	30.2	30.3	28.5	24.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.5**	**6.1**	**11.0**	**-1.6**	**-2.8**
House price index, nominal (1 year % change)		-7.0 (8)		6.8	7.3	16.1	14.1	2.8
Government debt								
General government gross debt (% of GDP)	**60%**			**35.8**	**46.3**	**43.7**	**38.0**	**41.0**
General government balance (% of GDP)				0.5	-7.0	-1.0	-1.9	-4.4
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**6.2**	**28.5**	**25.2**	**8.1**	
Return on equity (%)				14.5	10.0	10.4		
Common Equity Tier 1 ratio		10.6 (9)		19.5	21.5	23.2		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.7e	2.2e	1.2p	1.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**6.5**	**7.0**	**7.3**	**7.2**	**6.7**
Unemployment rate (year level)		6.4 (10)		6.3	8.5	7.1	6.0	7.1
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.5**	**2.6**	**0.9**	**1.0**	**-1.2**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.1**	**-0.2**	**0.6**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-2.6**	**6.3**	**3.2**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.16. LUXEMBOURG

In Luxembourg, concerns related to house price developments and high household debt have increased. Nominal house price growth is among the highest in the EU, raising concerns about overvaluation and high household debt. Household debt as a percentage of household gross disposable income is declining but remains very high. The banking sector is stable but faces some risks. Some competitiveness concerns may be emerging, amid continued unit labour cost growth.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Luxembourg. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Luxembourg.

Real GDP growth is forecast at 1.5% in 2022 and 1% in 2023. Inflation is high. Year-on-year, it remained at 8.8% in October, while core inflation is estimated at 4.9% in September, which is lower than in many other euro area countries. Prices are set to rise faster than wages.

The scoreboard reading for Luxembourg shows that in 2021 five indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth, private sector credit flow, private sector debt and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **Cost competitiveness** may become a concern. Nominal unit labour costs increased by 3.9% in 2021 and are forecast to continue increasing more strongly over 2022 and 2023. The broad package of measures adopted to curb inflation is expected to moderate nominal wage increases going forward. The HICP-based real effective exchange rate appreciated marginally in 2021. Year-on-year, it depreciated by August 2022.

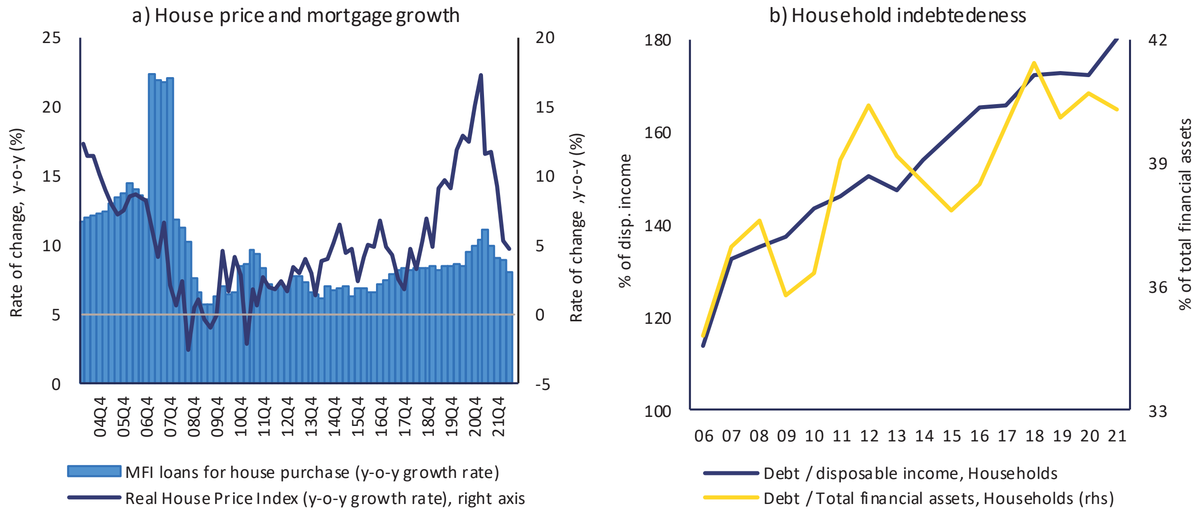
- The **non-financial corporate debt**-to-GDP ratio is the highest in the EU, although it declined moderately, to 274% of GDP in 2021. It remains above both prudential and fundamental benchmarks and is still 31 p.p. higher than in 2019. The high share of cross-border intra-group lending in corporate debt reduces these risks. At 11%, the share of corporate loans denominated in foreign currency is one of the highest among euro area countries. The non-financial corporate debt ratio decreased in the first half of 2022, but there are risk factors associated to the macroeconomic environment. Credit flows to non-financial corporates declined, but also remain very high, at 16.7% of GDP.

- **Household debt** as a percentage of household gross disposable income is declining, although it remains one of the highest in the EU. Net credit flows to households moderated in the second quarter of 2022. The debt stock has declined on account of nominal GDP growth and continued to decline in the first half of 2022. Financing costs for households started to increase, partly due to the high share of variable rate mortgages and in line with the increase for the EA and lending standards for mortgage loans have tightened.

- Very high **house price growth** continues being of concern. Nominal house price growth remained very high, at 13.9% in 2021, compared to 14.5% in 2020 being one of the highest paces in the EU. Nominal year-on-year house price growth was at 11.5% in the second quarter of 2022. One of the highest price-to-income ratios in the EU raises affordability concerns. At 61%, house prices were estimated to be the most overvalued according to the Commission valuation model in 2021, among the EU Member States. The risk of a sharp correction in house prices is limited given supply constraints, but has increased in view of tighter financing conditions and lower growth.

- **The banking sector** is stable but faces some risks. Banks are well capitalised and liquid. Profitability increased in 2021 but remained well below the EU average. The ratio of non-performing loans is the lowest in the EU. Dynamic mortgage growth, despite a recent deceleration, represents a main risk for the banking sector, amid already high household indebtedness and overvalued house prices.

Graph 3.16.1: **Selected graphs: Luxembourg**



Source: Eurostat and European Commission services

Table 3.16.1: **Selected economic and financial indicators, Luxembourg**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**4.0**	**3.9**	**4.2**	**4.0**	**3.4**
Current account balance, balance of payments (% of GDP)		5.5 (1)	3.0 (2)	3.4	4.6	4.7	2.9	2.5
Net international investment position (% of GDP)	**-35%**	**-171.4 (3)**	**53.7 (4)**	**67.8**	**55.7**	**30.6**	**33.9**	**35.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-4153.8	-4172.4	-4766.5		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**14.7**	**13.0**	**11.2 p**	**15.0**	**17.4**
Nominal unit labour cost index (% y-o-y change)				3.1	3.8	3.9 p	6.7	5.9
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.0**	**1.5**	**0.6**	**-1.9**	**-4.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.6	0.4	0.8	-3.0	-2.5
Export market share - % of world exports (5 year % change)	**-6%**			**7.0**	**17.6**	**13.1**	**13.9**	**14.2**
Export market share - % of world exports (1 year % change)				3.1	15.2	-1.4	-1.2	-1.3
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**310.8**	**320.3**	**340.6 p**	**329.7**	**309.9**
Private sector credit flow, consolidated (% of GDP)	**14%**			**24.9**	**42.9**	**53.9 p**	**12.2**	**8.0**
Household debt, consolidated (% of GDP)		91.7 (6)	88.5 (7)	67.2	68.5	66.0	67.2	67.6
Non-financial corporate debt, consolidated (% of GDP)		104.6 (6)	89.7 (7)	243.6	251.8	274.6	262.5	242.3
Housing market								
House price index, deflated (1 year % change)	**6%**			**8.3**	**13.1**	**12.4**	**3.9**	**2.2**
House price index, nominal (1 year % change)		60.9 (8)		10.1	14.5	13.9	10.0	3.1
Government debt								
General government gross debt (% of GDP)	**60%**			**22.4**	**24.5**	**24.5**	**24.3**	**26.0**
General government balance (% of GDP)				2.2	-3.4	0.8	-0.1	-1.7
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**3.7**	**-2.6**	**11.4**	**0.2**	
Return on equity (%)				5.2	4.4	5.5		
Common Equity Tier 1 ratio		10.6 (9)		18.8	19.5	18.3		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				0.6e	0.7e	0.6p	0.7	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.6**	**6.0**	**5.9**	**5.6**	**5.0**
Unemployment rate (year level)		5.7 (10)		5.6	6.8	5.3	4.7	5.1
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.0**	**2.0**	**2.1**	**-1.2**	**-2.3**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-0.9**	**-0.4**	**0.4**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-1.9**	**7.8**	**2.7**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.17. HUNGARY

In Hungary, concerns related to external sustainability, cost competitiveness, fiscal sustainability and house price developments continue increasing. The current account deficit widened in 2021 and is forecast to rise further, and the exchange rate has been on a depreciating trend. Unit labour costs increases have been very large for years and continue to be strong, with cost competitiveness so far maintained through nominal depreciation. Nominal house price growth has recently been among the highest in the EU, amidst limited supply and an estimated overvaluation of house prices. The government deficit remains high.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Hungary. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Hungary.

Real GDP growth is forecast at 5.5% in 2022 and 0.1% in 2023. Inflation is very high, including compared to Hungary's euro area trading partners. Year-on-year, it increased to 20.7% in September, with core inflation estimated at 13.2%. Prices are set to rise faster than wages.

The scoreboard reading for Hungary shows that in 2021 five indicators were beyond their indicative thresholds, namely the net international investment position, nominal unit labour cost growth, real house price growth, government debt and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** risks have increased amid deteriorating external flows. The current account deficit widened to 4% of GDP in 2021, with a clear further widening underway in 2022. Hungary's large net energy imports make the external balance sensitive to international energy price developments. The negative net international investment position (NIIP) remained broadly unchanged in 2021. The NIIP net of non-defaultable instruments is nearly balanced. The foreign exchange reserves cover slightly more than 3 months of imports and exceed short-term external debt.

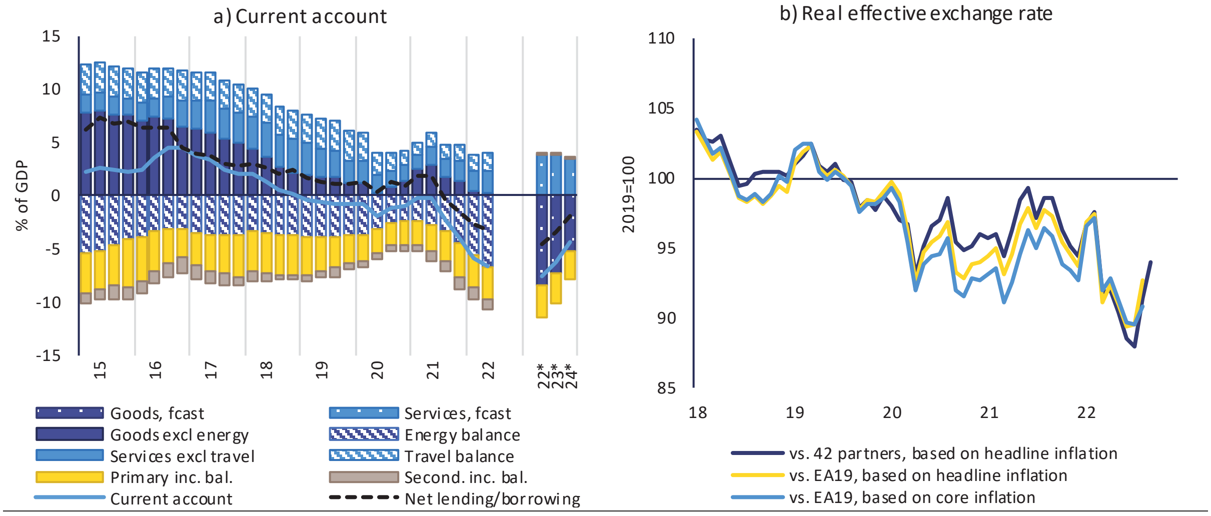
- **Cost competitiveness** concerns, which existed already before the COVID-19 pandemic, persist. Continued nominal depreciations of the forint have partially offset the large increases in nominal unit labour costs (ULCs) in recent years. ULCs increased again in 2021, in context of a tight labour market, and are forecast to increase strongly in 2022 and 2023. The HICP-based real effective exchange rate remained broadly unchanged in 2021 then strongly depreciated by August 2022.

- Very high **house price** growth remains of concern. Nominal house price growth accelerated from 4.9% to 16.5% in 2021 and grew at one of the highest paces in the EU. Nominal year-on-year house price growth accelerated to 22.8% in the second quarter of 2022. House prices were estimated to be 17% overvalued in 2021. At the same time, dwelling investment was well below the EU average at 3.9% of GDP in 2021.

- The **government debt** decreased slightly in 2021, to 76.8% of GDP, on the back of marked nominal GDP growth, and is forecast to stabilise at around that level. The government deficit narrowed to 7.1% of GDP in 2021 and is forecast to continue moderating on the back of measures announced by the government. The share of government debt denominated in foreign currencies or held by non-residents is elevated. Sovereign bond yields have increased for all maturities especially since summer last year. At the same time, government gross financing needs are high. Fiscal sustainability risks are medium in the medium term and high in the long term, also due to population ageing.

- The **banking sector** remains overall sound but faces challenges ahead. Profitability is one of the highest in the EU, the tier-1 capital ratio is close to the EU average and the non-performing loans ratio has remained low, although there was an increase in forborne debt in 2021. A just-introduced windfall tax for 2022 and 2023 and a regulatory cap on flexible mortgage rates until mid-2023 are likely to significantly reduce banks' profits. The holdings of government debt accounts for almost one fifth of bank assets. The private sector debt-to-GDP ratio is low but borrowing by households and corporations has increased strongly since 2020 and loans in foreign currency have significance, notably for commercial real estate.

Graph 3.17.1: **Selected graphs: Hungary**



Source: Eurostat, Comext and European Commission services

Table 3.17.1: **Selected economic and financial indicators, Hungary**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**0.5**	**-0.5**	**-1.9**	**-4.2**	**-6.0**
Current account balance, balance of payments (% of GDP)		0.0 (1)	-6.1 (2)	-0.8	-1.1	-4.0	-7.6	-6.3
Net international investment position (% of GDP)	**-35%**	**-52.0 (3)**	**-14.4 (4)**	**-49.8**	**-52.2**	**-53.1**	**-46.1**	**-44.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-2.6	-2.4	-1.5		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**11.5**	**13.7**	**12.4 p**	**20.6**	**27.8**
Nominal unit labour cost index (% y-o-y change)				3.1	6.7	2.1 p	10.7	13.0
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.4**	**-4.9**	**-4.1**	**-13.1**	**-13.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.8	-3.6	0.3	-10.0	-4.2
Export market share - % of world exports (5 year % change)	**-6%**			**5.0**	**7.4**	**0.0**	**2.0**	**3.3**
Export market share - % of world exports (1 year % change)				1.1	2.6	-3.8	2.6	0.9
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**67.3**	**76.8**	**80.5 p**	**75.9**	**65.5**
Private sector credit flow, consolidated (% of GDP)	**14%**			**4.2**	**8.1**	**12.7 p**	**6.0**	**2.0**
Household debt, consolidated (% of GDP)		46.4 (6)	26.0 (7)	18.5	20.8	21.0	19.7	18.6
Non-financial corporate debt, consolidated (% of GDP)		63.4 (6)	35.1 (7)	48.8	56.0	59.5	56.2	46.9
Housing market								
House price index, deflated (1 year % change)	**6%**			**11.8**	**1.5**	**10.0 p**	**4.5**	**-15.3**
House price index, nominal (1 year % change)		16.8 (8)		17.0	4.9	16.5	17.1	3.5
Government debt								
General government gross debt (% of GDP)	**60%**			**65.3**	**79.3**	**76.8**	**76.4**	**75.2**
General government balance (% of GDP)				-2.0	-7.5	-7.1	-6.2	-4.4
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**36.8**	**55.0**	**16.4**	**0.0**	
Return on equity (%)				14.3	7.6	12.7		
Common Equity Tier 1 ratio		10.6 (9)		15.8	15.9	17.7		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				4.2e	3.6e	3.2p	3.4	
Labour market								
Unemployment rate (3 year average)	**10%**			**3.6**	**3.7**	**3.8**	**3.9**	**4.0**
Unemployment rate (year level)		3.3 (10)		3.3	4.1	4.1	3.6	4.2
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.6**	**2.0**	**2.1**	**3.4**	**3.8**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.2**	**-0.5**	**-0.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-1.5**	**2.0**	**3.6**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.18. MALTA

In Malta, the current account deficit remains sizeable and non-financial corporate debt elevated, although associated risks appear to be limited. The high non-financial corporate debt to GDP ratio remains on a declining path. Nominal house prices are estimated to be moderately overvalued.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Malta. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Malta.

Real GDP growth is forecast at 5.7% in 2022 and 2.8% in 2023. Inflation is high, albeit lower than in most other EU countries. Year-on-year, it increased to 7.5% in October, with core inflation estimated at 6.7%. Prices are set to rise faster than wages.

The scoreboard reading for Malta, shows that in 2021 one indicator was beyond its indicative threshold, namely nominal unit labour cost growth. An economic reading of the scoreboard highlights the following relevant developments:

- The **external sustainability** outlook is worsening. The current account deficit expanded to 4.6% in 2021 and is expected to deteriorate further in 2022. [46] Improvements in travel balances were offset by the deteriorating balance of trade in energy goods. The overall decline was mostly driven by the trade deficit in non-energy goods. The net international investment position remains large and positive, reflecting the country's position as an international financial centre. It is forecast to stay at similar level despite high current account deficits.

- **Cost competitiveness** concerns seem to be limited. Nominal unit labour costs declined in 2021, after the strong increase in 2020, but are forecast to increase again slightly in 2022. Unit labour cost growth remains below the euro area average. The HICP-based real effective exchange rate depreciated in 2021. Year-on-year, it continued depreciating by August 2022.

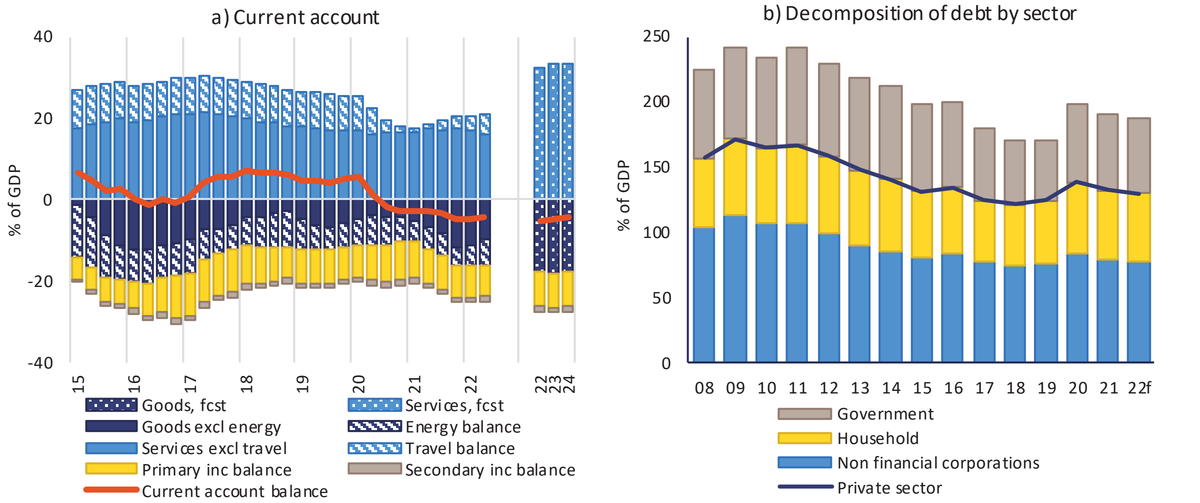
- Vulnerabilities related to the **non-financial corporate debt**-to-GDP ratio remain, although it is on a declining path. It declined moderately, to 78.4% in 2021. The non-financial corporate debt ratio continued to decrease in the first half of 2022, but there are risk factors associated to the macroeconomic environment. It remains above both prudential and fundamental benchmarks and is 3 percentage points higher than in 2019. Credit flows to non-financial corporates remain high in % of GDP.

- Concerns associated to **house price** developments remain. Nominal house price growth accelerated to 5.1% in 2021. Nominal year-on-year house price growth increased to 7.7% in the second quarter of 2022. House prices were estimated to be 9% overvalued in 2021. The banking sector remains overall sound with high levels of capitalisation, but low profitability. The exposure of banks to real estate sector is still very high.

- **The government debt** ratio increased to 56.3% of GDP and is forecast to increase further, approaching the 60% of GDP threshold. The government deficit narrowed to 7.8% of GDP in 2021 and it is forecast to continue narrowing. Fiscal sustainability risks are medium in the medium-term and high in the long-term due to population ageing and high initial fiscal deficit.

[46] There is a big discrepancy between Balance of Payments (BoP) and National Account (NA) data on the current account, with the latter displaying a considerable surplus in 2021, though considerably lower than in the pre-pandemic years. The scoreboard and assessments in the AMR are based on the BoP data.

Graph 3.18.1: **Selected graphs: Malta**



Source: Eurostat, Comext and European Commission services

Table 3.18.1: **Selected economic and financial indicators, Malta**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**5.7**	**2.8**	**-0.8**	**-4.2**	**-4.8**
Current account balance, balance of payments (% of GDP)		-2.4 (1)	3.2 (2)	5.0	-2.9	-4.6	-5.1	-4.8
Net international investment position (% of GDP)	**-35%**	**-71.1 (3)**	**-15.8 (4)**	**53.5**	**51.0**	**52.8**	**50.3**	**52.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				234.8	254.6	259.4		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**7.2**	**19.6**	**12.9**	**9.7**	**0.6**
Nominal unit labour cost index (% y-o-y change)				3.6	11.4	-2.2	0.7	2.1
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**1.8**	**2.1**	**-1.2**	**-4.8**	**-8.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.2	1.4	-1.3	-5.0	-2.2
Export market share - % of world exports (5 year % change)	**-6%**			**20.0**	**12.5**	**-0.9**	**-1.4**	**2.2**
Export market share - % of world exports (1 year % change)				4.0	4.1	-8.9	3.2	0.4
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**124.1**	**138.6**	**131.8**	**129.9**	**120.9**
Private sector credit flow, consolidated (% of GDP)	**14%**			**12.7**	**6.6**	**9.4**	**11.0**	**9.8**
Household debt, consolidated (% of GDP)		56.4 (6)	54.8 (7)	48.5	55.1	53.4	53.0	53.6
Non-financial corporate debt, consolidated (% of GDP)		47.8 (6)	52.6 (7)	75.6	83.5	78.4	76.9	67.3
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.2**	**2.2**	**3.8 p**	**0.5**	**-1.5**
House price index, nominal (1 year % change)		8.6 (8)		6.1	3.4	5.1	7.0	7.0
Government debt								
General government gross debt (% of GDP)	**60%**			**40.7**	**53.3**	**56.3**	**57.4**	**59.9**
General government balance (% of GDP)				0.6	-9.4	-7.8	-6.0	-5.7
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**7.5**	**1.7**	**7.7**	**0.2**	
Return on equity (%)				6.0	0.3	3.5		
Common Equity Tier 1 ratio		10.6 (9)		20.2	21.3	20.6		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				3.2e	3.6e	3.0p	2.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**3.8**	**3.9**	**3.8**	**3.7**	**3.2**
Unemployment rate (year level)		3.8 (10)		3.6	4.4	3.4	3.2	3.1
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**5.3**	**4.9**	**3.5**	**1.5**	**0.9**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.5**	**-0.9**	**-0.9**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-1.4**	**0.3**	**0.3**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.19. THE NETHERLANDS

In the Netherlands, the current account surplus, household and non-financial corporate debt-to-GDP ratios and house price overvaluation remain sizeable. The current account surplus and recent cost competitiveness developments warrant close monitoring, including from the perspective of euro area rebalancing. Nominal house price growth was among the highest in the EU in 2021, amidst an estimated overvaluation of house prices.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that the Netherlands is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for the Netherlands.

Real GDP growth is forecast at 4.6% in 2022 and 0.6% in 2023. Inflation is high. Year-on-year, it decreased to 16.8% in October, with core inflation estimated at 6.8%. Inflation is set to rise faster than wages.

The scoreboard reading for the Netherlands shows that in 2021 four indicators were beyond their indicative thresholds, namely, the current account balances, nominal unit labour cost growth, real house price growth and private sector debt. An economic reading of the scoreboard highlights the following relevant developments:

- **External sector** issues relate to the high and long-standing current account surplus, even if it has been revised downwards. It increased in 2021 to 7.2% of GDP, mainly due to higher income balances. It is forecast to narrow in 2022, due to worsening terms of trade and the impact of the relocation of Shell to the United Kingdom, but remains above indicative thresholds. The net international investment position as a share of GDP, at 93% in 2021, remains the largest in the EU, despite a strong decline mainly driven by negative valuation effects. It is forecast to continue declining in 2022.

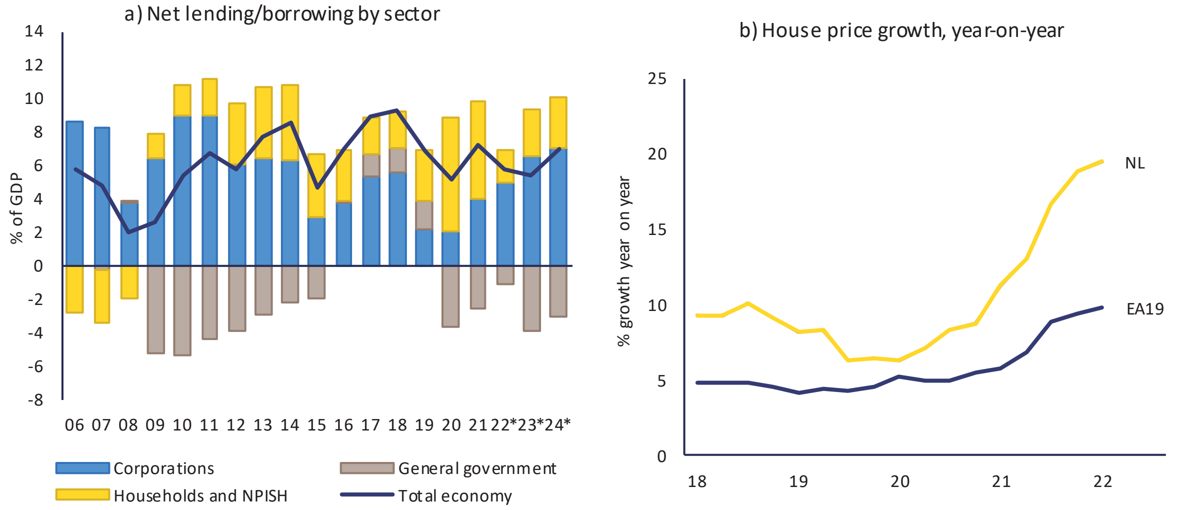
- **Cost competitiveness** developments may impede euro area rebalancing. Nominal unit labour costs slightly declined in 2021, despite a further tightening labour market, but are forecast to increase, although below the euro area average. The HICP-based real effective exchange rate remained broadly unchanged in 2021 and, year-on-year, by August 2022.

- The **non-financial corporate debt**-to-GDP ratio remains among the highest in the EU, although it is on a declining path. It decreased moderately in 2021, to 129%. The non-financial corporate debt ratio continued to decrease in the first half of 2022, but there are risk factors associated to the macroeconomic environment. It remains above both prudential and fundamental benchmarks. The high share of cross-border intra-group lending and high corporate liquidity buffers mitigate risks. Credit flows to non-financial corporates increased as a share of GDP in 2021.

- The **household debt**-to-GDP ratio remains the highest in the EU and was at 100% of GDP in 2021, above both prudential and fundamentals-based benchmarks. However, the ratio decreased in 2021, despite a positive contribution of credit flows, and continued to do so in the first half of 2022. Household non-performing debt remains low.

- High **house price** growth continues being of concern. Nominal house price growth accelerated from 7.6% in 2020 to 15% in 2021 and grew at one of the highest paces in the EU. It reached 18.2% year-on-year in the second quarter of 2022. House prices were estimated to be 21% overvalued in 2021. Risks associated with price corrections warrant monitoring, even if the banking sector is stable and well-capitalised and its profitability increased in 2021. The non-performing loans ratio is low. Mortgage growth also remains low.

Graph 3.19.1: **Selected graphs: The Netherlands**



Source: Eurostat, Ameco and European Commission services

Table 3.19.1: **Key economic and financial indicators, the Netherlands**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**8.4**	**7.1**	**6.4**	**6.0**	**6.1**
Current account balance, balance of payments (% of GDP)		2.3 (1)	5.6 (2)	6.9	5.1	7.2	5.7	5.3
Net international investment position (% of GDP)	**-35%**	**-88.8 (3)**	**35.0 (4)**	**89.6**	**113.0**	**93.0**	**82.7**	**85.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-0.3	12.9	26.0		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**6.0**	**14.4 p**	**11.2 p**	**9.5**	**5.3**
Nominal unit labour cost index (% y-o-y change)				3.2	8.5 p	-0.6 p	1.6	4.3
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.4**	**3.8**	**2.2**	**-2.4**	**-5.6**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.4	1.8	0.0	-4.2	-1.5
Export market share - % of world exports (5 year % change)	**-6%**			**-0.3**	**6.8**	**1.1**	**0.7**	**-2.1**
Export market share - % of world exports (1 year % change)				-1.3	5.0	-5.0	0.7	-1.2
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**229.9**	**233.1 p**	**229.3 p**	**218.7**	**213.8**
Private sector credit flow, consolidated (% of GDP)	**14%**			**-0.3**	**-0.7 p**	**11.7 p**	**6.9**	**13.4**
Household debt, consolidated (% of GDP)		63.5 (6)	73.4 (7)	99.7	103.8p	100.4p	95.9	92.7
Non-financial corporate debt, consolidated (% of GDP)		94.1 (6)	113.5 (7)	130.2			122.8	121.1
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.6**	**6.2**	**11.2 p**	**8.4**	**-0.7**
House price index, nominal (1 year % change)		20.7 (8)		7.3	7.6	15.0	16.8	3.3
Government debt								
General government gross debt (% of GDP)	**60%**			**48.5**	**54.7**	**52.4**	**50.3**	**52.4**
General government balance (% of GDP)				1.8	-3.7	-2.6	-1.1	-4.0
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**7.9**	**1.4 p**	**-0.3 p**	**3.4**	
Return on equity (%)				7.7	3.1	8.3		
Common Equity Tier 1 ratio		10.6 (9)		16.9	17.9	17.8		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.8e	1.9e	1.4p	1.3	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.1**	**4.7**	**4.5**	**4.3**	**4.1**
Unemployment rate (year level)		4.7 (10)		4.4	4.9	4.2	3.7	4.3
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**1.2**	**1.2**	**1.0**	**1.9**	**2.5**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.4**	**-1.0**	**-0.4**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-3.6**	**0.2**	**0.4**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.20. AUSTRIA

In Austria, house price growth accelerated and non-financial corporate and government debt-to-GDP ratios remain elevated, although associated risks appear to be limited. Nominal house price growth has increased at a marked pace for years, amidst a sizeable estimated overvaluation of house prices. The corporate debt-to-GDP ratio rose and remains above both prudential and fundamental benchmarks. Government debt is decreasing, albeit being still higher than in 2019.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Austria. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Austria.

Real GDP growth is forecast at 4.6% in 2022 and 0.3% in 2023. Inflation is high. Year-on-year, it increased to 11.5% in October, with core inflation estimated at 5.7% in September. Prices are set to rise faster than wages.

The scoreboard reading for Austria shows that in 2021 three indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth and government debt. An economic reading of the scoreboard highlights the following relevant developments:

- Concerns about **non-financial corporate debt** have increased. The corporate debt-to-GDP ratio increased to 78% in 2021 and remains above both prudential and fundamental benchmarks. It is still 6 percentage points higher than in 2019. At the same time, the non-financial corporate debt ratio decreased in the first half of 2022, despite an increase in credit flows in % of GDP. Cost competitiveness concerns are limited. Nominal unit labour cost growth has moderated substantially in 2021 but is forecast to increase in future years slightly faster than in other euro area countries.

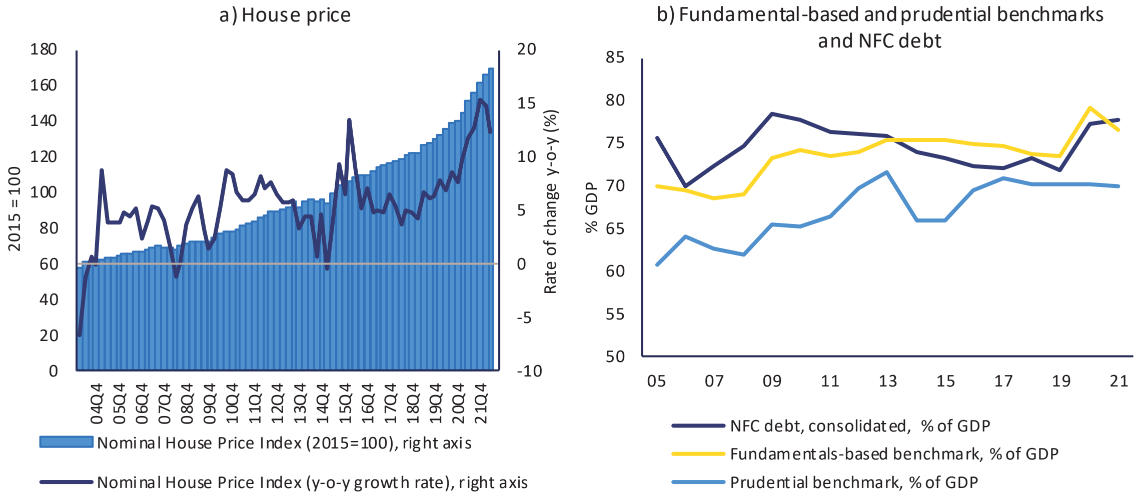
- The **household debt**-to-GDP ratio is at the prudential and below the fundamentals-based benchmark. It has declined in 2021 and remained broadly unchanged in the first half of 2022. Household non-performing debt remains low.

- Very high **house price growth** continues being of concern. Nominal house price growth accelerated from 7.7% in 2020 to 12.4% in 2021 and grew at one of the highest paces in the EU. Nominal year-on-year house price growth declined slightly but remained very high, at 12.4% in the second quarter of 2022. House prices were estimated to be 27% overvalued. However, low variable interest rate exposure, a low household debt-to-GDP ratio, the low ownership to rental rate, a healthy financial sector and low non-performing loans (NPLs) limit macroeconomic risks.

- Concerns associated with **government debt** are limited. The government debt decreased slightly in 2021, to 82.3% of GDP, and is forecast to decrease further, but remains higher than in 2019. The government deficit remains high, although it narrowed to 5.9% of GDP in 2021 and is forecast to continue narrowing. Fiscal sustainability risks are medium both in the medium- and long-term.

- **The banking sector** is overall sound. While the tier-1 capital ratio has been below the EU average, the profitability has been above. The NPL ratio has been also very low but the share of underperforming (stage 2) loans is very elevated. The exposure of the Raiffeisen Bank International (RBI) towards Russia represents a moderate source of risk.

Graph 3.20.1: **Selected graphs: Austria**



Source: Eurostat, ECB and European Commission services

Table 3.20.1: **Key economic and financial indicators, Austria**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**1.6**	**2.1**	**1.9**	**1.2**	**0.1**
Current account balance, balance of payments (% of GDP)		1.5 (1)	0.5 (2)	2.4	3.0	0.4	0.2	-0.1
Net international investment position (% of GDP)	**-35%**	**-82.1 (3)**	**12.3 (4)**	**14.4**	**11.5**	**14.7**	**16.8**	**16.1**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-0.6	-4.6	-4.2		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**5.6**	**12.0**	**9.9**	**9.6**	**9.5**
Nominal unit labour cost index (% y-o-y change)				2.3	7.1	0.3	2.1	6.9
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.1**	**3.2**	**1.2**	**-2.9**	**-6.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.0	2.1	0.1	-5.0	-2.0
Export market share - % of world exports (5 year % change)	**-6%**			**1.2**	**5.4**	**-2.7**	**4.9**	**1.5**
Export market share - % of world exports (1 year % change)				-0.1	0.5	-3.8	6.4	-1.2
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**121.5**	**130.4**	**129.7**	**125.1**	**115.6**
Private sector credit flow, consolidated (% of GDP)	**14%**			**5.1**	**4.4**	**7.4**	**8.3**	**5.4**
Household debt, consolidated (% of GDP)		50.7 (6)	77.4 (7)	49.6	53.2	52.1	49.5	48.7
Non-financial corporate debt, consolidated (% of GDP)		69.9 (6)	76.5 (7)	71.9	77.2	77.6	75.6	66.9
Housing market								
House price index, deflated (1 year % change)	**6%**			**4.0**	**6.1**	**9.9**	**2.1**	**1.3**
House price index, nominal (1 year % change)		26.7 (8)		5.8	7.7	12.4	8.9	-0.1
Government debt								
General government gross debt (% of GDP)	**60%**			**70.6**	**82.9**	**82.3**	**78.5**	**76.6**
General government balance (% of GDP)				0.6	-8.0	-5.9	-3.4	-2.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**3.6**	**11.4**	**8.0**	**3.9**	
Return on equity (%)				7.8	4.1	6.4		
Common Equity Tier 1 ratio		10.6 (9)		15.6	16.1	16.0		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				2.2e	2.0e	1.8p	1.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.3**	**5.3**	**5.7**	**5.7**	**5.5**
Unemployment rate (year level)		5.4 (10)		4.8	6.0	6.2	5.0	5.2
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.7**	**-0.4**	**0.1**	**1.9**	**3.0**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.0**	**-0.6**	**0.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-2.9**	**1.2**	**1.0**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.21. POLAND

In Poland, unit labour costs and house prices are increasing, although associated risks appear to be limited. Nominal unit labour cost growth is set to increase, with the very high core inflation and labour shortages. Nominal house price growth is among the highest in the EU, amidst an estimated limited overvaluation of house prices. The depreciation of the exchange rate puts some pressure on inflation and the current account has turned to a deficit due to one-off factors.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Poland. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Poland.

Real GDP growth is forecast at 4% in 2022 and 0.7% in 2023. Inflation is currently very high, including compared to Poland's euro area trading partners, but is projected to decelerate. Year-on-year, it increased to 15.7% in September, with core inflation estimated at 11.5%. Prices are set to rise faster than wages.

The scoreboard reading for Poland shows that in 2021 one indicator was beyond its indicative threshold, namely the net international investment position. An economic reading of the scoreboard highlights the following relevant developments:

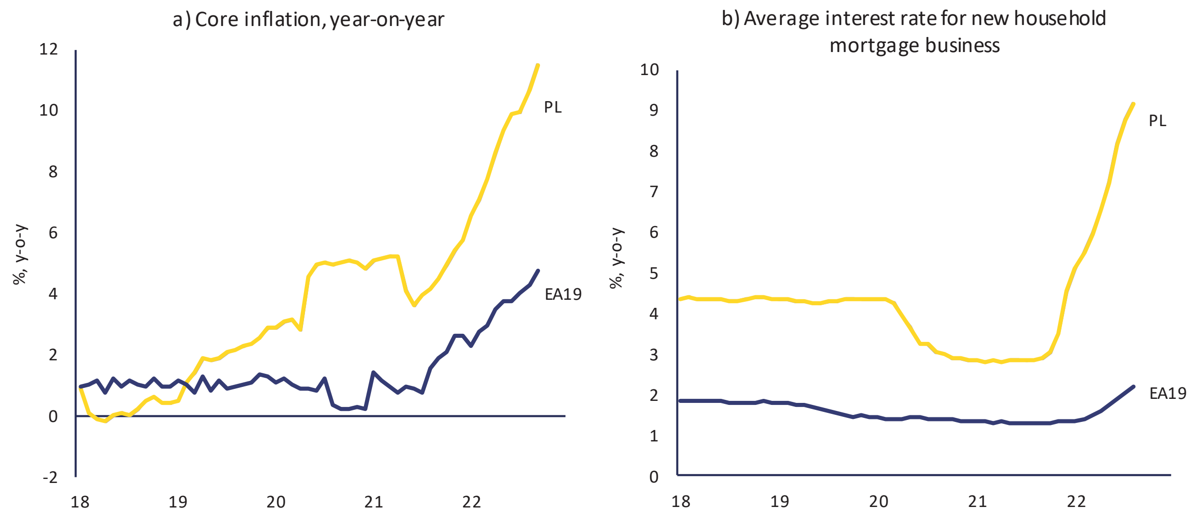
- **External sustainability** concerns are not yet strongly pronounced. In view of strong demand and unfavourable terms of trade, the current account turned into a deficit of 1.4% of GDP in 2021 and is forecast to further deteriorate in 2022. Nonetheless, the net international investment position (NIIP) is forecast to improve further and remain within the indicative MIP threshold of -35% from 2022 onwards. The bulk of the NIIP is characterised by direct investment, which limits immediate concerns related to the external position.

- High inflation and strong nominal wage growth could give rise to **cost-competitiveness** concerns if they persist. Nominal unit labour costs declined in 2021 but are forecast to increase markedly going forward. The real effective exchange rate vis-à-vis Poland's trading partners has depreciated.

- Nominal **house prices** had been rising fast in recent years, but remain broadly in line with fundamentals in a context of strong income growth. The 2021/22 monetary tightening had triggered the sharpest mortgage rate increase in the EU, as well as a strong reduction in household credit flows. The prevalence of floating-rate mortgages is likely to transmit such interest costs directly to both new and existing mortgage holders. However, Poland's **banking sector** continues to be well capitalised in a context of low household indebtedness and relatively low loan-to-value ratios. The level of non-performing loans remains low and continues to decline.

- **Labour shortages** exacerbate inflationary pressures. Nominal wage growth reached 12.4% year on year in August 2022. The unemployment rate remains among the lowest in the EU, at 3.4% in 2021, and is forecast decrease in 2022 before edging up in 2023. The activity rate increased further. The boost to labour supply provided by the inflow of displaced persons from Ukraine is expected to ease labour shortages, as already reflected in some sectors like services.

Graph 3.21.1: **Selected graphs: Poland**



Source: Eurostat and European Commission services

Table 3.21.1: **Key economic and financial indicators, Poland**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-1.1**	**0.1**	**0.3**	**-1.0**	**-3.0**
Current account balance, balance of payments (% of GDP)		0.3 (1)	-4.4 (2)	-0.2	2.5	-1.4	-4.1	-3.5
Net international investment position (% of GDP)	**-35%**	**-52.7 (3)**	**-4.1 (4)**	**-48.8**	**-43.9**	**-39.5**	**-29.4**	**-27.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-10.7	-4.5	0.8		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**8.0**	**14.0**	**9.9 b**	**14.4**	**16.9**
Nominal unit labour cost index (% y-o-y change)				3.9	7.5	-1.6 b	8.1	9.8
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.8**	**1.1**	**-0.4**	**-0.7**	**-0.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.9	1.1	-0.6	-1.2	1.5
Export market share - % of world exports (5 year % change)	**-6%**			**22.0**	**33.6**	**24.9**	**19.1**	**15.2**
Export market share - % of world exports (1 year % change)				3.8	11.3	-0.7	0.3	0.1
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**74.2**	**76.1**	**71.6**	**63.5**	**57.8**
Private sector credit flow, consolidated (% of GDP)	**14%**			**3.6**	**1.8**	**4.0**	**2.4**	**2.8**
Household debt, consolidated (% of GDP)		54.3 (6)	22.2 (7)	34.4	34.6	32.3	26.8	24.3
Non-financial corporate debt, consolidated (% of GDP)		82.4 (6)	34.5 (7)	39.8	41.5	39.3	36.7	33.5
Housing market								
House price index, deflated (1 year % change)	**6%**			**6.4**	**6.7**	**3.7**	**-2.6**	**-5.8**
House price index, nominal (1 year % change)		-1.9 (8)		8.7	10.5	9.2	9.9	5.0
Government debt								
General government gross debt (% of GDP)	**60%**			**45.7**	**57.2**	**53.8**	**51.3**	**52.9**
General government balance (% of GDP)				-0.7	-6.9	-1.8	-4.8	-5.5
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**4.3**	**11.6**	**13.6**	**0.1**	
Return on equity (%)				6.9	3.1	4.8		
Common Equity Tier 1 ratio		10.6 (9)		15.9	17.5	16.1		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				6.1e	6.0e	5.0p	4.7	
Labour market								
Unemployment rate (3 year average)	**10%**			**4.1**	**3.5**	**3.3**	**3.1**	**3.0**
Unemployment rate (year level)		3.4 (10)		3.3	3.2	3.4	2.7	3.0
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.1**	**1.4**	**3.4**	**1.7**	**1.2**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.5**	**-0.9**	**-0.1**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-7.9**	**-4.0**	**0.1**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.22. PORTUGAL

In Portugal, concerns related to household and non-financial corporate, government and external debt-to-GDP ratios remain, although debt ratios resumed their declining path after the COVID-19 crisis. Nominal house price growth is accelerating, and signs of overvaluation of house prices have emerged. Risks associated with financial and public sector feedback loops remain.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Portugal is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for Portugal.

Real GDP growth is forecast at 6.6% in 2022 and 0.7% in 2023. Inflation is high and is projected to move broadly in line with the euro area average. Year-on-year, it increased to 10.6% in October, with core inflation estimated at 6.5% in September. Prices are set to rise faster than wages.

The scoreboard reading for Portugal, shows that in 2021 six indicators were beyond their indicative thresholds, namely the net international investment position, nominal unit labour cost growth, real house price growth, private sector debt, government debt and change in the youth unemployment rate. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** remains an issue. While the net international investment position has improved strongly and reached the highest levels in 15 years, it is still large and negative, with further improvements projected until 2024. The current account deficit widened to 1.2% of GDP in 2021, as improvements in the travel balance and goods exports were more than offset by the deteriorating balance of trade in energy goods. The deficit is projected to slightly expand in 2022 due to price effects. Nominal unit labour cost growth was moderate in 2021 and is set to turn negative in 2022. The HICP-based real effective exchange rate depreciated in 2021. Year-on-year, it also depreciated by August 2022.

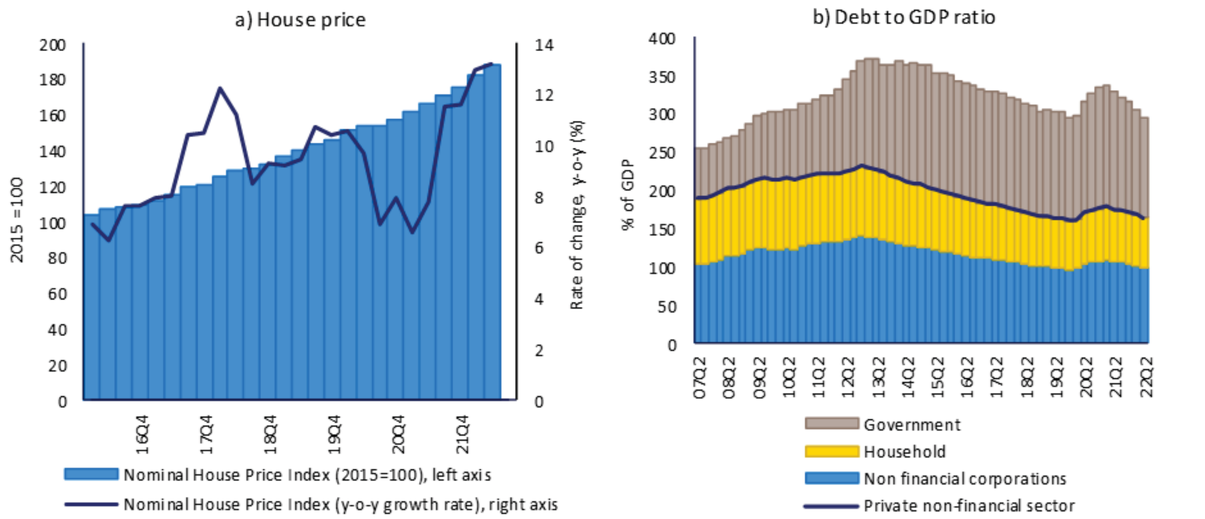
- Vulnerabilities related to the **non-financial corporate debt**-to-GDP ratio remain, although it is on a declining path. It declined to 90.5% in 2021, but is still more than 4 percentage points higher than in 2019. The non-financial corporate debt ratio continued to decrease in the first half of 2022, but there are risk factors associated with the macroeconomic environment. It remains above both prudential and fundamental benchmarks. Non-performing loans of corporates in percent of corporate loans of banks continued to decline. The **household debt**-to-GDP ratio remains above both prudential and fundamentals-based benchmarks, although it has declined in 2021 and continued to decline in the first half of 2022.

- Concerns related to **house price** developments are increasing. Nominal house price growth accelerated from 8.8% to 9.4% in 2021. Nominal year-on-year house price growth accelerated to 13.2% in the second quarter of 2022. House prices were estimated to be 23% overvalued in 2021. Over two thirds of mortgages have interest rates fixed for only up to one year.

- Concerns related to **government debt** remain significant. In 2021 it decreased by 9 percentage points, to 125.5% of GDP, and is forecast to fall further, reaching below pre-pandemic levels in 2022. The government deficit narrowed to 2.9% of GDP in 2021 and is forecast to continue decreasing over the forecast horizon. Fiscal sustainability risks are high in the medium-term and medium in the long-term.

- Concerns related to the **banking** sector diminished, but some weakness remain. Profitability picked up and solvency ratios remained resilient. However, the tier-1 capital ratio is above regulatory requirements but low compared to European peers, while profitability remains relatively low. The non-performing loans ratio continued its downward trajectory but remains above the EU average, and underperforming (stage 2) loans are also elevated. Moreover, the risks associated with financial and public sector feedback loops remain.

Graph 3.22.1: **Selected graphs: Portugal**



Source: Eurostat and European Commission services

Table 3.22.1: **Key economic and financial indicators, Portugal**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**0.8**	**0.0**	**-0.6**	**-1.2**	**-1.1**
Current account balance, balance of payments (% of GDP)		0.0 (1)	-2.4 (2)	0.4	-1.0	-1.2	-1.4	-0.8
Net international investment position (% of GDP)	**-35%**	**-52.3 (3)**	**-15.7 (4)**	**-100.0**	**-104.6**	**-94.7**	**-85.2**	**-79.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-46.7	-46.7	-36.1		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**8.5**	**15.6**	**12.5 p**	**8.4**	**3.4**
Nominal unit labour cost index (% y-o-y change)				2.8	8.7	0.6 p	-0.9	3.8
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**-0.3**	**0.0**	**-2.8**	**-5.3**	**-7.3**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.9	0.8	-1.8	-4.4	-1.4
Export market share - % of world exports (5 year % change)	**-6%**			**8.3**	**-1.5**	**-5.3**	**3.3**	**1.3**
Export market share - % of world exports (1 year % change)				0.8	-10.2	0.1	12.2	-0.3
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**149.5**	**163.7**	**156.9 p**	**147.8**	**137.6**
Private sector credit flow, consolidated (% of GDP)	**14%**			**2.6**	**4.4**	**4.0 p**	**5.7**	**3.5**
Household debt, consolidated (% of GDP)		40.4 (6)	31.5 (7)	63.5	69.1	66.4	63.0	61.4
Non-financial corporate debt, consolidated (% of GDP)		64.4 (6)	62.0 (7)	86.0	94.6	90.5	84.8	76.2
Housing market								
House price index, deflated (1 year % change)	**6%**			**9.0**	**8.1**	**7.9**	**5.7**	**2.0**
House price index, nominal (1 year % change)		22.5 (8)		10.0	8.8	9.4	10.9	2.1
Government debt								
General government gross debt (% of GDP)	**60%**			**116.6**	**134.9**	**125.5**	**115.9**	**109.1**
General government balance (% of GDP)				0.1	-5.8	-2.9	-1.9	-1.1
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**-0.2**	**6.6**	**7.1**	**1.8**	
Return on equity (%)				4.3	0.0	4.9		
Common Equity Tier 1 ratio		10.6 (9)		14.1	15.4	15.5		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				6.1e	4.9e	3.6p	3.4	
Labour market								
Unemployment rate (3 year average)	**10%**			**7.7**	**7.0**	**6.8**	**6.5**	**6.1**
Unemployment rate (year level)		6.2 (10)		6.7	7.0	6.6	5.9	5.9
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.2**	**0.0**	**0.7**	**0.3**	**1.4**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-3.6**	**-2.3**	**-0.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-9.7**	**-1.4**	**3.1**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.23. ROMANIA

In Romania, concerns related to external sustainability and the government deficit continue increasing. The current account deficit widened in 2021 and a further increase is underway. The government deficit has improved and is forecast to continue narrowing, but remains high. Nominal unit labour costs are forecast to increase, in a context of high inflation, labour shortages and strong nominal wage increases, resulting in some competitiveness concerns.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Romania is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for Romania.

Real GDP growth is forecast at 5.8% in 2022 and 1.8% in 2023. Inflation is high. Year-on-year, it increased to 13.4% in September, with core inflation estimated at 6.5%. Prices are set to rise faster than wages.

The scoreboard reading for Romania shows that in 2021 three indicators were beyond their indicative thresholds, namely the current account balance, net international investment position and nominal unit labour cost growth. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns have further aggravated. The current account deficit increased to 7.3% of GDP in 2021 and a further deterioration is forecast for 2022. The net international investment position (NIIP) improved somewhat to -47.2% of GDP in 2021, on the account of strong nominal GDP growth and some positive valuation effects, and is forecast to further improve in 2022, but to decline again in 2023. The NIIP net of non-defaultable instruments remained negative but close to balance.

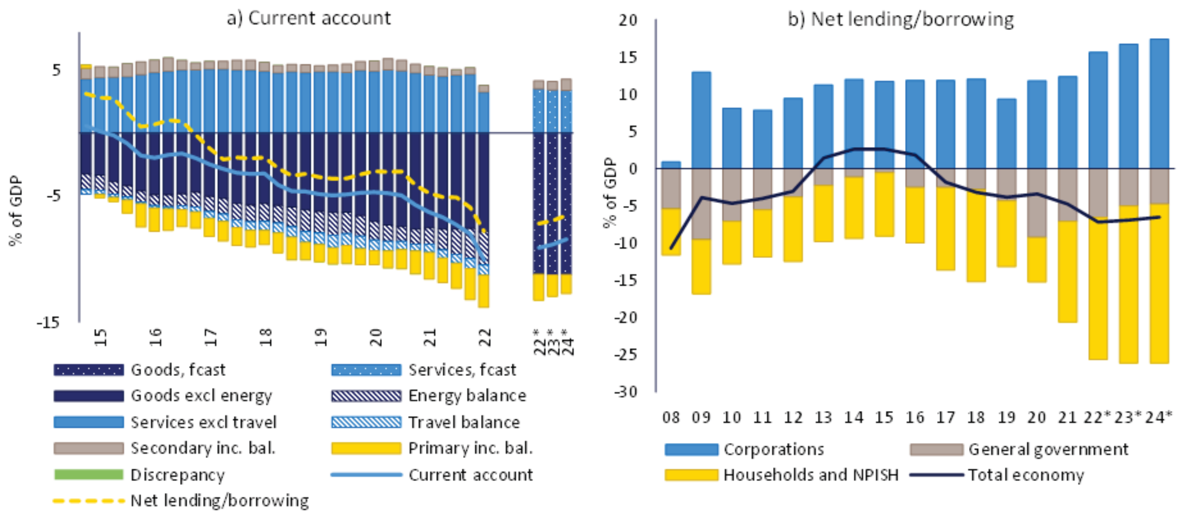
- **Cost competitiveness** concerns, which existed already before the COVID-19 pandemic, are increasing further. Nominal unit labour costs increased mildly in 2021 and are forecast to increase more markedly in 2022 and beyond, in context of high inflation, labour shortages and strong nominal wage increases. The HICP-based real effective exchange rate remained broadly unchanged in 2021 and year-on-year continued to remain broadly stable by August 2022.

- Concerns related to **house price** developments continue being limited. Nominal house price growth decelerated slightly from 4.7% to 4.4% in 2021. Nominal year-on-house price growth accelerated to 8.5% in the second quarter of 2022. Valuation gap metrics do not show signs of potential overvaluation of house prices.

- The risks related to the **government debt** are increasing. The government deficit has improved, but remains high, at 7.1% of GDP in 2021. It is forecast to further narrow. Government debt has increased to 48.9% of GDP in 2021 and is forecast to slightly decrease this year and next. It continues to exceed largely the pre-COVID levels. Sovereign bond yields are among the highest in the EU. Currency risks are high, with around half of central government debt being denominated in foreign currencies, and about half of the government debt held by non-residents in end-2021. Fiscal sustainability risks are high in the medium-term and medium in the long-term.

- **The banking sector** is stable. The non-performing loans ratio declined to 3.4% of total loans in 2021. While the tier-1 ratio is close to the EU average, the profitability is very high. Following the monetary tightening, interest rates have significantly increased in 2021 and 2022.

Graph 3.23.1: **Selected graphs: Romania**



Source: Eurostat, Comext and European Commission services

Table 3.23.1: **Key economic and financial indicators, Romania**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-4.2**	**-4.8**	**-5.7**	**-7.2**	**-8.7**
Current account balance, balance of payments (% of GDP)		0.3 (1)	-5.0 (2)	-4.9	-4.9	-7.3	-9.5	-9.2
Net international investment position (% of GDP)	**-35%**	**-47.5 (3)**	**-8.0 (4)**	**-43.4**	**-47.6**	**-47.2**	**-39.8**	**-42.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-4.0	-7.0	-6.5		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**24.0**	**20.7**	**14.4 p**	**10.0**	**9.4**
Nominal unit labour cost index (% y-o-y change)				6.9	5.8	1.2 p	2.8	5.2
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.2**	**3.4**	**1.0**	**2.8**	**0.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.3	1.4	0.0	1.5	-0.9
Export market share - % of world exports (5 year % change)	**-6%**			**17.4**	**19.9**	**10.6**	**12.1**	**9.2**
Export market share - % of world exports (1 year % change)				1.5	1.9	0.5	4.1	0.8
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**46.5**	**48.0**	**48.1 p**	**45.8**	**39.5**
Private sector credit flow, consolidated (% of GDP)	**14%**			**2.0**	**1.3**	**3.8 p**	**5.0**	**3.1**
Household debt, consolidated (% of GDP)		59.8 (6)	20.4 (7)	15.4	16.1	15.8	14.8	14.2
Non-financial corporate debt, consolidated (% of GDP)		97.9 (6)	39.9 (7)	31.1	31.9	32.3	31.0	25.3
Housing market								
House price index, deflated (1 year % change)	**6%**			**-1.9**	**2.3**	**-1.1**	**-4.5**	**-5.8**
House price index, nominal (1 year % change)		-19.8 (8)		3.4	4.7	4.4	8.9	1.4
Government debt								
General government gross debt (% of GDP)	**60%**			**35.1**	**46.9**	**48.9**	**47.9**	**47.3**
General government balance (% of GDP)				-4.3	-9.2	-7.1	-6.5	-5.0
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**10.3**	**13.4**	**14.3**	**0.8**	
Return on equity (%)				12.3	9.0	13.1		
Common Equity Tier 1 ratio		10.6 (9)		19.0	21.8	19.9		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				4.3e	3.9e	3.4p	3.1	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.4**	**5.4**	**5.5**	**5.7**	**5.6**
Unemployment rate (year level)		5.5 (10)		4.9	6.1	5.6	5.4	5.8
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**3.1**	**2.3**	**3.2**	**2.2**	**2.2**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.4**	**-0.6**	**-0.2**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-4.9**	**-1.4**	**0.5**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.24. SLOVENIA

In Slovenia, some concerns related to house price developments and the government deficit remain, although associated risks appear to be limited. Nominal house price growth is among the highest in the EU, but house prices do not show signs of potential overvaluation. Supply side constraints and high inflation may weigh on medium term competitiveness and growth. The government deficit remains high.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Slovenia. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Slovenia.

Real GDP growth is forecast at 6.2% in 2022 and 0.8% in 2023. Inflation is high. Year-on-year, it decreased to 10.3% in October, with core inflation estimated at 6.6% in September. Prices are set to rise faster than wages.

The scoreboard reading for Slovenia, shows that in 2021 four indicators were beyond their indicative thresholds, namely nominal unit labour cost growth, real house price growth, government debt and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **External sustainability** concerns are not pronounced. After several years of recording very large surpluses, the current account balance declined to 3.8% of GDP in 2021. The main driver was the declining balance of trade in goods, including, to smaller extent, energy goods. The current account balance is forecast to further decrease and turn negative in 2022. The net international investment position (NIIP) continued its steady increase, reaching -6.8% of GDP in 2021 and is forecast to move to balance by 2024. The NIIP net of non-defaultable instruments is mildly positive.

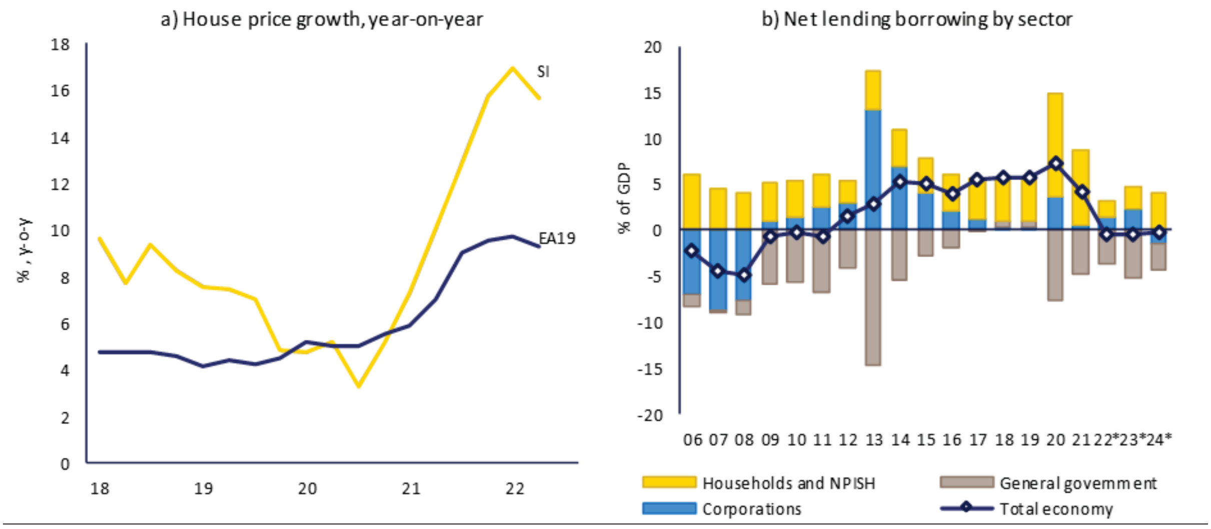
- **Cost competitiveness** does not raise substantial concerns yet. Nominal unit labour cost growth substantially moderated in 2021 and is forecast to turn negative in 2022. Unit labour costs are forecast to increase in 2023. The HICP-based real effective exchange rate depreciated marginally in 2021. Year-on-year, it depreciated by August 2022.

- Very high **house price** growth continues being of concern. Nominal house price growth accelerated from 4.6% in 2020 to 11.5% in 2021, one of the highest paces in the EU. Nominal year-on-year house price growth was at 15.6% in the second quarter of 2022. Valuation gap metrics do not show signs of potential overvaluation of house prices. Recent transaction data points to a possible market slowdown.

- **Government debt** dynamics remain of concern, despite improvements. Government debt decreased to 74.5% of GDP in 2021 and is forecast to continue declining gradually. The government deficit remains high but decreased to 4.7% of GDP in 2021. It is forecast to fall further in 2022, but to increase in 2023. Fiscal sustainability risks are high both in the medium- and long-term due to the unfavourable initial budgetary position as well as population ageing.

- The **banking sector** remains stable. While capitalisation is below the EU average, profitability increased in 2021 and is well above it. The non-performing loans ratio has significantly decreased over the last years and remains low.

Graph 3.24.1: **Selected graphs: Slovenia**



Source: Eurostat, Ameco and European Commission services

Table 3.24.1: **Selected economic and financial indicators, Slovenia**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**6.0**	**6.5**	**5.8**	**3.5**	**0.8**
Current account balance, balance of payments (% of GDP)		0.8 (1)	-1.1 (2)	5.9	7.6	3.8	-0.7	-0.6
Net international investment position (% of GDP)	**-35%**	**-63.0 (3)**	**5.1 (4)**	**-16.2**	**-15.6**	**-6.8**	**-2.0**	**0.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				0.8	1.6	9.7		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**8.0**	**14.5**	**12.8**	**7.4**	**5.8**
Nominal unit labour cost index (% y-o-y change)				3.9	7.3	1.1	-1.0	5.7
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**1.0**	**1.9**	**-0.4**	**-4.5**	**-6.6**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.5	0.6	-0.5	-4.5	-1.8
Export market share - % of world exports (5 year % change)	**-6%**			**15.8**	**19.5**	**11.6**	**9.1**	**5.8**
Export market share - % of world exports (1 year % change)				0.7	1.7	-0.5	3.1	0.7
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**68.6**	**69.5**	**66.4**	**64.4**	**59.0**
Private sector credit flow, consolidated (% of GDP)	**14%**			**0.8**	**-0.9**	**3.5**	**5.8**	**4.3**
Household debt, consolidated (% of GDP)		43.9 (6)	37.2 (7)	26.8	27.8	26.4	25.5	25.4
Non-financial corporate debt, consolidated (% of GDP)		65.9 (6)	57.3 (7)	41.8	41.7	40.0	38.9	33.6
Housing market								
House price index, deflated (1 year % change)	**6%**			**5.3**	**5.2**	**7.8**	**2.5**	**1.9**
House price index, nominal (1 year % change)		0.4 (8)		6.7	4.6	11.5	10.5	3.3
Government debt								
General government gross debt (% of GDP)	**60%**			**65.4**	**79.6**	**74.5**	**69.9**	**69.6**
General government balance (% of GDP)				0.6	-7.7	-4.7	-3.6	-5.2
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**9.9**	**14.0**	**14.1**	**1.5**	
Return on equity (%)				10.3	11.3	9.5		
Common Equity Tier 1 ratio		10.6 (9)		17.8	16.7	16.9		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				3.4e	3.0e	2.1p	1.9	
Labour market								
Unemployment rate (3 year average)	**10%**			**5.4**	**4.8**	**4.7**	**4.6**	**4.4**
Unemployment rate (year level)		6.0 (10)		4.4	5.0	4.8	4.1	4.3
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**3.5**	**0.2**	**0.6**	**2.1**	**2.8**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-2.4**	**-1.2**	**-0.3**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-7.2**	**3.0**	**3.9**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.25. SLOVAKIA

In Slovakia, concerns related to cost competitiveness and house price developments existed already before the COVID-19 pandemic and are increasing. Nominal unit labour cost growth is set to accelerate, and core inflation is very high compared with Slovakia's euro area peers. Strong house price growth continues and is accompanied with sustained increases in household debt over recent years. The current account deficit is increasing strongly. The high government deficit warrants close monitoring.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Slovakia. This year, the Commission finds it opportune to examine newly emerging vulnerabilities and their implications in an in-depth review for Slovakia.

Real GDP growth is forecast at 1.9% in 2022 and 0.5% in 2023. Inflation is very high, including compared to many euro area trading partners. Year-on-year, it increased to 14.5% in September, with core inflation estimated at 9.3%. Prices are set to rise faster than wages.

The scoreboard reading for Slovakia, shows that in 2021 five indicators were beyond their indicative thresholds, namely the net international investment position, nominal unit labour cost growth, government debt, financial sector liabilities growth and change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- The **external sustainability** outlook has worsened. The current account balance moved to a deficit of -2.5% of GDP in 2021. It is forecast to deteriorate markedly this year, and remain strongly negative, due to both the energy balance and strong reduction in the non-energy goods balance. The small improvement in the net international investment position (NIIP), which stood at -61% of GDP in 2021, was driven by the GDP growth and some positive valuation effects. A slight deterioration is forecast in 2022 before improvement resumes. The bulk of the NIIP consists of direct investment, limiting concerns related to the external position.

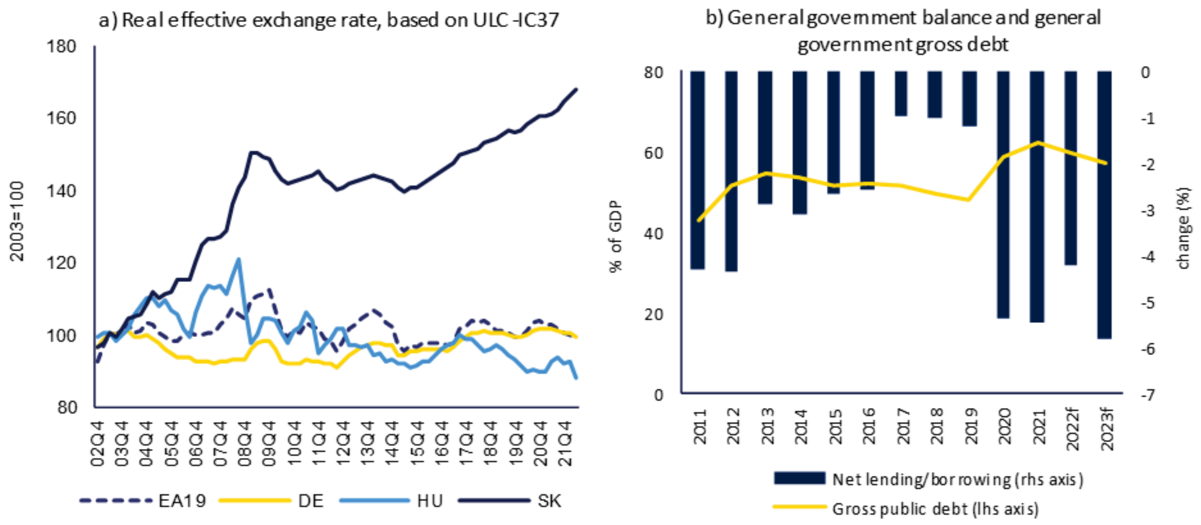
- **Cost competitiveness** concerns, which existed already before the COVID-19 pandemic, are increasing further. Nominal unit labour costs increased in 2021, albeit less than in previous years, but are forecast to continue increasing strongly in 2022 and 2023, in the context of Slovakia's high core inflation and strong nominal wage increases. The HICP-based real effective exchange rate remained broadly unchanged in 2021 and, year-on-year, also remained broadly stable by August 2022.

- The **household debt**-to-GDP ratio is above the fundamentals-based benchmark and close to prudential. Household debt is considerably higher than among Slovakia's peers and stands at nearly 50% of GDP. Net credit flows to households were relatively dynamic in 2021, around 4% of GDP, and are forecast to increase in 2022. The household debt-to-GDP ratio remained broadly unchanged in the first half of 2022. Household non-performing loans are low and continued declining in 2021.

- **House price** developments continue being of concern. Nominal house price growth decelerated from 9.6% in 2020 to 6.4% in 2021. Nominal year to year house price growth increased to 16.6% in the second quarter of 2022. House prices were estimated to be 14% overvalued in 2021. Mortgage credit has been very dynamic and represents a source of risk. The increase in real estate prices was sharp especially since the second half of 2021.

- The risks related to **the government debt** are contained in the short-term. Government debt increased to 62.2% of GDP in 2021, exceeding the scoreboard threshold for the first time. It is forecast to continue decreasing slightly, returning to below 60% of GDP in 2022, which is still 12 percentage points higher than in 2019. The government deficit has deteriorated since the pandemic and reached 5.5% in 2021. The government deficit is forecast to narrow in 2022, but to widen again in 2023. Fiscal sustainability risks are high both in the medium- and long-term due to long term debt developments and increasing ageing costs.

Graph 3.25.1: **Selected graphs: Slovakia**



Source: Eurostat, Ameco and European Commission services

Table 3.25.1: **Key economic and financial indicators, Slovakia**

							forecast	
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	*2022*	*2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-2.5**	**-1.7**	**-1.8**	**-2.7**	**-4.7**
Current account balance, balance of payments (% of GDP)		0.1 (1)	-3.2 (2)	-3.3	0.6	-2.5	-6.3	-5.4
Net international investment position (% of GDP)	**-35%**	**-47.9 (3)**	**-1.5 (4)**	**-65.6**	**-64.8**	**-61.0**	**-62.6**	**-57.4**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-14.1	-14.8	-14.7		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**14.2**	**15.4**	**14.1**	**16.6**	**16.6**
Nominal unit labour cost index (% y-o-y change)				5.3	5.5	2.8	7.6	5.5
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**2.6**	**5.3**	**3.1**	**1.2**	**-0.8**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.6	2.5	-0.1	-1.2	0.5
Export market share - % of world exports (5 year % change)	**-6%**			**1.3**	**7.4**	**-2.9**	**-6.8**	**-9.3**
Export market share - % of world exports (1 year % change)				-2.3	3.3	-4.2	-5.4	-0.8
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**91.0**	**94.5**	**95.0**	**94.8**	**79.3**
Private sector credit flow, consolidated (% of GDP)	**14%**			**4.5**	**2.5**	**5.5**	**8.0**	**2.3**
Household debt, consolidated (% of GDP)		49.5 (6)	30.0 (7)	43.4	46.6	47.8	49.3	47.5
Non-financial corporate debt, consolidated (% of GDP)		75.3 (6)	47.4 (7)	47.6	47.9	47.2	45.5	31.8
Housing market								
House price index, deflated (1 year % change)	**6%**			**6.2**	**7.2**	**3.0**	**-0.5**	**-4.0**
House price index, nominal (1 year % change)		13.9 (8)		9.1	9.6	6.4	10.0	5.9
Government debt								
General government gross debt (% of GDP)	**60%**			**48.0**	**58.9**	**62.2**	**59.6**	**57.4**
General government balance (% of GDP)				-1.2	-5.4	-5.5	-4.2	-5.8
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**5.8**	**10.2**	**24.0**	**3.0**	
Return on equity (%)				8.3	5.3	8.4		
Common Equity Tier 1 ratio		10.6 (9)		15.8	16.8	16.7		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				2.9e	2.5e	2.0p	1.9	
Labour market								
Unemployment rate (3 year average)	**10%**			**6.8**	**6.3**	**6.4**	**6.6**	**6.5**
Unemployment rate (year level)		7.4 (10)		5.7	6.7	6.8	6.3	6.4
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.8**	**0.4**	**0.2**	**1.0**	**1.6**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-2.9**	**-2.2**	**-0.8**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-6.3**	**0.4**	**4.8**		

Notes: See Annex 1
Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.26. FINLAND

In Finland, household debt is high, although associated risks appear to be limited. Almost all loans for house purchase are at variable interest rates, which exposes households to the risks of possible higher rates. The banking system appears strong and resilient, despite significant cross-border exposures, especially with other Nordic countries.

In the previous round of the MIP, the Commission did not carry out an in-depth review and did not identify macroeconomic imbalances for Finland. This year, the Commission does not consider it necessary to carry out further in-depth analysis for Finland.

Real GDP growth is forecast at 2.3% in 2022 and 0.2% in 2023. Inflation is high, albeit lower than in many other euro area countries. Year-on-year, inflation decreased to 8.3% in October, with core inflation estimated at 4.4%. Prices are set to rise faster than wages.

The scoreboard reading for Finland shows that in 2021 two indicators were beyond their indicative thresholds, namely private sector debt and government debt. An economic reading of the scoreboard highlights the following relevant developments:

- **Cost competitiveness** concerns are limited. Nominal unit labour costs increased further in 2021 and are forecast to continue increasing, although Finland is experiencing lower core inflation than many other euro area countries. The HICP-based real effective exchange rate marginally depreciated in 2021. Year on year, it depreciated by August 2022.

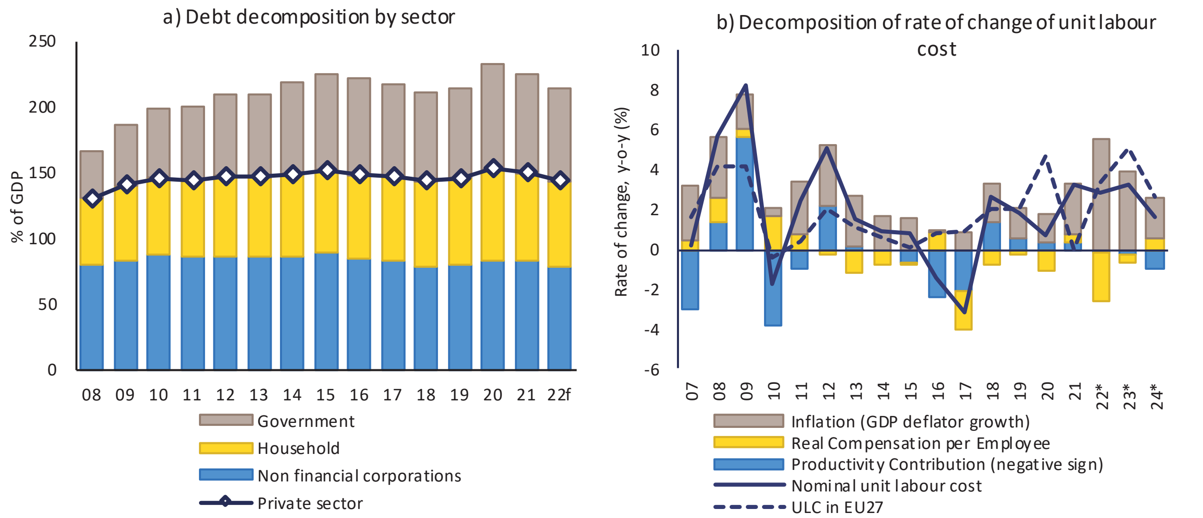
- **The household debt**-to-GDP ratio remains above both prudential and fundamentals-based benchmarks, however, it has declined in 2021 and remained broadly stable in the first half of 2022, as net credit flows are expected to remain moderate. Nominal GDP growth is still forecast to support deleveraging in 2022. Household non-performing debt remains low. Virtually all loans for house purchase are at variable rates.

- **House price** developments continue to be of limited concern. Nominal house price growth accelerated to 4.6% in 2021. Nominal year-on-year house price growth was at 2.2% in the second quarter of 2022. Valuation gap metrics do not show signs of potential overvaluation of house prices.

- Risks associated to **government debt** are limited. It decreased to 72.4% of GDP in 2021 and is forecast to stabilise at around that level, but remained above the 2019 level. The government deficit declined to 2.7% of GDP in 2021 and is forecast to continue declining. Fiscal sustainability risks are medium both in the medium- and long-term.

- The **banking sector** remains stable and resilient. The tier-1 capital was well above the EU average in 2021, and profitability was high. The non-performing loans ratio is very low and has further decreased in 2021. Risks to financial stability remain limited, despite significant cross-border exposures, especially with other Nordic countries.

Graph 3.26.1: **Selected graphs: Finland**



Source: Eurostat, Ameco and European Commission services

Table 3.26.1: **Key economic and financial indicators, Finland**

	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	 *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**-1.0**	**-0.5**	**0.3**	**0.4**	**0.1**
Current account balance, balance of payments (% of GDP)		-0.5 (1)	-0.2 (2)	-0.3	0.7	0.6	-0.2	-0.3
Net international investment position (% of GDP)	**-35%**	**-79.3 (3)**	**2.0 (4)**	**4.0**	**-4.0**	**-1.4**	**4.7**	**4.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				6.9	5.8	15.8		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**1.3**	**5.3**	**6.0**	**7.4**	**10.0**
Nominal unit labour cost index (% y-o-y change)				1.9	0.7	3.3	3.2	3.1
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**0.1**	**2.3**	**-0.7**	**-5.4**	**-10.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-1.5	1.6	-0.8	-6.2	-3.6
Export market share - % of world exports (5 year % change)	**-6%**			**3.1**	**11.6**	**4.9**	**-1.5**	**-2.8**
Export market share - % of world exports (1 year % change)				2.7	1.0	-3.5	-2.4	-0.4
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**146.1**	**152.6**	**150.1**	**143.5**	**140.9**
Private sector credit flow, consolidated (% of GDP)	**14%**			**6.6**	**6.1**	**6.1**	**4.2**	**6.9**
Household debt, consolidated (% of GDP)		55.1 (6)	59.4 (7)	65.8	69.0	67.8	64.7	63.5
Non-financial corporate debt, consolidated (% of GDP)		65.7 (6)	89.0 (7)	80.3	83.6	82.3	78.8	77.4
Housing market								
House price index, deflated (1 year % change)	**6%**			**-0.6**	**1.3**	**2.8**	**-3.5**	**-1.9**
House price index, nominal (1 year % change)		-2.5 (8)		0.4	1.8	4.6	2.4	2.0
Government debt								
General government gross debt (% of GDP)	**60%**			**64.9**	**74.8**	**72.4**	**70.7**	**72.0**
General government balance (% of GDP)				-0.9	-5.5	-2.7	-1.4	-2.3
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**7.8**	**8.0**	**9.4**	**9.2**	
Return on equity (%)				4.9	5.8	9.2		
Common Equity Tier 1 ratio		10.6 (9)		17.6	18.1	17.8		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.4e	1.5e	1.2p	1.0	
Labour market								
Unemployment rate (3 year average)	**10%**			**7.7**	**7.3**	**7.4**	**7.5**	**7.3**
Unemployment rate (year level)		6.7 (10)		6.8	7.7	7.7	7.0	7.2
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**2.3**	**1.5**	**1.8**	**2.8**	**3.4**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-1.4**	**-1.1**	**-0.2**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**-2.8**	**1.0**	**-0.2**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

3.27. SWEDEN

In Sweden, concerns related to persistently high house price growth and high household and corporate debt remain. Nominal house price growth, albeit declining remains high, amidst an estimated overvaluation of house prices.

In the previous round of the MIP, the Commission carried out an in-depth review and concluded that Sweden is experiencing macroeconomic imbalances. This year, the Commission finds it opportune to examine the persistence of imbalances or their unwinding in an in-depth review for Sweden.

Real GDP growth is forecast at 2.9% in 2022 and -0.6% in 2023. Inflation is high, albeit somewhat lower than in many other EU countries, alongside significant monetary policy tightening. Year on year, it increased to 10.3% in September, with core inflation at 5.8%. Prices are set to rise faster than wages.

The scoreboard reading for Sweden shows that in 2021 four indicators were beyond their indicative thresholds, namely real house price growth, private sector credit flows, private sector debt and the change in youth unemployment. An economic reading of the scoreboard highlights the following relevant developments:

- **Cost competitiveness** developments do not appear concerning at present. Nominal unit labour costs increased only slightly in 2021, but are forecast to increase more strongly in 2022 and 2023. Still, the HICP-based real effective exchange rate appreciated in 2021. However, year-on-year, it had depreciated markedly by August 2022. The nominal exchange rate depreciated in 2022. The solid current account surplus mitigates risks of large currency fluctuations. The surplus declined to 5.4% of GDP and is forecast to continue declining in 2022. The net international investment position is positive and forecast to increase.

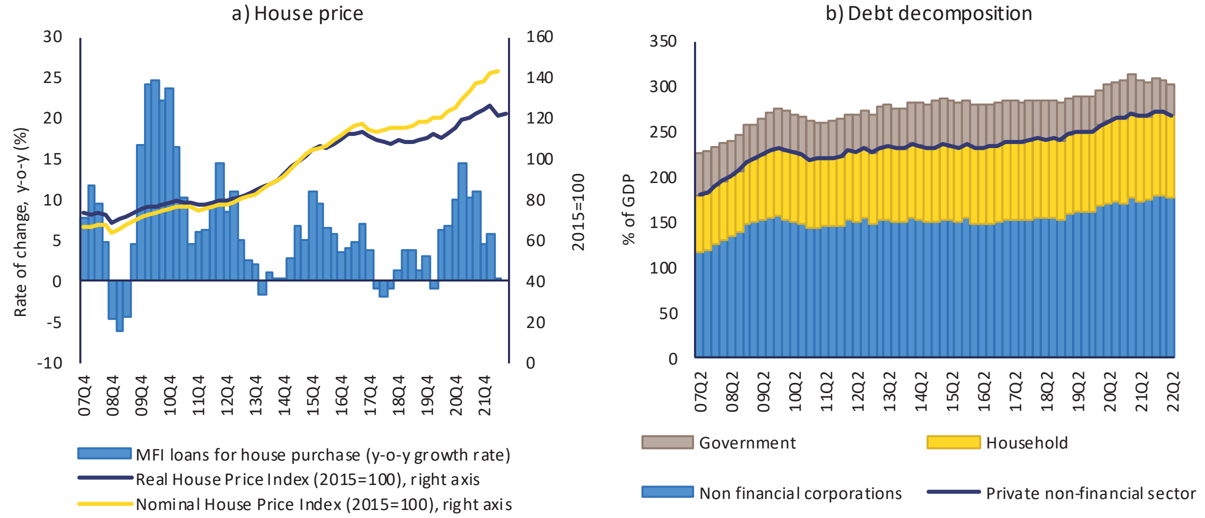
- The **non-financial corporate** debt-to-GDP ratio remains among the highest in the EU and increased to 123% in 2021. It remains above both prudential and fundamental benchmarks and is 11 percentage points higher than in 2019. The high share of cross-border intra-group lending in corporate debt reduces risks. Corporate indebtedness is flanked by high and increasing corporate liquidity buffers, which mitigates risks further, even though parts of the corporate sector are exposed to energy price and interest rate increases. Credit flows to non-financial corporates, in % of GDP, are high. Commercial real estate is a particular source of concern, also because of how they are funded.

- The **household debt**-to-GDP ratio remains among the highest in the EU, above both prudential and fundamentals-based benchmarks. It has declined as a ratio to GDP in 2021 and continued to decline slightly in the first half of 2022 on account of dynamic net credit flows. As a ratio to household GDI, household debt has been increasing steadily since 2013 to reach close to 190% of GDP in 2021. Household non-performing debt remains low, but debt service costs are rising rapidly with interest rates. Over two thirds of mortgages have variable interest rates fixed only up to one year.

- Very high **house price** growth continues being of concern. Nominal house price growth accelerated from 4.2% to 10.1% in 2021 and grew at one of the highest paces in the EU. Nominal year-on-year house price growth decelerated to 7.1% in the second quarter of 2022. House prices were estimated to be 35% overvalued in 2021, one of the highest in the EU. House prices started to decrease markedly from the middle of 2022 following rises in interest rates and energy prices, putting pressure on household finances as debt levels remain high.

- **The banking sector** remains healthy. The tier-1 capital ratio is close to the EU average and profitability is very high. The non-performing loans ratio is very low. Credit provision both for corporation and households is the highest in the EU and has further accelerated in 2021. The unfolding correction of housing prices and changes in conditions for CRE represent a challenge for the financial sector. The sector also relies heavily on international markets and interbank lending between Swedish banks for its funding, exposing the banking sector to global market risks.

Graph 3.27.1: **Selected graphs: Sweden**



Source: Eurostat, ECB (BSI) and European Commission services

Table 3.27.1: **Key economic and financial indicators, Sweden**

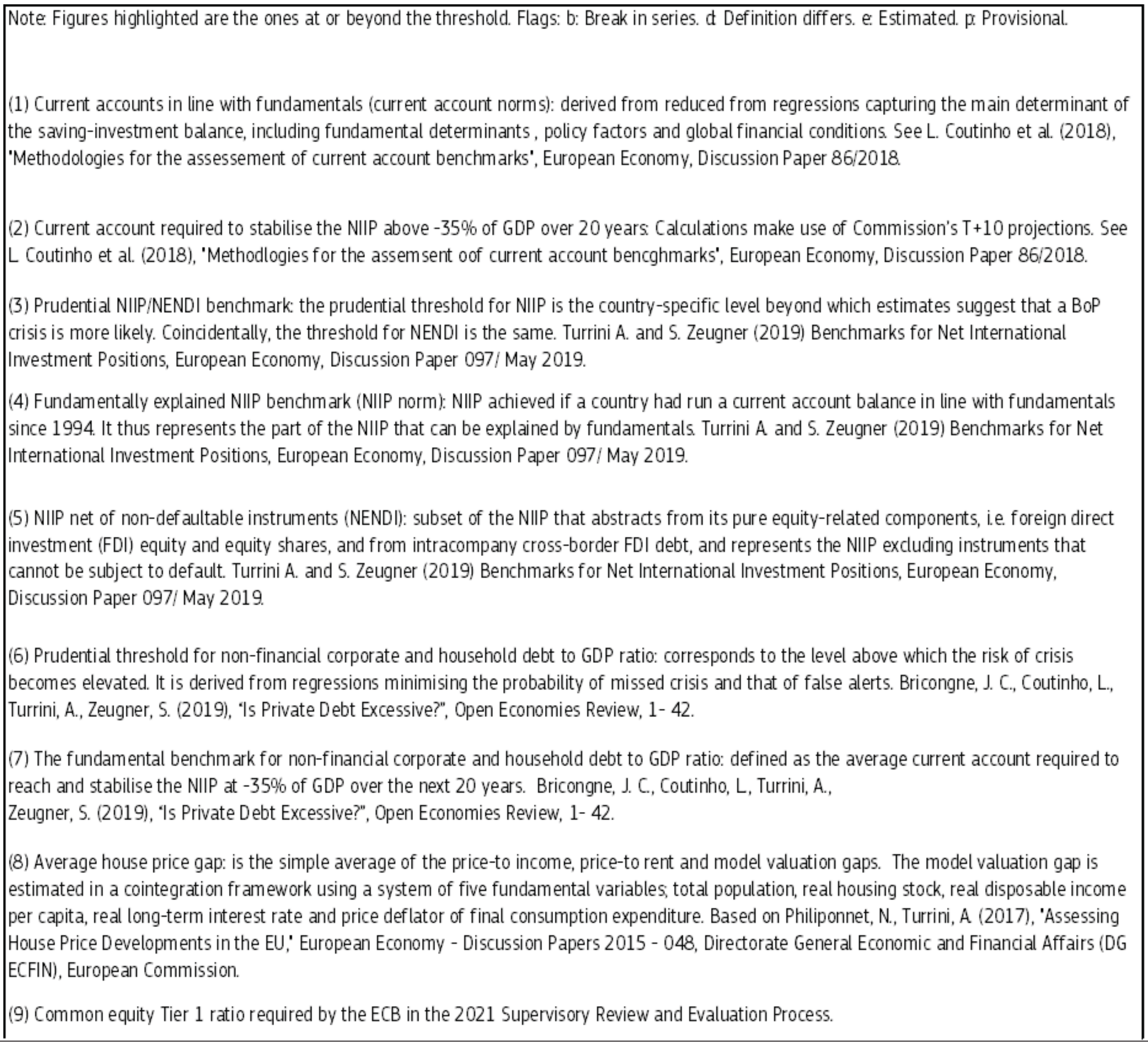
	Thresholds	*Benchmark I*	*Benchmark II*	*2019*	*2020*	*2021*	forecast *2022*	forecast *2023*
External position								
Current account balance, balance of payments (% of GDP, 3-year average)	**-4%/6%**			**3.7**	**4.7**	**5.6**	**4.9**	**4.0**
Current account balance, balance of payments (% of GDP)		0.7 (1)	0.3 (2)	5.5	5.9	5.4	3.3	3.4
Net international investment position (% of GDP)	**-35%**	**-87.4 (3)**	**4.1 (4)**	**13.2**	**9.4**	**21.2**	**37.9**	**39.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)				-11.4	-10.9	-2.0		
Competitiveness								
Nominal unit labour cost index (3 year % change)	**9% (EA) 12% (Non-EA)**			**7.2**	**8.7**	**5.5**	**6.9**	**8.5**
Nominal unit labour cost index (% y-o-y change)				1.5	3.4	0.5	2.8	4.9
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	**±5% (EA) ±11% (Non-EA)**			**-8.3**	**-4.8**	**2.1**	**-2.4**	**-8.6**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-3.8	3.0	3.0	-8.0	-3.5
Export market share - % of world exports (5 year % change)	**-6%**			**-2.9**	**3.1**	**-1.0**	**1.8**	**1.5**
Export market share - % of world exports (1 year % change)				2.9	4.1	-3.2	0.4	-2.5
Private sector debt								
Private sector debt, consolidated (% of GDP)	**133%**			**200.0**	**212.8**	**215.2**	**211.8**	**200.2**
Private sector credit flow, consolidated (% of GDP)	**14%**			**9.7**	**14.4**	**16.6**	**15.0**	**12.0**
Household debt, consolidated (% of GDP)		70.3 (6)	78.3 (7)	88.5	93.7	92.5	90.2	88.8
Non-financial corporate debt, consolidated (% of GDP)		82.0 (6)	94.6 (7)	111.5	119.1	122.7	121.6	111.4
Housing market								
House price index, deflated (1 year % change)	**6%**			**0.4**	**3.3**	**8.1**	**-5.9**	**-8.3**
House price index, nominal (1 year % change)		34.6 (8)		2.5	4.2	10.1	6.5	1.9
Government debt								
General government gross debt (% of GDP)	**60%**			**35.2**	**39.5**	**36.3**	**32.1**	**29.4**
General government balance (% of GDP)				0.6	-2.8	-0.1	0.2	0.2
Banking sector								
Total financial sector liabilities, non-consolidated (1 year % change)	**16.5%**			**11.5**	**10.7**	**10.9**	**0.9**	
Return on equity (%)				10.9	8.4	10.0		
Common Equity Tier 1 ratio		10.6 (9)		17.7	19.2	19.2		
Gross non-performing loans, domestic and foreign entities (% of gross loans)				1.1e	1.0e	1.0p	0.8	
Labour market								
Unemployment rate (3 year average)	**10%**			**6.8 b**	**7.3 b**	**8.1**	**8.2**	**7.9**
Unemployment rate (year level)		6.7 (10)		7.0	8.5	8.8	7.2	7.6
Activity rate - % of population aged 15-64 (3 year change in pp)	**-0.2 pp**			**0.8**	**0.0**	**0.6 b**	**1.0**	**1.2**
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	**0.5 pp**			**-0.5**	**-0.2**	**0.2**		
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	**2 pp**			**1.1**	**6.3**	**7.9**		

Notes: See Annex 1

Source: Commission services, Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2022)

ANNEX 1: NOTE TO THE TABLES OF THE COUNTRY SECTION

Table A1.1:**Notes to the tables of the Country section**



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

(1) Current accounts in line with fundamentals (current account norms): derived from reduced from regressions capturing the main determinant of the saving-investment balance, including fundamental determinants , policy factors and global financial conditions. See L. Coutinho et al. (2018), 'Methodologies for the assessement of current account benchmarks', European Economy, Discussion Paper 86/2018.

(2) Current account required to stabilise the NIIP above -35% of GDP over 20 years: Calculations make use of Commission's T+10 projections. See L. Coutinho et al. (2018), 'Methodlogies for the assemsent oof current account bencghmarks', European Economy, Discussion Paper 86/2018.

(3) Prudential NIIP/NENDI benchmark: the prudential threshold for NIIP is the country-specific level beyond which estimates suggest that a BoP crisis is more likely. Coincidentally, the threshold for NENDI is the same. Turrini A. and S. Zeugner (2019) Benchmarks for Net International Investment Positions, European Economy, Discussion Paper 097/ May 2019.

(4) Fundamentally explained NIIP benchmark (NIIP norm): NIIP achieved if a country had run a current account balance in line with fundamentals since 1994. It thus represents the part of the NIIP that can be explained by fundamentals. Turrini A. and S. Zeugner (2019) Benchmarks for Net International Investment Positions, European Economy, Discussion Paper 097/ May 2019.

(5) NIIP net of non-defaultable instruments (NENDI): subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default. Turrini A. and S. Zeugner (2019) Benchmarks for Net International Investment Positions, European Economy, Discussion Paper 097/ May 2019.

(6) Prudential threshold for non-financial corporate and household debt to GDP ratio: corresponds to the level above which the risk of crisis becomes elevated. It is derived from regressions minimising the probability of missed crisis and that of false alerts. Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), 'Is Private Debt Excessive?", Open Economies Review, 1- 42.

(7) The fundamental benchmark for non-financial corporate and household debt to GDP ratio: defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Bricongne, J. C., Coutinho, L., Turrini, A.,
Zeugner, S. (2019), 'Is Private Debt Excessive?", Open Economies Review, 1- 42.

(8) Average house price gap: is the simple average of the price-to income, price-to rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables; total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philiponnet, N., Turrini, A. (2017), 'Assessing House Price Developments in the EU,' European Economy - Discussion Papers 2015 - 048, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

(9) Common equity Tier 1 ratio required by the ECB in the 2021 Supervisory Review and Evaluation Process.

Source: European Commission services

ANNEX 2: FORECASTS AND NOWCASTS OF SCOREBOARD INDICATORS

To enhance the forward-looking elements in the scoreboard reading, the AMR analysis builds also, whenever possible, on forecasts for 2022 and beyond. Whenever available, such figures are based on the Commission autumn 2022 forecast. Otherwise, figures mostly display forecasts prepared by Commission services for this AMR.

The table below summarises the assumptions used for the forecasts figures of headline scoreboard indicators. The GDP figures used as denominators in some ratios stem from the Commission autumn 2022 forecast.

In case of multi-annual rates of change (e.g., the five-year change of export market shares), only the 2022 and 2023 component is based on forecasts, whereas components related to 2021 or earlier years use the Eurostat data underlying the MIP scoreboard.

Table 1: **Approaches to forecasts and nowcasts for MIP scoreboard headline indicators**

Indicator	Approach	Data sources
Current account balance, % of GDP (3 year average)	Values from Commission autumn 2022 forecast of the current account balance (Balance of Payments concept)	AMECO
Net international investment position (% of GDP)	Forecast made by Commission services based on the Commission autumn 2022 forecasts for total economy net lending/borrowing	Commission services
Real effective exchange rate – 42 trading partners, HICP deflator (3 year % change)	Values based on the Commission autumn 2022 forecast	AMECO
Export market share – % of world exports (5 year % change)	Figures are based on the Commission autumn 2022 forecast of: i) nominal goods and services (G&S) exports for Member States (national accounts concept), and ii) Commission forecast of G&S exports in volumes for the rest of the world, translated to nominal levels by the Commission US import deflator and EUR/USD exchange rate forecasts.	AMECO
Nominal unit labour cost index, 2010=100 (3 year % change)	Values from the Commission autumn 2022 forecast	AMECO
House price index (2015=100), deflated (1 year % change)	Forecast made by Commission services	Commission services
Private sector credit flow, consolidated (% of GDP)	Forecast made by Commission services	Commission services
Private sector debt, consolidated (% of GDP)	Forecast made by Commission services	Commission services
General government gross debt (% of GDP)	Values from the Commission autumn 2022 forecast	AMECO
Unemployment rate (3 year average)	Values from the Commission autumn 2022 forecast	AMECO
Total financial sector liabilities, non-consolidated (1 year % change)	Forecast made by Commission services	Commission services
Activity rate - % of total population aged 15-64 (3 year change in pp)	Forecast made by Commission services	Commission services

Table 3.1: MIP Scoreboard 2021

	External imbalances and competitiveness					Internal imbalances						Employment indicators[1]		
Year2021	**Current account balance - % of GDP** (3 year average)	**Net international investment position** (% of GDP)	**Real effective exchange rate - 42 trading partners, HICP deflator** (3 year % change)	**Export market share - % of world exports** (5 year % change)	**Nominal unit labour cost index (2015=100)** (3 year % change)	**House price index (2015=100), deflated** (1 year % change)	**Private sector credit flow, consolidated** (% of GDP)	**Private sector debt, consolidated** (% of GDP)	**General government gross debt** (% of GDP)	**Unemployment rate** (3 year average)	**Total financial sector liabilities, non-consolidated** (1 year % change)	**Activity rate - % of total population aged 15-64** (3 year change in pp)	**Long-term unemployment rate - % of active population aged 15-74** (3 year change in pp)	**Youth unemployment rate - % of active population aged 15-24** (3 year change in pp)
Thresholds	-4%/+6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	0.5	59.9	0.6	2.4	5.4p	4.5	3.8p	169.0p	109.2	5.9	7.5	1.1	0.0	2.2
BG	0.5	-18.4	3.8	12.2	16.4	2.5p	4.4	84.4	23.9	5.5	9.5	0.6	-1.0	-0.1
CZ	0.5	-15.6	5.0	-1.1	13.9	16.4	2.9	78.8	42.0	2.5	7.9	0.0	0.1	1.5
DK	8.5	77.0	-1.1	6.5	6.1	9.5	12.3	214.7	36.6	5.2	11.7	1.4	0.0	0.3
DE	7.3	70.7	0.5	-5.9	7.4p	8.2p	5.7p	120.4p	68.6	3.4b	7.2	1.2	-0.2	0.3
EE	-0.1	-13.0	1.9	17.8	10.7	10.4	6.5	95.3	17.6	5.9	17.5	-0.2	0.3	4.7
IE	-4.2	-145.5	-2.6	39.9	-7.9	4.2	2.6p	168.1p	55.4	5.7	18.8p	1.8	-0.3	0.7
EL	-5.0	-171.9	-3.1	9.6	4.0p	6.4e	-0.1p	120.7p	194.5	16.7	14.3	-0.8	-3.3	-5.7
ES	1.2	-71.5	-0.5	-10.5	12.3p	1.5	2.5p	139.1p	118.3	14.8d	6.6	0.0d	-0.2d	0.5d
FR	-0.3	-32.1	-0.4	-11.4	4.6p	4.7	6.5p	167.8p	112.8	8.1d	7.3p	0.2d	-0.2d	-3.1d
HR	1.8	-35.1	-1.5	7.9	6.4p	4.5	3.0p	88.5p	78.4	7.2	11.7	2.4	-0.6	-1.8
IT	3.4	8.1	-1.8	-6.2	4.6	0.9	3.3	113.5	150.3	9.6	6.2	-1.1	-1.1	-2.5
CY	-7.5	-117.8	-2.4	24.9	4.1p	-4.3	4.3p	248.4p	101.0	7.4	-0.8	1.7	-0.1	-3.1
LV	-0.7	-27.4	2.3	13.4	14.5	7.3	0.9	58.0	43.6	7.3	13.2	-1.8	-1.1	2.6
LT	4.0	-7.4	4.4	37.9	19.2	11.0	5.9	53.9	43.7	7.3	25.2	0.9	0.6	3.2
LU	4.2	30.6	0.6	13.1	11.2p	12.4	53.9p	340.6p	24.5	5.9	11.4	2.1	0.4	2.7
HU	-1.9	-53.1	-4.1	0.0	12.4p	10.0p	12.7p	80.5p	76.8	3.8	16.4	2.1	-0.1	3.6
MT	-0.8	52.8	-1.2	-0.9	12.9	3.8p	9.4	131.8	56.3	3.8	7.7	3.5	-0.9	0.3
NL	6.4	93.0	2.2	1.1	11.2p	11.2p	11.7p	229.3p	52.4	4.5	-0.3p	1.0	-0.4	0.4
AT	1.9	14.7	1.2	-2.7	9.9	9.9	7.4	129.7	82.3	5.7	8.0	0.1	0.3	1.0
PL	0.3	-39.5	-0.4	24.9	9.9b	3.7	4.0	71.6	53.8	3.3	13.6	3.4	-0.1	0.1
PT	-0.6	-94.7	-2.8	-5.3	12.5p	7.9	4.0p	156.9p	125.5	6.8	7.1	0.7	-0.3	3.1
RO	-5.7	-47.2	1.0	10.6	14.4p	-1.1	3.8p	48.1p	48.9	5.5	14.3	3.2	-0.2	0.5
SI	5.8	-6.8	-0.4	11.6	12.8	7.8	3.5	66.4	74.5	4.7	14.1	0.6	-0.3	3.9
SK	-1.8	-61.0	3.1	-2.9	14.1	3.0	5.5	95.0	62.2	6.4	24.0	0.2	-0.8	4.8
FI	0.3	-1.4	-0.7	4.9	6.0	2.8	6.1	150.1	72.4	7.4	9.4	1.8	-0.2	-0.2
SE	5.6	21.2	2.1	-1.0	5.5	8.1	16.6	215.2	36.3	8.1	10.9	0.6b	0.2	7.9

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

1) For employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) Employment indicators, d = Spain and France have assessed the attachment to the job and included in employment those who had an unknown duration of absence from work, but are expected to return to the same job once COVID-19 health measures allow it.
Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, WEO (for world volume exports of goods and services)

Table 3.2.1: Auxiliary indicators, 2021

Year 2021	Real GDP (1 year % change)	Gross fixed capital formation (% of GDP)	Gross domestic expenditure on R&D (% of GDP)	Current plus capital account (Net lending-borrowing) (% of GDP)	Net international investment position excluding non-defaultable instruments (% of GDP)	Foreign direct investment in the reporting economy - flows (% of GDP)	Foreign direct investment in the reporting economy - stocks (% of GDP)	Net trade balance of energy products (% of GDP)	Real effective exchange rate - euro area trading partners (3 year % change)	Export performance against advanced economies (5 year % change)	Terms of trade (5 year % change)	Export market share in volume (1 year % change)	Labour productivity (1 year % change)	Gross non-performing loans of domestic and foreign entities (% of gross loans)	Unit labour cost performance relative to EA (10 year % change)	House price index (2015=100) - nominal (3 year % change)	Residential construction (% of GDP)	Household debt, consolidated (incl. NPISH, % of GDP)	Consolidated banking leverage, domestic and foreign entities (total assets/total equity)
BE	6.1p	24.2p	na	0.6	37.3	4.0	166.7	-3.3p	0.4	7.1	-1.2p	1.0p	4.2p	1.6p	-3.3	16.1	6.3p	62.1	13.8p
BG	7.6	16.3	0.8p	0.2	49.8	2.6	80.8	-3.4	2.3	17.4	8.2	0.7	7.4	4.8p	54.2	20.5p	2.8	24.9	8.0p
CZ	3.5	26.0	2.0p	0.7	36.4	2.7	82.1	-2.5	4.5	3.4	0.8	-3.4	3.2	1.7p	15.1	41.7	4.6	34.4	12.3p
DK	4.9	22.6	2.8p	9.1	32.1	3.3	56.6	-0.5	-1.3	11.3	1.9	-2.3	2.3	1.8p	-6.6	20.2	6.0	104.3	16.2p
DE	2.6p	21.8p	3.1p	7.3	54.6	1.7	49.6	-1.9p	0.6	-1.6	-1.6p	-0.6p	2.5p	1.1p	12.9	27.1p	7.2p	56.7	14.1p
EE	8.0	28.9	1.7p	7.1	39.9	19.6	125.9	-0.3	1.4	23.2	1.4	9.6	7.9	1.1p	21.7	30.5	4.9	37.8	9.4p
IE	13.6	23.3	1.3p	15.1	-335.1	16.5	418.6	-1.2	-1.7	46.3	-4.4	3.8	7.1	2.4p	-37.6	11.2	2.1	29.7p	8.8p
EL	8.4p	13.3p	1.4p	-4.6	-150.2	3.1	23.4	-3.1p	-4.3	14.6	-5.2p	13.8p	5.6p	8.6p	-22.5	20.4e	1.3p	55.2	17.0p
ES	5.5p	19.8p	na	1.9	-39.7	3.0	76.4	-2.1p	-0.7	-6.4	0.0p	4.1p	3.0p	2.9p	-8.5	11.5	5.4p	58.4	15.8p
FR	6.8p	24.2	2.2	0.8	-37.2	3.0	51.9	-1.7	-0.5	-7.4	-1.0	-1.5p	4.2p	1.9p	-5.2	15.6	6.7p	66.7p	15.8p
HR	10.2p	21.6p	1.3p	5.5	12.0	6.9	63.4	-2.5p	-2.3	12.8	-1.8p	23.0p	8.9p	4.2p	-16.6	25.9	3.1p	34.7	7.8p
IT	6.7	20.0	1.5p	3.0	6.4	0.9	30.8	-2.5	-2.1	-1.9	-2.0	3.1	6.1	3.5p	-6.1	4.5	4.8	43.4	14.3p
CY	6.6p	19.5p	na	-6.4	-76.4	-123.3	1595.5	-4.4p	-2.4	30.6	-1.6p	3.3p	5.3p	5.6p	-16.3	0.0	7.6p	83.0	16.0p
LV	4.1	22.3	0.7p	-2.8	18.9	9.5	67.1	-2.5	1.1	18.5	7.7	-4.4	6.8	2.1p	35.8	25.0	2.2	19.4	10.3p
LT	6.0	21.4	1.1p	2.6	22.2	4.5	55.5	-4.8	3.2	44.2	-4.3	6.7	4.7	1.2p	30.7	33.0	3.0	23.6	15.7p
LU	5.1p	16.5p	na	5.9	-4766.5	-269.1	5498.4	-2.8p	0.6	18.2	2.0p	-0.6p	2.1p	0.6p	9.8	43.6	3.3p	66.0	15.2p
HU	7.1p	27.2p	1.6	-1.5	-1.5	16.1	323.0	-4.4p	-4.4	4.6	-2.2p	0.0p	6.0p	3.2p	14.9	43.0p	3.9p	21.0	10.8p
MT	10.3	22.1p	0.7	-3.6	259.4	25.1	1481.5	-4.4	-1.2	3.6	1.6	-1.3	7.2	3.0p	14.8	15.3p	3.7p	53.4	12.6p
NL	4.9p	21.6p	na	7.3	26.0	-14.4	549.9	-1.5p	2.4	5.7	-0.8p	-5.1p	2.8p	1.4p	1.6	32.8p	5.5p	100.4p	16.3p
AT	4.6	26.5	3.2p	0.4	-4.2	2.6	60.1	-2.4	1.1	1.7	-2.6	-0.7	2.5	1.8p	7.2	28.1	5.3	52.1	11.7p
PL	6.8	17.0	1.4p	-0.8	0.8	5.5	50.1	-2.0	-0.6	30.6	1.1	2.2	5.3b	5.0p	5.1	31.1	2.3	32.3	12.9p
PT	5.5p	20.3p	1.7p	0.6	-36.1	3.1	85.6	-2.7p	-3.0	-1.0	-0.5p	3.2p	3.5p	3.6p	2.3	30.9	3.8p	66.4	12.0p
RO	5.1p	24.1p	0.5p	-5.1	-6.5	4.1	46.6	-2.0p	0.2	15.7	5.6p	2.2p	3.2p	3.4p	35.4	13.0	2.6p	15.8	10.2p
SI	8.2	20.3	na	3.9	9.7	3.4	43.3	-2.8	-1.0	16.7	-1.5	4.2	6.8	2.1p	-0.4	24.5	2.4	26.4	9.6p
SK	3.0	18.9	1.0	-1.2	-14.7	0.8	66.5	-3.6	3.1	1.5	-2.6	0.3	3.6	2.0p	11.9	27.2	3.9	47.8	10.4p
FI	3.0	23.7	3.0	0.7	15.8	8.0	51.6	-1.9	-1.0	9.7	1.3	-4.9	-0.3	1.2p	-5.9	6.9	7.2	67.8	16.2p
SE	5.1	25.6	3.4	5.5	-2.0	9.2	91.7	-0.7	1.7	3.5	-0.1	-2.4	3.8	1.0p	4.2	17.6	5.3	92.5	16.4p

Flags:b:Break in series. e:Estimated. p:Provisional.

1) The official transmission deadline for 2021 data on Gross domestic expenditure on R&D is 31 October 2022 while data were extracted on 21 October 2022. 2) House price index e = estimate by NCB for EL.

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

Year 2021	Employment (1 year % change)	Activity rate - % of total population aged 15-64 (%)	Long-term unemployment rate - % of active population aged 15-74 (%)	Youth unemployment rate - % of active population aged 15-24 (%)	Young people neither in employment nor in education and training - % of total population aged 15-24		People at risk of poverty or social exclusion - % of total population		People at risk of poverty after social transfers - % of total population		Severely materially and socially deprived people - % of total population		People living in households with very low work intensity - % of total population aged 0-64	
					%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp	%	3 year change in pp
BE	1.9p	69.7	2.6	18.2	7.4b	-1.8b	18.8	-1.7	12.7	-3.7	6.3	-0.2	11.9	-1.2
BG	0.2	72.0	2.6	15.8	14.0b	-1.0b	31.7	-1.3	22.1	0.1	19.1	-3.2	8.4	-0.6
CZ	0.4	76.6	0.8	8.2	6.5b	0.9b	10.7	-1.1	8.6	-1.0	1.8	-0.6	5.4	0.9
DK	2.4	79.6	1.0	10.8	7.1b	-0.6b	17.3	-0.2	12.3	-0.4	3.1	-0.4	9.7	-0.3
DE	0.1p	78.7	1.2	6.9	7.5b	1.6b	20.7	2.2	15.8	-0.2	4.2	0.8	9.3	1.3
EE	0.1	79.1	1.6	16.7	10.9b	0.6b	22.2	-1.4	20.6	-1.3	1.9	-1.2	5.1	-0.2
IE	6.0	74.6	1.8	14.5	7.8b	-2.3b	20.0	-0.8	12.9	-2.0	5.1	-1.0	13.0	-0.2
EL	2.7p	67.3	9.2	35.5	11.0b	-3.1b	28.3	-2.0	19.6	1.1	13.9	-2.2	12.1	-1.5
ES	2.5p	73.7d	6.2d	34.8d	11.0bd	-1.4bd	27.8	0.5	21.7	0.2	8.3	-0.4	11.6	0.8
FR	2.5p	73.0d	2.3d	18.9d	10.6bd	-0.5bd	19.3	1.4	14.4	1.0	5.9	-0.8	10.7	3.2
HR	1.2	68.7	2.8	21.9	12.7b	-0.9b	20.9	-1.2	19.2	-0.1	3.5	-2.6	7.5	-1.8
IT	0.6	64.5	5.4	29.7	19.8b	0.6b	25.2p	-0.5p	20.1p	-0.2p	5.9p	-0.6p	10.8p	0.1p
CY	1.3p	76.7	2.6	17.1	12.8b	-0.4b	17.3	-1.8	13.8	-1.6	2.6	-1.2	5.8	-2.3
LV	-2.6	75.8	2.3	14.8	8.6b	0.8b	26.1	-2.3	23.4	0.1	5.3	-5.1	6.6	-0.7
LT	1.2	78.2	2.6	14.3	11.3b	3.3b	23.4	-5.1	20.0	-2.9	6.4	-5.6	7.8	-1.4
LU	3.0p	73.2	1.8	16.9	8.7b	3.4b	21.1b	1.0b	18.1b	1.4b	2.4b	0.8b	5.5b	-2.3b
HU	1.0p	76.2	1.3	13.5	10.6b	-0.1b	19.4	-1.2	12.7	-0.1	10.2	-1.7	5.3	-0.2
MT	2.9	78.2	0.9	9.4	9.8b	2.5b	20.3	1.1	16.9	0.1	5.4	0.7	5.3	0.0
NL	2.0p	83.7	0.8	9.3	5.1b	0.9b	16.6	0.1	14.4	1.1	2.1	-0.5	8.6	0.2
AT	2.0	77.2	2.0	11.0	8.5b	1.7b	17.3	0.5	14.7	0.4	1.8	-1.0	7.4	1.0
PL	1.5b	72.8	0.9	11.9	11.2b	2.5b	16.8p	-1.4p	14.8p	0.0p	2.9p	-1.6p	4.2p	-1.5p
PT	1.9p	75.2	2.9	23.4	7.6b	-0.8b	22.4	0.8	18.4	1.1	6.0	-0.6	5.3	-1.6
RO	1.8p	65.6	2.0	21.0	18.0b	3.5b	34.4	-4.3	22.6	-0.9	23.1	-5.2	3.5	-2.5
SI	1.3	75.0	1.9	12.8	6.6b	0.0b	13.2	-2.2	11.7	-1.6	1.8	-1.4	3.6	-0.8
SK	-0.6	74.6	3.9	20.6	11.0b	0.8b	15.6	0.4	12.3	0.1	5.7	0.3	5.0	-0.2
FI	3.3	78.8	1.8	17.1	7.7b	-0.8b	14.2	-2.4	10.8	-1.2	1.1	-1.1	8.6	-2.5
SE	1.2	82.9	1.9	24.7	5.1b	-0.9b	17.2	-0.5	15.7	-0.7	1.4	0.0	8.9	0.6

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

1) Employment indicators, d = Spain and France have assessed the attachment to the job and included in employment those who had an unknown duration of absence from work, but are expected to return to the same job once COVID-19 health measures allow it. 2) Young people neither in employment nor in education and training, b = Break in the data series due to the implementation of Regulation (EU) 2019/1700. 3) Income and Living Conditions, b = Introduction of a CAWI component for the newly selected households in 2021 for LU.

Source: European Commission, Eurostat