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Alert Mechanism Report 2025

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

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1. INTRODUCTION

This Alert Mechanism Report (AMR) initiates the fourteenth annual round of implementation 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 EU 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).

This staff working document presents the underlying analysis as part of the Alert Mechanism Report. It accompanies a Commission Communication, a staff working document on the AMR scoreboard and a statistical annex. The Commission Communication ([1]) provides the outcome of the analysis, which this staff working document presents and puts into context. It provides an overview of the economic developments that are taking place and gives an overall assessment of the economic reading of the scoreboard. It 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 within the Council and the Eurogroup, the Commission will then prepare IDRs for the Member States concerned. The IDRs will be published in early 2025 and will provide the basis for the Commission assessment of 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 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 evidence of possible risks and vulnerabilities. Under 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 ([2]). This year, the AMR is based on a revised scoreboard, following a review of the scoreboard. The main changes are summarised in the Commission Communication, and details are provided in a staff working document ([3]) accompanying this Communication. The annex that accompanies this publication contains the values of the scoreboard ([4]). The analysis contained in this publication also builds on analytical tools and assessment frameworks, and additional published data, notably in-year data ([5]).

([1]) Commission communication, Alert Mechanism Report 2025, COM(2024) 702.

([2]) 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.

([3]) Commission staff working document on the changes in the scoreboard of the Macroeconomic Imbalance Procedure, SWD(2024) 702.

([4]) Commission staff working document, Statistical Annex accompanying the Alert Mechanism Report 2025, SWD(2024) 701

([5]) 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 31 October 2024. For any other data, the cut-off date was also 31 October 2024.

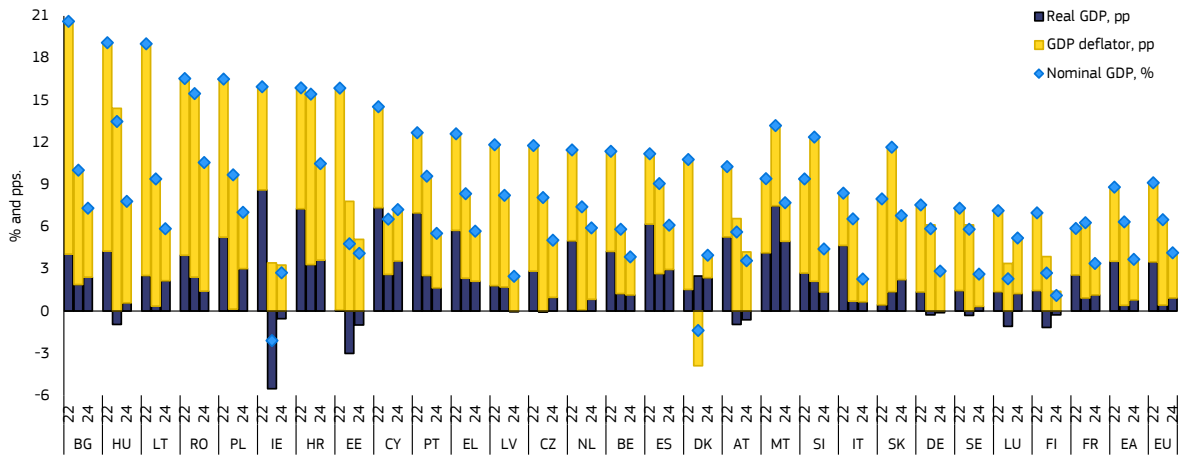
The first screening for imbalances in the AMR is forward looking with a view of detecting risks of emerging imbalances early on. To that end, this report uses forecasts, nowcasts and projections to better gauge the possible evolution of risks for macroeconomic stability. Values of scoreboard variables for 2024 and subsequent years have been estimated using Commission forecast data and nowcasts are based on in-year data ([6]). 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 forward-looking approach to the MIP has been developed in recent years and applied during the 2024 cycle. It aims at a stronger preventive role of the MIP in an environment characterised by new risks.

([6]) For details, see Annex 2 of the Alert Mechanism Report 2023, COM(2022) 781 final.

2. MACROECONOMIC CONTEXT

This AMR is prepared in the context of a slightly strengthening economic activity, as the EU economy emerges from a challenging period, while inflation continues falling and labour markets remain strong. In 2023, the economic expansion nearly stalled in the EU and the euro area, with GDP gaining 0.4% in both. The weakness was widespread. Real growth moderated in all but three countries and nine Member States saw their real GDP contract. Nominal growth also decelerated markedly in most countries, although it was still strong owing to continued price increases (Graph 2.1). Consumer inflation fell to a still high 6.4% in the EU and to 5.4% in the euro area from record highs of 2022. Labour markets performed well, with sustained job and wage growth. In 2024, real GDP growth has picked up to 0.3% q-o-q in the EU in each of the first three quarters of the year, but domestic demand has been weak as fixed investment contracted in the first half of 2024. Looking ahead, the EU economy is expected to continue growing as easier financing conditions, both at home and abroad, should provide a new stimulus and real incomes increase. Overall, real GDP growth in the EU is expected to come in at 0.9% in 2024 and 1.5% in 2025, with the economies of all countries expected to expand in 2025. Nominal growth should continue moderating, as inflation declines ([7]).

Graph 2.1: **Nominal GDP growth**



Source: Eurostat and European Commission forecasts and calculations.

International trade has provided some support to growth in the EU recently despite a strong deceleration in 2023. Economic activity outside the EU has been relatively resilient in the past two years, with growth in employment and incomes maintained despite tighter financing conditions relative to 2022 ([8]). Despite this resilience, international trade lost momentum in 2023, owing to a cyclical downturn compounded by a surge in cross-border trade restrictions fragmenting the global trade network ([9]). Still, net exports had a mildly positive contribution to EU's growth (Graph 2.3.a). As disinflation continues, most central banks have started cutting interest rates,

([7]) European Commission, *European Economic Forecast - Autumn 2024*, Institutional Paper 296, November 2024.

([8]) IMF (2024), *World Economic Outlook*, July 2024.

([9]) Gopinath G., Gourinchas P., Presbitero A. F., Topalova P. (2024), "Changing Global Linkages: A New Cold War?", IMF WP/24/76, IMF (2024), *World Economic Outlook*, July 2024.

which remain markedly higher than in recent years. However, growth is unlikely to gain a stronger momentum, in part owing to fiscal policy turning contractionary to stem further increases in debt levels in an environment of higher interest rates. In addition, structural and cyclical weaknesses in China, on the back of a prolonged real estate slump and weak consumer confidence, result in persistently weak domestic demand. Still, trade has rebounded somewhat at the beginning of 2024 and is set to provide a rather strong growth stimulus to the EU economy this year.

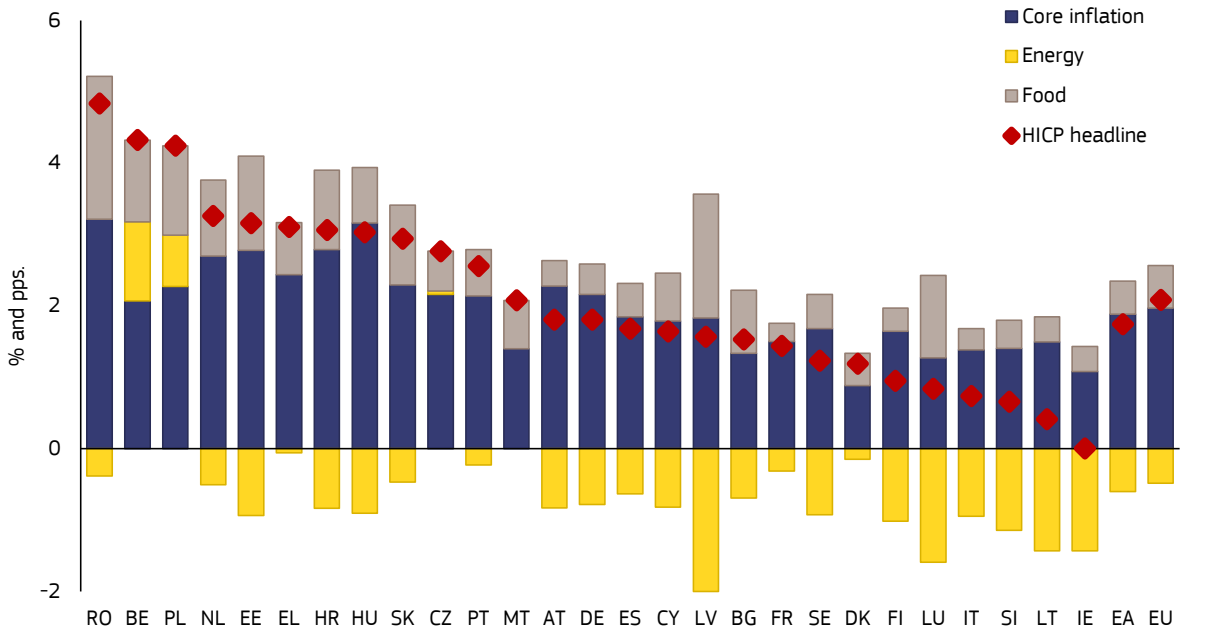
The inventory cycle was a major brake on growth in 2023; domestic demand should support growth from 2024 following a temporary dip. In 2023, high inflation and tight financial conditions strongly decelerated demand across the EU. Nevertheless, both private consumption and fixed investment increased in real terms at rates above GDP growth, at 0.5% and 1.8%, respectively, at an EU level. The strong buildup in inventories seen throughout 2021 and 2022 was partly undone in 2023, acting as a brake on growth (Graph 2.3.a). Since 2022, investment activity in the construction sector has been losing momentum, albeit from a high level achieved during the pandemic. Machinery and equipment, and intellectual property products investment gradually recovered (Graph 2.3.b). In the first half of 2024, investment activity weakened across the board, falling in real terms compared to the previous period. Private consumption entered 2024 on a solid footing, but the momentum seems to have faded in the second half of the year. Still, both consumption and investment are expected to pick up, owing to growing real incomes and less costly financing. The ongoing implementation of reforms and investments under the national Recovery and Resilience Plans (RRP) will continue bolstering investment activity. On the other hand, the underutilisation of capital and a prolonged weakness in the construction sector, coming mainly from commercial real estate, are likely to dampen somewhat the growth impulse. Overall, domestic demand is expected to rebound somewhat in 2025.

The tight EU labour market continued to create jobs in 2023 and into 2024, but labour productivity declined somewhat. The EU economy created nearly 2.5 million jobs in 2023. Job growth was widespread, and employment increased in all countries except two. In the first half of 2024, employment increased further and is likely to continue doing so in the short-term. The job creation was mostly satisfied by an expansion in the labour force, as the labour supply benefited from immigration, increasing female participation, and greater engagement from older workers. After having been at or just above 6% since early 2022, the EU unemployment rate posted a new record low in August 2024 when it fell to 5.9%. Unemployment rates remained broadly stable in most countries, close to their historical minima. Spain and Greece, two countries with the highest unemployment rates in the EU experienced further sizeable reductions throughout 2024 (Graph 2.3.c). EU labour markets remained tight, although the vacancy rate has been slowly trending downward since late 2022. Nominal wage growth began to decelerate, but real wage growth increased and turned positive by the end of 2023, as consumer prices fell faster, contributing to an increase in living standards. Compared to historical standards, wage growth remains swift in the EU and in most countries in 2024 and will likely decelerate only gradually, owing to the widespread tightness of labour markets. Labour productivity growth has been muted across the EU since 2019 and was negative for the EU as a whole in 2023. As a result, unit labour cost has been increasing at a substantial pace in most countries over this period.

The reduction in inflation in the euro area and the EU continued in 2023 and 2024, as inflationary shocks have largely faded, and second round effects are subsiding. Since its peak in October 2022, HICP inflation has moderated markedly. Consumer inflation in the euro area averaged 5.4% in 2023 (6.4% in the EU) and continued falling throughout 2024, to reach 2.0% in October. Major shocks, namely energy commodity prices, strong post-pandemic demand and supply disruptions, have largely resolved. Energy prices has been slowing total inflation in most countries for over a year and non-energy goods inflation has been very weak since the beginning of 2024. Even though gradually abating, second round effects continue to keep underlying inflation elevated.

Core inflation ([10]) came in at 2.7% in the euro area and 2.9% in the EU in September 2024, and was the main contributor to consumer price increases (Graph 2.2). Services inflation has been hovering around 4% since November 2023, with recent wage increases playing a role. Absent major surprises, inflation in the euro area is on track to reach target levels before the end of 2025. While inflation differentials in the EU fell markedly by the end of 2023 (Graph 2.3.d) and into 2024, core inflation variability has remained substantial (Graph 2.2). Owing to the inherent stickiness of core inflation, this means that further reductions in headline inflation differentials will likely be gradual.

Graph 2.2: **Annual headline HICP inflation and components, September 2024**



Source: Eurostat.

Central banks have started to lower their policy rates but financing conditions remain tight. Financing conditions in the euro area and elsewhere continued to tighten considerably throughout 2023. As inflation appears to be on track to reach its target, the European Central Bank decided to lower the degree of monetary policy restriction and has cut its main policy rate by 75 bps since June 2024. At the same time, real short-term interest rates have been positive due to the steep decline in inflation since the end of 2023, while real long-term rates have not changed significantly (Graph 2.3.e). Most other central banks in the EU began lowering their policy rates earlier than the ECB. Euro area sovereign bond yields have decreased in the past months, but some euro area sovereign spreads remain higher than in spring.

Credit flows to the private sector strongly decelerated in 2023 but are set to become growth supportive again. Credit flows to the private sector moderated markedly across the EU through 2023, owing mainly to a high cost of borrowing, lower loan demand for fixed investment, and tighter credit standards (Graph 2.3.f). Still, net flows remained positive in the euro area and in most countries outside the euro area. Although still high, interest rates on loans for non-financial corporates (NFCs) as well as on loans to households for house purchases have declined somewhat in many EU countries in 2024. In the first half of 2024, net lending flows to NFCs were positive in the euro area and all countries outside the euro area. By contrast, net lending flows for house

([10]) HICP inflation excluding energy, food, alcohol and tobacco.

purchase were negative in the euro area, driven mainly by a sharp fall in France. Outside the euro area, all countries reported positive net lending flows to households. In the third quarter of 2024, both firms and particularly households in the euro area showed an increased demand for loans, owing mainly to declining interest rates ([11]). As interest rates are set fall further, credit flows should gradually pick up to help strengthen investment and consumer spending growth.

The fiscal stance was neutral in 2023 and has likely turned contractionary in 2024. During 2020-2023, strong policy support helped shield the private sector from the impact of adverse shocks. As a result, on aggregate, both households and corporations were able to reduce their debt, as a share of GDP. By contrast, governments face the legacy of the two major shocks of recent history. In 2023, deficits remained elevated in most countries compared to 2019. Debt ratios declined in some, mainly thanks to strong nominal growth. Fiscal policy had a neutral effect on economic growth in 2023 and is likely to have a slightly contractionary effect in 2024 before turning neutral again in 2025.

The outlook for global and EU economies is subject to numerous risks, which can exacerbate economic vulnerabilities in the near future. The conflict in the oil-rich Middle East region and protracted Russia's war of aggression against Ukraine continue to jeopardise European energy security. Although EU countries have substantially diversified their energy suppliers, price increases and potentially supply disruptions may reignite inflationary pressures when the economies are still adapting to the previous price shock. An escalation of geopolitical tensions and a rise of protectionism would further weaken existing trade and financial linkages, likely leading to increased trade costs and a reshaping of export markets. This comes at a time when some EU economies face deteriorating price competitiveness, and some continue redirecting trade away from Russia. Political instability in EU countries and rising polarisation risk undermining policy predictability, with potential negative impacts on economic growth. In addition, continued subdued productivity growth, also stemming from structural challenges in the manufacturing sector, would further exacerbate economic vulnerabilities stemming from high debt and competitiveness losses. Despite elevated global economic uncertainty, financial markets volatility remains rather subdued ([12]). However, volatility can rapidly increase, as demonstrated by a brief episode in August, prompting asset repricing and changes in capital flows. The realisation of the risks could also negatively impact the quality of assets in the financial sector.

([11]) ECB (2024), *The euro area bank Lending survey – Third quarter of 2024.*

([12]) IMF (2024), *Global Financial Stability Report, October 2024.*

Box 2.1: **Employment developments**

In 2023 and 2024, the EU labour market remained strong despite weak economic growth. In recent years the EU labour market has shown remarkable resilience amidst challenges including the COVID-19 pandemic, Russia's war of aggression against Ukraine, the ensuing energy crisis as well as ongoing structural changes related to demographic change and the twin transition. Although economic activity weakened in 2023 and expanded modestly in the first half of 2024, the labour market impact was limited. Labour demand weakened, yet employment growth in 2023 outpaced real GDP growth (1.1% vs 0.4% yearly), and in the first half of 2024, employment kept rising faster than real GDP (1% year-on-year against around 0.7%). The employment rate in the second quarter of 2024 was 75.8%, and is, after having made good progress, well on track towards the at least 78% headline target for 2030 as set by the European Pillar of Social Rights Action Plan. The unemployment rate stayed at 6% for over a year, dropping to 5.9% by September 2024. Although labour shortages have eased, particularly in manufacturing, many firms still report difficulties in finding workers, albeit less than in previous years (Graph 1.a). The job vacancy rate for the business economy, which peaked at 3.1% in the second quarter of 2022, declined to 2.4% in the second quarter of 2024, still higher than pre-pandemic levels. This, along with an unchanged unemployment rate, suggests that the labour market remained tight.

Employment growth was stronger in sectors with relatively high labour shortages (Graph 1.b). This suggests that employment growth in sectors with labour shortages, such as trade, transport, accommodation and food services, partly results from labour supply expansion and job reallocation towards high-shortage sectors. The persistence of shortages in sectors marked by high employment growth indicates an untapped potential for further employment gains, including in sectors or occupations complementary to those facing labour shortages ([1]).

This good labour market performance is due to supportive labour demand and supply factors. In 2023, high profit margins and moderate real unit labour costs acted as a positive supply shock for firms, fuelling labour demand in a context of prolonged labour shortages and weakening economic growth. Labour supply also saw substantial gains in the post-pandemic period, with labour force growth accelerating from an average of 0.4% yearly in the 2015-2019 period to nearly 1% in 2022 and 2023. This increase was broad based across all age groups and countries, with third country nationals contributing 1.3 million to the total labour force rise of 2.3 million in 2023 (Graph 1.c). Simultaneously, the decrease in the job vacancy rate alongside stable unemployment suggests a potential inward shift in the empirical Beveridge curve, potentially reflecting improvements in job matching efficiency and/or a lower separation rate (Graph 1.d). The enhanced job matching may stem from reduced mismatches, while a lower separation rate may result from an ageing population – where older workers face lower risks of job loss – and persistent labour shortages, which may encourage employers to retain workers who are increasingly hard to find (Graph 1.e). If these factors persist, the unemployment rate may become less responsive to cyclical fluctuations in the future.

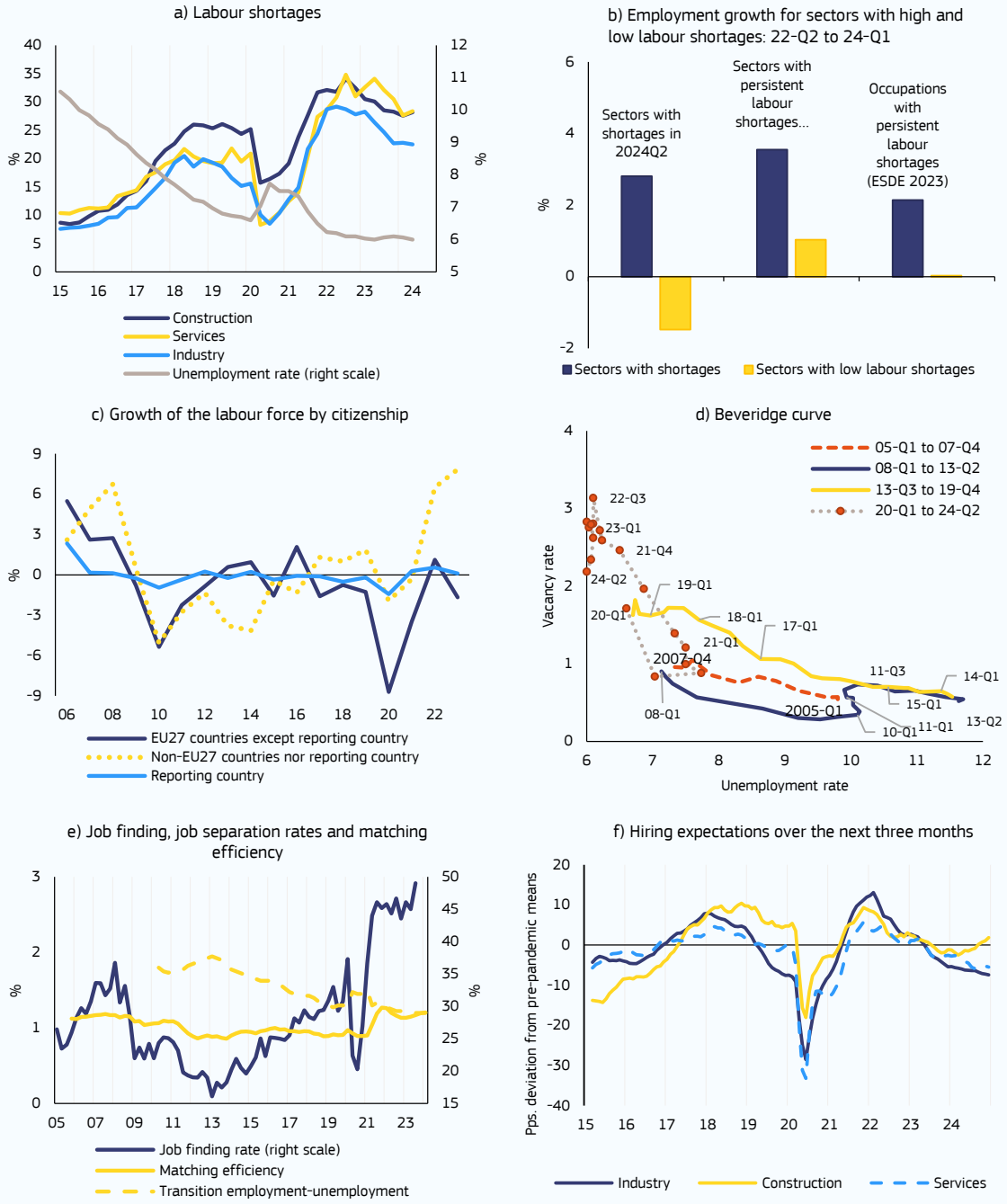
Looking ahead, although the labour demand is softening, the unemployment rate is expected to remain low. Employers' hiring intentions weakened throughout 2023 and into 2024, especially in industry and services (Graph 1.f). Nonetheless, according to the Commission Autumn 2024 forecast the unemployment rate is projected to stay near record lows in 2024 and 2025 with positive employment growth expected to continue. However, short- to medium-term challenges could jeopardize these favourable trends. In the short-term, shrinking profit margins may reduce firms' incentive to retain workers. In the medium term, persistent labour and skills shortages could hinder labour reallocation, slow progress in the digital and green transitions, and limit the firms' capacity to innovate. Low total factor productivity growth, in particular in high-tech sectors, may lower firms' expected profit reducing their incentive to hire.

([1]) This box draws on the findings of the "Labour Market and Wage Developments Report in Europe, Annual Review 2024 (forthcoming).

(Continued on the next page)

Box (continued)

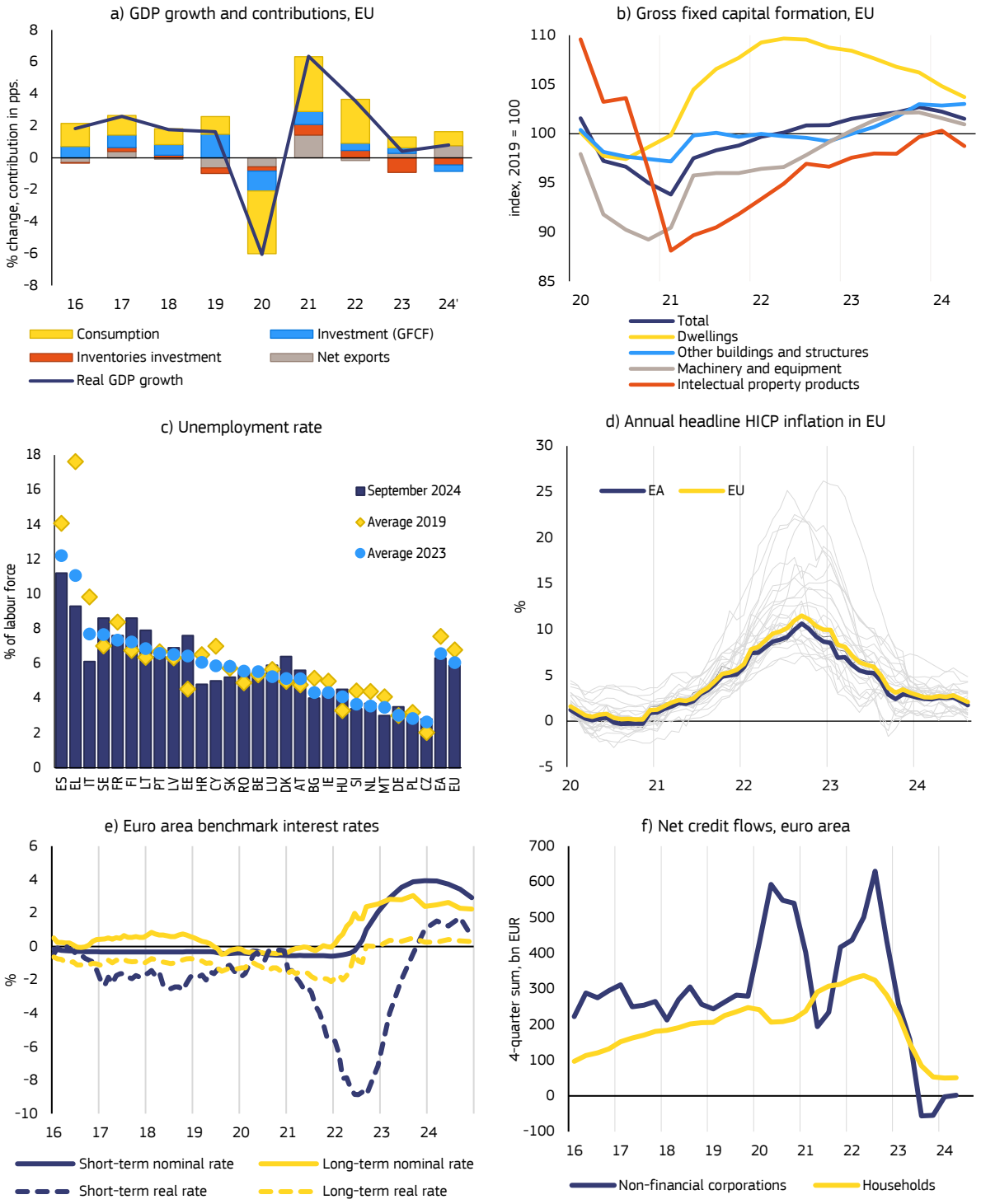
Graph 1: **Selected graphs on employment developments**



(1) Chart a): Labour shortages are proxied by the percentage of firms that declare labour a factor limiting production. Chart b): high and low labour shortages are classified on the basis of the sectoral distribution of shortages in the second quarter of 2024 or the criteria used in European Commission (2023a) (ESDE 2023) to identify persistent labour shortages in specific sectors or occupations. Charts c) and e): the zero line represents the pre-pandemic average growth rate. Chart d): the vacancy rate is the number of firms that declare labour a factor limiting production as % of total labour force. The job finding rate is computed from the structure of unemployment by duration (Elsby et al 2015). The matching efficiency is the residual of a linear regression of the job finding rate (in logs) on labour market tightness (in logs). Chart f) 3-terms moving average.

Source: European Commission Business and consumer survey and Eurostat labour force survey

Graph 2.3: **Selected graphs on the macroeconomic context**



Source: Eurostat, ECB and European Commission calculations.

3. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS

3.1. EXTERNAL SECTOR

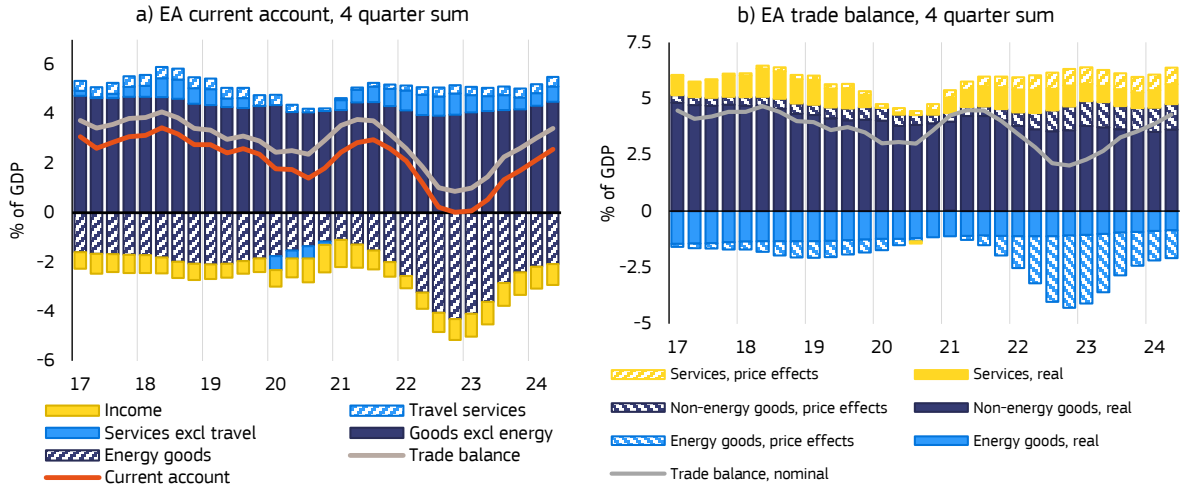
In 2023, the euro area current account balance shifted back to a surplus close to 2% of GDP, largely driven by the receding energy price shock and subdued demand. The moderation of energy prices was the key contributor to the reversal in the current account balance (Graph 3.1.a). Alongside an improvement in the energy goods balance, the trade in goods excluding energy also contributed to the increase of the current account balance as high inflation eroding real income and a tightening in monetary policy resulted in weaker domestic demand in most EU countries. Conversely, the trade balance in real terms (Graph 3.1.b) and the income balance remained largely stable, despite high interest rates ([13]). The weakening in domestic demand can be seen in consumption, which stagnated in real terms, and investment, which fell in real terms mainly due to the contribution of inventories (Graph 3.3.c). Although the euro area current account surplus remained below pre-pandemic levels in 2023, it continues to exceed the levels implied by fundamentals. The increase in the net external lending position of the euro area in 2023 was driven by the private sector.

Current account balances of almost all Member States rose in 2023. Concerns over external vulnerabilities eased overall, as current account balances increased in most EU countries in 2023 (Graph 3.3.a). The exceptions were three Member States, where the current account surplus was reduced, and one Member State which saw a widening of the current account deficit compared to 2022 (Graph 3.3.b). Nevertheless, the current account balances remained below levels suggested by fundamentals for many countries ([14]). Generally, a deceleration in domestic demand was a major factor of increased surpluses and reduced deficits across the EU. Besides lower deficits in energy balances, travel balances continued to strengthen in some countries with large tourism sectors. Income balances remained broadly stable, although noticeable movements in primary income were evident in countries with a large presence of special purpose entities (SPEs).

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

([14]) 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.

Graph 3.1: **Current account and trade balance of the euro area**



(1) '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.
Source: Eurostat and European Commission calculations.

The net external position increased in almost all EU countries in 2023, mainly driven by the private sector savings. Households in most Member States further increased their net lending position to above the pre-pandemic average (Graph 3.3.d). Non-financial corporations shifted from net borrowers to net lenders in 2020 and have remained lenders since then. The corporate sector has greatly benefited from the government support during the pandemic, while it has also introduced cost-cutting measures and deferred investments in times of higher inflation and financing costs. Savings have increased as a result of high unit profits ([15]). At the same time, the government sector remained a net borrower in most Member States, as governments have been only gradually withdrawing their support to the private sector amid the pandemic and energy crises. Additionally, funds from the European Union, such as the NextGenerationEU, have also contributed to the increase in the external position, especially in Member States with current account deficits.

The euro area current account surplus increased further in the second quarter of 2024, reaching 2.6% of GDP, as the trade balance strengthened. The continued moderation of energy prices and the recovery of international tourism to pre-pandemic levels have contributed to the further increase in the current account balance in the euro area (Graph 3.1.a). At the same time, foreign demand is picking up, albeit slowly, while a continuous reduction in inventories is keeping a lid on domestic demand and imports. This has led to higher net exports of goods, further increasing the current account surplus in the euro area. The income balance has remained stable. The euro area current account balance is forecast to increase further – with an increased trade balance – over the rest of 2024 and to remain on the same level in 2025.

Similarly, current account balances of most EU countries have increased further in the second quarter of 2024, but domestic demand differs across Member States. The main positive contributor to the current account balance increase over the last four quarters in almost all Member States has been trade in services. In most net-debtor countries, the trade in services surplus was partly offset by a deficit in the trade in non-energy goods, mainly due to a solid growth

([15]) Emter, L., Fidora, M., Pastoris, F., & Schmitz, M. (2023). "The euro area current account after the pandemic and energy shock". *Economic Bulletin*, (6), European Central Bank.

in private consumption ([16]). Households are experiencing an increase in their real income, due to wage growth and decreasing inflation, creating potential for higher spending. At the same time, in net creditor countries, fiscal consolidation and a continuous reduction in inventories by non-financial corporations have dampened domestic demand, contributing to a further strengthening of current account balances. The weight of high financing cost and still rather weak overall economic activity have also contributed to reduced investment by corporations. The income balance remained largely stable in these countries, although in some cases it is a reflection of the activities of SPEs, with limited or no links to the local economies. Overall, current account balances are set to increase in 2024 and to remain broadly unchanged next year. However, the current account balances are forecast to remain below pre-pandemic levels in most Member States.

For most countries, current account balances remain below their pre-pandemic levels, and for some net debtor countries markedly so. Despite last year's improvements, the current account balances of more than half of EU Member States remained below pre-pandemic levels (Graph 3.3.e). In some net-debtor countries, the solid growth in domestic demand, increasing the net imports of goods, further and markedly widened the current account deficits compared to 2019. The current account deficits of some countries are expected to remain sizeable and below levels suggested by fundamentals. At the same time, some countries with the largest pre-pandemic current account surpluses increased their balances in 2023, mainly due to a sizeable deceleration in domestic demand, and in some cases supported by exports of pharmaceutical products and sizeable contributions of multinational enterprises.

In 2023, the euro area did not experience a marked rebalancing between net creditors and net debtors, as the current account balances of both net debtors and net creditors strengthened. The current account gap between creditors and debtors increased somewhat in 2023, owing to stronger current account increases in the net-creditor countries. Current account balances of net-creditors continued to increase mainly due to weak domestic demand. By contrast, net debtors seem to have benefited more from the moderation in energy prices, which helped narrow their current account deficits amid rather strong domestic demand (Graph 3.3.b). Despite the widening of the current account gap, the gap between the net international investment positions (NIIPs) somewhat reduced. High nominal GDP growth brought the NIIP-to-GDP ratio of both groups of countries closer to zero. For 2024, it is forecast that the current account gap will slightly decrease again.

Gross capital flows have continued their decline that started in 2022. Data indicate a significant retrenchment and shift in the composition of financial flows in recent years. With the financial tightening influencing both financing and financial investments, rising geopolitical tensions might also have contributed to these shifts. Direct investment flows, which are usually considered a safe long-term form of capital, have been reducing both from and into the EU since 2022. This retrenchment has been mainly concentrated in disinvestment in other financial institutions (excluding banks), which are usually linked to multinational enterprises, often involved with global financial intermediation networks. However, investment into the non-financial corporate sector, which is closely related to the real economy, has remained relatively stable ([17]).

In 2023, the net international investment positions (NIIP) continued to increase in almost all Member States. The increases can be attributed to higher current account balances in most countries and also high nominal GDP growth in most net-debtor countries in 2023 (Graph 3.3.f). Still, the current account balances recorded in several net-debtor countries remained below

([16]) If the net international investment position in percent of GDP is positive/negative, the Member States are considered net-credit countries/ net-debtor countries.

([17]) Emter, L., Schiavone, M., & Schmitz, M. (2023). "The great retrenchment in euro area external financial flows in 2022 – insights from more granular balance of payments statistics". *Economic Bulletin*, (4), European Central Bank.

the levels necessary for the correction of their negative NIIPs, as estimated by prudential or fundamental benchmarks ([18]). However, the NIIPs of most net-creditor countries remained considerably higher than what can be explained by economic fundamentals (Graph 3.2.b). NIIP-to-GDP ratios are projected to increase in most Member States for 2024 and 2025, while remaining above prudential levels.

Persistent geopolitical uncertainties continue to risk economic fragmentation, while easing financing conditions at different paces might pose possible new challenges. Rising geopolitical tensions have prompted a reassessment of global economic alliances, contributing to trends like 'friendshoring' ([19]). Although global trade and investment have shown relative resilience, mainly due to rerouting through other countries ([20]), strong conclusions on the impact of current geopolitical fragmentation cannot be made yet, as its effects remain modest and changes in flows are intertwined with cyclical effects. Deepening economic fragmentation may expose supply-chain vulnerabilities and disrupt capital flows. At the same time, as inflationary pressures subside, central banks have begun cutting interest rates with varying paces across countries. The sizeable cut by the US Fed in September 2024 has relieved some pressure on emerging market currencies to the benefit of global financial stability. However, potential new increases in energy and commodity prices, exacerbated by geopolitical tensions, could hinder central banks from further easing of monetary policy ([21]). The path for global financial conditions ahead remains uncertain and an increased volatility in capital flows might occur along the way.

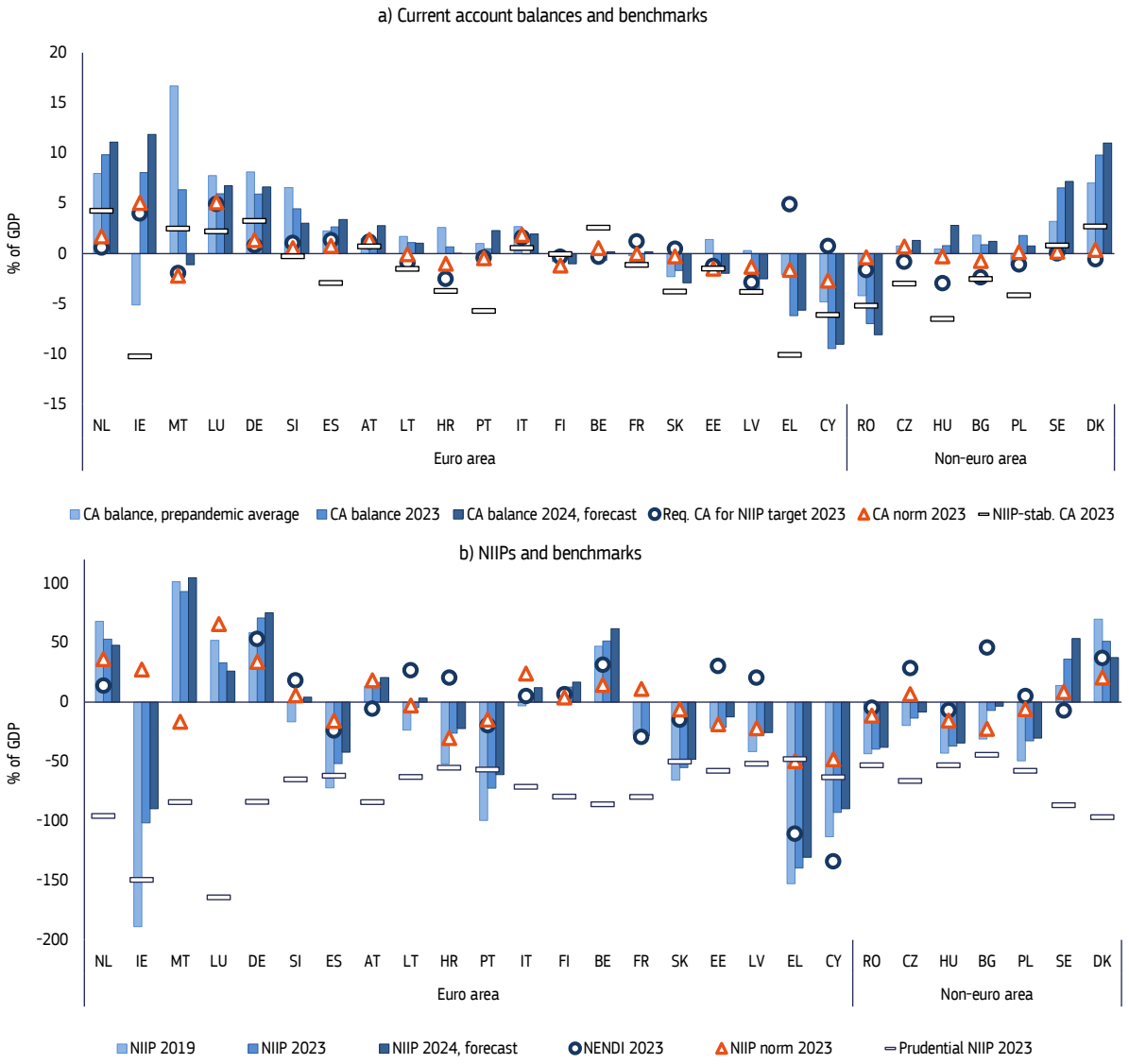
([18]) The current account required to reach a specific NIIP target is the current account required to reach the prudential threshold over the next 10 years, or to halve the gap to the NIIP in line with fundamentals, whichever is higher. NIIP prudential thresholds are determined from the maximisation of the signal power in predicting a balance of payment crisis, taking into account country-specific information summarised by per-capita income. The 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.

([19]) Gopinath, G., Gourinchas, P.-O., Pescatori, A., & Topalova, P. (2024). "Changing global linkages: A new cold war?" International Monetary Fund.

([20]) Bosone, C., & Stamato, G. (2024). "Beyond borders: How geopolitics is reshaping trade" (ECB Working Paper Series No. 2960). European Central Bank.

([21]) IMF World Economic Outlook 2024.

Graph 3.2: **Current account and net international investment position**



(1) Countries are ranked in increasing order of current account balances in 2023. CA stands for current account. NENDI is the NIIP excluding non-defaultable instruments. Current account norms: see footnote 14. 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 European Commission calculations.

Countries with curent account balance (3 year average, in % of GDP) above 6% or below 4% in 2023 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 in % of GDP below 35% in 2023 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 2023, the current account balances, based on 3-year averages, of five Member States were below the lower scoreboard threshold of -4% of GDP: **Romania, Greece, Cyprus, Slovakia** and **Latvia**. At the same time, five Member States had averages above the upper threshold of 6% of GDP: **Denmark, Ireland, the Netherlands, Luxembourg**, and **Sweden**. The surplus, based on 3-year averages, in Germany fell below the threshold in 2023. As for the NIIP

readings, they were below the scoreboard threshold of -35% of GDP for eight Member States: **Greece, Ireland, Cyprus, Portugal, Slovakia, Spain, Romania**, and **Hungary.**

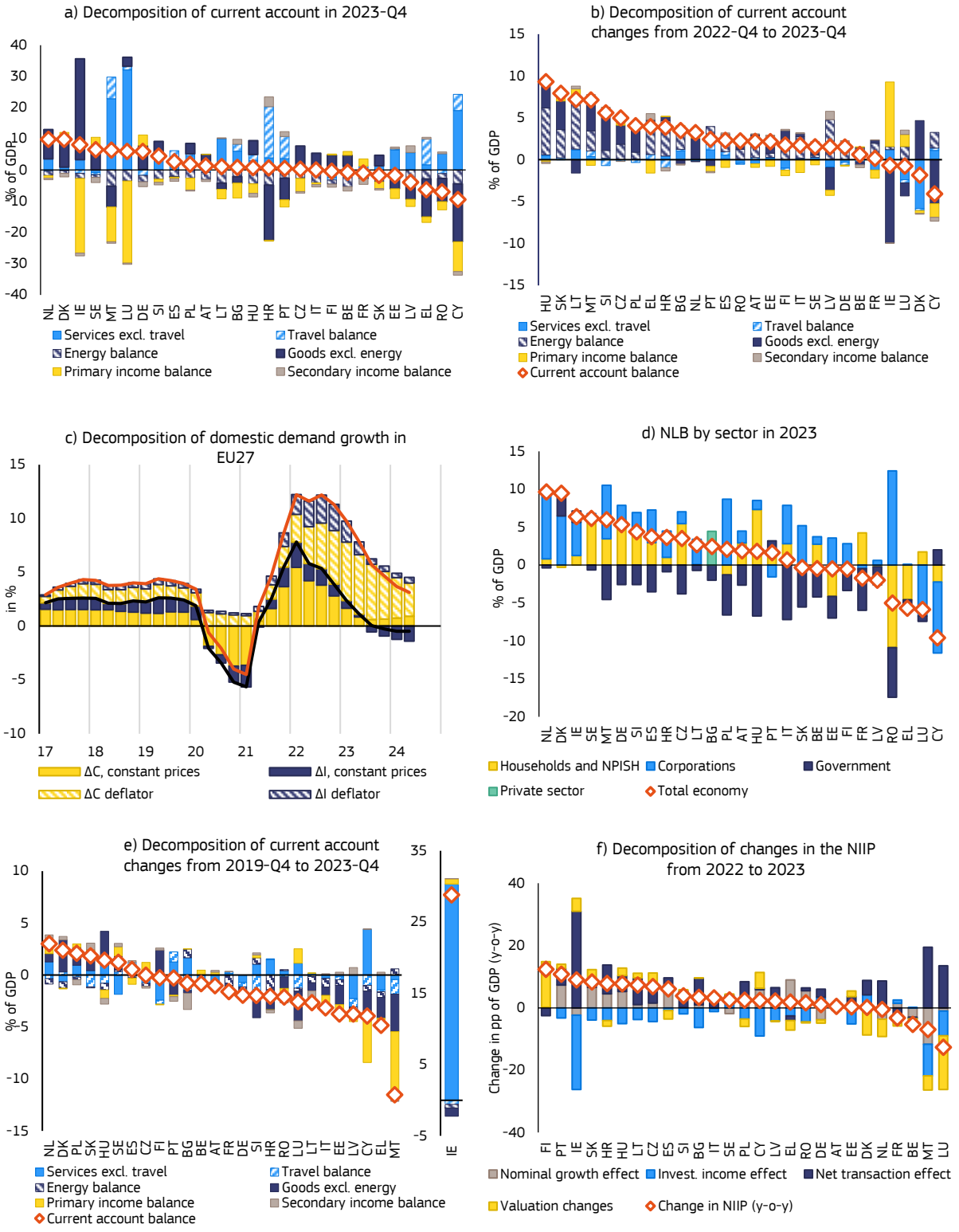
- **Cyprus** further deepened its significant current account deficit, while **Greece** and **Romania** somewhat reduced their sizeable deficits in 2023. The current accounts of Cyprus, Greece, and Romania remained below the levels suggested by economic fundamentals. The current account deficits are expected to decrease but to remain sizeable by 2025. NIIPs for these countries have been improving primarily due to strong nominal economic growth and valuation effects. While very negative, the NIIP of Greece is forecast to continue improving. The NIIP of Romania is forecast to remain broadly stable over this year and next, and a slight increase is forecast in the case of Cyprus.

- **Hungary**, **Slovakia**, **Czechia**, **Lithuania**, and **Poland** significantly reduced their current account deficits in 2023, mainly due to increases in energy balances due to the moderation in energy prices and, except for Lithuania, also in non-energy goods balances. The NIIPs of Hungary and Slovakia remain beyond the threshold and are forecast to improve; the more moderate net debtor positions of Poland and especially Czechia are forecast to continue closing. Lithuania is forecast to turn into a net creditor in 2024. **Latvia** and **Estonia** also saw their current account deficit close somewhat; their moderate net debtor positions are forecast to improve in the case of Estonia and to stay broadly stable in the case in Latvia. **Portugal** and **Spain** recorded current account surpluses in 2023. The NIIPs of these countries are clearly negative, but improving, with foreign direct investments representing a large share and making their NIIPs excluding non-defaultable instruments more favourable.

- In 2023, the current account surpluses of **the Netherlands, Denmark, Ireland, Luxembourg,** and **Sweden** remained high. The Netherlands saw a notable increase in its surplus, Sweden's surplus increased slightly, and Luxembourg, Denmark, and Ireland experienced declines in theirs. Current account balances are expected to remain high, above fundamentals, in all these countries. For the Netherlands, Ireland and Luxembourg, the strong presence of multinational enterprises affects the current account balances. The NIIPs of all these countries, except for Ireland and Luxembourg, greatly exceed the levels suggested by economic fundamentals, especially in the cases of the Netherlands, Sweden and Denmark. The NIIP of Ireland remains deep in negative territory, despite improvements. The positive NIIPs are forecast to continue to increase in all countries except Luxembourg.

- **Malta, Slovenia, Croatia, Bulgaria Austria,** and **Italy** significantly increased their current account balances and, except for Italy, recorded surpluses in 2023, mainly due to increases in the energy goods balance and, except for Croatia, also in non-energy goods balances. In addition, **Germany**'s surplus increased slightly. **Finland, Belgium, and France** recorded a small current account deficit, improving their balance compared to 2022. The NIIPs of France, Croatia, and Bulgaria are negative but remain above the scoreboard threshold of -35%. The NIIPs of the rest of the mentioned countries are positive, and, except for Slovenia, Austria and Italy, exceeding their fundamental thresholds.

Graph 3.3: **Selected graphs for external sector**

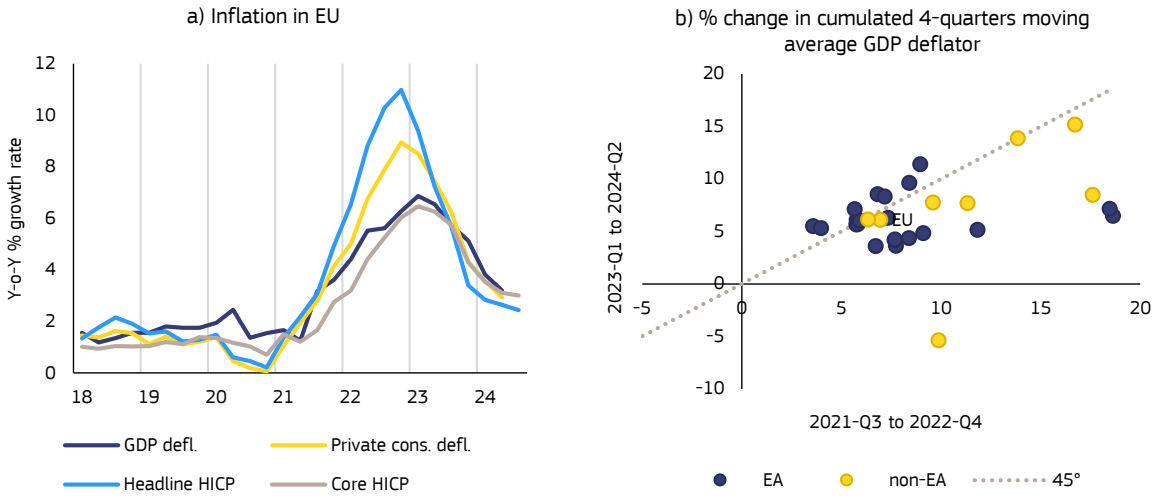


Source: Eurostat and European Commission calculations

3.2. PRICE COMPETITIVENESS

In 2023, price and cost pressures continued to be strong, with a deceleration in overall inflation but an increase in labour costs, as wages made up some of the loss in purchasing power. In 2023, overall inflation slowed, while remaining high and divergent across the euro area and the EU. The easing of inflation rates has continued into 2024. Wage increases, which had overall fallen short of inflation in recent years, accelerated, reaching record highs and making up for some or all of the recent loss in household purchasing power, depending on the country. As a result, unit labour costs (ULCs) rose strongly, in many cases also impacted by sluggish or falling productivity growth. Unit profits started to slow as of early 2024, a sign that wage and cost increases have, at least to some extent, been cushioned by the sizeable accumulated profits from 2022 and 2023. Nominal effective exchange rates (NEERs) appreciated over 2023 as the euro strengthened, while real effective exchange rates (REERs) pushed by NEERs appreciation and, in many cases, unfavourable inflation differentials, continued to climb. The terms of trade reversed, boosting the exports market shares of many EU economies, while the overall higher labour cost appreciation in net-creditor countries relative to net-debtors fuelled the prospects for a re-balancing of net positions within the euro area over the medium term. The cost competitiveness outlook remains clouded by the uncertainty of wage and price developments as labour markets remain relatively tight and commodity prices are prone to shocks due to geopolitical tensions.

Graph 3.4: **Inflationary dynamics across the EU**



(1) Quarterly headline and core inflation observations based on averages of their respective monthly indices. Private consumption deflator refers to final consumption expenditure of households and NPISH.
Source: Eurostat and European Commission calculations.

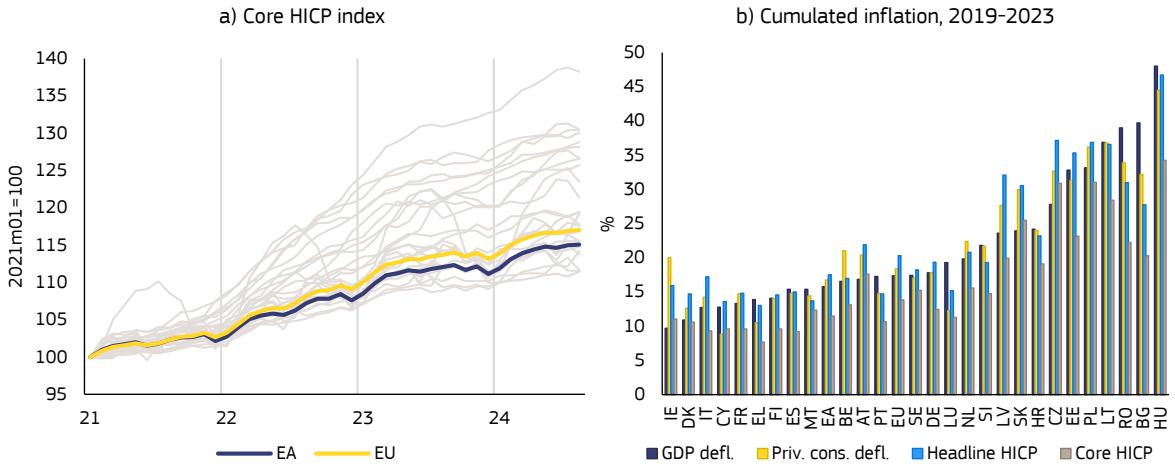
Although consumer inflation has moderated, price pressures in the broader sense remain high. The reduction in headline consumer inflation started in late 2022 and continues at present. In early 2023, the GDP deflator and core inflation ([22]) reached their peak, later than consumer prices (Graph 3.4.a). This is because they are either not affected directly by energy prices or the direct impact is less strong; price shock effects are reflected with a lag as they work their way through the economy. Since late 2023, these two measures of price pressures are now above the consumer price index; they reflect the impact of wage and profit increases to greater extent and are less

([22]) HICP inflation excluding energy, food, alcohol and tobacco.

affected by base effects and lower energy and food prices. As a result of the reductions in the GDP deflator, the accumulated increase in GDP deflator over the last six quarters is now lower than in the pre-2023 period in several Member States (as indicated by the observations below the 45° line in Graph 3.4.b). There are nevertheless countries, particularly in the euro area, where the growth rates in the recent period are close to or even exceed the values observed in the previous six quarters, a particularly concerning situation since the exogenous prices shock has passed, meaning inflationary pressures are now coming from the domestic sector (i.e. ULC and unit profits).

The divergence in inflation rates across EU countries has reduced since its peak in 2022, but there have been substantial accumulated differences in price levels in recent years. In 2023, some Member States recorded annual inflation rates well above 5%, while some others experienced short-lived deflationary episodes. Overall, the annual rates ranged from 0.4% to 7.6%. Compared to almost 20 pps. one year earlier, the inflation differentials between extreme values had fallen markedly, and they continue to do so over 2024. By September 2024, only three countries, Belgium, Poland, and Romania, reported inflation rates exceeding 4%. Core inflation divergence, despite reducing from its peak in the first half of 2023, continued into 2024 with the difference between the lowest and highest rates being 5.2 pps. by September 2024. The cumulated impact of the inflationary period has resulted in an increase in the overall price level, with the core price index having risen by around 17% in the EU since 2021 (Graph 3.5.a). However, there are large differences in the cumulated increases, with catching-up countries in the eastern part of the EU experiencing increases reaching or surpassing 30% (Graph 3.5.b). Consumer prices in Hungary, Poland, and Romania continue to increase at an elevated pace. In particular, core inflation remains very high in Romania and Hungary, at nearly 6.4% and 5.6%, respectively, and is set to keep headline inflation elevated in both countries, further increasing domestic price levels compared to those in trading partners. Annual average inflation is projected to stay above 2% in both the euro area and the EU in 2024 and 2025 and to come down to target in 2026, in the euro area, with divergences persisting among the Member States, albeit at smaller magnitudes.

Graph 3.5: **Cumulated inflation**



Source: Eurostat and European Commission calculations.

In 2023, unit labour costs rose very strongly, as wages responded to past high inflation in a context of tight labour markets, and productivity proved sluggish. For the EU as a whole, 2023 marked the peak in decades in terms of ULC growth, exceeding and following the strong appreciation in 2022 (Graph 3.6.a). Wages rose strongly, with higher compensation partially making up for the loss in real wages caused by the inflationary shock since 2022. The still-tight labour markets likely contributed to strengthening the bargaining positions of employees; in some EU countries real wages (deflated by consumer inflation) have not caught up to their 2019 levels

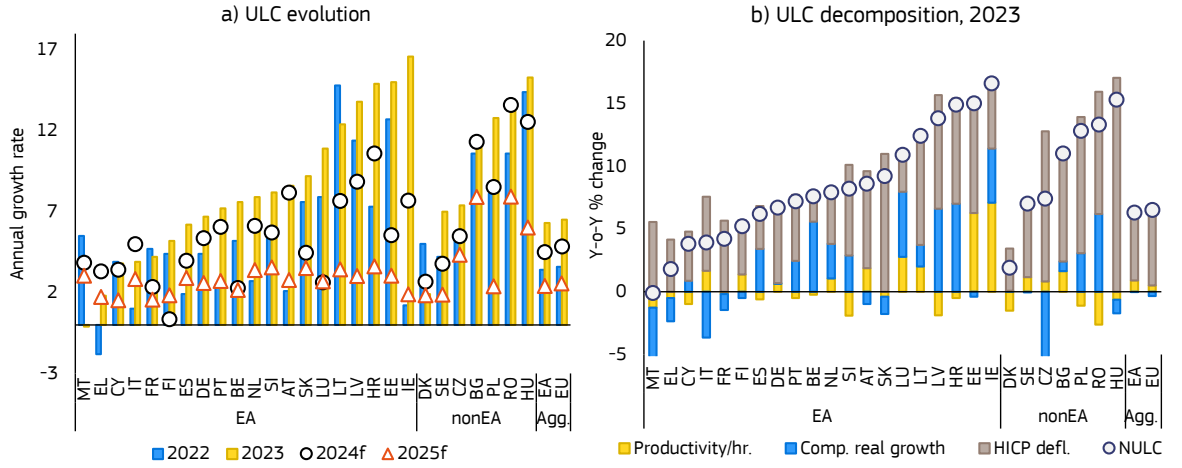
(Graph 3.8.b). Simultaneously, productivity, both per person employed and per hour worked, posted disappointing performances, with most of the euro area countries experiencing losses or stagnation, as economic activity remained subdued, and the number of hours worked increased. Outside of the euro area, the picture was mixed with some Member States posting strong gains, while others stagnating or recording decreases.

Sectoral productivity gains in some small sectors were largely offset by drops in industry and market services. At the sectoral level and in the EU as a whole, wholesale and retail trade, together with industry (excluding construction), displayed drops in productivity per hour worked in 2023, which, given the large shares of these sectors, dragged total productivity growth into negative territory. Per hour productivity gains across the EU were strong in agriculture, real estate and arts and recreational activities, sector that nevertheless have low shares in total value added. Overall gains in the euro area were recorded in some countries with large travel service surpluses, like Malta, Greece, Cyprus, Portugal, and Spain (Graph 3.6.b), as demand for such activities remained strong in 2023, but were still not close enough to compensate for the strong increase in nominal compensation. Over 2024, productivity growth is expected to be flat and to only pick up in 2025.

In a number of countries, the strong ULC growth in 2023 has resulted from wages increasing faster than in trading partners, adding to previous appreciations. Compared with 2019 levels, nominal wages kept up with nominal GDP growth in about a third of the Member States, implying that wages' share in the production either remained constant or increased, while rising by less than GDP in the other countries. However, when benchmarked against implied constant ULCs relative to EU trading partners, nominal wages overshot, sometimes by substantial margins (Graph 3.8.b), giving cause for concerns related to losses in cost competitiveness. Considerable wage increases over this benchmark were recorded in central and eastern European converging economies where cost competitiveness dynamics were already concerning ([23]). Despite some moderation foreseen for 2024 and 2025, nominal wage increases are forecast to remain sizeable, pushing the level of 2019-2025 cumulative real wage appreciations (deflated by GDP deflator) to more than 10% in central and eastern Europe, with increases close to 20% in Lithuania, Latvia, and Croatia, and above 30% in Bulgaria – strongly in excess to the catching-up appreciations of the pre-pandemic years. Nevertheless, when looking at the euro area and EU aggregate values, such appreciations are much more moderate, at just 1.3% and 2.6% respectively, highlighting the strong divergence within the two blocs.

([23]) The Competitiveness section of the 2024 Alert Mechanism Report dedicates a special box to the dynamics and risks in these economies.

Graph 3.6: **Unit labour costs**



Source: Eurostat and European Commission forecasts.

The GDP deflator decomposition shows decelerating profits, but still strong wage pressures. Despite the high growth in 2022, the GDP deflator expanded further in 2023. From an income perspective, it was marked by a sizeable upsurge in unit profits and ULCs, which together contributed to the highest GDP deflator in decades for the EU as a whole. The latest data for the first half of 2024 point, however, to a more muted GDP deflator growth (Graph 3.8.a), as unit profits have decelerated significantly, absorbing some of the ULC appreciations. The latest Commission forecasts project a continuation of rather muted unit profits growth contributions to GDP deflator, which should support the disinflation process. However, strong ULC appreciation contributions are forecast over 2024, which could result in cost competitiveness losses for the EU economies, particularly if accompanied by increases in unit taxes, as fiscal stances tighten. Furthermore, heterogeneity is rather high across the EU, with some concerning dynamics. In countries like Romania, Latvia, Luxembourg, Cyprus, and Malta, the forecast shows that unit profit contributions are still expected to continue their increase, on top of the already high projected surge in ULC contributions.

Export market shares evolved positively for most Member States in 2023 on the back of favourable terms of trade and denominator effects. In recent years, geopolitical tensions have led to trade sanctions, tariff and non-tariff barriers, which as of 2022, increased drastically ([24]), contributing to an overall loss for EU countries in world exports. This was further compounded by strong denominator effects, as increased energy and other commodity prices increased the nominal value of world exports, while EU exports rose less in value. In 2023, most of the EU economies posted strong gains in export market shares (EMS) (Graph 3.8.c). These were driven by positive terms of trade, as import prices, especially for energy commodities, increased less than export prices, a reversal of the 2022 shock. Positive price effects can be identified for trade in services, particularly stemming from tourism, as showcased by some southern Member States, where the magnitude of the terms of trade for goods and services are markedly higher than for goods (Graph 3.8.d). Comparing EU economies against the advanced economies (OECD and non-OECD EU Member States) shows rather large drops over a 3-year period for some large MS from the former category, possibly indicating some structural issues. This is a more relevant metric as it

([24]) International Monetary Fund, "2023 External Sector Report: External Rebalancing in Turbulent Times", 2023

strips out the effect of emerging global economies catching up and integrating into world trade ([25]), as well as denominator effects stemming from volatile movements in commodity price exports.

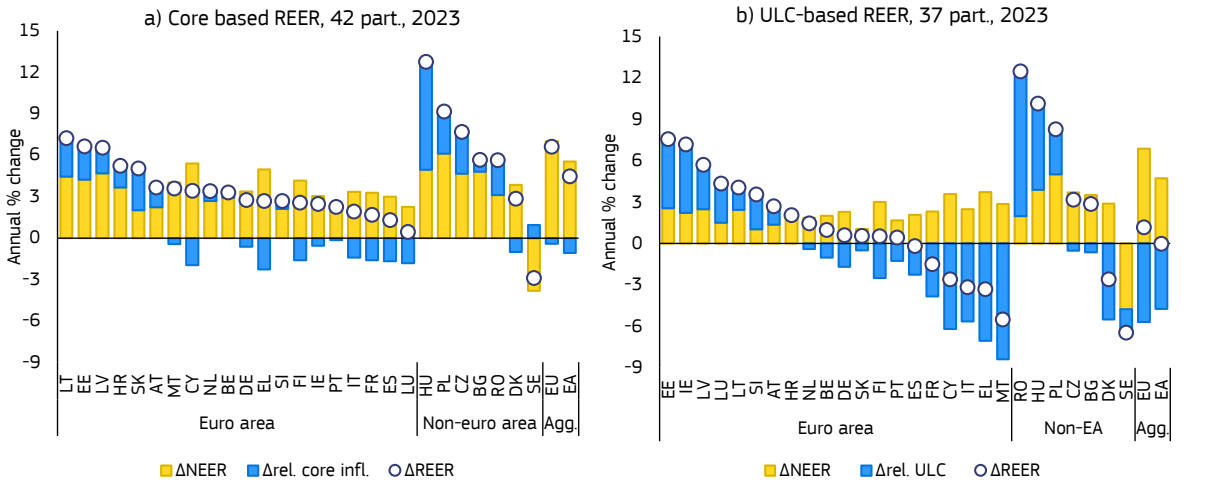
In 2023, effective exchange rates appreciated across the board when measured with respect to a wide group of trading partners. Throughout 2023, all euro area Member States' nominal effective exchange rates (NEER) appreciated against a broad group of trade partners, due to strong euro appreciations against the Turkish Lira, Japanese yen, and Chinese renminbi, as the ECB continued its tightening cycle. Outside of the euro area, NEERs also appreciated between 3-6% in all countries except Sweden, as some currencies reverted after periods of depreciation. Against the narrower group of EU trade partners, NEERs remained stable with a few exceptions: Poland, Hungary, and Czechia, which appreciated, and Sweden, which depreciated markedly.

Price-based real exchange rate dynamics show record-high appreciations in 2023, particularly for some countries, driven by large movements in nominal exchange rates and inflation differentials. Over 2023, the HICP-based REER appreciated strongly, for almost all EU economies, in some cases, by more than 10%, pushed by both nominal appreciations and large and unfavourable inflation differentials (Graph 3.8.e). Latest high-frequency data show that the appreciation trend continued for some Member States, albeit at more moderate magnitudes. In the one year running up to mid-2024, HICP-based REERs appreciated by between 1% and 3% for five euro area countries, and for the euro area as a whole, by less than 1%, against the broader group of 42 trading partners, mostly due to strong nominal appreciations, while for nearly all the single currency Member States, the inflation differential acted as a drag. For the rest of the euro area Member States, and despite some nominal appreciations, REERs were stable or depreciated, helped by receding inflation. Outside of the euro area, the volatility in REERs was more marked, mostly due to large movements in NEERs.

The core inflation based REERs vis-à-vis the broad group of trading partners display the same large appreciation dynamics. Pushed by the strong nominal appreciations across the board in 2023, core inflation based REERs have appreciated in in all but two MS: Luxembourg and Sweden (Chart 3.7.a). In some countries, like the Baltics, Hungary, Poland, and Czechia, the core inflation differential topped the NEER appreciation, pushing the REERs annual growth rates to between 7-12%. In countries with more moderate core inflation rates, the differential acted as a drag on REER but couldn't offset the strong exchange rate appreciation.

([25]) K. Benkovskis et al., "What Drives Export Market Shares? It Depends! An Empirical Analysis Using Bayesian Model Averaging" Empirical Economics 59, no. 2 (2020): 817–69.

Graph 3.7: **Core inflation and ULC based REERs, 2023**



Source: Eurostat and European Commission calculations.

Labour costs acted as a strong push for real exchange rates in eastern and central Europe, while detracting in southern Europe. Throughout 2023, ULC-based REERs appreciated very strongly in the Baltics and even more so in other central and eastern Member States due to both nominal appreciations and robust growth in labour costs (Chart 3.7.b). In southern Europe, however, muted wage dynamics more than offset nominal appreciations and led to considerable depreciations in ULC-based REERs. Overall, the higher growth of ULCs in net-debtor countries as compared with net-creditor countries, that had started n 2021-2022 ([26]), was interrupted in 2023 ([27]). However, it is forecast to resume in 2024 and 2025, fuelling prospects for the rebalancing of external stock positions in the monetary union.

Over recent years, a number of countries have seen strong increases in their price and cost levels, which pose risks to their competitiveness. The accumulated increases have led to much higher price levels in these countries, which could erode any price advantage and make it more difficult for them to compete on global markets. Some of the EU countries with the strongest price and cost growth in recent years have displayed very limited, or even negative, productivity dynamics, adding to concerns related to already weakened competitiveness positions. Strong and lasting REER appreciations are a visible manifestation of the dynamics of recent years and have occurred alongside trade fragmentation. In some non-euro area countries, exchange rate depreciation offers a possibility out of the reduced competitiveness in the short term but can lead to further inflation down the line and could create other challenges, especially where there is sizeable indebtedness in foreign currencies. In all cases, continued strong wage growth unmatched by productivity gains resulting in services and core inflation, pose a risk to the ability of these countries to regain some of the lost ground in cost competitiveness.

In the near future, it may be difficult for some countries to continue to reduce their inflation rates, and there are risks associated with external dynamics. Going forward, the stickiness of services inflation will pose a challenge as inflation reduction efforts enter their last stretch and as labour markets remain tight. In some countries, wage pressures remain strong, as

([26]) European Commission, Alert Mechanism Report 2024, Institutional Paper, no. 261 (2023).

([27]) The group of euro area net-creditor countries (i.e. those with NIIP as share of GDP higher than 35%) is made of Belgium, Germany, Luxembourg, Malta, and the Netherlands while the group of net-debtor countries (i.e. those with NIIP as share of GDP lower than -35%) is composed of Cyprus, Greece, Spain, Ireland, Portugal, and Slovakia. Mainly due to very high ULC appreciations in Ireland and Slovakia, the growth in net debtor countries reached the same level as for net creditor countries.

the real wages are not yet at their 2019 levels and are expected to be reached only this year or the next. Many of these countries displayed relatively muted wage growth in the past, which can attenuate the longer-term impact of future wage growth. Going forward, favourable terms of trade are set to vanish as the reversal of the price commodity shock has run its course. World exports and trade dynamics face uncertainties pending U.S. policies and the relationship with China, while geopolitical tensions and armed conflicts persist in the geographical proximity of the EU, thus creating the premises for weaker demand or more supply side shocks with damaging impact for price levels and cost competitiveness. Structural low productivity growth is still very much prevalent for EU's advanced economies, clouding the outlook of the export performance of those countries.

Box 3.1: **Euro area labour market tightness and inflation**

Tight labour markets raise concerns about the ability of inflation to return to target in advanced economies. Labour market tightness episodes are associated with low unemployment, high job vacancy ratios and better bargaining positions of the employees, and could result in high nominal wage increases. This could feed inflation further. Labour markets in the euro area are still very tight, despite more muted economic activity throughout 2023. As of mid-2024, 17 MS displayed unemployment rates lower than their 5-year averages, while labour market slack ([1]) rates remained at lower values than their 2014-2019 averages for 19 euro area economies.

Recent studies exploring the interplay between prices, wages, and inflation expectations indicate that labour market conditions have not been significant drivers of US inflation. Bernanke and Blanchard (2023) show that for the US, the current inflationary episode is mainly sourced from price shocks and supply shortages, which so far have been largely transient due to strong anchoring of inflation expectations (due to central bank credibility) and lack of automatic wage indexation. Labour market tightness, defined as the ratio between job vacancy and unemployment rate, had some impact on wages, but little effect on inflation early on, although is becoming more important as of late, as the central banks seek to enter a loosening cycle without endangering the inflation reduction to target levels, a very difficult balancing act (Ari et al. 2023).

Comparable results are obtained for the euro area. Applying the Bernanke and Blanchard model to the euro area shows that tight labour market conditions explained a relatively small part of the nominal wage surge between 2022-2023 (with the largest part being explained by commodity price shocks which raised the short-term inflation expectations, and by real wage catch-up with unexpected inflation), but they are becoming more prominent as of late. Labour market conditions had an effect on the general price level that was close to zero, although recently increasing but with no evidence of a price-wage spiral (Arce et al. 2024) ([2]). However, risks for a higher for longer inflation, stemming from a very resilient labour market remain. Conditional forecasts show that in a central case scenario (with no further commodity price shocks and with labour market lack returning to historical averages by mid-2025), inflation would return to the 2% target towards the end of 2024, although is set to remain marginally above it for the medium-term. A similar result is obtained even when assuming a more restrictive macroeconomic scenario (i.e. tight fiscal and monetary stances negatively impacting domestic demand), highlighting that tight labour market conditions are an upside risk for inflation (Arce et al. 2024).

Applications of Bernanke and Blanchard model for several euro area economies show fairly similar results, although some country-specific nuances are worth highlighting. For Germany, the model shows that labour market tightness contribution to inflation growth was strong in 2022 but faded already at the end of 2023. In the absence of further commodity price shocks and assuming a cool down of labour market to pre-pandemic levels, it would take more than two years for inflation to reach the target of below 2% (Menz 2024). France's labour market tightness started to feed into higher inflation at the beginning of 2022, with ever increasing contributions, adding to close to 1 pp by end-2023 and is the euro area country with the most concerning trend (Blanchard and Bernanke 2024). The wage model fit for Italy is rather poor and labour market tightness appears to have little influence on inflation as local specificities ([3]) allow for more slack or lower wage to price increases passthrough (Pisani and Tagliabracci 2024). For Spain, over 2020-2022 vacancy to unemployment ratio had virtually no effect on price increases, but its contributions are becoming non-negligent as of mid-2023. Scenario forecasts show that even in the presence of a gradual return to natural pre-pandemic slack by mid-2025, inflation would still not come close to the target any time soon (Ghomi, Hurtado, and Montero 2024). In the Netherlands, while the passthrough from price to wage is quick and strong, in the opposite direction is rather limited (mitigating the risk of a spiral), though statistically significant and increasingly visible as of 2023, calling for continuous policy surveillance in a context of still tight labour market (Bonam, Hebbink, and Pruijt 2024). Despite the automatic wage indexation system, inflation in Belgium displays virtually no contributions from labour market tightness. The reason

([1]) Labour market slack is a good indicator of unmet supply of labour, that goes beyond unemployment rate. It is defined as the cumulated number of i) unemployed, ii) underemployed part-timers, iii) job seekers not immediately available and iv) available but not seeking as share of extended labour force. For more details, see link: Labour market slack - employment supply and demand mismatch - Statistics Explained (europa.eu).

([2]) Despite a certain passthrough from prices to wages, there is little passthrough in the opposite direction (i.e. from wages to general price levels).

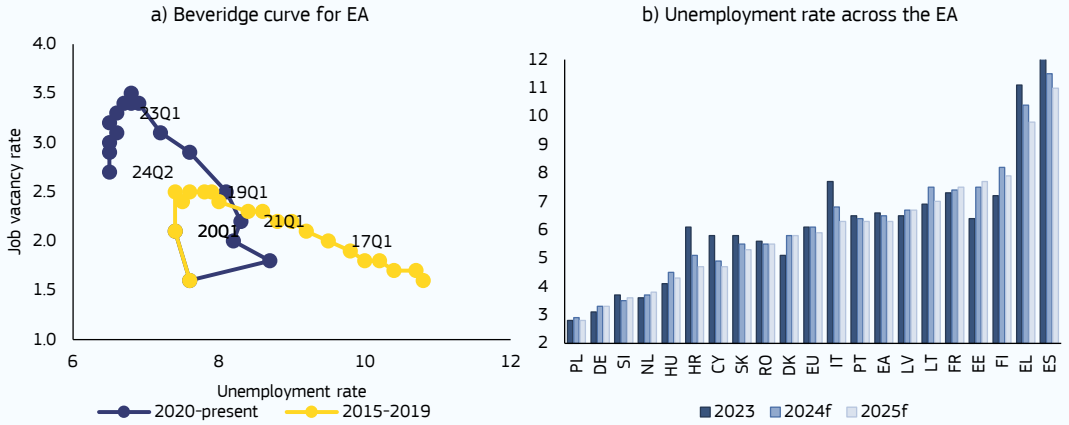
([3]) Authors conclude that Italy still has a relatively elevated labour market slack, as the number of hours worked per capita has only partially recovered. Furthermore, in some sectors the wage increases during negotiations were more subdued; this was particularly the case of sectors more affected by the energy shock and where unions' bargaining power is lower. Lastly, contract renewals are predominantly related to forward looking inflation measures, rarely relying on ex-post indexation, and are done on a staggered approach for long-term periods (3 years) with significant delays (Pisani and Tagliabracci 2024).

(Continued on the next page)

Box (continued)

is the very low passthrough from wage to prices growth, with the wage increase shock being absorbed by mark-ups (de Walque and Lejeune 2024).

Graph 1: **Beveridge curve and unemployment rate in the euro area**



Source: European Commission, Eurostat

Inflation reduction, especially for wage-intensive components, will most likely have to come at the expense of higher unemployment, which so far remains a rather distant possibility. In other advanced economies, like the US and Canada, the Beveridge curve displays an upward shift suggesting some allocation inefficiencies occurring (such as skill mismatches), but also implies that adjustments to labour market slack can be done by shifts of the curve (Blanchard and Bernanke 2024). In contrast, the euro area Beveridge curve does not show any visible sign of shifts in the post-pandemic period (see Graph 1.a), meaning that the labour market slack can only be increased by movements along the curve, i.e. through increases in unemployment. Latest European Commission forecast (European Commission 2024) indicates however that such a scenario is uncertain, as unemployment rates are not projected to stray too much away from their 2023 levels (see Graph 1.b), spelling upwards risk for inflation.

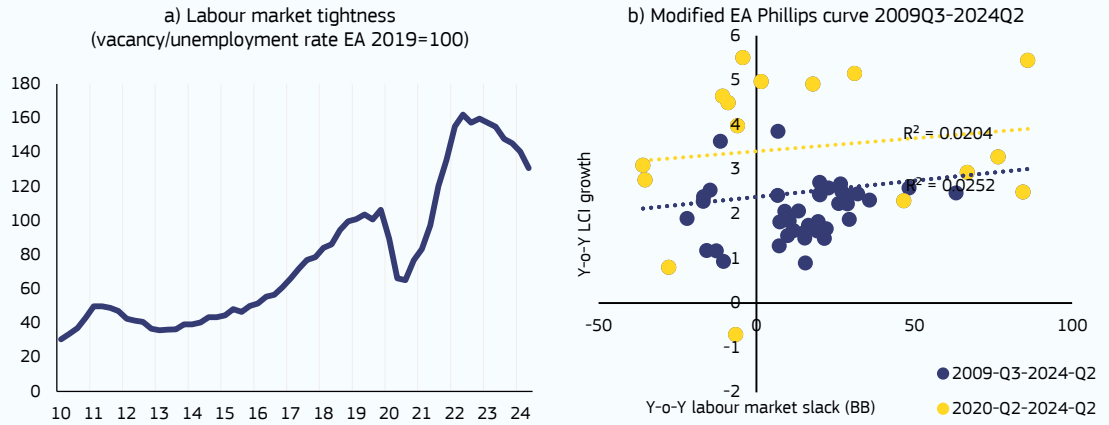
There are however some mitigating factors. If measured as the ratio between vacancy and unemployment rates, labour market tightness in the euro area, despite remaining considerably above its pre-pandemic levels, seems to have detracted visibly from its peak in late 2022 (Graph 2.a). Furthermore, the Phillips curve (Graph 2.b), seems to be flat, even after 2020 (Arce et al. 2024), pointing at limited risk of a wage-price spiral, although pockets of higher sensitivity could be identified when accounting for a non-linear relationship between consumer price inflation and labour market tightness, particularly when zooming in at the national level (Smith, Timmermann, and Wright 2024). Lastly, while it is true that the unemployment rate is not set to increase over the forecast horizon for the euro area as a whole, it is however in cases identified as being more prone to wage-price spirals or where the wage-to-prices passthrough was estimated to be higher, i.e. France and the Netherlands (Graph 1.b).

So far, the wage-price passthrough has been rather limited and central bank's credibility is on strong footing, but in the context of tight labour markets for several years already, the outlook is uncertain and calls for close surveillance. ECB's credibility is a strong assets in keeping long-term inflation expectations anchored and has proved useful during the inflation reduction period (Blanchard and Bernanke 2024; Primiceri and Giannone 2024). Except for France and to a lesser extent, Netherlands, the tight labour market conditions did not necessarily translate into higher overall inflation, showing there is little evidence of wage-price spirals. Nevertheless, it should be noted that the passthrough from tight labour market to wage increases and then to inflation is gradual, so changes in labour market conditions (which are already lagging economic activity by some quarters) are still influencing inflation dynamics long after they occur, depending on the inherent lag structure. Despite visible reduction in inflation rates, labour market conditions will have to be closely monitored, as they can play important roles in the quarters to come, and the fiscal monetary mix needs to be carefully calibrated to achieve price stability.

(Continued on the next page)

Box (continued)

Graph 2: **Labour market tightness and Phillips curve in the euro area**



(1) LCI - labour cost index as computed by Eurostat. Labour market slack (BB) - labour market slack as computed by Bernanke and Blanchard (2023), i.e. as ratio between vacancy rate and unemployment rate.
Source: European Commission, Eurostat

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Countries with nominal unit labour cost index per hour worked (3 year % change) above 9% (EA) and 12% (non-EA) in 2023 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 performance against advanced economies (3 year % change) below -3% in 2023 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 HICP based real effective exchange rate against 42 trading partners (3 year % change) above/below +/- 3% (EA) and +/- 10% (non-EA) in 2023 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:

- Unit labour cost, based on hours worked, cumulated over the three years to 2023, was above the scoreboard threshold in twenty-one Member States: **Belgium**, **Bulgaria**, **Czechia**, **Germany**, **Estonia**, **Ireland**, **Spain, France**, **Croatia**, **Latvia**, **Lithuania**, **Luxembourg**, **Hungary**, **the Netherlands, Austria**, **Poland**, **Portugal**, **Romania**, **Slovenia**, **Slovakia**, and **Finland**, as well as the **EA** aggregate. This very high number of flashes reflects the unusually high inflationary environment of 2022 and, to a lesser extent, 2023. For the HICP-based REER, the three-year changes were beyond the scoreboard thresholds in seven Member States: **Czechia, Estonia, Croatia, Latvia, Lithuania, Hungary**, and **Slovakia**. Seven Member States exceeded the scoreboard threshold for the changes in export performance against advanced economies in the three years up to 2023: **Belgium**, **Germany**, **Ireland**, **Luxembourg, Malta, Slovakia**, and **Finland**, as well as the **EU** and **EA** aggregates.

- Concerns related to cost pressures have been persisting for many years in **Bulgaria**, **Czechia**, **Estonia**, **Hungary**, **Latvia, Lithuania**, **Poland**, **Romania**, and **Slovakia**. Unit labour costs have accelerated in recent years – starting in 2020, and in some cases earlier – and remain high. This followed strong growth dynamics in the pre-pandemic years in all countries except Hungary, where the very strong increases are a recent phenomenon. Core inflation rates have been high and remain so in Poland, more so in Slovakia, Estonia and Hungary, and stand out in the case of Romania. HICP-based REERs rose strongly in Czechia, Estonia, Latvia, Lithuania, Hungary, Poland, and Slovakia, mainly due to inflation differentials, while in the non-euro area countries, nominal exchange rate volatility also played a role.

- Cost pressures are moderate in **Belgium, Luxembourg**, **Slovenia,** and **Austria,** and are building up in **Croatia,** mainly due to persistent labour cost increases and, in the cases of Belgium, Croatia, and Austria, high core inflation. Despite these developments, REERs do not yet appear to be appreciating visibly, except in the case of Croatia which is nevertheless gaining export market shares, measured as a three-year growth rate against advanced economies.

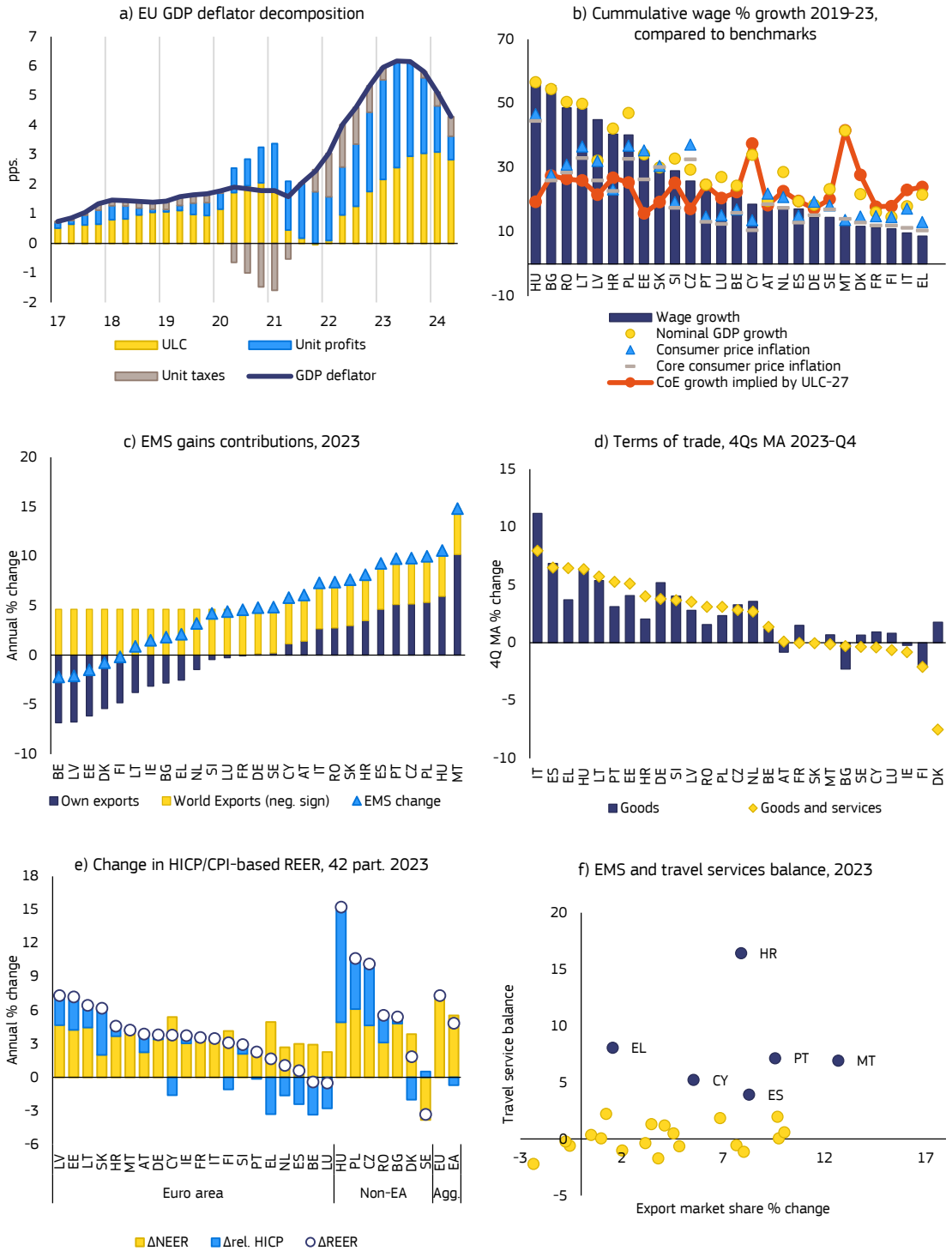
- Relative cost competitiveness continued to improve in large net-debtor euro area countries like **Spain**, **Portugal**, **Cyprus,** and **Greece**. Overall, ULC and REER growth rates continue to remain below those for the euro area, adding to prospects for the rebalancing of external stock positions. For the other single-currency area large net-debtor countries, **Ireland** and **Slovakia**, ULC appreciations were above the euro area aggregate, as well as for some net-creditor countries like **Belgium**, **Germany**, **Luxembourg,** and **the Netherlands**, which are already displaying signs of losses in export market shares.

- **Belgium**, **Germany**, **Finland**, **Ireland**, **Malta,** and **Luxembourg** recorded the highest export market share losses against advanced economies. While cost and price factors could have played a role, base effects, activity of MNEs, or non-cost factors like investment, liquidity for

firms, or shifts in taste and quality, could have been more relevant in this case and explained more of the loss.

- **Bulgaria**, **Greece**, **Croatia**, **Cyprus, Portugal,** and **Spain** recorded the highest gains in 3-year growth of export market shares against advanced economies. For Bulgaria, a recent rise in industrial and energy exports seems to explain the dynamics, while for the rest a combination of base effects (comparison with 2020), increased post-pandemic travel and favourable terms of trade.

Graph 3.8: **Selected graphs on competitiveness**

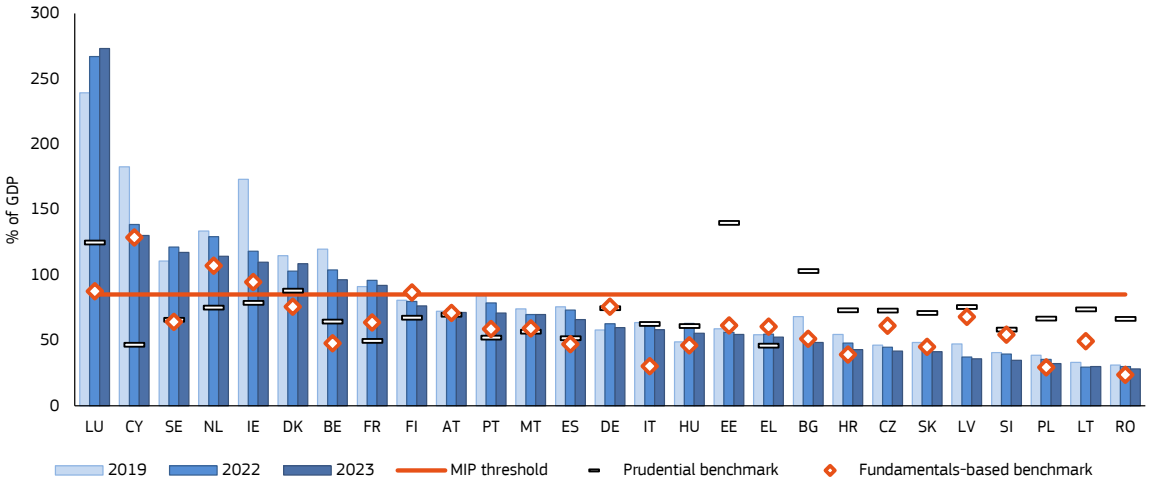


(1) CoE refers to compensation of employees, EMS to export market shares, 4Qs MA to 4-quarter moving average.
Source: Eurostat and European Commission calculations

3.3. NON-FINANCIAL CORPORATIONS

Non-financial corporate (NFC) debt-to-GDP ratios continued to decline in almost all EU countries in 2023, driven by strong denominator effects and a contraction in credit flows. From 2022 to 2023, the EU and euro area average debt-to-GDP ratios decreased by around 5 percentage points each, to 74% and 75% of GDP respectively. With this, both aggregates were not only below their pre-pandemic levels but reached their lowest values in over a decade (Graph 3.13.a). In 2023, deleveraging continued in nearly all EU countries primarily reflecting elevated inflation rates and, in many countries, decreases in corporate net credit flows despite a slowdown in real GDP growth (Graph 3.13.c). In most of the Member States, credit flows as a share of GDP remained positive in 2023 but were lower than in 2022. Credit growth, defined as credit flows excluding FDI as a share of the lagged debt stock (excl. FDI), declined to 1.5% in the EU, the lowest level since 2015. In the euro area, credit growth decreased to 1.2% after having been buoyant at close to or above 3% in the years before (Graph 3.13.b). Bank loan flows to NFCs contracted considerably over the course of 2023, turning negative towards the end of the year. Despite their overall decline, debt ratios stayed above the levels related to prudential concerns in around half of the EU countries (Graph 3.9). Similarly, only in half of the Member States, can debt ratios be explained by economic fundamentals. In about one-third of the countries, debt-to-GDP ratios exceeded the 85% percent threshold set in the MIP scoreboard for NFC debt.

Graph 3.9: **Non-financial corporate debt-to-GDP ratios**



Corporate debt includes loans (F4) plus debt securities (F3) as defined in the financial balance sheet accounts. Corporate debt is consolidated, which means that transactions within the non-financial corporate sector are excluded.
Source: Eurostat and European Commission calculations

In 2023, corporate deleveraging was primarily driven by a reduction in the loan stock, with a decline in foreign direct investment (FDI) contributing strongly, while debt securities remained broadly stable. 2023 saw a strong reduction in loan flows, while debt security flows remained stable (Graph 3.13.e), which marks a change compared to 2021 and 2022, when loan flows in the EU were rising and debt security flows falling. The reversal coincides with the start of the interest rate hiking cycle in the euro area in July 2022. As borrowing conditions in bond markets became more favourable compared to conditions in loan markets, relatively more debt was issued in the form of debt securities. Despite their recent decrease, loans still account for the lion's share of corporate debt stocks, comprising more than 80% of the total debt of EU NFCs. Corporate debt is predominantly held by banks, but non-bank financial institutions are gaining

prominence, particularly in the bond market. In the EU, slightly less than one-third of NFC debt stocks can be attributed to FDI, but this share varies considerably across countries. While FDI debt had been contributing positively to credit flows until 2022, this reversed in 2023, such that reductions in FDI debt contributed as much to deleveraging as did subdued non-FDI credit flows despite their lower share in total debt (Graph 3.13.e).

Deleveraging has continued so far in 2024, but at a slower pace than in the previous years, as moderating inflation rates provide less support for passive deleveraging and GDP growth remains subdued. In the first half of 2024, corporate debt-to-GDP ratios have declined further (Graph 3.13.d). The contribution of real GDP growth to deleveraging has picked up somewhat compared to 2023, reflecting a slight recovery in economic activity in the first half of 2024, and inflation remains elevated. Despite a small uptick in net credit flows in recent quarters, and their overall positive contribution to changes in debt-to-GDP ratios in most EU countries, credit flows have remained subdued as high borrowing costs and low investment dampen corporate credit demand ([28]). If trends observed over the first half of 2024 persist, with weak yet recovering real GDP growth, moderate inflation, and restrained net credit flows, corporate debt deleveraging is set to slow yet continue.

Over 2023 and the first half of 2024, profit indicators deteriorated as elevated costs dampened profitability, and output growth remained muted amid low confidence and weak demand. In recent quarters, profit shares have decreased from their peak in the second half of 2022, when they reached around 42% in the EU aggregate. They largely fell back to their pre-pandemic levels in the beginning of 2024 at slightly below 40% in both the euro area and the EU aggregate. In certain EU countries, profit shares showed first signs of recovery in the beginning of 2024, as did unit profit growth which had slowed across the EU in 2023 (Graph 3.10 and Graph 3.8.a). Profit margins helped cushion rising labour costs, and as unit labour cost growth moderates, unit profit growth is likely to recover aided by a rebound in economic activity and strengthening productivity growth. However, in some Member States, a loss of competitiveness resulting from low productivity growth and high labour costs may impact overall economic performance and impede the recovery of unit profit growth ([29]). Business confidence has remained low as weak demand continues to stifle production ([30]). At the same time, euro area corporations indicated that the forces dampening profitability have moderated, and that labour shortages as well as supply bottlenecks have mitigated further ([31]).

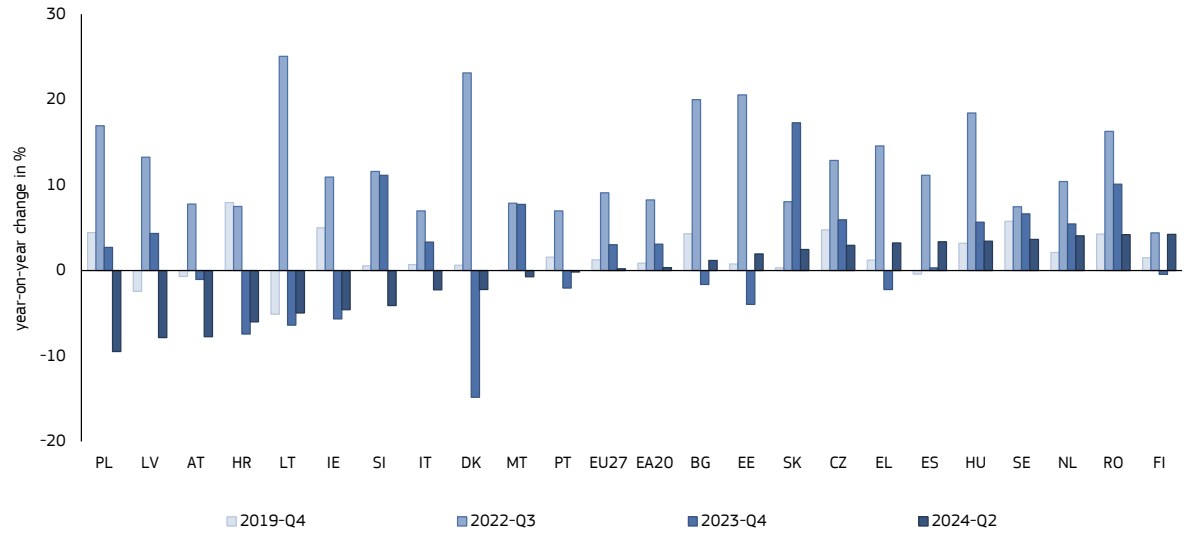
([28]) According to SAFE (Survey on the Access to Finance of Enterprises in the euro area - Second quarter of 2024 (europa.eu)), euro area firms reported a slight decrease in the demand for bank loans while loan supply improved somewhat. Only few firms apply for bank loans, largely because of high internal funds and tight financing conditions.

([29]) See also Section 3.2.

([30]) In the first half of 2024, confidence indicators showed a further decline in the manufacturing industry as well as in the construction sector, while the services sector improved slightly but remained muted.

([31]) Survey on the Access to Finance of Enterprises in the euro area - Second quarter of 2024 (europa.eu) and European Commission Business and Consumer Survey.

Graph 3.10: **Unit profit growth of non-financial corporations**



Unit profit growth is calculated as year-on-year change of gross operating surplus and mixed income over real GDP in percent.
Source: Eurostat.

High interest rates have increased firms' interest expenses and made it more difficult for them to finance investment activities. The interest burden of EU corporates has risen since 2022. In the EU, total interest paid by NFCs ([32]) increased by more than 40% from 2022 to 2023. In 2024, borrowing costs for both new debt and on the outstanding debt stock have started to descend slightly but remain high across the EU. With interest rates resetting on many corporate loans in the coming quarters and refinancing at higher rates, many corporates still face growing interest burdens. Despite initial policy rate cuts, the delayed transmission from policy rates to interest expense ratios implies that the burden is expected to remain high in the near future (Box 3.2). Weak activity and high interest expenses caused interest coverage ratios (ICRs) in euro area countries to drop (Graph 3.11.a), with the deterioration being especially pronounced in the real estate sector ([33]). Cash buffers and high profitability during the post-pandemic recovery suggest that most firms will be able to service their debt despite the increase in interest expenses. Nevertheless, credit quality may deteriorate, and elevated debt burdens may dampen profits and impact the likelihood of firms taking out new debt and investing.

The combination of high debt servicing costs and sluggish economic activity has elevated corporate financial vulnerabilities, though overall financial risks continue to be contained. Despite a deterioration in debt service capacity and economic activity across the EU over the last quarters, measures of corporate profitability, leveraging and financing show that financial vulnerabilities in the corporate sector remain contained. A composite index of NFC financial risks based on the ECB vulnerability index ([34]) indicates low vulnerabilities in almost all Member States, confirming the overall resilience of the corporate sector. Despite an increase during 2023, the index remained negative in most EU countries, indicating a low-risk scenario (Graph 3.10.b). For most countries with a positive index value by the end of 2023, overall vulnerabilities

([32]) Total interest paid by NFCs refers to total interest paid before the calculation of financial intermediation services indirectly measured (FISIM).

([33]) ECB (2024) Financial Stability Review, May 2024 (europa.eu). The interest coverage ratio is defined as the ratio of gross operating surplus to gross interest payments before the calculation of financial intermediation services indirectly measured (FISIM).

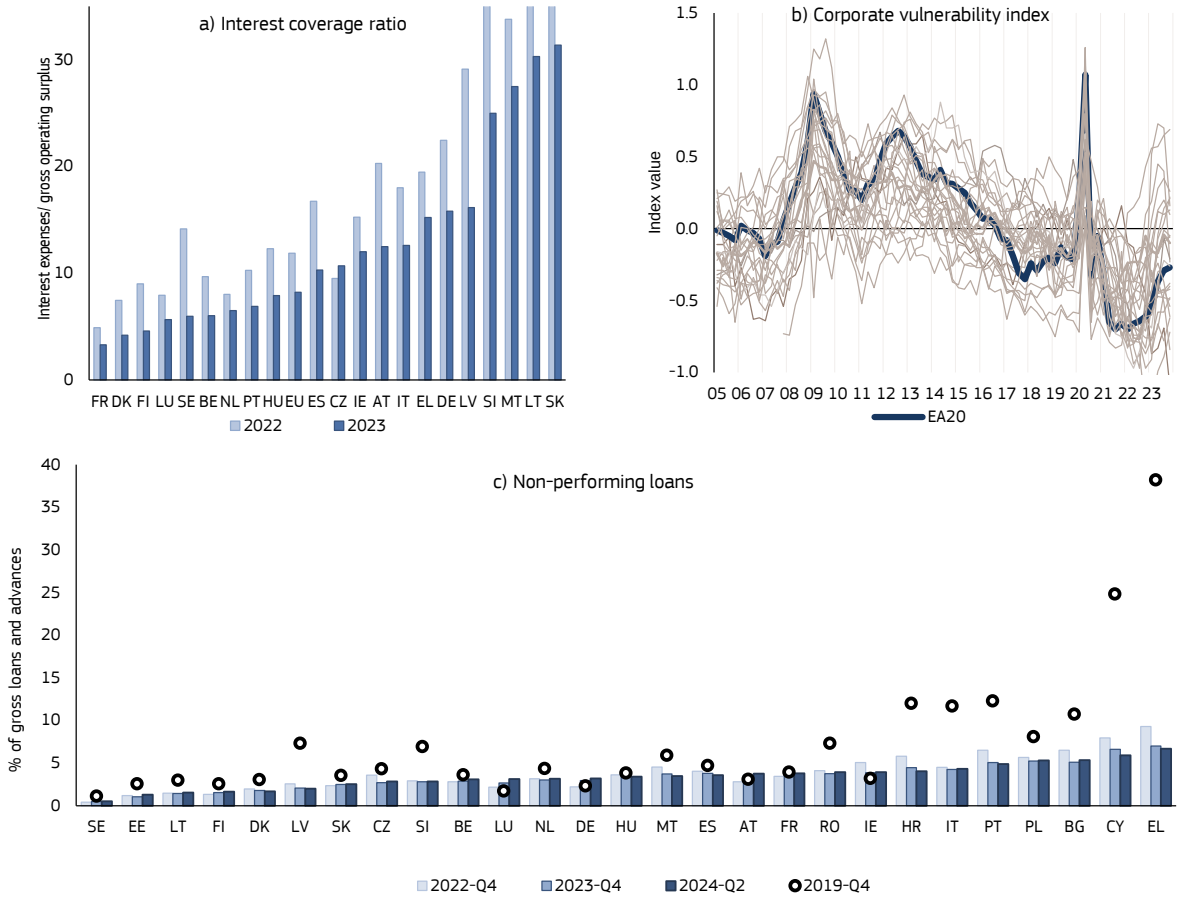
([34]) ECB (2023) "Corporate vulnerabilities and the risks of lower growth and higher rates" (published as part of the Financial Stability Review, May 2023).

continue to be contained when evaluated against periods that severely tested corporate financial stability, such as the financial crisis, the sovereign debt crisis, or the onset of the COVID-19 pandemic (Graph 3.10.b).

In several Member States, the share of non-performing loans (NPLs) and bankruptcies have picked up, yet in most countries, these increases have been small and were accompanied by a rise in new business registrations. The share of corporate NPLs in % of total gross loans and advances has increased slightly in the EU from 2022-Q4 to 2024-Q2. This increase, however, conceals considerable heterogeneity across the EU Member States. Increases in NPL ratios occurred predominantly in countries with low shares of NPLs. In nearly all countries with comparatively high NPL ratios, their share decreased further in 2023 and was considerably lower than by the end of 2019 (Graph 3.10.c). Similarly, bankruptcies have picked up in many EU countries, but so have business registrations. Developments at the country level point to sectoral shifts in some countries, while in other countries, bankruptcies and new registrations have moved in parallel within sectors ([35]).

([35]) EC Business and Consumer Survey.

Graph 3.11: **NFC vulnerabilities**



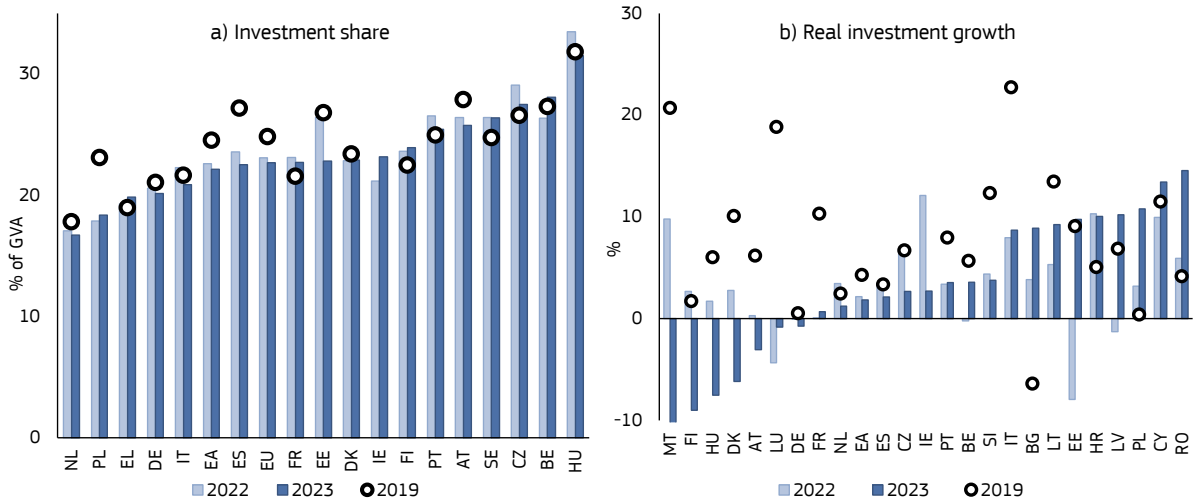
Panel (a) shows the NFC interest coverage ratio in selected EU countries. Panel (b) depicts the evolution of the corporate vulnerability index, a composite index of corporate financial risk combining factors measuring debt service capacity, leverage, financing, profitability and activity (ECB, 2023, Corporate vulnerabilities and the risks of lower growth and higher rates). The index is measured in standard deviations from historical averages and therefore must be interpreted relative to the whole time series. An increase in the index indicates a rise in corporate financial vulnerabilities. Panel (c) shows all non-performing loans of non-financial corporations as a percentage of total NFC gross loans and advances.
Source: ECB, Eurostat, and European Commission calculations.

Corporate investment rates have been low across the EU and declined further in 2023, as did real investment growth. At the EU and euro area level, investment rates (measured as gross fixed capital formation as a percentage of gross value added) fell sharply with the onset of the COVID-19 pandemic and stagnated until the end of 2023 (Graph 3.12.a). Similarly, real investment growth has been muted and declined from 2.2% in 2022 to 1.9% in 2023. In approximately one-third of Member States, corporate real investment growth turned negative in 2023 (Graph 3.12.b). In the first quarter of 2024, this became true for the EU aggregate as well (Graph 3.13.f). Higher financing costs and subdued confidence continue to weigh on credit demand, and the uncertain outlook contributes to firms holding back on investment. While tight monetary policy is likely to have contributed to the investment slowdown, productive investment in the EU was already low before the recent hiking cycle, particularly compared to the US ([36]). The overall decline in investment activities was largely driven by reductions in construction investment, but also

([36]) See EIB Investment Report 2023/24: Transforming for competitiveness. Productive investment is defined as gross fixed capital formation excluding residential investment.

manufacturing investment has been weak and fallen further. These sectoral developments are also reflected in the loan flows to euro area NFCs ([37]).

Graph 3.12: **NFC investment share and real investment growth in selected EU countries**



Real investment growth is defined as the year-on-year change in % of gross fixed capital formation.
Source: Eurostat.

Corporate investment is expected to recover as demand strengthens and financing conditions are set to improve. In the first half of 2024, bank loans to euro area NFCs have recovered slightly, particularly driven by long-term debt with maturities of over 5 years, which may signal a recovery of corporate investment activities. Moreover, according to recent survey data, firms reported a pick-up in investment and expect a similar increase in the near term ([38]). Even though fiscal consolidation, as envisaged in several Member States, may hamper corporate investment, NGEU programme funds and private sector efforts to enhance green and digital investment, are expected to contribute to the recovery.

([37]) In the euro area, the share of bank loans to NFCs in the manufacturing sector relative to all bank loans has decreased considerably.

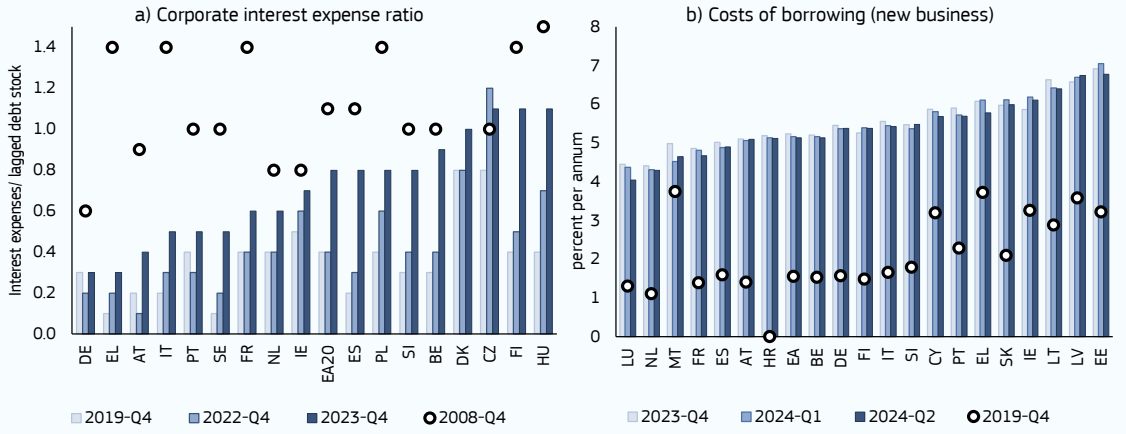
([38]) Survey on the Access to Finance of Enterprises in the euro area - Second quarter of 2024 (europa.eu)

Box 3.2: **Interest expenses and debt service capacity across the EU**

High interest rates have increased the interest burden of corporates across the EU, making it more difficult for firms to repay their debt and potentially dampening investment and economic activity. Higher corporate interest rates translate into increases in corporate interest burdens as firms must pay higher interest on floating-rate debt while the costs of borrowing for refinancing existing debt or issuing new debt rise. This may affect the firms' debt repayment capacity causing in the worst-case scenario firm distress with increases in NPLs, higher rates of corporate defaults, and increased risks for financial market stability. However, even if firms do not struggle to service their debt, higher interest burdens dampen profits and may affect the ability of firms to take out new debt, invest and hire.

Over the last quarters, firms' interest burdens have risen markedly driven by high costs of borrowing, weak activity and elevated labour costs. Corporate interest expense ratios have risen across the EU and roughly doubled in the EA from 22Q4 to 23Q4 (see Graph 1.a). ([1]) Despite this increase, their levels are in most countries still clearly below the values reached during the great financial crisis (08Q4 in Graph 1.a). At the same time, corporate interest coverage ratios (ICRs) have declined across countries as gross operating surplus fell and interest payments surged. Both higher corporate interest expense ratios and lower ICRs signal a deterioration in firms' debt repayment capacities.

Graph 1: **Corporate interest expense ratios and costs of borrowing in selected EU countries**



The corporate interest expense ratio (CIER) is calculated as total interest before FISIM allocation over lagged debt stock.
Source: European Commission based on ECB and Eurostat data.

While the costs of borrowing have plateaued or peaked in most EU countries and central banks have started to cut policy rates, it is unclear how quickly this will translate into decreasing interest burdens and improvements in the debt service capacity of EU firms. The costs of borrowing for new debt as well as on the outstanding debt stock have reached their plateau in most EU countries (see Graph 1.b). In some countries, mostly in those where central banks started policy rate cuts already in 2023, borrowing costs have slowly started to decline, but remain high. This affects firms that want to issue new debt and firms that want to refinance existing debt. Around one-third of total loans in the EA will have interest rates reset during 2024. While the passthrough from changes in the policy rate to borrowing costs is relatively quick in most countries, the impact on the interest rate burden is more delayed.

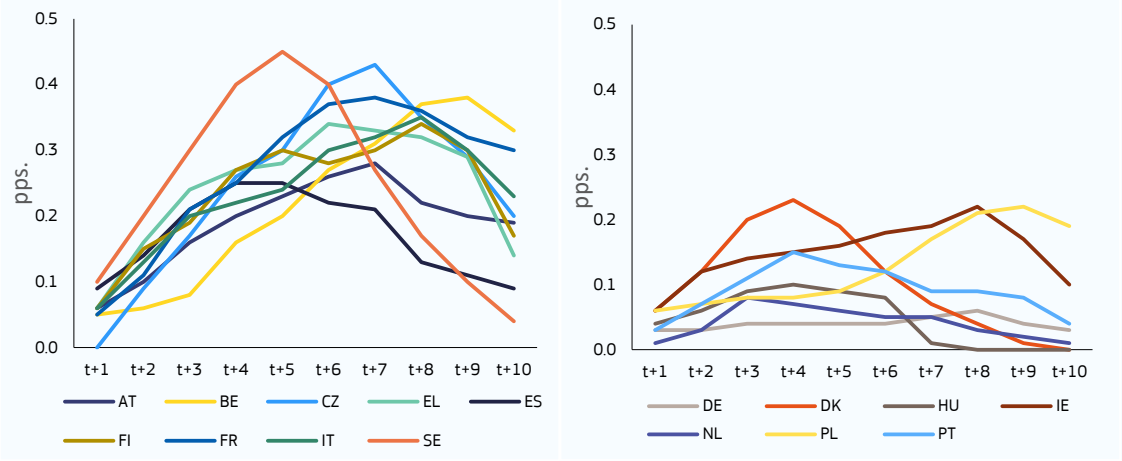
([1]) The corporate interest expense ratio (CIER) is calculated as total interest paid before FISIM allocation over lagged debt stock (i.e. over the sum of debt securities and total loans in the previous period). The interest coverage ratio (ICR) is defined as gross operating surplus and mixed income divided by total interest before FISIM allocation.

(Continued on the next page)

Box (continued)

Estimating the passthrough from policy rate hikes to the corporate interest expense ratios indicates that the peak is reached around 6 quarters after the hike in many EU countries. One possibility to gauge the future development of the interest burden of EU NFCs, is to estimate the effect of a policy rate increase on the CIER and compare the results across countries in terms of timing and magnitude. In most countries, the peak is reached around 6 quarters post hike. However, in some countries the passthrough takes more time and the magnitude varies across countries (see Graph 2).

Graph 2: **Passthrough of a 1 ppt increase in the policy rate on the CIER in pps.**



The graph shows the impulse response functions (without confidence bands) of the CIER for selected EU Member States to a 1 percentage point increase in the policy rate in the 10 quarters after the hike. The passthrough estimates are derived from linear local projections controlling for HICP inflation and GDP growth as in Bräuning et al. (2023) ([2]).
Source: European Commission estimates

While corporates are not expected to experience severe difficulties in servicing their debt, interest expenses are likely to remain elevated in the short-term, locking funds for debt repayment rather than financing investment. High borrowing costs and the delayed passthrough from policy rate hikes to corporate interest expenses suggest that debt burdens are likely to remain high over the upcoming months. The first policy rate cuts are not expected to lead to a sizeable reduction in interest expenses soon. Despite high interest burdens, most firms will be able to service their debt. According to survey data, many EU firms have sufficient internal funds to repay their debt. ([3]) The overall strong performance of EU corporates and their resilience over the past years suggest that even though vulnerabilities have increased, overall risks to financial stability remain contained. However, even if financial stability is less of a concern at the current juncture, high debt repayment locks funds that firms could otherwise use to finance investment activities. Strong corporate investment will be necessary to support the green and digital transition, and secure sustainable future growth, innovation and competitiveness.

([2]) Bräuning, Joaquim, Stein (2023) Interest expenses, coverage ratio and firm distress. Federal Reserve Bank of Boston. Current Policy Perspectives.
([3]) Survey on the Access to Finance of Enterprises in the euro area - Second quarter of 2024 (europa.eu).

Countries with consolidated non-financial corporate debt (in % of GDP) above 85% in 2023 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 consolidated non-financial corporate credit flow excl. FDI (in % of debt stock excl. FDI in t-1) above 13% in 2023 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:

- Non-financial corporate debt is high, exceeding 85% of GDP, in **Luxembourg, Cyprus, Sweden, Ireland, the Netherlands, Denmark, Belgium,** and **France** (Graph 3.9). In all these countries except Denmark, deleveraging has continued, and the corporate debt-to-GDP ratio has fallen or remained broadly stable in 2023. Nevertheless, weak growth and high borrowing costs have raised the interest burden. Consequently, the interest coverage ratio declined in all countries, with the fall being particularly pronounced in Belgium, Denmark, France, and Sweden. In most of these countries, also the share of corporate non-performing loans increased, albeit from comparatively moderate levels. Financial risks remain contained compared to historical standards, except for Luxembourg and Denmark, where high leveraging and a deterioration in debt service capacity, coupled with tight financing conditions and low profitability, led to an increase in corporate financial vulnerabilities as measured by the corporate vulnerability index.

- High credit growth (total debt excl. FDI) exceeding 13% of the lagged debt stock was observed in **Ireland** and **Malta**. In **Lithuania** and **Romania** credit growth was close to or above 10%. Lithuania was besides **Denmark** and **Luxembourg** the only EU country with a slight increase in its debt-to-GDP ratio, but remains at one of the lowest levels across the EU. Despite strong credit growth, Lithuania and Romania reported that financial constraints are impacting their production and that access to finance is an impediment to investment ([39]). Rising borrowing costs and a high share of loans with rate resets will further raise the interest burden especially in Lithuania, where also unit profit growth was comparatively weak.

- **Austria** and **Finland** were among the countries with the highest rise in vulnerabilities as measured by the corporate vulnerability index. In both countries, the corporate debt-to-GDP ratio declined in line with the general deleveraging trend in the EU. However, NPL ratios increased, the corporate interest coverage ratio fell markedly, and a delayed passthrough from policy rate hikes indicates that interest expenses will remain high in the near term. By the end of 2023, the interest coverage ratio was low also in **Portugal, Spain,** and **Hungary**. Due to a high prevalence of variable or short-term fixed rate loans, borrowing costs have notably surged in **Estonia, Greece**, and **Latvia**. As a large share of loans have interest rates scheduled for resetting, further increases in interest expenses are anticipated in 2024. Coupled with worsening profit indicators, this may affect the debt repayment capacity of NFCs in these countries.

- Profit indicators, such as unit profit growth, profit shares, and profit margins, deteriorated in many EU countries, with profit shares falling sharply in **Poland** and **Austria**, and remaining low in **Germany, France, Portugal, Spain,** and **Sweden**. In Poland and Germany, confidence indicators have worsened markedly, particularly in industry and retail. In 2023, gross operating surplus and mixed income in % of GDP fell in most EU Member States and unit profit growth decelerated further. These developments concerned countries with high corporate debt-to-GDP ratios, such as **Denmark** or **Sweden**, countries with elevated corporate financial vulnerabilities,

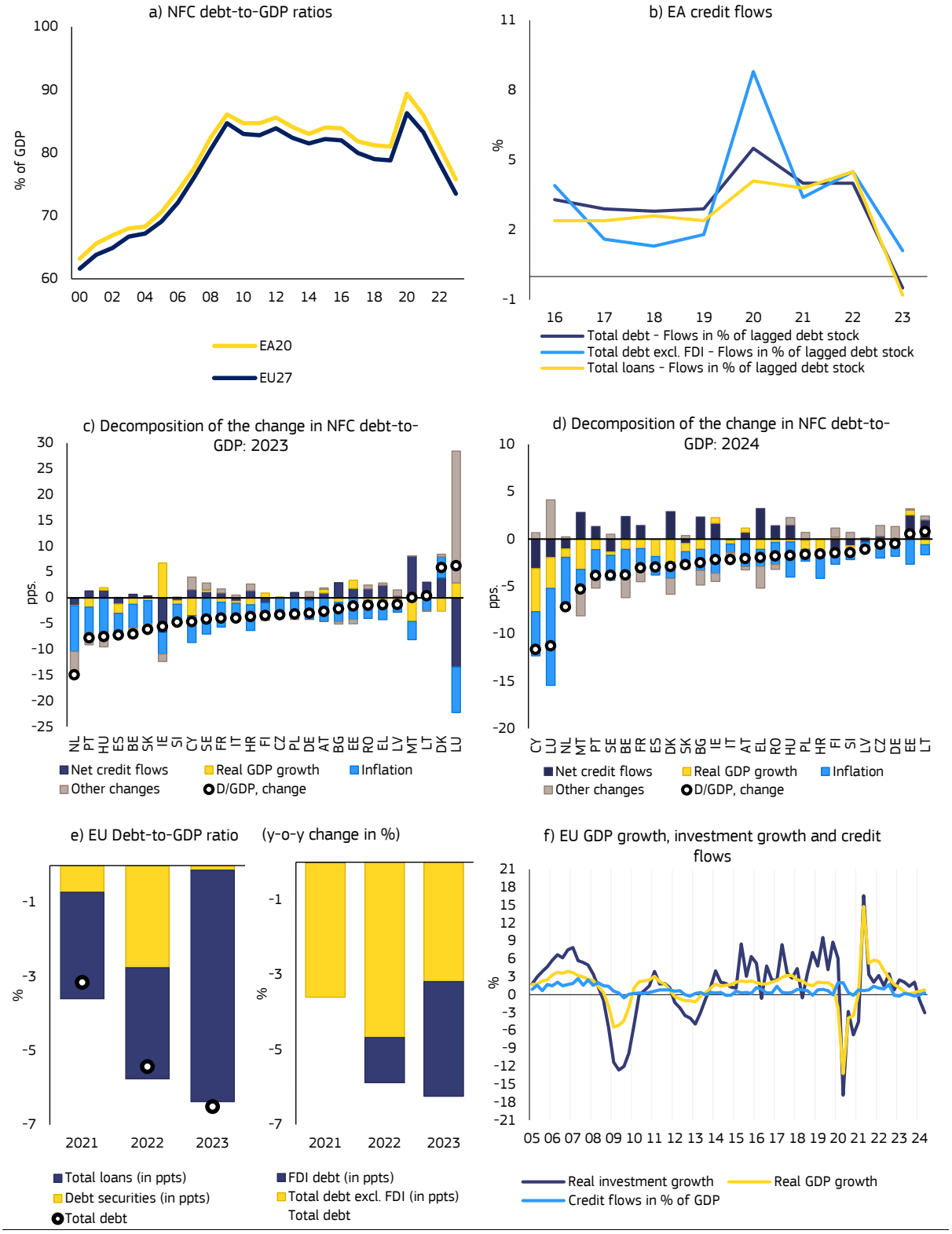
([39]) EC Business and Consumer Survey and EIB Investment report 2023/24: Transforming for competitiveness.

such as Austria, **Greece**, **Estonia** or **Latvia**, and also countries with low debt levels and low financial risks, such as **Croatia**, **Slovenia**, and **Bulgaria**.

- Corporate investment activity has been subdued throughout the EU. In **Finland, Hungary, Denmark, Estonia, Austria**, and **Sweden**, real investment growth was particularly weak in 2023, while investment rates have been low already in the years before in the **Netherlands, Germany, Poland, Greece,** and **Italy**. In several of these countries such as the Netherlands and Italy, but also **Slovenia**, not only investment was weak, but also credit growth. Hungary saw a large drop in both real investment growth and the investment share in percentage of gross value added. Firms in **Bulgaria, Cyprus**, and **France** are among the least innovative in the EU and are comparatively weak adopters of advanced digital technologies, according to the EIB investment survey 2023([40]).

([40]) EIB Investment Survey 2023: European Union overview.

Graph 3.13: **Selected graphs on non-financial corporations**



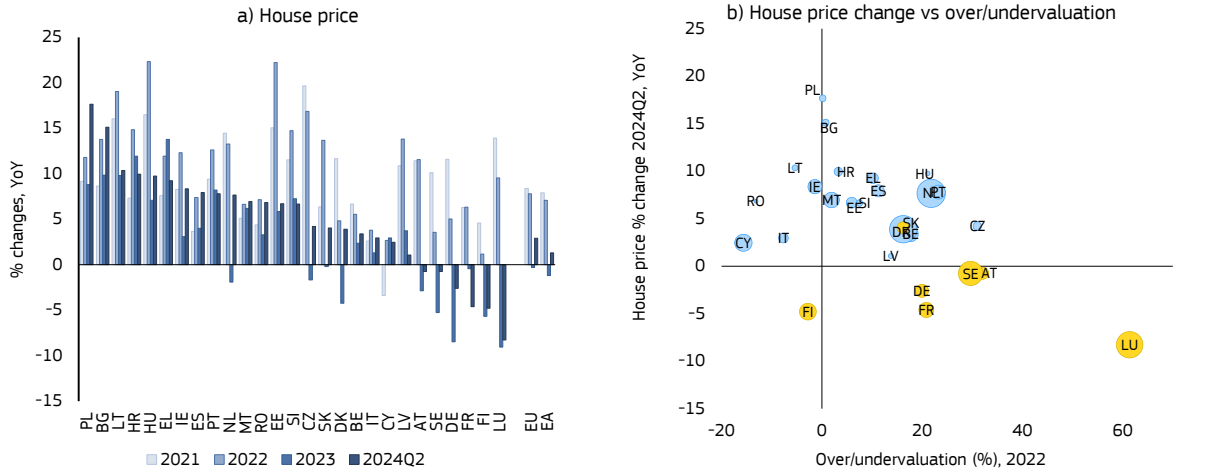
Net credit flows (debt transactions) correspond to transactions of loans (F4) and debt securities (F3) from the Eurostat financial transactions accounts. Data is consolidated, meaning that intrasectoral lending and borrowing is excluded. In panels c and d, "other changes" arise from valuation changes, debt writedowns and reclassifications.

Source: ECB, Eurostat and European Commission forecasts and calculations.

3.4. HOUSING MARKETS

House prices moderated in 2023 after strong growth over 2020-22, but with considerable variation, falling in some countries and growing in others. In most Member States, the pandemic and immediate post-pandemic period saw strong increases in house prices (Graph 3.14.a), building on years of house price growth exceeding household incomes. In 2023, the moderation of house prices that started in mid-2022 continued, with house price growth decelerating in ten countries, and turning negative in a further ten countries. The moderation in house prices was particularly linked to the rise in mortgage interest rates, which started in 2022 and continued into 2023. In the euro area as a whole, house prices decreased by 1.2% on average over the year, which represents a significant deceleration relative to 2021 and 2022. In four countries house prices decreased by more than 5%, while increased by more than 9% in another four. By the end of 2023, house prices were estimated to remain overvalued in three quarters of EU countries, with around half of the countries displaying overvaluations above 10% (Graph 3.14.b).

Graph 3.14: **House price evolution, over/undervaluation, and household debt**



(1) The bubbles size in Panel b refer to household debt as % of household income. The yellow-coloured bubbles refer to those countries where house prices are still falling or at the minimum of the last eight quarters.
Source: Eurostat and European Commission calculations.

Recent 2024 data show signs of recovering, with almost all EU countries recording positive growth rates. The most recent in-year data show an overall pick up in growth rates. The period of price corrections appears to be ending, and in countries with recent muted growth, there is an increase in growth rates. In several countries, house prices continue to grow strongly. Interest rates have started to decrease but remain high when compared with their levels prior to 2022, resulting in relatively high interest payments for new loans. The period of house prices correction after the pandemic has resulted in substantial falls in house prices, primarily among countries where estimates suggest the strongest signs of overvaluation and households were more indebted (Graph 3.14.b). The decrease in house prices continues only in a few cases and hence risks of overvaluation in many countries are not expected to recede completely.

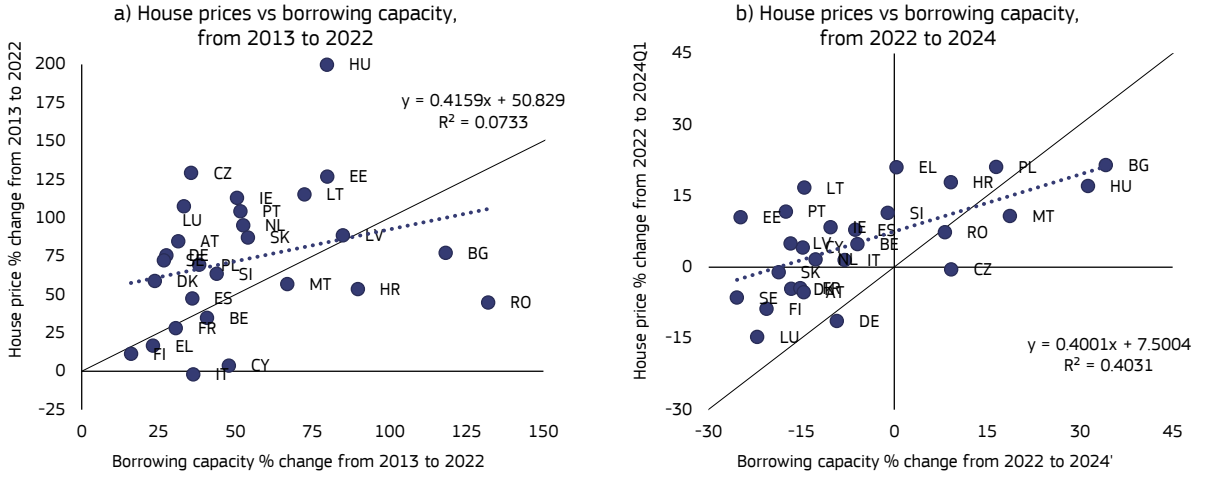
The increase in interest rates has led to reduced loan demand for house purchases and lower housing transactions. Interest rates have started to decrease but remain high when compared with the years prior to mid-2022, when monetary tightening (both within and outside the euro area) started to increase mortgage rates for new mortgages and existing ones with variable interest rates. This is particularly marked for some non-euro area countries, although not for all of

them (Graph 3.17.b), and has pushed down demand for mortgage credit (Graph 3.17.c) and had an impact on house prices from mid-2022 in most Member States. It has also resulted in a big fall in housing transactions (Graph 3.17.d). The reduction in house prices – and the fall in transactions – appears to be ending as the market finds a new equilibrium that reflects the increased mortgage cost associated with loans. In countries where a greater share of house purchases is typically funded through mortgages, the impact of higher interest rates has a more direct impact on house prices. With the adjustment of the market to the higher interest-rate environment, demand is recovering and house prices are likely to return to growth paths that reflect households' incomes and supply factors.

The borrowing capacity of households ([41]) fell in most countries in 2023 but has started rising in 2024. The higher interest rates – relative to pre-2022 – have reduced the borrowing capacity of households, as they are able to meet the monthly payments associated with smaller loans. While higher interest rates have been associated with a reduction in house prices in some countries, the first-year debt servicing costs associated with purchasing housing with credit remains high. Graph 3.15 presents the relationship between the change in house prices and the change in the borrowing capacity of households for 2022 compared with 2013 and for 2024 compared with 2022. It shows that in most countries the borrowing capacity in 2024 decreased vis-à-vis 2022 and partially explains the slowdown in house prices. In some cases, the impact of the interest rate contribution was so substantial that it reduced the borrowing capacity of households by 30-60% and explains the most significant reductions both in house prices and house transactions. The expectation that interest rates may decrease further is also delaying transactions by potential buyers. In EU countries outside the euro area, the impact of the increase in interest rates on house prices has been very strong overall, as interest rates have risen earlier and by more than in the euro area. In 2024 the borrowing capacity is set to recover in all but three countries amid higher disposable incomes.

([41]) While the borrowing capacity of households is different from house prices, it offers a stylised approach to estimating how demand for housing may be affected by household incomes and interest rates. For definition and methodology see notes under Graph 3.15.

Graph 3.15: **House price change vs borrowing capacity change, from 2013 to 2022 and from 2022 to 2024**



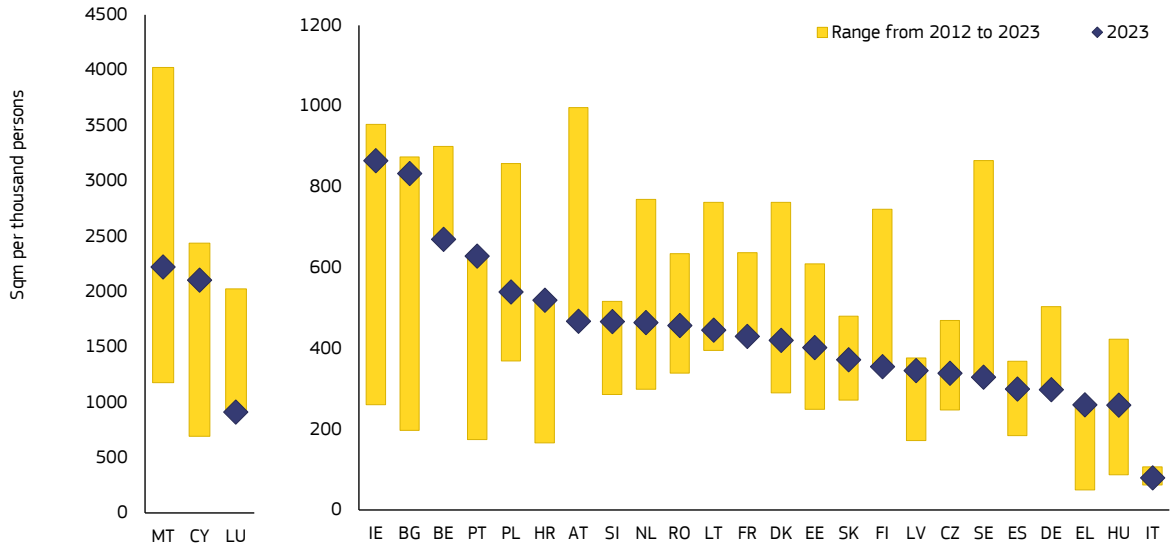
(1) Borrowing capacity reflects the evolution of house prices that credit constrained households can afford by devoting a constant share of their income to mortgage payment at the origination of the mortgage. (2) Data used for computing borrowing capacity is median household income, interest rates and country-specific loan maturity. For loan maturity is used the average of maximum maturity, available in Grünberger et al. (2023): Housing taxation database 1995-2021, European Commission, Joint Research Centre (JRC). The LTV ratio considered is 100% and other variables, like taxation, tax relief and transaction costs were fixed to zero to capture only the impact of income and interest rates on borrowing capacity. (3) For more detailed methodology see Andrle, M. and M. Plašil (2019): Assessing House Prices with Prudential and Valuation Measures. IMF Working Paper No. 19/59.

Source: Eurostat, ECB, JRC and European Commission forecasts and calculations

For the rest of 2024 and 2025, house prices are expected to resume growth supported by higher income, low supply, and the further moderation of interest rates. The current moderation or correction of house prices is expected to stop. Despite the constraints faced by (new) borrowers and the comparatively high interest rates, house prices are expected to resume growth, supported by higher income but mostly by the low and rigid supply. Existing and new policies supporting housing demand risk contributing to a renewed increase in house prices above the path of household incomes, exacerbating the deterioration of affordability in the near future. Input cost increases, scarce labour force, also due to the wave of renovations motivated by the need to improve energy efficiency of houses, are other factors behind the tight supply. Besides, real interest rates remain low, providing an incentive for increased demand for housing with an investment.

Over the past decade, housing supply has struggled to keep pace with rising demand due to regulatory constraints, economic disparities, and increased construction costs, particularly in urban centres. Population growth, sometimes driven by historically high net migration, and urbanization, have led to an increased housing demand that has outpaced the delivery of new units, particularly in major cities. Regulatory and planning constraints, such as strict zoning laws, lengthy approval processes, and limited available land in city centres, have hindered the necessary scale of housing construction. In southern Europe, the 2008 financial crisis and subsequent adjustment measures further suppressed construction activity for a number of years, with investment in housing infrastructure lagging behind economic recovery. Conversely, northern European countries have experienced relatively stable construction levels, yet still struggle to meet urban demand. While climate and environmentally friendly policies are crucial for long-term sustainability, they can increase the cost and time required to build new homes, further constraining supply. The construction sector is also adjusting to the increase in interest rates since mid-2022, by acquiring less permits for residential construction in those countries where house prices have corrected more significantly (Graph 3.16), potentially leading to upward price pressure in the future.

Graph 3.16: **Building permits for residential construction**



Source: Eurostat and European Commission calculations.

Countries with nominal house price index growth (1 year % change) above 9% in 2023 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:

- House prices are still significantly overvalued (above 20% according to estimates) and have been falling recently in **Austria, Czechia, France, Luxembourg, Slovakia**, and **Sweden**. In **Germany,** prices are also falling, but overvaluation is less significant, while over a decade house price growth exceeds incomes by 10 pps. Over the last decade, Austria, Czechia and Luxembourg have seen steep increases in prices relative to income by more than 20 pps. In Luxembourg and Sweden household debt is particularly high. When accounting also for the mortgage interest rates, housing affordability as measured by the gap between house prices and borrowing capacity of households decreased even further, notably in the last two years. In the last decade, this gap increased the most in Austria, Slovakia, Sweden, Germany, and by more than 70 pps. in Luxembourg, and in Czechia. Since 2022 and until 2024-Q1, the decrease of house prices in Czechia exceeded the decrease of borrowing capacity. In Germany, house prices decreased slightly in line with the decrease of borrowing capacity, while in Austria, France, Luxembourg, Slovakia, and Sweden, the decrease in house prices was less than that of households' borrowing capacity.

- House prices are overvalued and still increasing in **Belgium, Bulgaria, Croatia, Denmark, Estonia, Greece, Hungary, Latvia, the Netherlands, Portugal**, and **Spain**. In Bulgaria, Greece, Croatia, and Hungary, the recent increase in house prices is particularly high. In these countries, and in Portugal where house prices are strongly overvalued, the recent evolution of house prices can be seen as a risk factor for a future sharper correction if economic conditions were to deteriorate. In Denmark and the Netherlands, household debt is particularly high. Over the last decade, increases in prices exceeded income growth by 10 to 20 pps. in Denmark and Spain, around 25 pps. in Estonia and Hungary, while in the Netherlands and Portugal, the difference between growth of house prices and household income was around 30 pps. and 50 pps., respectively. In the last decade, the gap between house prices and borrowing capacity became significant in Denmark, Estonia, the Netherlands, Portugal, and very significant in

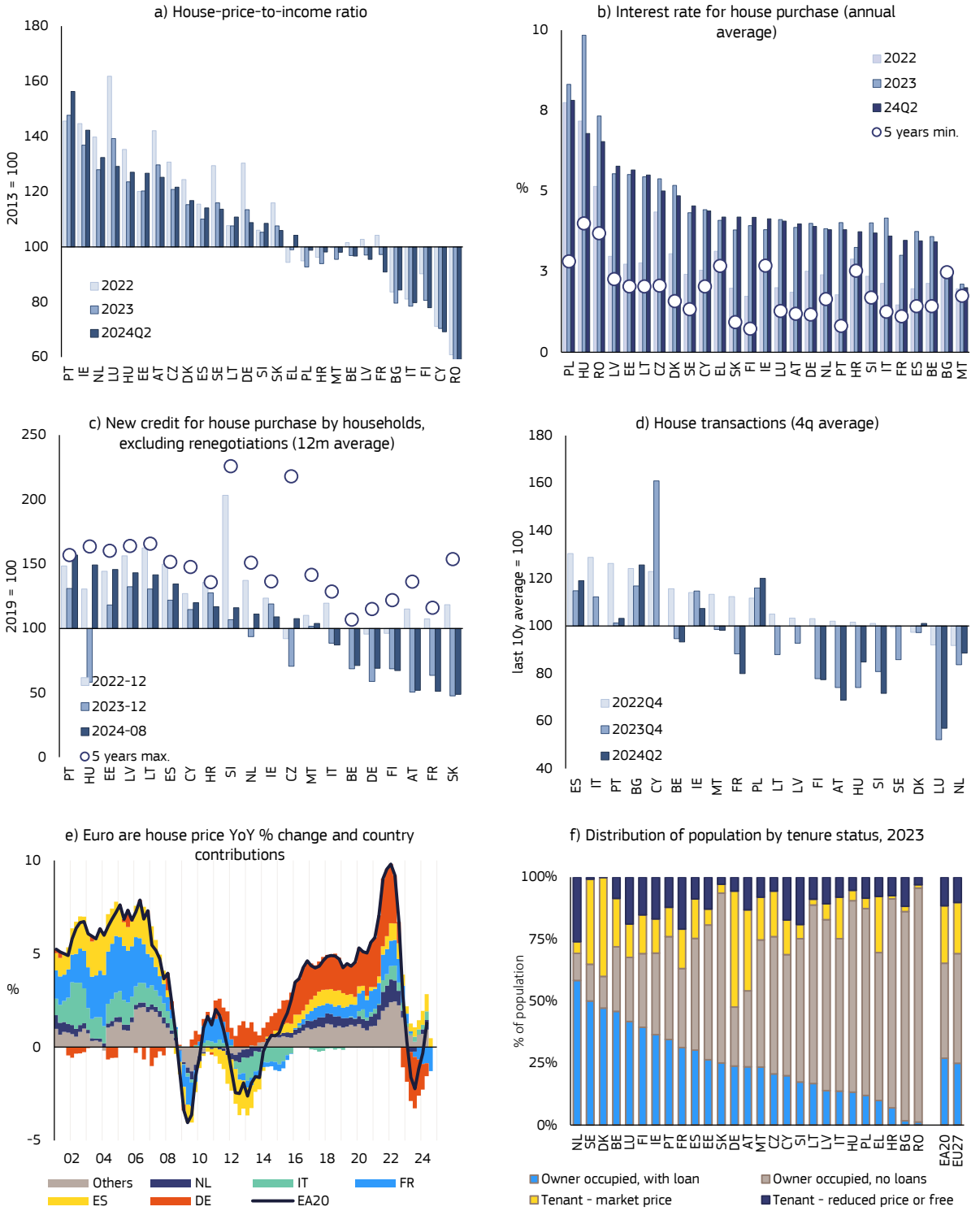
Hungary, where this gap is around 150 pps. In Hungary, nominal house prices grew by around 220% in the last decade, while the monthly mortgage payment that the median households can support when dedicating a fixed share of their income grew by around 70% in the same period.

- In **Poland, Ireland**, and **Romania**, house prices are not estimated to be overvalued but increased at a strong pace. In Poland and Ireland, between 2013 and 2022, house prices have grown more than borrowing capacity by around 30 pps. and 60 pps., respectively, and are still rising above borrowing capacity since 2022, and by around 20 pps. in Ireland.

- In **Lithuania and Slovenia**, prices have been rising fast and risk becoming overvalued. When compared with incomes over the last decade, house price growth exceeds income growth by 14 pps. and 7 pps., respectively. House price growth has exceeded the growth of borrowing capacity in both Lithuania and Slovenia since 2013, by around 70 pps. and 30 pps., respectively

- In **Finland**, house prices were not estimated to be overvalued but have fallen by over 10% since their peak in mid-2022 and household debt is high. The reduction in house prices since 2022 is, however, still less than the decrease in borrowing capacity over the same period, which fell by around 20%.

Graph 3.17: **Selected graphs on the housing market**



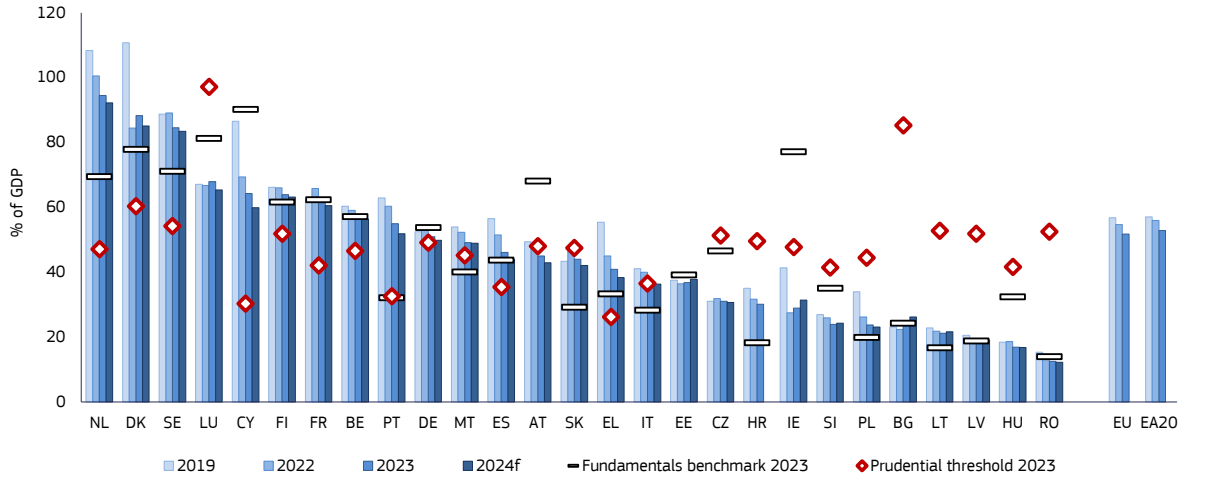
(1) Graphs a, b and c, countries are ordered by decreasing order of the last data. (2) In Graph d, countries are ordered by decreasing order of 2022-Q4 values, as 2023 data are not available or missing for several countries. (3) In Graph e, the euro area house price before 2005 is estimated. (4) In Graph f, countries are ordered by decreasing order of share of owner occupied with loan.

Source: Eurostat, ECB and European Commission calculations.

3.5. HOUSEHOLD DEBT AND SAVING

Household debt ratios continued to decrease to historical lows in 2023 in most EU countries (Graph 3.18). Over the last three years, the household debt-to-GDP ratio has been declining markedly, to reach 53% in the euro area (52% in the EU) by 2023, around 4 pps. (5 pps.) below its pre-pandemic level. The debt-to-gross household disposable income ratios fell even more swiftly, from 77% to 71% in the euro area, and from 78% to 70% in the EU ([42]). Under both measures, household debt ratios are at their lowest point in about two decades' time. Most EU countries, including those with the highest levels of debt, now have household debt-to-GDP ratios well below their 2019 levels. At the same time, in almost half of the Member States, household debt remains above the levels suggested by economic fundamentals and by prudential concerns ([43]). The decline in the household debt-to-GDP ratios in 2023 was strongly driven by denominator effects, in particular high inflation rates (Graph 3.19.a). Nominal household disposable income also grew strongly in 2023, supporting households' debt service capacity and pushing up real gross disposable incomes.

Graph 3.18: **Household debt-to-GDP ratios**



(1) Debt comprises loans (F4) and debt securities (F3), consolidated. 2023 figures present projections based on available in-year data and forecasts.
Source: Eurostat and European Commission forecasts and calculations.

Credit flows contracted substantially by 2023 but remained positive in most countries (Graph 3.19.a, Graph 3.20). The main driver of the contraction in credit flows was the cost of borrowing ([44]), which rapidly increased as of mid-2022 and peaked by the end of 2023 in the euro area and most of its Member States at around 4%, the highest level observed over the last 15 years. While interest rates on new loans for house purchase increased by 2.8 ppt between trough

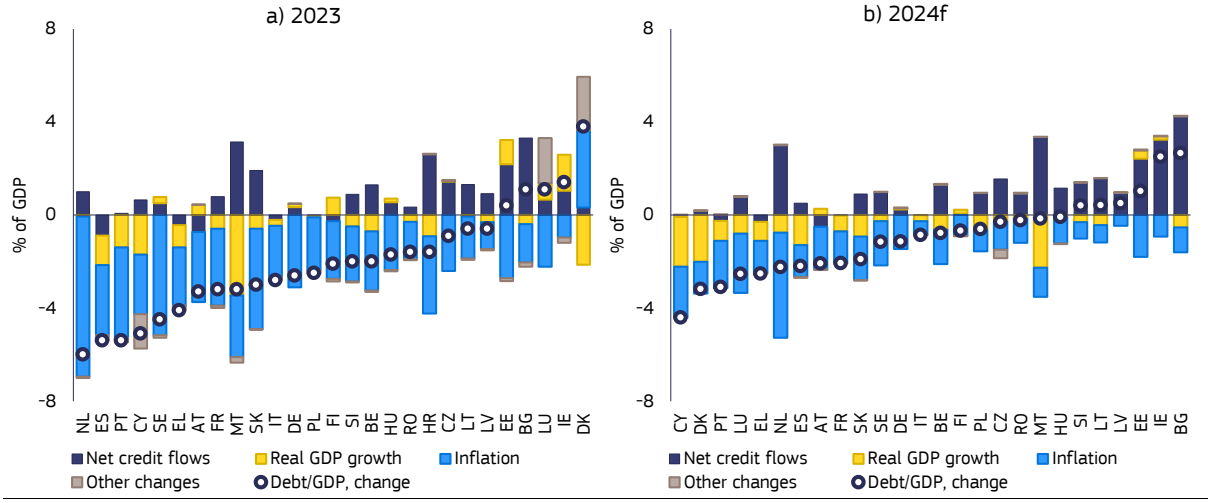
([42]) EA and EU aggregates reflect Commission calculations. The debt-to-gross disposable income ratio is calculated as consolidated household debt (loans and debt securities) over gross disposable household income adjusted for social transfers in kind (B7G).

([43]) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), "Is Private Debt Excessive?", *Open Economies Review*, 1- 42.

([44]) The discussion on borrowing costs refers to nominal interest rates, as they, contrary to what conventional economic theory would suggest, seem to matter more for household behaviour than real interest rates (see Felici, Kenny, Friz (2022) "Consumer savings behaviour at low and negative interest rates", ECB Working Paper 2736).

and peak over the period from 2019 to mid-2024, interest rates on outstanding loans increased by less (only 0.9 ppt) on average over the same period, reflecting the fact that many loans have fixed interest rates, for a part or the totality of the loan term. Only in a few countries credit flows remained resilient in 2023. In broad terms, countries that saw the strongest increase in borrowing costs also saw the strongest contraction in credit flows, although there are a few exceptions. In the euro area countries, borrowing costs remained close to their peak levels in mid-2024. The contraction in credit flows was visible irrespective of whether credit flows are expressed as a proportion of GDP or of the previous year's debt stock. Looking at credit flows in relation to existing debt stocks provides a better idea of upward pressures on debt stocks than when credit flows are expressed as a % GDP, especially in countries starting out from a low debt stock level. As shown in Graph 3.20, credit flows as a share of debt stocks continued to be sizeable in some low debt countries, despite the overall fall.

Graph 3.19: **Contributions to changes in household debt-to-GDP ratios**

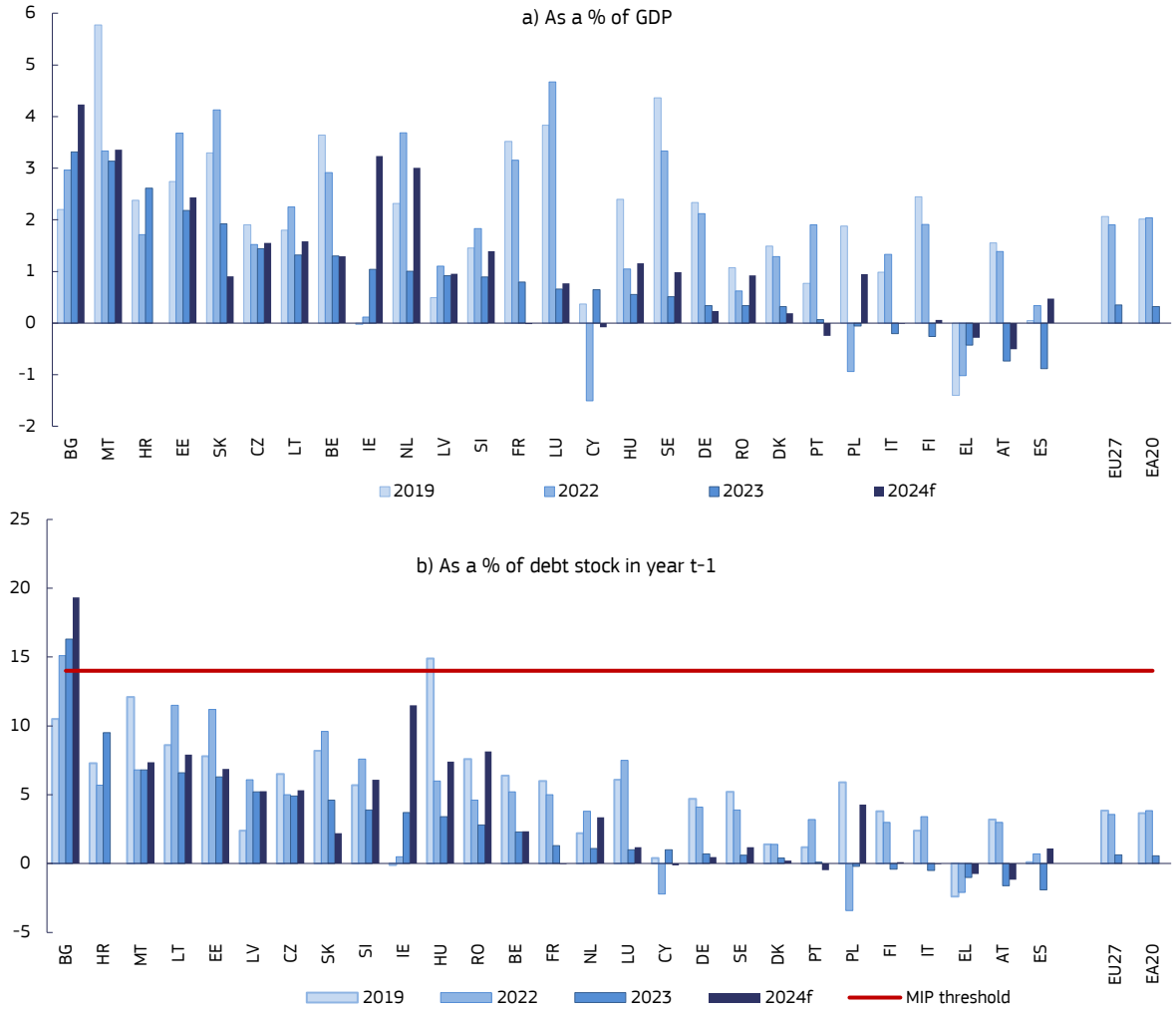


Source: Eurostat and European Commission forecasts and calculations. Data for HR missing for 2024f.

The rise in borrowing costs was particularly pronounced in countries with a high prevalence of variable rate loans. The proportion of new loans with highly flexible interest rates (with a fixation period of one year or less) in Member States ranges from almost none to broadly all loans to households. The rise in the interest rates initially triggered a strong increase in the use of variable rates for new loans in several EU countries. By April 2024, this trend had been largely reversed in the euro area aggregate. In several countries, the proportion of variable rate loans remains substantially higher than in 2022; in other countries, it is by now significantly lower.

In some countries, particularly those with a high prevalence of variable rate loans, households were confronted with a strong rise in aggregate interest payments in 2023 (Graph 3.21.c). The rise in borrowing costs was also notable in some other Member States with a history of variable interest rates, which remain relevant for the stock of outstanding loans. Interest payments increased in virtually all Member States between 2021 and 2023, but in most countries (and in the euro area and the EU on aggregate) the increase remained below 1 ppt of gross disposable household income (GDHI) (see Box 3.4). A few countries combining relatively high debt stocks with a high proportion of variable rate loans (among new or outstanding loans) saw interest payments going up more strongly. In most countries, the increase in interest payments was however counteracted by an increase in interests received on aggregate, although they are likely to accrue to different households. The increase in interests received exceeded the increase in interests paid on average in the euro area and the EU.

Graph 3.20: **Net credit flows to households**



(1) Credit flows reflect loans and debt securities to households (net flows, consolidated) as reported by ECB. 2024 figures present projections based on available in-year data and forecasts.
Source: Eurostat and European Commission forecasts and calculations.

Overall, the household sector remained resilient in view of the interest rate increases, although the impact is likely to have varied across households. In some countries, survey data suggest a relatively high proportion of mortgage holders in the bottom quintile of the income distribution, in combination with a high debt service to income ratio (see also Box 3.4). These households are more likely to be liquidity constrained, and a rise in interest rates could affect their consumption and savings possibilities ([45]). On the upside, interest rates are expected to gradually fall over the forecast horizon, relieving some of the additional pressure on these households.

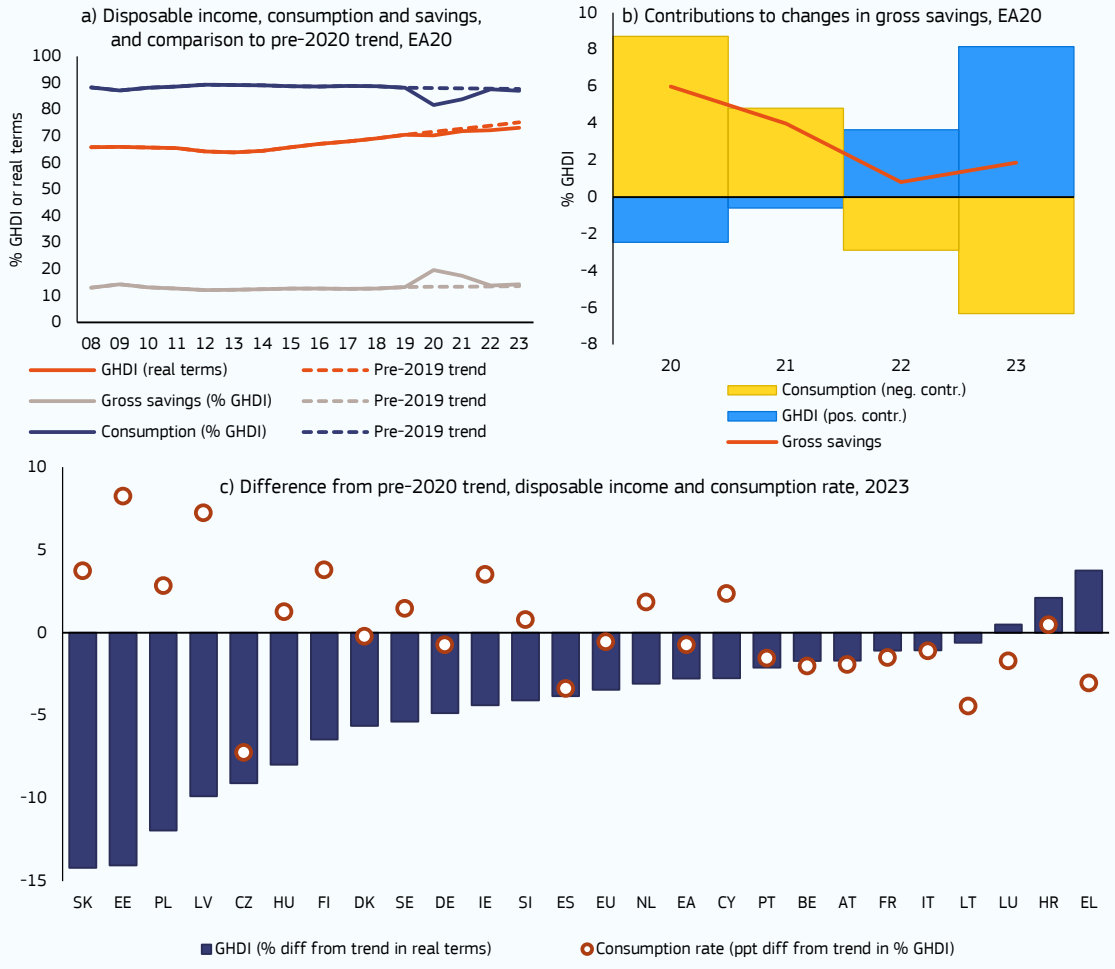
([45]) See e.g. for a recent study on Denmark: Andersen et al. (2024) "Effects of increases in monetary policy rates" or for a broader perspective Coutinho L., V. Martins & M. Salto, 2023. "Euro Area Household Debt", *Quarterly Report on the Euro Area* (QREA), 22(3): 35-49.

Box 3.3: **In good and bad days: household income and savings in the EA20 since 2019**

This box looks at how household balance sheets were affected by the turmoil of recent years, namely the pandemic and a period of high inflation. It considers aggregate developments of the household sector, while disregarding distributional impacts within the sector.

Household disposable income in the EA was growing at around 3% per year in nominal terms between 2015 and the start of the pandemic in 2020 (Graph 1.a). The pandemic triggered a reduction in labour and property income, and a smaller one in business income, but these were fully compensated by a reduction in net taxes (in part because of an increase in subsidies). Nominal disposable income growth largely stalled in 2020, resumed in 2021 and accelerated to around 7% in 2022 and 2023 when inflation soared. In real terms, disposable income contracted by 13% in 2020 (largely due to a drop in activity) and by 23% in 2022 (as a result of high inflation), but started growing, albeit more sluggishly, as of 2023. Net taxes became less supportive of disposable income in the years after 2020, although they remained smaller in volume than before the pandemic set in.

Graph 1: **Household income, consumption, and savings, selected graphs**



(1) GHDI refers to gross household disposable income (B6G)

Source: Commission calculations based on sectoral national accounts

Up until 2020, consumption had been growing broadly in line with, but just below disposable income, resulting in a gradually increasing savings rate (Graph 1.a). However, in 2020, real household consumption contracted by 7.5%, translating, at a roughly stable disposable income level, into an increase in the savings rate. Real consumption recovered over 2021-22, growing faster than disposable income. However, it stagnated in 2023 in spite of a gradual recovery in real disposable income, leading to a small rebound in savings (Graph 1.b). Real disposable

(Continued on the next page)

Box (continued)

income, consumption and gross savings are above their 2019 level, but below their pre-2020 trend in real terms (Graph 1.a). At the same time, the consumption and savings rate (expressed as a % of disposable income) have returned to their pre-2020 trend for the EA20 on aggregate by 2023. This is unexpected, as it seems to dispel the expectation that the excess savings accumulated during the pandemic would trigger an episode of above-trend spending on consumption. A reasonable implication would be that growth in real consumption would need to be underpinned by a revival of real disposable income, for instance because of wage growth.

Underlying the aggregate euro area picture, there are marked cross-country differences. While in some countries, such as Greece, Croatia, and Luxembourg, disposable income was already very close to trend in 2022, in Estonia, Poland, Spain and Slovakia it remained almost 10% below it. in 2023, disposable income fell behind even more in Slovakia. Especially in countries with disposable income lagging behind, the consumption rate (as % GHDI) was above its medium run trend, mechanically equivalent to a weakening of the savings rate. In several other countries, however, consumption remains below what would have been expected based on its medium-run relationship with disposable income in 2023 (Graph 1.c), possibly reflecting pessimism in consumer sentiment and elevated economic uncertainty. The disappointing consumption behaviour is also visible to some extent in the euro area and the EU aggregate.

Further deleveraging of household debt can be expected for 2024, albeit at a slower pace than in 2023. Subdued borrowing, inflation, and moderate real growth are set to continue exerting downward pressure on household debt-to-GDP ratios in 2024. In 2024-Q2, the euro area (EU) household debt-to-GDP ratio dropped to 52% (51%), its lowest level since 2005 ([46]). Measured as a share of gross disposable income, it fell to 69% (69%) in the same quarter, also markedly below its pre-pandemic level. If trends observed over the first half of 2024 persist, four out of five Member States will see a reduction in household debt-to-GDP ratios in 2024. In all EU countries with very high household debt (more than 70% of GDP), deleveraging is expected to be extensive, reaching several percentage points (Graph 3.19.b). In most countries, net credit flows are expected to remain stable or start growing again in 2024. Employment and wage dynamics ([47]) are expected to support growth in disposable incomes in 2024 and 2025. This should have a positive impact on household savings and support households' ability to meet their debt obligations overall.

After a few years of decline, household savings rebounded somewhat in 2023. Gross savings (as a % of disposable income) peaked in 2020 and came down over 2021 and 2022 towards their medium-term average. Gross savings rebounded in the euro area in 2023 as energy prices subsided and real income growth returned to positive territory (Graph 3.21.b). Overall, savings remain above pre-pandemic levels in several countries that already had higher savings rates to begin with. In most countries which started out with low savings rates before the pandemic, gross savings however eroded further after the pandemic, possibly as a result of the higher impact of increases in the cost of living in these countries on the back of high inflation. These differential dynamics risk contributing to divergence in households' capacity to cope with future shocks in the euro area. Yet, most of the latter countries also saw some improvement in gross savings in 2023, and most of the countries with high household debt and all of those with very high household debt have robust saving rates.

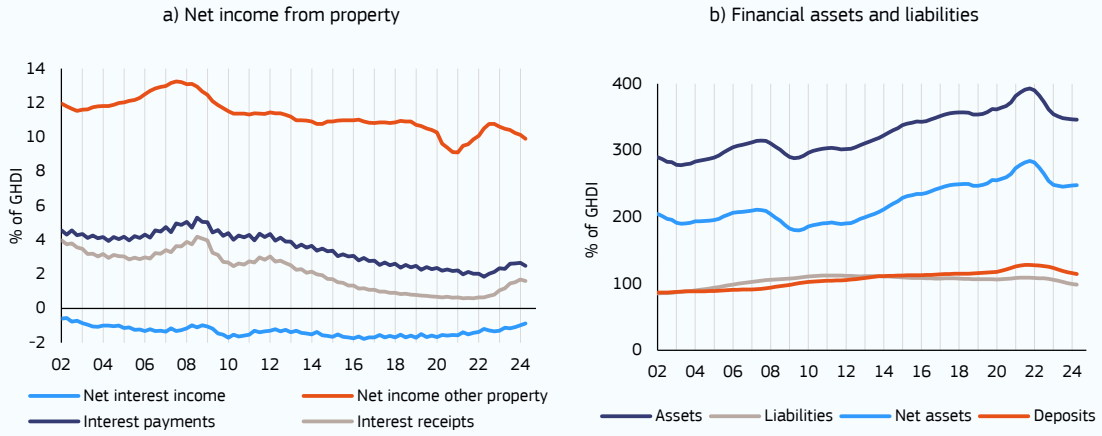
([46]) Source: Commission calculations based on ECB-QSA and ESTAT data.

([47]) Considering real compensation per employee, calculated using the private consumption deflator.

Box 3.4: The impact of rising interest rates on households' net interest income in the euro area

In 2022 and 2023 monetary policy rates were raised from around 0% to 4% within twelve months. The increase has affected households through different channels, including interest payments on mortgage and consumer loans and returns on savings – besides broader impacts on jobs, wages, prices, and asset values. This box considers the impact through households' net interest income ([1]), which could have a bearing on households' financial vulnerability and their aggregate consumption ([2]).

Graph 1: **Assets, liabilities, and returns on assets, households, EA**



(1) GHDI refers to gross household disposable income (B6G) a): Net income from other property is smoothed and covers distributed income of corporations, reinvested earnings on direct foreign investment, and other investment income, and rents from land and subsoil assets. Income that households receive from renting out buildings and imputed rents for owner-occupied dwellings are not included in this category. b): Data reflect smoothed quarterly data.
Source: ESTAT sectoral national accounts data

Since 2010, net interest income by the household sector in the euro area has been negative, and made up around -1.5% of disposable income (Graph 1.a), meaning that households are paying more interests on outstanding loans than they are receiving from interest-bearing assets such as deposits, bonds and loans, despite their positive nominal net asset positions. This is broadly true across all EU countries (Graph 2). Over time, since the early 2000s, net interest income declined until around 2016, when it stabilized (Graph 1.a), in spite of a consistent increase in financial and net financial assets over the 2010s (Graph 1.b). The expansionary monetary policy that was in place up to 2022 has undoubtedly been an important contributing factor ([3]). In 2021, net interest income in the euro area started growing (becoming less negative), firstly under impulse of the strong pandemic-related increase in savings, and as of 2022 on account of a stronger increase in interest receipts than in interest payments. In about half of EU countries, net interest income increased with the rise in interest rates for the household sector on aggregate (Graph 2).

The increase in net interest income reflects the fact that the volume of interest-bearing household assets is larger than the volume of household debt for the euro area as a whole. The four countries with a clear negative position in interest-bearing instruments are Denmark, Sweden, Finland, and the Netherlands (Graph 3) ([4]). Of these countries, only the former three saw a strong decrease in net interest income due to their very high prevalence of variable mortgage loans, triggering quick changes in interest rates, including on outstanding loan stocks. In the Netherlands, interest receipts rose faster than interest payments. For a number of other countries such as Spain, Portugal, Estonia, Latvia and Lithuania, with near-zero or positive positions of interest-bearing instruments, net

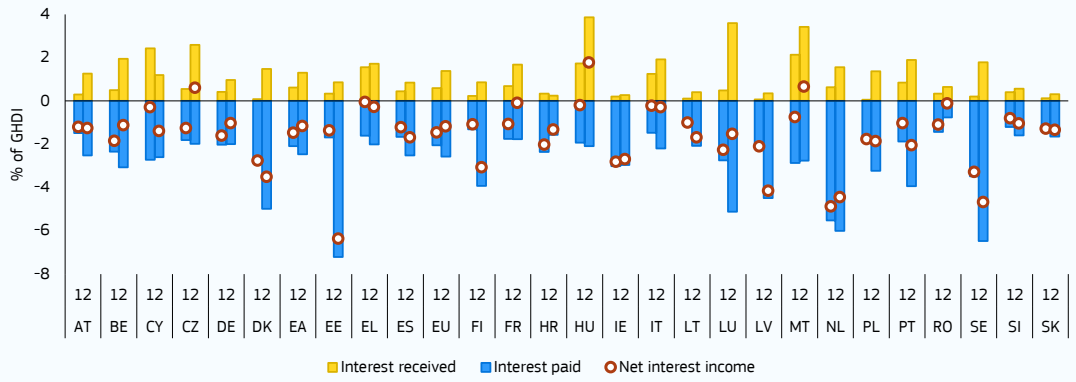
([1]) This box considers interest income *before* the allocation of FISIM. FISIM refers to "financial intermediation services indirectly managed" and is used in the national accounts to reflect the services provided by banks without explicit service charges. Net interest income of households in the euro area is negative before FISIM, but positive after FISIM, reflecting the utility received from financial services.
([2]) For earlier work on this topic, see the box "Low interest rates and households' net interest income" in *ECB Economic Bulletin*, 4/2016; and de Bondt et al. "Net interest income of households and firms" in *ECB Economic Bulletin*, 8/2023.
([3]) The composition of household assets does not seem to have driven this change in returns to a major extent.
([4]) Deposits (F2) and bonds (F3) are included on the asset side, loans (F4) on the liability side. In some countries households also have loans on the asset side. These are included in 'other assets.' Even if they also present interest-bearing assets, their significance is generally low.

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Box (continued)

interest income has still declined as interest rates on loans rose much more strongly than on deposits – and a relatively wide gap emerged between interest rates on loans and those on deposits ([5]). This added to a high share of variable rate loans among outstanding mortgage loans. Cyprus, a country with relatively high deposits (as a % of GHDI), presents an interesting case as interest rates on savings accounts and interests received dropped in 2023, and net interest income declined, without interest payments increasing on aggregate ([6]).

Graph 2: **Net interest income of households, 2021-23**



(1) 1 refers to 2021, 2 refers to 2023 (or 2022 in case no data available for 2023). Data refer to interests before FISIM allocation. GHDI refers to gross household disposable income (B6G)
Source: Sectoral national accounts, Eurostat

The ECB distributional wealth accounts (DWA) suggest that most households in the euro area, including those in the bottom 50% of the wealth distribution, have net positive wealth positions when including non-financial assets. When considering only interest-bearing deposits, bonds and loans, the aggregate household position in the euro area is still positive. However, this is mostly driven by the top 30%, as the bottom 70% of the euro area population has a negative position. A majority of EU countries show a negative position for bottom 50% households (Graph 3). For these households, increases in interest rates are likely to have a negative impact on their incomes, even if that does not show up at the aggregate level. Unfortunately, no data are available on household interest payments by wealth decile in the DWA. At the euro area level, more than 50% of the households in the bottom 50% indicate that they are not able to save regularly. The highest proportion of households reporting this is found in Croatia, Cyprus, and Greece; and the lowest in Austria, Germany, and the Netherlands ([7]).

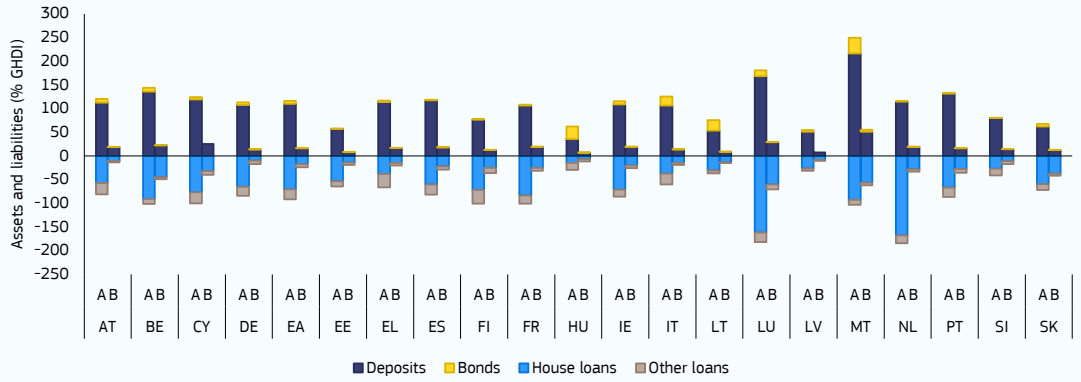
In conclusion, in the euro area and the European Union as a whole and in about half of EU countries net household interest income increased as interest rates rose. Net interest income decreased in countries with low deposit-to-debt ratios and with a high prevalence of variable rate mortgages. At the same time, the change in net interest income (in pps. of GHDI) remains relatively small at the aggregate level, with the largest decline observed in Finland, Latvia (around 2 pps. of GHDI) and Estonia (5 pps. of GHDI). At the same time, in these countries as well as in countries where the aggregate change in net interest income was smaller or positive, there could still have been a significant impact on households in the bottom 50% of the wealth distribution, who, besides having a lower deposit to debt ratio, are also less likely to have solid buffers to cope with income shocks. So far, only in a few countries (Luxembourg, Finland, Lithuania, Estonia and Sweden) notable upticks in non-performing loans (% total loans to households) (of at least 0.2 pps.) have been observed in 2023, and so far these changes remain below 1 pp. everywhere.

([5]) By late 2023, the gap between deposit rates (new business) and mortgage rates (outstanding loans) had risen to almost 4 pps. in ES, 5 pps. in PT, and 6 pps. in EE, LT, and LV.
([6]) In Belgium, interest payments on loans also decreased in 2022, contrary to expectations (provisional figures).
([7]) Source: 2021 ECB Household Finance and Consumption Survey (HFCS) data. The HFCS typically covers EA countries, and a few non-EA EU countries. The countries included in the HFCS are presented in Figure 4.

(Continued on the next page)

Box (continued)

Graph 3: **Household interest-bearing assets and liabilities, by country and wealth group**



(1) A refers to All households, B to households in the Bottom 50% of the wealth distribution (as % of aggregate GHDI). GHDI refers to gross household disposable income (B6G)
Source: ECB Distributional Wealth Accounts

Non-performing loans to households ticked up in 2023, although the countries with the largest incidence of non-performing loans continued to register a significant decline. Increases of more than 0.2 pps. in the proportion of non-performing loans out of total loans given out to households were observed in five Member States in 2023, all with a relatively high proportion of variable rate loans (or a legacy of a high incidence of such loans). In most of these countries, a further increase is observed towards 2024-Q2.

Countries with consolidated household (+NPISH) debt (in % of GDP) above 55% in 2023 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 consolidated household (+NPISH) credit flow (in % of debt stock in t-1) above 14% in 2023 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:

- **Denmark**, the **Netherlands**, and **Sweden** have very high household debt (above 70% of GDP in 2023), although debt ratios stand significantly below their pre-pandemic values. Household debt is particularly high when expressed as a proportion of gross disposable income (130-160%), in spite of significant reductions recently. Net interest payments have risen tangibly between 2021 and 2023 in Denmark and Sweden as a result of the high incidence of variable rate loans (interest fixation period of one year or less), which further increased in response to the rise in interest rates. In the Netherlands, risks for the household sector are compounded by the high debt service-to-income ratio for debt holders at the bottom of the income distribution ([48]). At the same time, gross savings rates remain high and stable in all three countries.

- **Luxembourg, Cyprus, Finland, France, Belgium,** and **Portugal** have high household debt (at or above 55% ([49]) but below 70% of GDP) in 2023. Debt ratios are expected to decline further in 2024. This means Luxembourg and France are projected to finally dip below their pre-pandemic

([48]) Based on 2021 HFCS data.

([49]) 55% GDP is the new threshold for the household debt headline indicator in the MIP scoreboard.

levels by 2024, something which already had happened in previous years in all other countries with (very) high debt levels at the outset. Luxembourg's debt ratio is very high when expressed as a proportion of gross disposable household income (almost 140% of GDHI). Risks to the household sector are exacerbated by the high share of variable interest rates in Cyprus, Finland, Luxembourg, and Portugal; the high median debt service-to-income ratio for Cyprus, France, and Luxembourg overall as well as for debt holders in the bottom quintile of the income distribution in Cyprus and Luxembourg, and by the low savings rate in Cyprus, which has deteriorated since 2019. In France, this risk is mitigated by the fact that the vast majority of mortgages have fixed rates. At 10%, Cyprus still has the highest proportion of non-performing loans among loans given out to households of all Member States.

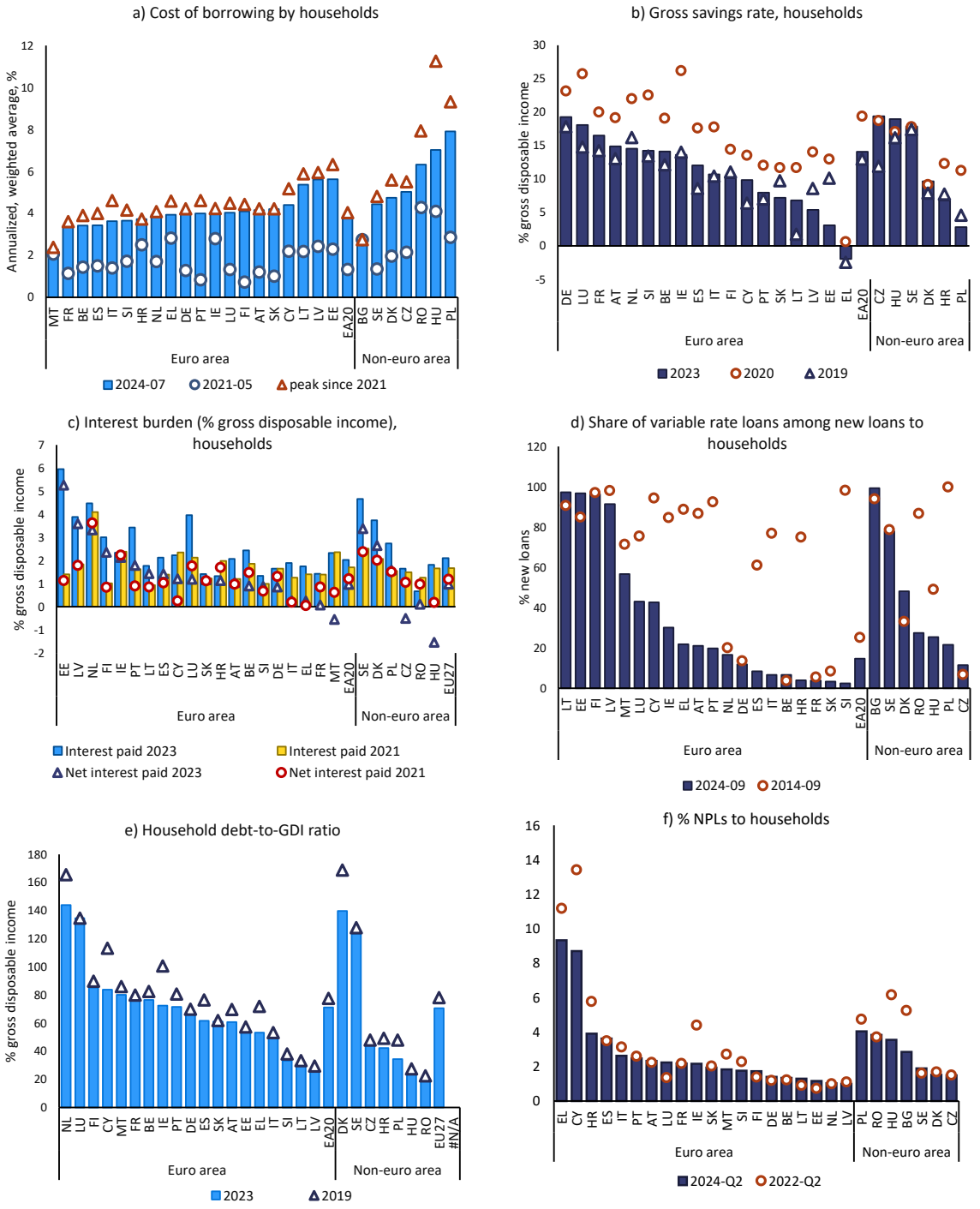
- **Malta, Germany, Spain, Austria, Slovakia, Greece, Italy,** and **Estonia** have moderate household debt stocks (between 35 and 55% of GDP in 2023). Slovakia's debt ratio remains above its 2019 level in 2023, but it is expected to dip below it in 2024. Risks to the household sector are compounded by the high share of variable rate loans in Estonia, Malta, Portugal, and Austria, the low savings rate in Greece, Estonia, Portugal, and Slovakia, ([50]) and the still high proportion of non-performing loans in Greece and, to a lower extent, Spain, despite recent improvements.

- The relatively high proportion of non-performing loans to households may also still be of concern for **Hungary, Croatia, Poland, Bulgaria,** and **Romania**, in spite of their relatively low household debt-to-GDP ratios (below 35%). In Bulgaria, credit flows remain buoyant ([51]) as the cost of borrowing has hardly increased over recent years, in contrast with other Member States, and the household debt-to-GDP ratio is set to increase by more than 1 ppt in 2024.

([50]) No data available for Malta.

([51]) Net credit flows to households stood at 16% of the 2022 debt stock in 2023, above the threshold of 14% in the revised MIP scoreboard.

Graph 3.21: **Selected graphs on household savings and debt**



(1) Panel (a): Cost of borrowing concerns new (+renegotiated) loans for house purchase by HH and NPISH. Source: ECB-MIR. (b): The gross savings rate is measured as a proportion of HH (+NPISH) gross disposable income, adjusted for changes in net equity in pension funds reserves. Source: Eurostat. (c): Net interest paid = interest paid – received. Source: ECB-QSA (D41G). (d): Variable rate loans are defined as loans with < 1 year fixation period and reflect new loans for house purchase. If 2024-09 data are missing, 2024-01 or 2024-04 data are shown. If 2014-09 data are missing, data for 2014-12 are shown. Source: ECB-RAI. (e) GDI is measured as adjusted gross household disposable income (B7G, GDHI adjusted for social transfers in kind). (f) NPLs are defined as HH gross non-performing loans and advances, % of total gross loans and advances to households. Source: ECB-CBD2.

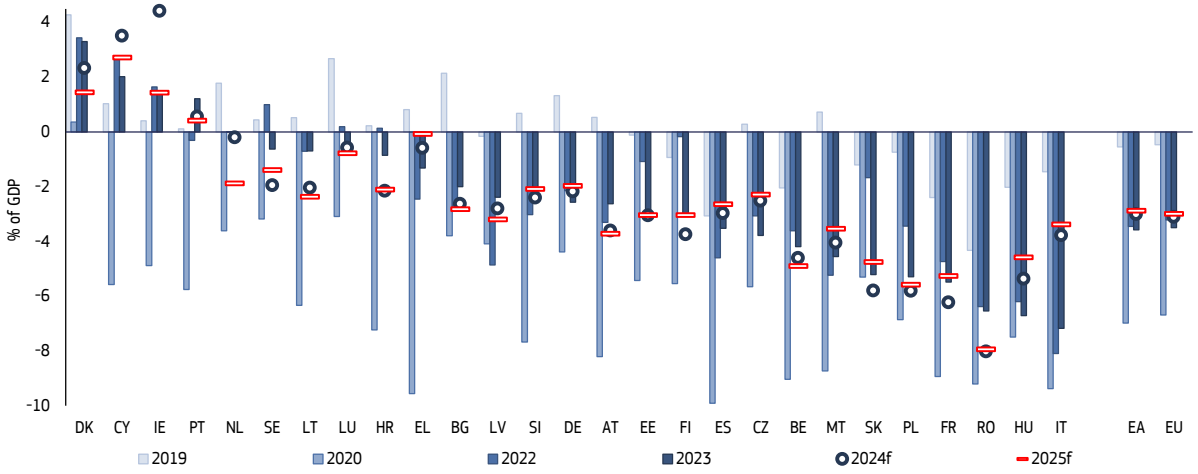
Source: ECB, Eurostat and European Commission calculations.

3.6. GOVERNMENT SECTOR

In 2023, government balances remained broadly stable overall – with some small improvements or deteriorations in some countries – contrasting with marked improvements in the two previous years. Government deficits were marginally larger in 2023 than in 2022 in several countries, including in some high-debt cases. This represents a change from the marked reductions in deficits that took place in 2021 and 2022, following the sizeable fiscal loosening of 2020 amid the COVID-19 crisis. In 2023, inflation, along with the further withdrawal of pandemic support measures and the receding costs of measures to tackle the energy crisis, helped strengthen public finances, but these were counterweighed by the impact of weak economic activity and revenue shortfalls ([52]). The withdrawal of support measures has not been completed, and current expenditure was higher in terms of GDP in 2023 than in 2019 ([53]). At the same time, interest expenditure rose, sometimes significantly. Public investment also increased in terms of GDP in nearly all EU countries in 2023 but after two years of some reductions.

Government balances are estimated to have improved in 2024, but with some deficits remaining elevated this year and next. In 2024, the estimated deficit reductions are principally the result of revenue windfalls and discretionary fiscal measures, while expenditure is projected to rise further, mostly on account of further rising interest expenditure. In 2025, the balances are expected to change less thanks to some restraint in fiscal stances but interest expenditure is set to keep rising, while investment increases too. At the same time, expenditure financed by RRF grants is set to accelerate further in several countries ([54]). In most EU countries, the budgetary positions are expected to be clearly worse in 2024 and 2025 than they were in 2019 (Graph 3.22).

Graph 3.22: **Government balances**



Countries are ranked in decreasing order of the government balance (in % of GDP) in 2023.
Source: Eurostat and European Commission forecasts.

([52]) European Commission, European Economic Forecast, Autumn 2024, Institutional Paper 296, November 2024.

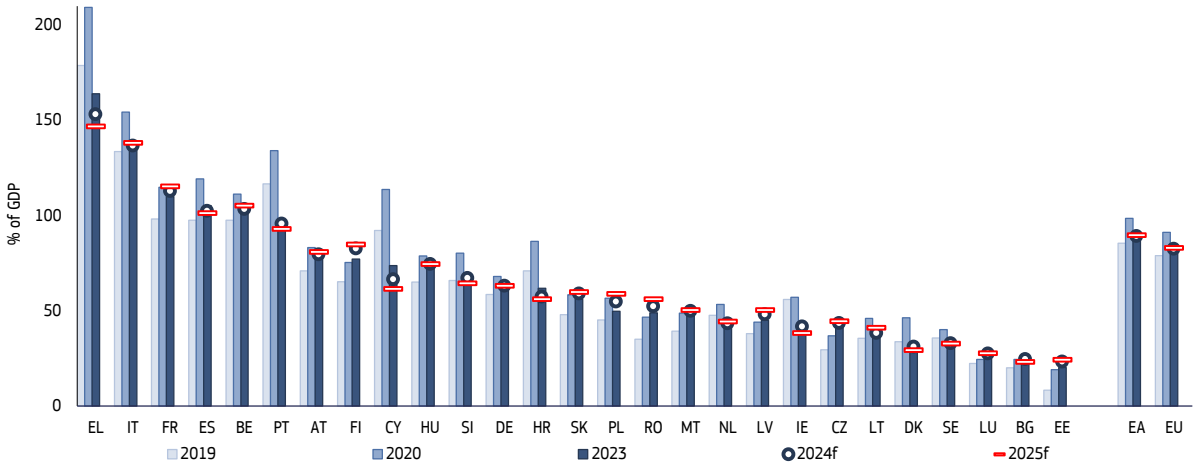
([53]) Cepparulo, A., C. McDonnell and V.E. Reitano (2024). "An Assessment of the Euro Area Fiscal Stance." European Commission (DG ECFIN), European Economy Economic Brief 080.

([54]) European Commission, European Economic Forecast, Autumn 2024, Institutional Paper 296, November 2024.

Government debt ratios decreased further across most of the EU in 2023, sometimes strongly, supported by nominal GDP growth, but in many cases they remain above pre-pandemic levels. In 2023, the government debt-to-GDP ratio decreased in most EU countries, with the euro area and EU aggregates declining by around two percentage points each (Graph 3.23). These decreases were mostly driven by inflation, while real GDP growth was weak. By contrast, primary deficits increased nominal debt levels in most countries (Graph 3.24.a). While falling for three consecutive years, government debt ratios remain above pre-pandemic levels in most Member States and in the euro area and the EU as a whole. At the same time, debt ratios edged up in some other countries in 2023, typically countries combining high deficits, muted or falling real GDP, and low debt ratios such that the passive deleveraging effect brought about by nominal GDP growth was small.

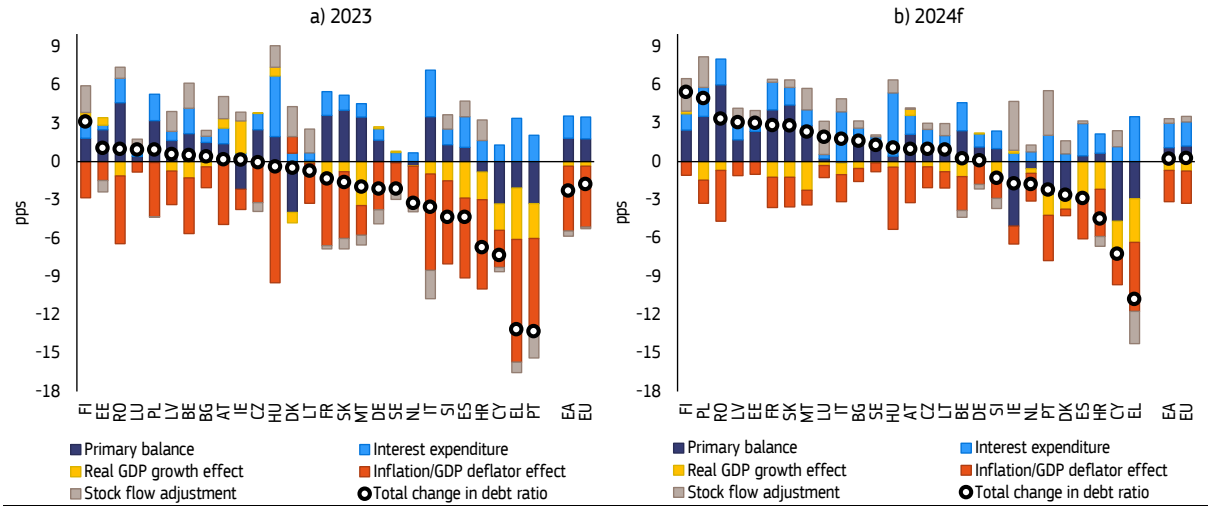
Government debt ratios are expected to broadly stabilise or even increase over 2024 and 2025, as sizeable deficits remain while inflation should recede further. A marked change in patterns is taking place as government debt is now forecast to either stabilise or even increase further in several Member States in 2024 and 2025 and sizeable falls in the debt ratios become less frequent. Passive deleveraging is becoming more limited reflecting the further slowdown in nominal GDP growth driven by falling inflation while real GDP growth remains low (Graph 3.24.b). As a consequence, budgetary positions are expected to be more determinant for the evolution of government debt ratios than they have been in recent years. In several cases, primary fiscal deficits are expected mostly to decrease but to remain sizeable. Whereas some of the most indebted countries with budgetary surpluses or close-to-balance positions should continue to deleverage, countries with higher deficits are forecast to display rising debt-to-GDP ratios, as the growth-interest rate differential becomes less favourable. Debt-increasing stock-flow adjustments are expected to be relevant in various cases too. Overall, in 2025, debt ratios are forecast to stay above their 2019 pre-pandemic levels in most of the euro area and the EU, sometimes by more than 10 percentage points; in some cases, debt ratios are expected to be even above their 2020 readings.

Graph 3.23: **Government debt**



Countries are ranked in decreasing order of the government debt (in % of GDP) in 2023. EU and euro area aggregates for government debt are presented on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility).
Source: Eurostat and European Commission forecasts.

Graph 3.24: **Drivers of the evolution of the government debt-to-GDP ratio**



Source: Eurostat and European Commission forecasts and calculations.

Financing conditions for euro area governments remained broadly stable in 2023, but eased for some higher debt countries. Following tighter monetary conditions, sovereign bond yields on long-term debt had increased across the euro area in 2022 from very low or even negative levels. In 2023, spreads declined for several of the highest debt cases, while declining less or remaining broadly stable in most other cases. In the course of 2024, there has been some volatility, in particular around June. However, that volatility appears to have been mostly short lived, such that yields and spreads vis-à-vis the best rated euro area sovereign debt, have not changed much for most euro area members since late 2023, even if declining somewhat in recent months, though not for all countries. Nonetheless, yields are clearly higher than before 2022 (Graph 3.25.c).

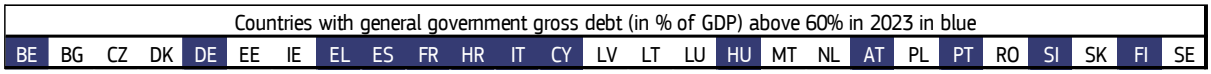
For a number of EU countries outside the euro area, interest rates on government bonds receded in 2023 before stabilising in 2024, but remain high, and borrowing in foreign currencies adds to the challenges. Outside the euro area, for those countries with lower ratings on their sovereign debt, yields on long-term government bonds and spreads vis-à-vis the best rated sovereign debt of the euro area, are now below the peaks of late 2022. Nonetheless, interest rates have generally not declined further in the course of 2024, and the costs of borrowing for these governments remain elevated (Graph 3.25.d). Some of these countries face additional risks as relatively large shares of their government debt are denominated in foreign currencies. This means that borrowing costs may be impacted by variations in exchange rates. For the EU countries outside the euro area with better sovereign debt ratings or a currency board vis-à-vis the euro, interest rates have been closely aligned with the best rated sovereign debt of the euro area.

Interest expenditure has been rising visibly and is expected to continue to do so as debt is rolled over at higher rates and deficits keep rising in some cases, but easing financing conditions should dampen those increases. The rise in interest rates has increased the cost of rolling over and issuing new debt. Increased rates will be passed through to average interest rates and to interest expenditure only gradually, as debts are rolled over. The more recent easing of financing conditions should limit those increases in the future though. The rise in interest spending is, and will continue to be, of course more marked in countries where debt is rising faster and where average debt maturities are shorter. On the positive side, for some EU countries, including a few with high debt, interest expenditure is still below the levels of the mid-2010s (Graph 3.25.e).

Favourable differentials between interest rate and nominal GDP growth have helped debt deleveraging in recent years but those tailwinds are vanishing. The marked recovery in GDP in 2021 and 2022 from the worst of the COVID-19 pandemic, together with the high inflation since 2022, has favoured the reduction of debt-to-GDP ratios. Despite their increase, interest rates remained well below nominal GDP growth, easing debt burdens. These effects are clearly diminishing as the interest rate-growth differentials are narrowing and may even reverse in coming years as inflation dynamics normalise further leading to lower nominal GDP growth, while average interest rates are increasing as debt is being rollover at higher rates. The 'snowball' effect, i.e. the fact that the average interest rate exceeds nominal GDP growth, might re-emerge, making debt deleveraging more challenging. This is particularly a concern for countries where debt is high and potential GDP growth low. Those risks might be mitigated thanks to longer debt maturities, stable financing sources, and by borrowing costs that are still below longer-term averages. Nonetheless, improving government debt sustainability should rely on sound budgetary policies and on effective reforms and investment that support potential economic growth.

Borrowing needs remain significant and are increasing in several cases, risking making fiscal policy more dependent on financial conditions. In 2023, governments' gross financing increased in several EU countries (Graph 3.25.b). Gross financing needs are above the pre-pandemic levels in most EU countries and are not expected to decline much this year and next, particularly in countries where they are higher; these are typically countries marked by both high debt and deficit levels, and those with debt structures with low average maturity. Financing needs are increasing for countries with more limited debt but continued high deficits. High financing needs are a risk factor, and can act as a constraint on fiscal policy, as the government's room for manoeuvre is more dependent on financial conditions.

Government contingent liabilities continue being significant and reflect risks of interlinkages between corporate, banking, and government sectors. Government contingent liabilities increased significantly after the outbreak of the COVID-19 pandemic due to the credit guarantees granted by many governments to the private sector. These were principally aimed at non-financial corporations to mitigate the impact of the pandemic and of the lockdowns to contain it. The banking sector typically intermediated in the granting of those credit guarantees. This resulted in potential feedback loops between the corporate, banking, and government sectors, and fiscal costs can materialise if the guarantees are called. The size of those guarantees has not declined in all countries; in a few cases where the guarantees were already significant, they increased further in 2023. In some countries, guarantees amount to over 10% of GDP, including in countries with already high government debt (Graph 3.25.f).



At country level, the following developments are worth highlighting:

- At the end of 2023, the government debt-to-GDP ratios were above 60% in **Austria, Croatia, Cyprus, Finland, Germany, Hungary, Portugal**, and **Slovenia**, and above 100% in **Greece, Italy, France, Spain**, and **Belgium**. The debt-to-GDP ratios decreased in all these thirteen Member States in 2023, except in Austria, Belgium and Finland.

- Government debt has been above 100% of GDP and is not forecast to decline in **Italy, France**, and **Belgium**. In 2023, debt declined in the case of Italy and to a lesser extent in France too, whereas it increased in Belgium. In France and Belgium, debt ratios have not reduced substantially from their 2020 peaks. Debt is forecast to edge upwards in all three countries in 2024 and 2025; in France, it is forecast to exceed its 2020 peak. High government deficits have been recorded and they are expected to reach 6.2% of GDP in France, 4.6% in Belgium, and

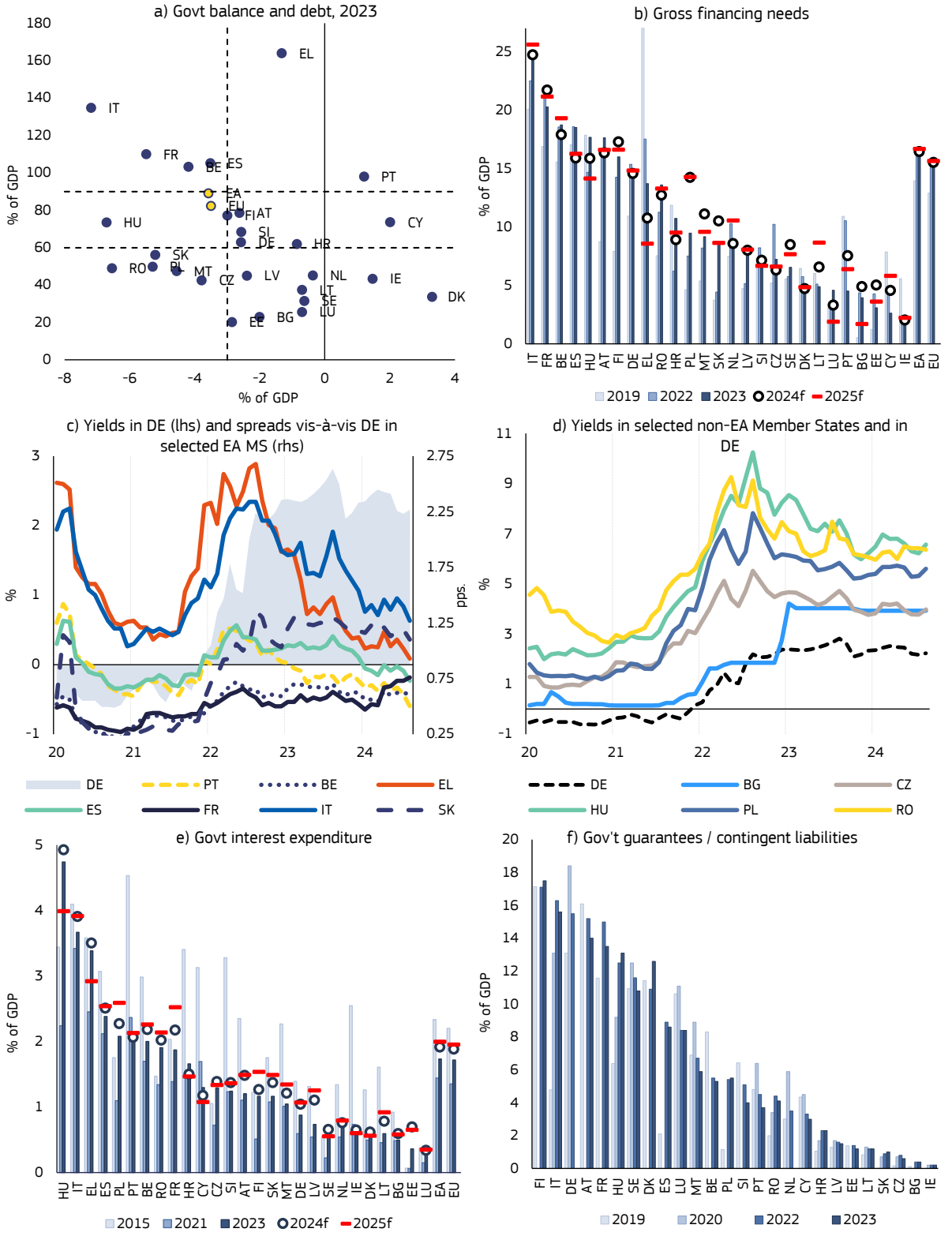
3.8% in Italy in 2024 and to remain above 3% of GDP in all cases in 2025. The slowdown in GDP growth, which in these countries has been below the euro area average, is giving less relief to the debt ratios. Gross financing needs are sizeable for all these countries. Spreads vis-à-vis the best rated euro area sovereign debt were somewhat volatile recently, and increased for France; for Italy, spreads have fallen from the late 2022 highs yet remain among the highest in the euro area. All these Member States are subject to an excessive deficit procedure (EDP) under the Stability and Growth Pact (SGP).

- Government debt has been high but falling in **Greece, Spain**, and **Portugal** against a backdrop of high GDP growth, and tightened fiscal policy in the cases of Greece and Portugal. Greece continues to record the highest government debt ratio in the EU at well above 100% of GDP but it has been declining fast and is forecast to fall further with limited government deficits, which reached 1.3% of GDP in 2023. In Spain, deficits have been higher, at 3.5% of GDP last year, and have prevented a faster debt reduction, which is above 100% of GDP. Portugal's government debt fell to just below 100% of GDP in 2023, helped by a surplus and debt is forecast to continue falling visibly. Gross financing needs have been sizeable for Spain but clearly lower and declining for Greece and Portugal. Spreads vis-à-vis the best rated euro area sovereign debt have narrowed for Greece, and to a lesser extent Portugal too, but from already lower levels.

- **Hungary, Poland, Romania**, and **Slovakia** are marked by high government deficits, debt ratios that are edging up, and high borrowing costs. In Hungary, government debt is above 60% of GDP and is forecast not to recede this year or next; in the three other countries, debt is below 60% of GDP but is expected to increase in 2024 and 2025 despite the high nominal GDP growth. In these countries, large government deficits have been recorded and are expected to worsen in 2024 in all these cases bar Hungary as well as forecast to continue being visibly above 3% of GDP in the future in all these countries. Debt denominated in foreign currencies is relevant for Romania, accounting for just over 50% of government debt, and to Hungary and Poland too (some 30% and 24%, respectively). Government gross financing needs have increased recently in Poland, Romania, and Slovakia. Yields on Slovakia's government bonds have since 2023 become among the highest in the euro area. Borrowing costs in the other cases have been stable in 2024 after declining from their peaks of late 2022 yet remaining the highest in the EU. All these Member States are subject to an EDP under the SGP.

- In **Austria, Croatia, Cyprus, Finland, Germany**, and **Slovenia**, government debt exceeds 60% of GDP, and it declined in all these Member States bar Finland and to a lesser extent Austria in 2023. Reductions of government debt-to-GDP ratios have been particularly marked in Cyprus and Croatia against a backdrop of high GDP growth since 2021. Apart from Cyprus, where the budget balance continues to be in surplus, all these countries have had government deficits below 3% of GDP, in some cases hovering around that mark. In Austria and Finland, the deficit is expected to worsen and surpass 3% of GDP in 2024, which together with recessions in 2023 and 2024, have been leading to those rising debt ratios, which are forecast to persist. In the case of Austria, the deficit is expected to remain above 3% of GDP in 2025. This November, the Commission communicated that it will consider proposing to the Council to open an EDP under the SGP for Austria.

Graph 3.25: **Selected graphs on the government sector**



Panels b) and e): countries are ranked in decreasing order of gross financing needs (panel b) and government interest expenditure (panel e) in 2023. Panel f): Countries are ranked in decreasing order of government guarantees / contingent liabilities in 2022. Panel b): the reading of EL for 2019 was 34.3% of GDP.

Source: Eurostat and European Commission forecasts and calculations.

3.7. FINANCIAL SECTOR

The EU banking sector performed well in 2023, benefitting from net interest income and still low NPLs amid very muted credit growth. Over 2023, the financial system was mainly marked by the effect of high interest rates and persistent inflation. This led, on one hand, to a significant increase in interest rate margins. On the other hand, this has further contributed to downward pressure on asset valuations, particularly for fixed-income assets and real estate held by banks and other financial institutions, as higher interest rates reduced their present value and increased the cost of holding these assets The return on equity (RoE), at around 10% in 2023, was close to historic heights, especially for large banks or banks relying on deposit funding ([55]). After a mild decline in 2022, the Common Equity Tier 1 (CET1) ratio of EU banks increased again in 2023 and is at record heights above 17% for large banks and slightly below 16% overall (Graph 3.26.a and Graph 3.28.a). Non-performing loans (NPLs) remained stable around 2.3% until the end of 2023 when they started to mildly increase (Graph 3.26.b), especially for NFCs in some Member States. This seems to be to a large extent driven by commercial real estate correction but also worsening cyclical conditions. The valuations of EU banks increased since mid-2023 as part of the overall equity increase in view of expected interest rate cuts. Credit growth remained subdued in 2023 in the euro area in face of persistently high lending rates for households and NFCs (Graph 3.28.c, d) and tight credit conditions. Household and corporate credit remained rather dynamic in some non-EA countries ([56]). According to the Bank Lending Survey of the euro area, lending standards for both households and enterprises tightened in 2023 amid a notable decline in the demand for loans from both households and firms amid high interest rates ([57]).

The significant increase in banking profitability in 2023 was driven mainly by the increase in the interest rate margin. EU banks' profitability significantly increased in 2023 amid the high-interest rate environment. As a result of the monetary policy tightening that started in 2021 in some non-euro area countries and in July 2022 in the euro area, the increase in lending rates outpaced the increase in deposit rates in 2023 (Graph 3.28.b). This is consistent with the existing evidence (see Graph 2 in Box Section 3.2) suggesting that interest rate pass-through to deposit rates is slower than to lending rates, and in the short-term is rather incomplete. In addition, recent empirical evidence ([58]) suggests that the interest rate pass-through in the post-pandemic hiking cycle was in general weaker and slower than in the past. The degree of pass-through also varied considerably across the EU, even within the euro area countries, amid differences in bank funding structures, competition, or the prevalence of fixed versus variable-rate loans. The net interest margins were in general higher in non-euro area countries, where monetary tightening started earlier and where the banking sectors largely rely on deposit funding. Besides the interest rate margins, the profitability of the EU banks in 2023 was also driven by a growth in fee income, higher returns from hedging strategies, and lower contributions to resolution and deposit guarantee funds. In some countries, the profitability was negatively affected by government interventions aimed at supporting credit provision by targeted interest rate caps borne by the banking sector and by windfall taxes on the banking sector.

The resilience of the EU banking sector has continued into 2024; profitability remains high but there are signs of asset quality deterioration. In the second quarter of 2024, the EU

([55]) EBA Risk Dashboard, 2023-Q4.

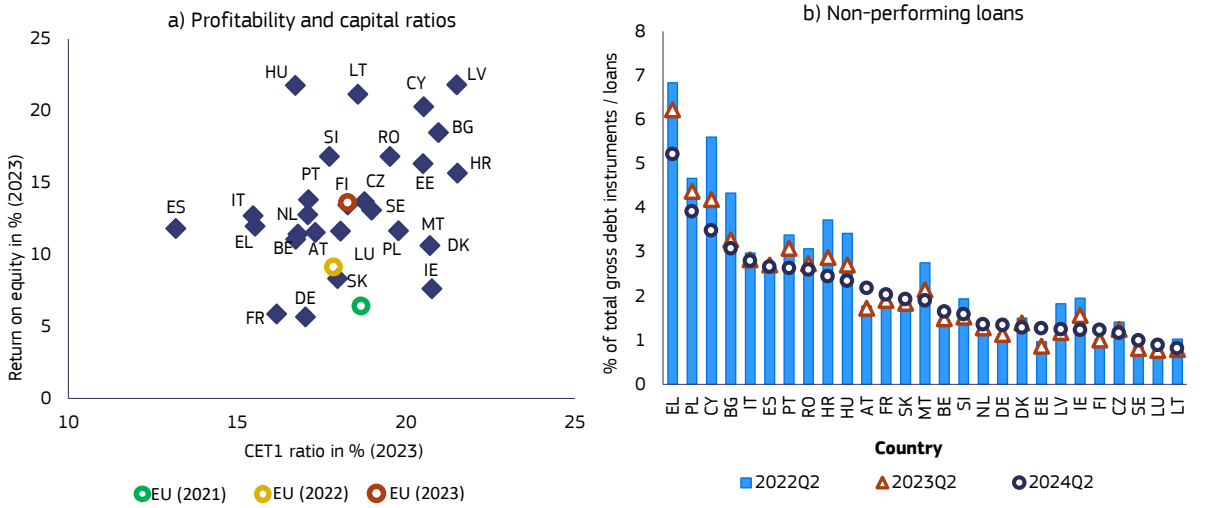
([56]) ECB Financial Stability Review, May 2023, EBA Risk Dashboard, 2022-Q4, April 2023.

([57]) ECB Euro area Bank Lending Survey, First quarter of 2023, Second quarter of 2023, Third quarter of 2023.

([58]) Robert Beyer, Ruo Chen, Claire Li, Florian Misch, Ezgi O. Ozturk, and Lev Ratnovski, 2024, "Monetary Policy Pass-Through to Interest Rates: Stylized Facts from 30 European Countries", IMF WP 24/9.

banking sector profitability remained high, with return on equity of large banks at 10.9%, as loan loss provisions stayed low and interest rate margins remained wide despite declining volumes of new loans. After a long period of flatness, in mid-2023 the euro yield curve got inverted, ([59]); although this is commonly interpreted as sign of an expected recession, in this case it may rather reflect the persistent dampening impact of the previous ECB asset purchases on long-term rates. The banking sector also remained well capitalised with the Tier-1 Capital ratio of large EU banks at 17.5% ([60]). The credit dynamics in the euro area started to recover marginally in the first half of 2024 with a mild decrease in bank lending rates. Lending standards remained tight and are expected to keep the credit dynamics during the whole year very muted. Overall, the demand for credit from households seems to be recovering amid easing of credit standards, while recovery of credit for enterprises is still to come as credit standards have not started to ease yet and investment activity contracted in 2024 ([61]). The gradual decline in the loan-to-deposit margin is expected to reduce banks' profitability in the future. NPLs started to mildly increase in Member States where they have attained low levels, whereas the outflow exceeded the inflow in countries with higher legacy NPLs. The share of Stage 2 loans and the number of corporate insolvencies have slightly increased. This is particularly the case for small firms and firms in some sectors, like real estate, and points to further increases in NPLs going forward.

Graph 3.26: **Banking sector: profitability, capital ratios and non-performing loans**



(1) The Common Equity Tier 1 (CET1) ratio encompasses ordinary shares and retained earnings. CET1 ratio and return on equity are average of quarterly data over the year. The average value for the EU is unweighted by the economy size.
Source: ECB Consolidated Banking Data and European Commission.

High debt service costs coupled with subdued economic growth represent a challenge for many debtors and increase financial stability risks. A prolonged period of low growth coupled with higher interest rates can induce stress in the balance sheets of households and firms. Low-income households, households with floating rates mortgages, and firms in interest-rate sensitive sectors are particularly vulnerable. Real estate firms are also affected by the correction in real estate markets. While this correction has so far been rather orderly in the case of residential real estate, which some banking systems in the EU are significantly exposed to (Graph 3.28.e), some segments of commercial real estate have experienced significant corrections. This increases credit risks for some banks and non-banks. The exposure of the financial sector to domestic sovereign

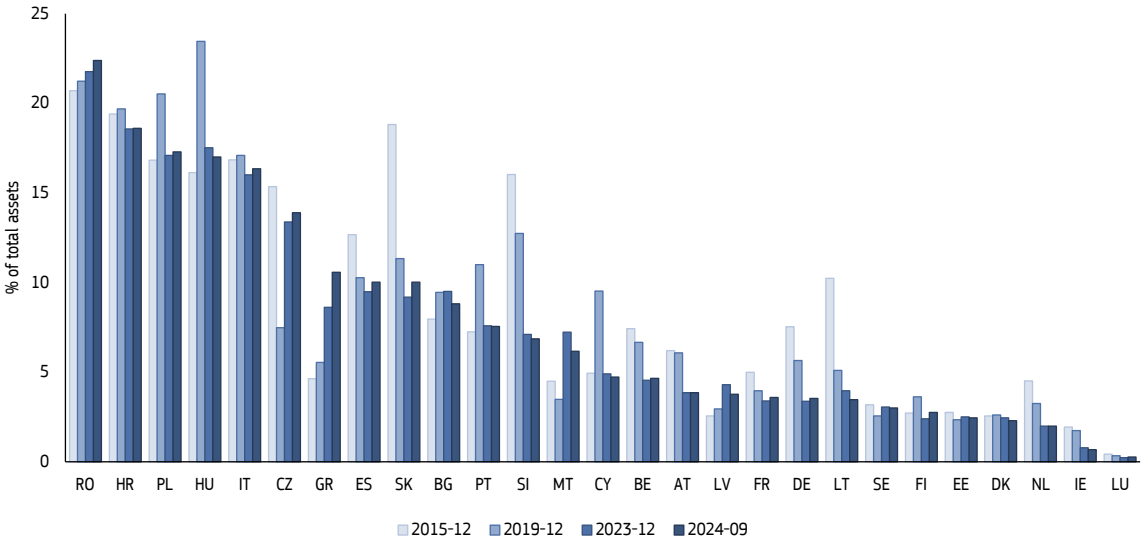
([59]) The yield curve slope is the difference between the yield of long-term and short-terms yield bonds and is commonly positive amid presence of time premium for holding assets with longer maturities. Since mid-2023, the euro area 10-year government bonds offer lower yields than two-year ones.

([60]) EBA Risk Dashboard, 2024-Q2.

([61]) European Economic Forecast (Autumn 2024), Institutional Paper, No 296, European Commission, pp. 3-4, 24-26.

debt has decreased mildly for some Member States, while it has increased for others. Several Member States remain subject to significant home bias (Graph 3.27) ([62]), which increases risks of feedback loops in those that are highly indebted (see Section 3.6. on government sector). Banking sectors that have a strong domestic bias tend to be more exposed to changes in their home country's fiscal and economic conditions. In mid-2024, sovereign bond pressures increased overall financial market volatility, though this volatility has gradually faded away in the second half of 2024.

Graph 3.27: **Domestic sovereign debt (loans and bonds) holdings of banks**



(1) Loans vis-a-vis domestic general government reported by MFIs and holdings of debt securities issued by domestic general government reported by MFIs, divided by total assets/liabilities reported by MFIs.
Source: ECB Balance Sheet Items.

The non-bank financial sector is challenged by tightened financing conditions, increasing credit risks, and risks of disorderly asset price corrections, and is a source of risk due to its interlinkages with the financial sector. The increasing relevance of non-bank financial institutions (NBFIs), which are less regulated than banks, represents a source of potential systemic risk ([63]). The investment fund sector has significantly increased in the EU over the last decade, but in the last two years it has experienced stagnation, and real estate investment funds have even experienced capital outflows. Unlike the US funds, the funds in the EU have been closely interconnected with other financial institutions, including banks. In some cases, their portfolios have significant overlaps with other institutional investors ([64]). In the last year, investment funds shifted towards safer assets, though with increasing concentration and exposure to the US ([65]). Unmitigated liquidity mismatch remains the main structural risk for open-ended investment funds ([66]) but assessing this risk remains challenging due to the lack of reliable and comprehensive

([62]) The data for the euro area countries suggest that MFIs' exposures to non-domestic sovereigns are very limited compared to those to domestic sovereigns. The exposure of all sovereign debt holding for the euro area aggregate is 6.5% as of 9/2024.

([63]) In the third quarter of 2023, NBFIs accounted for roughly EUR 42.9 trillion (41% of EU's total financial assets), while banks' assets accounted for roughly EUR 38 trillion (36% of EU's total financial assets). In May 2024, the Commission launched a consultation on macroprudential policies for Non-Bank Financial Intermediation.

([64]) ESRB EU Non-bank Financial Intermediation Risk Monitor, No. 9, June 2024.

([65]) ECB Financial Stability Review, May 2024.

([66]) The use of open-ended investment funds has been growing in recent years, driven by investor demand for flexibility and liquidity. They represent over 50% of investment funds in some EU countries including France and Germany. Open-ended funds do not have a fixed amount of capital, and the fund's size can change as investors buy and sell shares. Funds investing to illiquid assets such as real estate or high-yield bonds are more prone to liquidity mismatch.

metrics ([67]). The EU insurers remain resilient, with solvency ratios well above 200%; they experienced increasing returns in 2023 in part due to higher interest rates ([68]). The correction of real estate markets represents a challenge for some NBFIs, which may in turn contribute to a disorderly market correction. Implied volatility in equity markets has been low in 2024, which, alongside the compression of risk premia, contributed to additional risk-taking. Crypto assets and their trading platforms are of increasing relevance for overall financial stability. Since mid-2023, the crypto market has expanded, with a further boost from the spot Bitcoin exchange-traded funds (ETF) approval in the US in January 2024. Whereas the size of the crypto market and its link to banks remain limited and as such does not pose a systemic risk yet, there is an increasing interconnectedness with traditional markets that requires regulatory scrutiny ([69]).

The downturn of some segments of commercial real estate (CRE) market continues, with NPLs linked to CRE companies starting to increase. The CRE market sentiment remains low globally and confidence in the EU construction sector has been declining. CRE transactions in the EU did not significantly recover in 2024, after the decline recorded in the previous two years, which was most pronounced in the non-prime office sector. A significant contributor has been the outflow from investment funds investing in CRE. The profitability of CRE firms has been significantly hampered by a decline in rental income and increases in capital expenditure and funding costs. The low volume of transactions has contributed to driving down CRE prices, but also masks the extent of the price correction. While the overall exposure of the EU banking sector to the CRE has been far smaller compared to RRE ([70]), it has been non-negligible in some Member States, and a handful of EBA-supervised banks have exposure to CRE amounting to a multiple of their capital ([71]). Most of these exposures are domestic and within the EU, with only limited exposure to the US CRE market, which is subject to a significant downturn amid larger size and higher vacancy rates than in the EU. The decline in CRE prices has been linked to net NPL inflows in 2023, though this inflow has been limited. While most CRE loans have loan-to-value ratios below 60%, the limited liquidity of CRE investments may induce significant price reductions and valuation losses. There are significant linkages between banks and NBFIs exposed to CRE, such as real estate investment funds, but the assessment of risks is still subject to significant data gaps, and reliable prices indices are not available for some Member States.

In the recent years, the financial sector has been subject to new risks, whose quantitative impact is not easy to assess. Cyber threats represent an increasing risk for financial stability as financial institutions are subject to more frequent cyberattacks, with increasing incurred losses over the last decade ([72]). The rise of artificial intelligence (AI) represents an opportunity for the financial sector, but it has also amplified the risk of more sophisticated AI-driven cyberattacks ([73]). The ESRB encourages financial institutions and authorities to improve their information management and information-sharing efforts with national and EU-level crisis

([67]) The European Commission outlined some indicators to be considered. The Financial Stability Board (FSB) is working on enhancing the toolkit and the reviews of the AIFMD and UCITS frameworks have introduced mandatory liquidity management tools aimed at mitigating the risks posed by these mismatches.

([68]) EIOPA EU Non-bank Financial Intermediation Risk Monitor, No. 9, June 2024.

([69]) Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 (OJ L 150, 9.6.2023, p. 40) entered into force at the end of June 2023 and will be applicable in its entirety by the end of 2024.

([70]) CRE loans remain a relatively small part of banks' loan books, accounting for only around 8% of the total loans granted by EU significant institutions in 2023-Q4.

([71]) EBA supervisory data.

([72]) IMF, GFSR, April 2024

([73]) The European Central Bank (ECB) conducts a cyber resilience stress test on 109 directly supervised banks in 2024. The exercise assesses how banks respond to and recover from a cyberattack, rather than their ability to prevent it.

management and coordination practices in line with European and international standards ([74]). Losses from natural disasters represented an increasing burden for insurance companies in 2023, but the share of uninsured losses related to natural disasters has increased as well. The increasing climate risks induce risks for other financial institutions with direct exposure to affected households and NFCs. Climate risks seem to be already contributing to the tightening of financing conditions in the euro area ([75]). The European corporate bond market increasingly reflects climate transition risks, with a consistently rising carbon premium since 2020. Higher carbon emissions are associated with higher bond yield spreads. In Europe, sustainable bonds play an important role for NFCs, with around one-quarter of bonds issued during 2019-2023 qualifying as sustainable bonds ([76]). Last but not least, an escalation of geopolitical tensions can lead to trade and value-chain disruptions, higher commodity prices, and increased uncertainty, and risk aversion may contribute to a flight-to-safety, causing volatility on financial markets.

At country level, the following developments are worth highlighting:

- Financial systems in **Cyprus** and **Greece** have significantly decreased their vulnerabilities in recent years, but concerns remain. While the NPL ratio of the banking sector decreased further in both countries even in 2023, risks have largely migrated to the non-bank financial sector and, to a lesser extent, to the government, and so still have the capacity to weigh on the economy. The NPL ratio of the banking sector remains above the EU average ([77]). The Stage 2 loans ratio and forbearance of the Greek banking sector are also high. While the capitalisation of the banking sector remained below the EU average and profitability close to the EU average in Greece, both profitability and capitalisation increased in 2023 in Cyprus to one of the highest levels in the EU, putting the Cypriot financial sector on much stronger footing. However, its high exposure to commercial real estate represents a source of risk.

- Banks in **Italy** and **Portugal** have significantly decreased their NPLs in previous years, but despite some progress in 2023, their NPL ratios remains above the EU average. While capitalisation is close to the EU average in the case of Portugal, it remained below it for Italy. Profitability has significantly increased, approaching the EU average for both countries. Strong exposure to the domestic sovereign, coupled with a high level of sovereign indebtedness, remains a risk for banks in Italy.

- The banking sectors in **Germany** and **France** feature relatively low profitability. Both banking systems, particularly in Germany, have large exposures to both residential and commercial real estate, which are subject to correction and have been behind the marginal increase in NPLs in 2023. Relatively low capitalisation is also a feature of the banking sector in **Spain**; while its profitability is close to the EU average, the NPL ratio remains above it.

- Relatively high exposures of banks to real estate can be found in **Luxembourg** and **the Netherlands,** where banks are well capitalised and profitable. Vulnerabilities related to the non-banking financial sector are sizeable in view of the general adjustment of asset prices. This is particularly the case in Luxembourg, which has a very large investment funds sector that also features large cross-border exposures.

([74]) ESRB Advancing macroprudential tools for cyber resilience – Operational policy tools, April 2024.

([75]) ECB Economic Bulletin, Issue 5, July 2024.

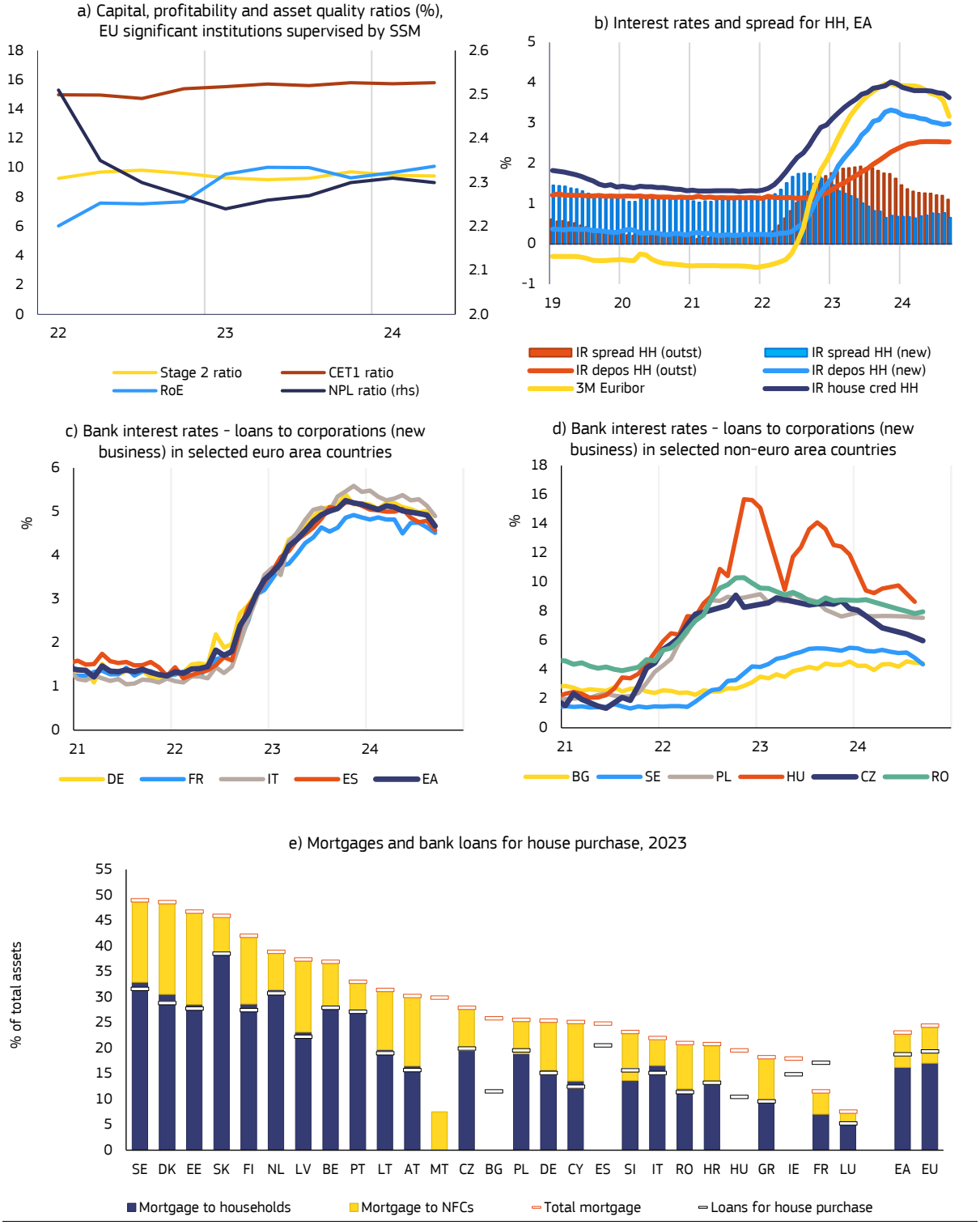
([76]) OECD (2024), Global Debt Report 2024: "Bond Markets in a High-Debt Environment", OECD Publishing, Paris, EIB (2024), EIB Investment Report 2023/2024: Transforming for competitiveness.

([77]) The average values for the EU mentioned in this section are unweighted by the economy size.

- The banks in **Denmark, Finland** and **Sweden** have strong exposure to both residential and commercial real estate. While the price correction has slowed down, some credit quality deterioration is expected. However, the banks are very well capitalised. They increased their net interest rate income amid a large share of floating rate mortgages. At the same time, floating rate mortgages pose risks for the borrowing and repayment capacity of households. Relatively high exposure to commercial real estate can be found also in **Estonia, Latvia** and **Slovakia**.

- **Bulgaria**, **Croatia**, **Hungary**, **Poland** and **Romania** still feature relatively high NPL ratios, especially in Poland, and Stage 2 loans, but the banks in these countries are well capitalised and profitable, notably in Bulgaria and Romania. Bulgaria has also featured very dynamic credit growth amid favourable credit conditions, which have also contributed to increasing exposure towards commercial real estate. Relatively high exposure of banks to domestic sovereign in most of these countries represents a potential source of risk. The banking sector of **Austria** is exposed to some of the former countries, but its exposure to Russia represents the most severe potential risk.

Graph 3.28: **Selected graphs on financial sector**



Source: Eurostat, ECB and European Commission calculations.

4. COUNTRY SECTIONS

BELGIUM

Belgium continues to be affected by unfavourable developments related to cost competitiveness and government debt. The growth in unit labour costs has been above the euro area average and Belgium has lost export market shares against other advanced economies. The government deficit widened, and government debt increased further last year. Household debt and corporate debt ratios remain high but have continued to decline and the associated macroeconomic risks appear limited.

Real GDP growth reached 1.3% in 2023 and is forecast at 1.1% in 2024 and 1.2% in 2025. Headline inflation was well below the euro area average in 2023 (2.3% vs 5.4%) but rebounded strongly in 2024, driven by energy base effects linked to the phase out of the government measures to mitigate the impact of high energy prices ([78]). It is forecast to stand at 4.4% in 2024. Core inflation ([79]) was above the euro area average in 2023 and is expected to remain above it in 2024. The unemployment rate stood at 5.5% in 2023, close to historical lows, and it is expected to remain broadly unchanged in 2024 and 2025.

The scoreboard reading for Belgium shows that five indicators were beyond their indicative thresholds in 2023, namely the export performance against advanced economies, unit labour costs, household debt, NFC debt, and government debt. Relevant developments worth highlighting:

- **External sustainability** indicators remained stable in 2023, with a slight current account deficit at 0.7% and a high but broadly stable net international investment position (NIIP). The current account is expected to move to a modest surplus in 2024.

- **Cost competitiveness** developments reflect the slow moderation of high inflation and high wage growth. ULC grew more than in the euro area in 2023 driven by increases in nominal wages, which are automatically adjusted to the evolution of past inflation. The HICP-based REER remained stable in 2023, as nominal exchange rate appreciations were offset by positive outcomes in inflation differentials. Nevertheless, it has appreciated in 2024 due to unfavourable inflation differentials. In parallel, Belgium's export performance compared with advanced economies recently deteriorated, dropping by 6.0% in 2023 on a 3-year average basis.

- **Corporate debt** remains high, but the corporate debt-to-GDP ratio has decreased considerably since 2016. It declined from 103.7% in 2022 to 96.4% in 2023, reaching its lowest level since 2007. Deleveraging in 2023 was exclusively driven by a reduction in FDI debt, while debt excluding FDI relative to GDP increased slightly ([80]). Belgian NFCs' interest coverage ratios are

([78]) The last effect of the so-called "basic package" for electricity and natural gas disappeared from the price index in March. The phase out of the package will have an upward inflation up to February 2025 (see here).

([79]) HICP inflation excluding energy, food, alcohol and tobacco.

([80]) Distinguishing between FDI and non-FDI debt instruments is important as FDI debt differs from non-FDI debt, among others, in the impact it has on the debtor's economy. In 2023, in the EU around 28% of total NFC debt-to-GDP can be

among the lowest in the euro area and fell further throughout 2023 on account of high interest payments ([81]). Corporate financial vulnerabilities increased during 2023, mainly due to weak activity and a deterioration in debt service capacity, whereas profitability indicators remained resilient. Despite an increase in risk, overall financial risks remain contained when compared to periods that severely tested corporate financial stability such as the great financial crisis, the sovereign debt crisis, or the COVID-19 pandemic.

- **Household debt** has declined at a moderate pace. The household debt-to-GDP ratio remains high but declined further in 2023, reaching 57%. This is its lowest level since 2013. The debt ratio is expected to decline further in 2024, while remaining above the MIP threshold of 55%. The cost of borrowing peaked in 2023 at a relatively moderate level compared to other EU countries and has been decreasing slowly since then. Due to the high share of fixed rate mortgages, households' interest payments are less sensitive to changes in the interest rate.

- **Housing market** dynamics remain contained. House prices are estimated to be slightly overvalued by 10-15%. However, house price growth was moderate in 2023, at 2.3%, after growing 6.7% and 5.5% in 2021 and 2022, respectively. The growth rate of house prices over the last two years was, however, below inflation ([82]). In 2024, the moderation continues with house prices growing by 3.4% in 2024-Q2, year-on-year. House prices have been increasing broadly in line with household income for several years. The market adjusted to the higher level of interest rates since mid-2022 through a significantly lower number of transactions. Accordingly, supply of housing is expected to be lower, as building permits decreased by 12.1% and 7.2% in 2022 and 2023, respectively. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Belgium was subject to medium risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation ([83]).

- **Government debt** is high and is increasing as a result of large deficits. Government debt edged up to 103.1% of GDP in 2023. Despite strong nominal GDP growth since 2020, it is still some 6 pps. above its 2019 pre-COVID-19 level. It is forecast to increase in 2024 and 2025. The government deficit remains high and worsened in 2023 to 4.2% of GDP and it is not forecast to improve this year or next. Gross financing needs are above the euro area average on account of the high debt and deficits. The average maturity is among the highest in the euro area, which slows down the pass-through of higher interest rates into the rapidly increasing interest payments. Yields on Belgian sovereign bonds have been overall stable in comparison with the best rated euro area sovereign debt. An excessive deficit procedure has been opened for Belgium this July. Fiscal sustainability risks are high both in the medium and long term ([84]).

- The **financial sector** remains sound. In 2023, the Common Equity Tier 1 capital ratio was close to the EU average, profitability increased, and the NPL ratio remained low. Stage 2 loans significantly declined in 2023 but remain high. Credit dynamics slowed down significantly in 2023 following a tightening of financial conditions and credit growth remains muted in 2024.

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attributed to FDI, but the importance of FDI debt across the EU varies considerably ranging from below 10% in Greece to close to or above 50% in Ireland or Romania.

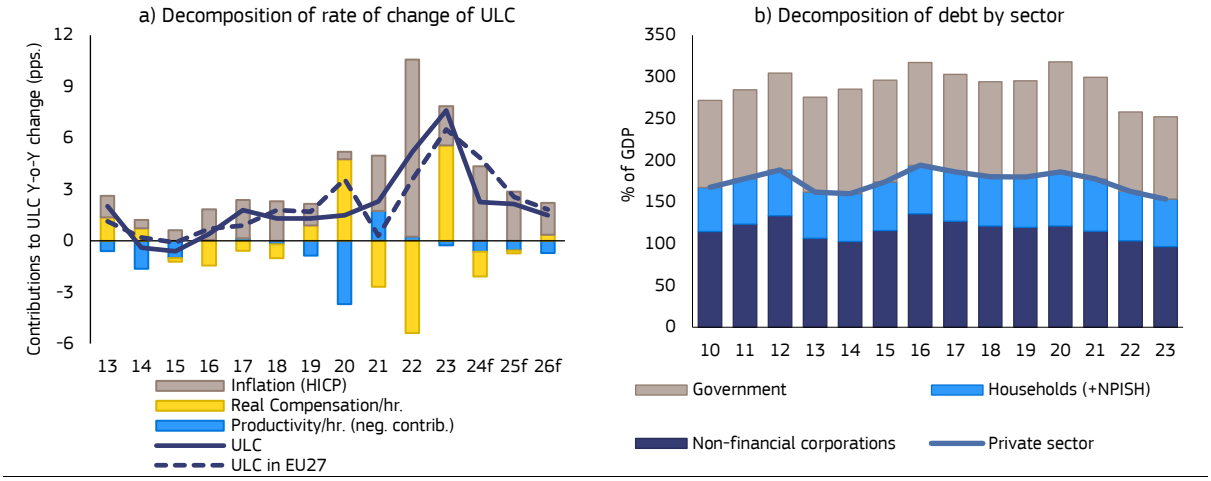
([81]) The interest coverage ratio is a measure of the ability of the nonfinancial corporate sector to pay the interest on its outstanding debt (European Central Bank (2022), Financial Stability Review, November 2022). The ratio is defined as the ratio of gross operating surplus to gross interest payments before the allocation of financial intermediation services indirectly measured (FISIM).

([82]) Measured as the private consumption deflator.

([83]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([84]) Estimated based on the Commission's 2024 spring forecast.

Graph 4.1: **Selected graphs: Belgium**



(1) (b): Consolidated debt, including loans and debt securities.
Source: Eurostat and European Commission forecasts and calculations.

Table 4.1: **Key economic and financial indicators, Belgium**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				1.9	1.3	1.1	1.2
GDP deflator (1 year % change)				1.9	4.5	2.7	2.4
Harmonised index of consumer prices (1 year % change)				1.9	2.3	4.4	2.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**0.3**	**-0.1**	**-0.6**	**-0.1**
Current account balance, balance of payments (% of GDP)		0.5 (1)	1.5 (2)	0.0	-0.7	0.3	0.2
Net international investment position (% of GDP)	**-35%**	-86.1 (3)	14.5 (4)	**45.9**	**51.5**	**61.7**	**60.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				38.9	31.3		
Net lending-borrowing (% of GDP)				0.1	-0.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**3.2**	**15.8 p**	**15.8**	**12.4**
Nominal unit labour cost index per hour worked (1 year % change)				1.5	7.6 p	2.3	2.1
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**3.6**	**0.0**	**-0.3**	**-1.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.9	-0.4	1.7	0.7
Export performance against advanced economies (3y % change)	**-3%**			**1.2**	**-6.0**	**-10.8**	**-6.1**
Export performance against advanced economies (1 year % change)				0.1	-4.9	-2.2	0.4
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.4	1.0	0.5	0.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	64.3 (6)	47.8 (7)	**122.8**	**96.4 p**	**92.7**	**89.6**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-0.4**	**3.2**	**-1.4**	**0.3**
Cost of borrowing for corporations				1.6	4.7	5.1	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	46.6 (6)	57.3 (7)	**59.6**	**57.1 p**	**56.3**	**55.9**
Household debt, consolidated (% of Households' GDI)				81.2	76.3	77.3	78.7
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**5.3**	**2.3**	**2.4**	**3.0**
House price index, nominal (1 year % change)	**+9%**			**3.4**	**2.3**	**2.7**	**2.0**
House prices over/undervaluation gap [(8)]				11.0	13.5		
Building permits (m^2 per 1000 inh)				788.5	670.3 p		
Cost of borrowing for households for house purchase				1.9	3.6	3.5	
Government							
General government gross debt (% of GDP)	**60%**			**100.0**	**103.1**	**103.4**	**105.1**
General government balance (% of GDP)				-1.3	-4.2	-4.6	-4.9
Banking sector							
Return on equity of banks (%)				8.5	11.4 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.7	17.9 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.4	1.6 p	1.6	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.6 (9)		**6.2**	**5.5**	**5.6**	**5.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.8**	**2.1**	**0.9**	**0.5**

Notes: See Annex 1.
Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

BULGARIA

In Bulgaria, wage pressures continue to weigh on the country's cost competitiveness, house prices grow strongly after some moderation in 2023, and the associated macroeconomic risks appear to have increased. In 2023, the core inflation differential vis-à-vis the euro area stood at 4 pps., and nominal unit labour costs increased strongly. While both core and headline inflation have come down to the euro area averages in recent months, unit labour cost growth is expected to remain rather elevated in both 2024 and 2025. House prices and credit flows to households continue to increase strongly and house prices show signs of overvaluation.

Real GDP growth reached 1.9% in 2023 and is forecast at 2.4% in 2024 and 2.9% in 2025. At respectively, 8.6% and 8.9%, both headline inflation and core inflation were well above the EU (and euro area) averages in 2023, but they have continued to ease since the beginning of 2024, and core inflation is expected to average close to 3% in 2024. The unemployment rate stood close to historical lows in 2023, at 4.3%. It is expected to remain unchanged in 2024 and to decrease slightly in 2025.

The scoreboard reading for Bulgaria shows that three indicators were beyond their indicative thresholds in 2023, namely unit labour costs, house prices, and household credit flows. Relevant developments worth highlighting:

- **External sector** indicators remain close to balance, as the current account deficit moved to a surplus of 0.9% of GDP in 2023 and is forecast to remain in surplus in 2024; the slightly negative net international investment position continued to narrow.

- **Cost competitiveness** concerns persist and years of strong wage increases sustain domestic cost pressures. In 2022 and 2023, both headline and core inflation were among the highest in the EU. Services inflation has been particularly high, with important contributions from restaurants and passenger transport. Last year, REER appreciated strongly, mainly due to nominal exchange rate appreciations on the back of the euro peg. By mid-2024, it stabilised on account of positive developments in inflation differentials, which offset the still high nominal exchange rate appreciation. In 2023, ULC continued to grow strongly (+11%), pushed by strong wage increases, thereby building on years of strong appreciations. Wage increases have been strong across the board, with recent above-average increases in public sector wages and with a marked minimum wage rise in 2024. Employment has grown only in the services sector, while headcounts in manufacturing have declined.

- Despite strong credit growth of 8.5%, **corporate debt** fell slightly to 48 percent of GDP in 2023, due to the impact of GDP growth on the denominator of the debt ratio. Although corporate debt has been declining continuously since 2013 and is below the MIP threshold, it remains elevated relative to that of Bulgaria's peers. In line with the general trend in the EU, reductions in FDI debt contributed considerably to deleveraging. The share of corporate NPLs decreased further but was above 5% of total loans and advances in 2023 and among the highest in the EU. Unit profit growth turned negative in the second half of 2023 but showed first signs of recovery at the beginning of 2024. Real investment growth has held up comparatively well in 2023 but started to decline by the end of the year and turned negative in the second quarter of 2024. Bulgarian firms are among the least innovative in the EU according to the EIB investment survey ([85]).

([85]) EIB Investment Survey 2023: European Union overview.

- **Household debt** levels remain contained so far but credit growth is dynamic. The household debt-to-GDP ratio remains low, at 24%. The cost of borrowing has hardly increased in Bulgaria in recent years but virtually all loans, including for house purchases, have variable interest rates. Credit flows remain high (16% of the previous year's debt stock) and stand above the MIP threshold of 14% since 2021. As a result, Bulgaria's household debt ratio is expected to increase in 2024. Non-performing loans kept decreasing in 2023 and make up around 3% of all household loans.

- **Housing market** dynamics have not abated and continue to be a concern. House prices are estimated to be slightly overvalued by around 10-15% but grew by 9.9% in 2023, after growing 8.7% and 13.8% in 2021 and 2022 respectively. In 2024, house prices show signs of acceleration, growing by 15.1% year-on-year in 2024-Q2. However, since 2008, house prices have grown significantly less than household income. In 2023, mortgages grew by 20.5%, while still at a low level, at 10.8% of GDP in 2023. Also the share of population (1.8%) with mortgage is very low. Average mortgage interest rates dropped in the last years from around 10% in 2008 to 2.5% in 2022 and stabilised in 2023 at around 2.6%. Both the number of housing transactions and building permits decreased marginally in 2023 but have edged up since late 2023. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Bulgaria was subject to medium risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation ([86]).

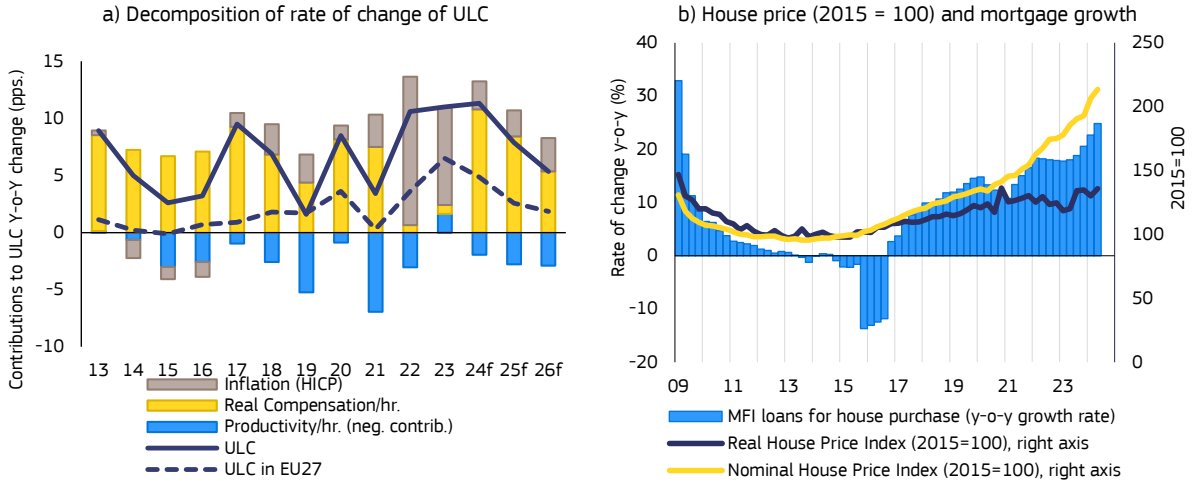
- **Government debt** remains low. It was at below 23% of GDP in 2023 and is forecast to edge up only somewhat in 2024. Fiscal deficits are relatively contained, although forecast to approach 3% of GDP in 2024 and 2025, and gross financing needs are low. Yields on Bulgarian sovereign bonds, and spreads vis-à-vis the best rated sovereign debt, have been stable. Most of the government debt is in foreign currency, but the solid currency board and low indebtedness limit risks of exchange rate volatility on the government debt service.

- **Financial sector** developments remain moderate although credit growth remains strong. In 2023, the Common Equity Tier 1 capital ratio and return on equity have been well above the EU average, with profitability significantly improving in 2023. The non-performing loans ratio stagnated around 3% in 2023, and remains above the EU average. Stage 2 loans and forborne loans are high. Credit growth has been strong amid favourable credit conditions, which gradually contributed to higher exposure towards commercial real estate. Borrower-based macroprudential measures have been introduced in 2024 but do not appear particularly tight ([87]).

([86]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([87]) Measures include requirements on loan-to-value ratio of 85%, debt service to income of 50% and a maximum maturity of 30 years.

Graph 4.2: **Selected graphs: Bulgaria**



Source: Eurostat, ECB and European Commission forecasts and calculations.

Table 4.2: **Key economic and financial indicators, Bulgaria**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				3.0	1.9	2.4	2.9
GDP deflator (1 year % change)				4.8	8.0	4.8	2.3
Harmonised index of consumer prices (1 year % change)				2.1	8.6	2.5	2.3
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**2.1**	**-0.9**	**-0.5**	**0.3**
Current account balance, balance of payments (% of GDP)		-0.7 (1)	-2.3 (2)	1.9	0.9	0.3	-0.2
Net international investment position (% of GDP)	**-35%**	-44.4 (3)	-22.4 (4)	**-37.3**	**-6.8**	**-3.2**	**-0.6**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				36.0	46.0		
Net lending-borrowing (% of GDP)				3.0	2.4		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**18.5**	**26.9**	**36.6**	**33.3**
Nominal unit labour cost index per hour worked (1 year % change)				6.0	11.0	11.3	7.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.9**	**8.5**	**5.3**	**1.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				1.6	5.4	-0.3	-0.1
Export performance against advanced economies (3y % change)	**-3%**			**10.3**	**15.4**	**5.2**	**-3.6**
Export performance against advanced economies (1 year % change)				2.9	-1.0	-1.1	1.2
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.1	4.0	0.1	0.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	102.9 (6)	51.1 (7)	**72.2**	**48.3**	**46.1**	**46.1**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**3.3**	**8.5**	**6.8**	**5.4**
Cost of borrowing for corporations				3.7	4.0	4.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	85.3 (6)	24.4 (7)	**22.9**	**23.5**	**26.2**	**30.1**
Household debt, consolidated (% of Households' GDI)							
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**10.0**	**16.3**	**19.3**	**21.1**
House price index, nominal (1 year % change)	**+9%**			**7.1**	**9.9**	**16.0**	**8.0**
House prices over/undervaluation gap [(8)]				-7.9	8.9		
Building permits (m^2 per 1000 inh)				587.4	833.0		
Cost of borrowing for households for house purchase				3.4	2.6	2.5	
Government							
General government gross debt (% of GDP)	**60%**			**22.4**	**22.9**	**24.5**	**23.1**
General government balance (% of GDP)				1.8	-2.0	-2.6	-2.8
Banking sector							
Return on equity of banks (%)				11.1	16.3 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				19.7	20.9 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				8.1	2.9 p	3.1	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	4.3 (9)		**6.2**	**4.3**	**4.3**	**4.0**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**3.2**	**1.3**	**2.7**	**1.6**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024)

CZECHIA

In Czechia, inflationary pressures weighed on economic activity and cost competitiveness in 2023, but developments in 2024 have been more favourable. In 2023, unit labour costs increased strongly, driven by nominal wages amid a tight labour market and low productivity growth, but Czechia gained export market shares against advanced economies. The core inflation differential vis-à-vis the euro area was still above 4 pps. in 2023 but it closed in 2024, while Czechia's REER depreciated. House price growth has exceeded income growth in recent years.

Real GDP stagnated in 2023 (-0.1%) and is forecast to grow by 1.0% in 2024 and 2.4% in 2025. In 2023, both average headline and core inflation were among the highest in the EU, at 12.0% and 9.3% respectively. Headline inflation stabilised in 2024 and is expected to average 2.7% but core inflation remains close to 4%. The unemployment rate increased slightly to 2.6% in 2023, the lowest level in the EU. It is expected to remain under 3% in 2024 and 2025.

The scoreboard reading for Czechia shows that two indicators were beyond their indicative thresholds in 2023, namely the real effective exchange rate, and unit labour costs. Relevant developments worth highlighting:

- **The external sector** is strengthening. In 2023, the current account balance turned to a modest surplus from a deficit of almost 5% in 2022, owing to an increase in the trade in goods balance as domestic demand slowed. A somewhat larger surplus is also expected in 2024. The net international investment position (NIIP) moderated from -20.2% in 2022 to -13.4% of GDP in 2023 and is expected to further increase in 2024.

- **Cost competitiveness** concerns persist following two years of strong inflationary pressures. In 2023, core inflation was 4.4 pps. above the euro area value, but the differential decreased to 1.1 pps. by September 2024. Last year, the REER appreciated strongly, due to both nominal exchange rate appreciation and high inflation rate differentials. This had partly corrected by mid-2024 due to a strong koruna depreciation. On the back of high inflation, nominal wages grew strongly in 2023 but declined in real terms. ULCs increased by close to 7%, as productivity growth turned negative on account of subdued economic activity. The previously high unit profit growth fell sharply in 2023, flattening at the beginning of 2024. Declining inflation and the estimated recovery in economic activity are expected to alleviate some of the cost competitiveness pressure going forward.

- **Corporate debt** deleveraging continued in 2023 as credit growth slowed. Corporate debt declined to 42% of GDP in 2023, reaching its lowest level since 2005. Reductions in FDI debt contributed considerably to deleveraging. Credit growth fell markedly from over 13% of the loan stock in 2022 to slightly below 1% in 2023. The interest burden has already started to decline somewhat from its peak in the first half of 2023 in line with declining borrowing costs.

- Despite steady credit growth, **household debt** remains low and continued to decline, reaching 31% of GDP in 2023. The cost of borrowing peaked at 5.5% in August 2023 and has been gradually decreasing since then. A large proportion of mortgage loans have interest rates that are fixed for five years or more, so the impact of the rise in borrowing costs on household budgets remains limited ([88]). Gross household savings are high and markedly above pre-pandemic levels.

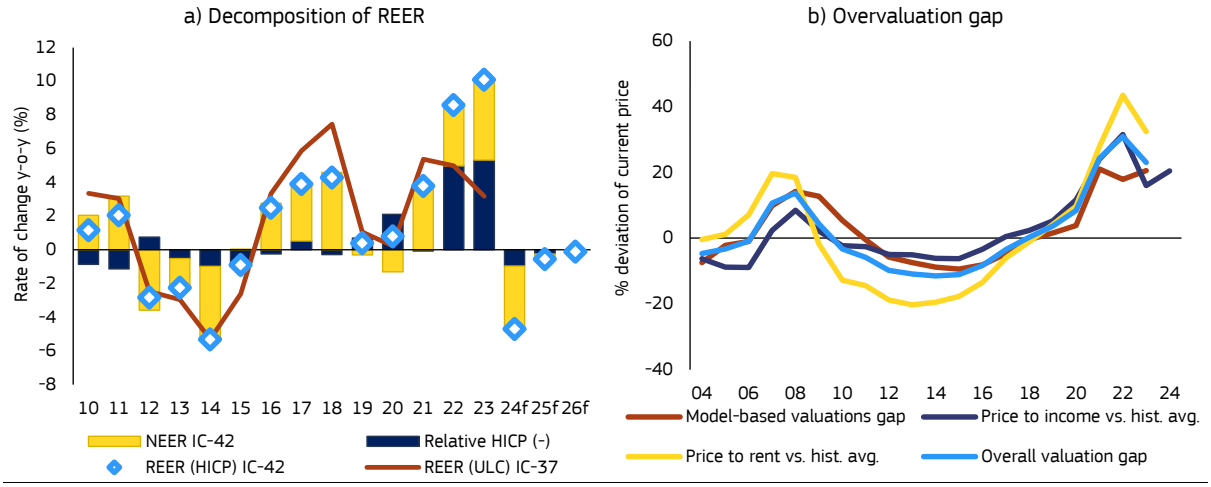
([88]) Source: How client interest rates on loans and deposits have changed over the last two years - Czech National Bank

- **House prices** remain a source of concern. After a decade of very fast growth, including growth of 19.7% and 16.9% in 2021 and 2022, respectively, house prices decreased by 1.7% in 2023, adjusting to the higher interest rate environment. As of the end of 2023, they were estimated to be overvalued by around 20-25%. Recent data signals that the price adjustment may be over as house prices increased by 4.2% in 2024-Q2, year-on-year. Since 2015, house prices have grown by 111.7%, and by 20 pps. more than households' income, with possible structural implications for the domestic economy. With the increase of mortgage rates, from 2.3% in 2021 to 5.4% in 2023, mortgage credit moderated, and the value of house transactions decreased by 13.9% in 2022 and stabilized at a low level in 2023. Building permits decreased by 7.1% and 16.3% in 2022 and 2023, respectively. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Czechia was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([89]).

- **Government debt** remains limited even if increasing. Government debt was broadly stable at 42.4% of GDP in 2023, which is some 13 pps. above its 2019 pre-COVID-19 level. It is forecast to increase somewhat further in 2024 and 2025. The government deficit increased to 3.8% of GDP in 2023 but is expected to decline below 3% in 2024. Gross financing needs have been below the EU average and declined significantly in 2023. Yields on Czech sovereign bonds have been stable compared with the best rated sovereign debt.

- The **financial sector** remains sound, as the banking sector remained well capitalised, and increased its profitability to above the EU average. The non-performing loans ratio remains very low. Credit stagnated in 2023 after a significant decline in 2022. This is linked to the house price correction, which seems to be coming to an end, as well as deleveraging from the corporate side.

Graph 4.3: **Selected graphs: Czechia**



Source: Eurostat and European Commission forecasts and calculations.

([89]) ESRB (2024): ""Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".".

Table 4.3: **Key economic and financial indicators, Czechia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				3.9	-0.1	1.0	2.4
GDP deflator (1 year % change)				2.8	8.2	4.0	2.4
Harmonised index of consumer prices (1 year % change)				2.3	12.0	2.7	2.4
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**1.1**	**-2.1**	**-0.7**	**1.3**
Current account balance, balance of payments (% of GDP)		0.7 (1)	-2.1 (2)	0.7	0.3	2.2	1.3
Net international investment position (% of GDP)	**-35%**	-66.3 (3)	6.8 (4)	**-22.8**	**-13.4**	**-8.2**	**-3.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				27.7	28.6		
Net lending-borrowing (% of GDP)				1.4	1.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**11.8**	**17.2**	**19.3**	**18.2**
Nominal unit labour cost index per hour worked (1 year % change)				4.6	7.4	5.5	4.3
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**8.5**	**24.2**	**12.9**	**2.0**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				2.9	10.1	-4.7	-0.5
Export performance against advanced economies (3y % change)	**-3%**			**4.2**	**0.8**	**-1.1**	**5.2**
Export performance against advanced economies (1 year % change)				0.9	6.8	-2.3	2.3
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.9	4.4	1.3	0.6
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	72.8 (6)	61.1 (7)	**48.4**	**41.8**	**40.7**	**40.5**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**7.2**	**0.6**	**4.1**	**4.2**
Cost of borrowing for corporations				2.7	8.5	7.0	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	51.4 (6)	46.6 (7)	**31.2**	**31.0**	**30.7**	**31.0**
Household debt, consolidated (% of Households' GDI)				48.2	44.3	45.7	47.3
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**7.2**	**4.9**	**5.3**	**5.9**
House price index, nominal (1 year % change)	**+9%**			**9.8**	**-1.7**	**4.1**	**3.0**
House prices over/undervaluation gap [8]				0.2	23.0		
Building permits (m^2 per 1000 inh)				366.4	339.2		
Cost of borrowing for households for house purchase				2.6	5.4	5.1	
Government							
General government gross debt (% of GDP)	**60%**			**31.7**	**42.4**	**43.4**	**44.4**
General government balance (% of GDP)				0.9	-3.8	-2.5	-2.3
Banking sector							
Return on equity of banks (%)				13.4	13.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				18.2	19.5 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.2	1.2 p	1.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	2.5 (9)		**2.4**	**2.6**	**2.6**	**2.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.2**	**0.7**	**1.0**	**0.9**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024)

DENMARK

Denmark's current account surplus remains elevated, and household and corporate debt are very high, but associated macroeconomic risks appear limited. The current account surplus stood at 9.8% in 2023 and is forecast to remain high in 2024 and 2025. Despite a rebound in 2023, household debt has decreased over the past years, and the risks associated with the prevalence of variable interest rates have not materialised. House prices moderated in 2023 but still show signs of overvaluation.

Real GDP growth reached 2.5% in 2023 and is forecast at 2.4% in 2024 and 2.5% in 2025. Both headline inflation and core inflation eased markedly in 2023 and were among the lowest in the EU, at 3.4% and 4.6%, respectively. Both have remained low in 2024, with core inflation forecast to stand below 2% in 2024 and 2025. The unemployment rate stood at 5.1% in 2023 and is expected to remain stable ([90]).

The scoreboard reading for Denmark shows that three indicators were beyond their indicative thresholds in 2023, namely the current account balance, household debt, and NFC debt. Relevant developments worth highlighting:

- **External sustainability** concerns related to the high current account surplus remain. Denmark's current account surplus decreased from 11.7% of GDP in 2022 to 9.8% of GDP in 2023. The success of the pharmaceutical industry has resulted in Denmark displaying one of the highest current account surpluses in the EU. The surplus continues to reflect a high discrepancy between savings and investment in all three sectors of the economy, households, corporations, and the government, far exceeding the levels explained by economic fundamentals and remaining beyond the indicative upper scoreboard threshold. The current account surplus is forecast to increase further in 2024 and remain above 10% of GDP in 2025, contributing to a further increase in Denmark's positive net international investment position.

- **Cost competitiveness** developments reflect low inflation and high productivity growth. In 2023, average headline inflation and core inflation rates were among the lowest in the EU and remained so throughout the first half of 2024. Last year, REER appreciated slightly as nominal appreciation was not fully offset by favourable inflation differentials but remained stable by mid-2024. ULC growth was close to 2% in 2023, as nominal wage growth was partly offset by relatively strong productivity gains.

- **Corporate debt** concerns remain in view of a rise in the debt ratio and an increase in debt servicing costs. The non-financial corporates' debt-to-GDP ratio rose by 6 pps to reach 109% in 2023. Denmark was one of two EU countries recording an increase in debt relative to GDP. This rise was driven exclusively by debt excl. FDI, while FDI debt in % of GDP declined, and can be attributed predominantly to a strong increase in debt securities. Credit growth declined somewhat compared to 2021 and 2022, but remained relatively strong, at above 3%. Denmark has one of the lowest interest coverage ratios in the EU, which fell further in 2023 as gross operating surpluses declined while interest expenses soared. Borrowing costs remain high but have declined somewhat since the beginning of 2024. Unit profit growth turned negative in 2023 after falling sharply from its peak in 2022-Q3.

([90]) However, due to a break in the data series, the unemployment rate is expected to adjust to 5.8% (source: Statistics Denmark)

- **Household debt** concerns relate to high debt levels. Despite a strong decline over recent years, Denmark's household debt ratio is among the highest in the EU, both as a share of GDP (88% in 2023) and of gross disposable household income (140% in 2023). Household debt as a share of GDP has fallen by over 20 pps. since 2019, and a further marked reduction is expected for 2024. Interest payments have risen strongly since 2022 because of higher interest rates and the prevalence of loans with an interest rate fixation period of less than a year, which potentially could distress vulnerable households, although delinquencies have remained very low ([91]). The rise in interest payments was partially counteracted by increased receipts, reflecting Denmark's high (aggregate) gross savings rate and a relatively swift pass-through of monetary policy to deposit rates. As interest payments and receipts may accrue to different households, for some households the impact on balance sheets can still be significant. A recent study by Danmarks Nationalbank suggests that higher interest payments have contributed to reducing household consumption growth ([92]). At the same time, the aggregate gross savings rate of households increased in 2022 to its highest level in a decade and is expected to remain at a high level until 2026. The risks related to the high household indebtedness are partly abated by significant household assets, despite around 10% of the population having negative net wealth. Among the population between 18 and 39 years old, this share is increased to 16-18%.

- **Housing market** concerns remain in view of high household indebtedness. House prices are estimated to be slightly overvalued by around 10% and decreased by 4.2% in 2023, after increasing by 11.7% and 4.8% in 2021 and 2022, respectively. In 2024-Q2, house prices increased by only 3.9%, year-on-year, signalling that price moderation may be over. Despite the recent moderation, house prices still grew 8.1 pps. more than households' income since 2015. With the increase in average mortgage rates, from 1.8% in 2022 to 5.2% in 2023, mortgage credit moderated. After a significant decrease in house transactions in 2022, -24.8% in number and -38.0% in value, in 2023 the number of transactions stabilised (-0.2%) while the values transacted increased by 22.7%. With building permits decreasing by 10.5% in 2022 and a further 34.2% in 2023, implying lower supply of housing, house prices moderation may be over. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Denmark was subject to high risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation. On the recommendation of the Danish Systemic Risk Council, Denmark activated a sector-specific buffer for credit institution exposures to real estate companies at a rate of 7 per cent effective from 30 June 2024 ([93]).

- **Government debt** remains low. It was at 33.6% of GDP in 2023 and is forecast to decrease further in 2024 and 2025. The budget balance is clearly in surplus and is forecast to remain so this year and next. Gross financing needs are low, and yields compare very well with the best rated sovereign debt.

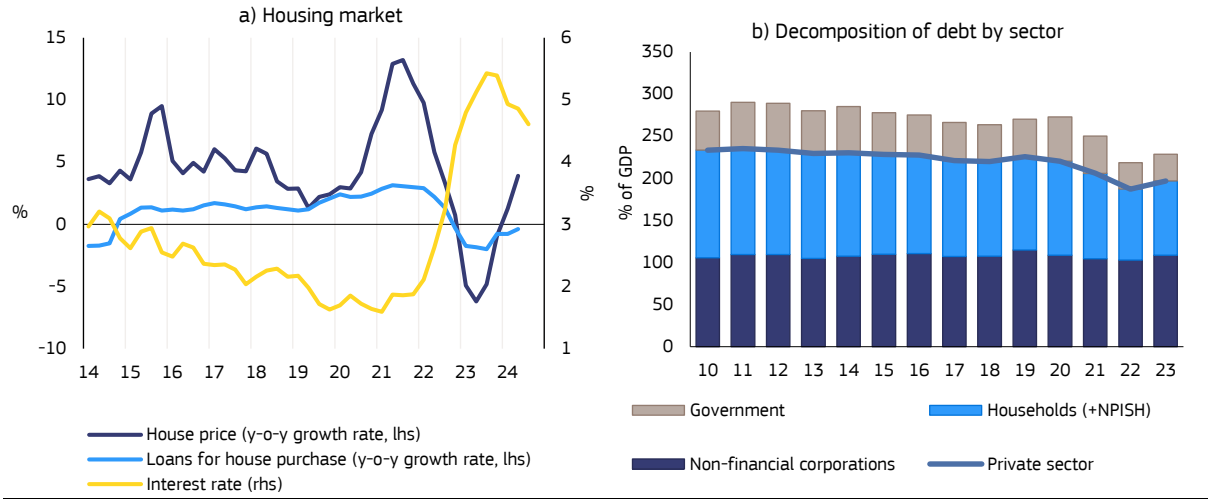
- The **financial sector** is sound as the banks are well capitalised, and the non-performing loans ratio is low. Profitability significantly increased in 2023 and is close to the EU average. The house price correction slowed down in late 2023 but coupled with high household indebtedness still represents a risk for the financial sector.

([91]) The part of interest rate payments not paid on time on mortgage bonds stood at 0,15% in 2024-Q1, unchanged since 2022-Q4: Få danskere har problemer med at betale deres boliglån (finansdanmark.dk)

([92]) See Andersen et al. (2024) Effects of increases in monetary policy rates.

([93]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.4: **Selected graphs, Denmark**



Source: Eurostat and ECB.

Table 4.4: **Key economic and financial indicators, Denmark**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.2	2.5	2.4	2.5
GDP deflator (1 year % change)				0.9	-3.8	1.6	2.2
Harmonised index of consumer prices (1 year % change)				0.8	3.4	1.3	1.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**7.1**	**10.1**	**10.7**	**10.2**
Current account balance, balance of payments (% of GDP)		0.4 (1)	2.2 (2)	7.0	9.8	10.6	10.1
Net international investment position (% of GDP)	**-35%**	-96.9 (3)	20.6 (4)	**59.3**	**51.3**	**35.8**	**44.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				15.3	37.1		
Net lending-borrowing (% of GDP)				7.0	9.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**1.4**	**5.7**	**9.9**	**6.5**
Nominal unit labour cost index per hour worked (1 year % change)				0.8	1.9	2.7	1.8
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.2**	**-1.0**	**-3.6**	**-3.8**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.1	1.8	-1.4	-0.4
Export performance against advanced economies (3y % change)	**-3%**			**0.6**	**2.5**	**22.6**	**0.5**
Export performance against advanced economies (1 year % change)				1.1	-3.5	6.9	-1.2
Core inflation[5] differential vis-à-vis the euro area (pps.)				-0.4	-0.4	-1.5	-0.7
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	87.8 (6)	75.7 (7)	**109.9**	**108.6**	**106.0**	**104.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**2.5**	**4.7**	**4.7**	**3.3**
Cost of borrowing for corporations				1.0	4.4	4.6	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	60.4 (6)	78.0 (7)	**112.3**	**88.3**	**85.1**	**84.0**
Household debt, consolidated (% of Households' GDI)				171.1	139.6	136.4	138.9
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**1.1**	**0.4**	**0.2**	**3.5**
House price index, nominal (1 year % change)	**+9%**			**3.9**	**-4.2**	**2.9**	**3.0**
House prices over/undervaluation gap [8]				4.5	10.0		
Building permits (m^2 per 1000 inh)				688.1	420.3 p		
Cost of borrowing for households for house purchase				2.1	5.2	4.8	
Government							
General government gross debt (% of GDP)	**60%**			**39.0**	**33.6**	**31.0**	**29.3**
General government balance (% of GDP)				2.3	3.3	2.3	1.5
Banking sector							
Return on equity of banks (%)				9.2	11.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				19.8	21.0 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.2	1.3 p	1.3	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	4.7 (9)		**5.3**	**5.1 b**	**5.8**	**5.8**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.4**	**1.8 b**	**2.3**	**1.3**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

GERMANY

Germany's current account surplus bounced back in 2023 and continues to reflect weak domestic demand and muted investment amid stagnating economic activity. Cost competitiveness indicators show mixed developments compared to the euro area average, with unit labour costs increasing slightly more in 2023, but Germany's REER appreciating less than the euro area average.

Real GDP declined by 0.3% in 2023 and is forecast to broadly stagnate at -0.1% in 2024 before growing mildly by 0.7% in 2025. Headline inflation decreased in 2023 to 6.0% but was on average slightly above the euro area average. Headline inflation has continued to ease since the beginning of 2024, in line with developments in the rest of the euro area and is forecast to average 2.4% in 2024. Core inflation remains more persistent and is forecast to average 3.2% in 2024. The unemployment rate stood at 3.1% in 2023, among the lowest rates in the EU, and is forecast to increase slightly in 2024-2025.

The scoreboard reading for Germany shows that three indicators were beyond their indicative thresholds in 2023, namely the export performance against advanced economies, unit labour costs, and government debt. Relevant developments worth highlighting:

- **External sustainability** concerns relating to the high current account surplus persist. Reflecting the terms of trade shock in 2022, the three-year average of the current account balance had dipped to 5.8% of GDP in 2023, just below the scoreboard threshold of 6%. The current account surplus was 5.9% of GDP in 2023 and continued to widen in 2024. These levels exceed considerably those implied by economic fundamentals. The surplus mainly reflects weak domestic demand, which continued to stagnate at pre-pandemic levels in real terms. The weakness in demand may partially reflect fiscal consolidation, but was so far mainly driven by the private sector, as household saving, as a share of GDP, continued to exceed pre-pandemic levels in 2022 and 2023. In addition, corporations increased their net savings markedly in 2023, reflecting subdued investments. Consequently, the net international investment position is expected to rise further and to remain among the largest globally in absolute terms.

- **Cost competitiveness** indicators display limited changes. By mid-2024, core inflation edged above the euro area, with sticky services inflation contributing the most. Last year, REER appreciated by close to 4% on the back of nominal exchange rate gains of the euro. By mid-2024 REER appreciation reduced considerably as the euro nominal gains were offset by favourable inflation differentials. Despite productivity losses, ULCs continued to grow broadly in line with the euro area average, with an increase of around 7% in 2023, as real wages recover some of the losses suffered in recent years. At the same time, Germany has suffered a significant loss of export market shares compared to advanced economies over the last 3 years.

- **Corporate debt** deleveraging continued as credit growth was muted. In 2023, corporate debt-to-GDP stood at 60%, down from 63% in 2022. Deleveraging was driven by a strong decline in loans relative to GDP, and a simultaneous decrease in high corporate cash holdings. Credit growth decreased to 2.7% in 2023, in lockstep with declining corporate investment. The interest burden of German NFCs has risen considerably since mid-2022, leading to a decline in the interest coverage ratio. Borrowing costs remained high and the share of NPLs increased, albeit from a low level. Business confidence remains low, particularly in retail and industry. As corporate investment is stagnating, the capital stock per worker continues to decline.

- **Household debt** continued to reduce from moderate levels as credit flows contracted. In 2023, the household debt-to-GDP ratio decreased to 51%, below the 55% MIP threshold, and is

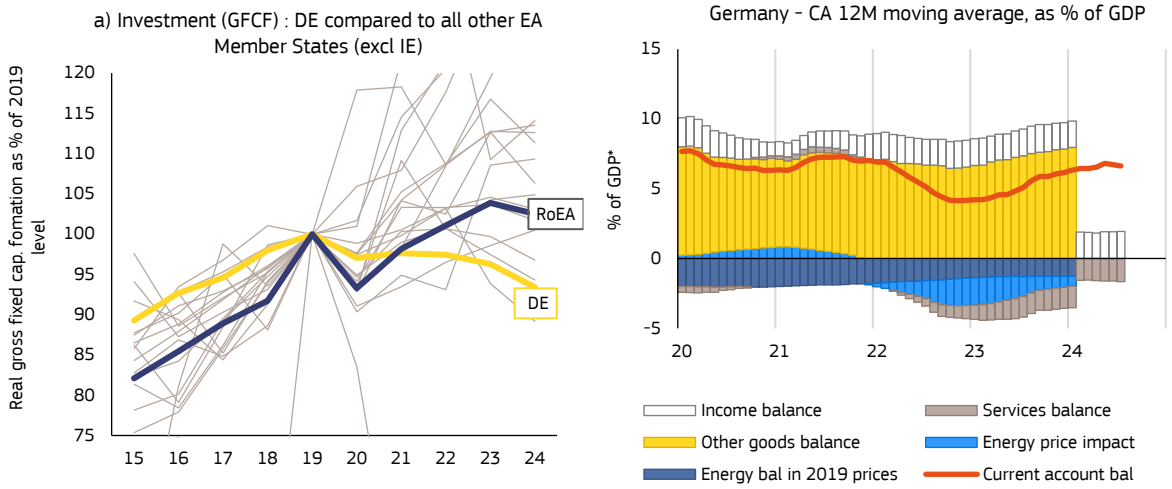
expected to decline further in 2024. As a share of household gross disposable income, debt declined from 70% in 2022 to 66% in 2023. Net credit flows contracted strongly in 2023 and are expected to continue hovering around zero in 2024, reflecting a decline in residential investment. The high savings rate reduces risks associated with household debt in the short term. Despite a marked increase in borrowing costs, net interest payments (% GDI) declined in 2023, as interest receipts increased more than interest payments by households.

- **House prices** continued to fall in 2023. House prices declined by 8.5% in 2023 and the correction of house prices slowed at the beginning of 2024 (-2.6% year-on-year in 2024-Q2). Mortgage credit flows moderated due to higher mortgage interest rates, which increased from 1.3% in 2021 to 4.0% in 2023. At the same time, house price overvaluation declined from 20% in 2022 to about 6% in 2023. Although the number of housing completions have been relatively stable, the number of building permits decreased by 7.1% in 2022 and by more than 31.1% in 2023, implying lower supply of housing in the near future, acting against further correction in house prices. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Germany was subject to medium risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation ([94]).

- **Government debt** remains contained. The government debt declined to 62.9% of GDP in 2023 and it is forecast to stay around that level in 2024 and 2025. The budget deficit is limited, was stable in 2023 at 2.6% of GDP, and is forecast to decrease in 2024 and 2025. Government guarantees are among the largest in the EU.

- The **financial sector** remains sound. Non-performing loans and Stage 2 loans increased marginally in late 2023, especially for NFCs. The capital ratio and profitability, which improved in 2023, remain below the EU average. The ongoing correction of residential and commercial real estate prices amidst an increase in lending rates and low growth prospects in 2024 represent a challenge for the financial sector, which has considerable exposure to real estate.

Graph 4.5: **Selected graphs: Germany**



Source: Eurostat and European Commission forecasts and calculations.

([94]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Table 4.5: **Key economic and financial indicators, Germany**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				1.6	-0.3	-0.1	0.7
GDP deflator (1 year % change)				1.8	6.1	2.9	2.4
Harmonised index of consumer prices (1 year % change)				1.7	6.0	2.4	2.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**8.3**	**5.8**	**5.8**	**6.5**
Current account balance, balance of payments (% of GDP)		1.4 (1)	2.8 (2)	8.1	5.9	7.0	6.6
Net international investment position (% of GDP)	**-35%**	-83.9 (3)	33.9 (4)	**51.7**	**70.8**	**75.1**	**78.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				47.3	53.1		
Net lending-borrowing (% of GDP)				8.0	5.3		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**5.9**	**11.0 p**	**17.3**	**15.3**
Nominal unit labour cost index per hour worked (1 year % change)				2.5	6.7 p	5.4	2.6
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.9**	**1.9**	**-0.9**	**-0.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.7	3.8	-0.3	-0.3
Export performance against advanced economies (3y % change)	**-3%**			**-1.6**	**-7.8**	**-8.8**	**-1.2**
Export performance against advanced economies (1 year % change)				-1.0	1.9	-1.9	0.4
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.3	0.2	0.4	0.2
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	74.6 (6)	75.7 (7)	**55.5**	**59.6 p**	**59.2**	**59.8**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**5.4**	**2.7**	**4.3**	**4.1**
Cost of borrowing for corporations				1.6	4.9	5.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	49.2 (6)	53.9 (7)	**52.0**	**51.0 p**	**49.9**	**50.1**
Household debt, consolidated (% of Households' GDI)				69.4	66.1	65.8	68.1
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**3.9**	**0.7**	**0.5**	**3.6**
House price index, nominal (1 year % change)	**+9%**			**6.2**	**-8.5**	**-1.7**	**0.0**
House prices over/undervaluation gap [(8)]				3.6	6.3		
Building permits (m^2 per 1000 inh)				461.9	297.8 p		
Cost of borrowing for households for house purchase				1.7	4.0	3.9	
Government							
General government gross debt (% of GDP)	**60%**			**61.2**	**62.9**	**63.0**	**63.2**
General government balance (% of GDP)				1.5	-2.6	-2.2	-2.0
Banking sector							
Return on equity of banks (%)				2.5	5.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.3	17.7 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				1.5	1.3 p	1.3	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	3.2 (9)		**3.3**	**3.1**	**3.3**	**3.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.0**	**2.4 b**	**1.8**	**1.5**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024)

ESTONIA

In Estonia, cost competitiveness pressures have strengthened, and the associated macroeconomic risks have increased. Economic activity has been contracting since 2022-Q2. Unit labour costs increased further in 2023, and core inflation remains persistently high despite the economic downturn. The REER continued to appreciate, reflecting the substantial increase in the price level in recent years. While the current account balance improved in 2023, partly because of weak economic demand, it remains in deficit and no improvement is forecast over the next years. House prices have continued to grow, albeit at a slower pace compared to 2021-2022.

Real GDP contracted by 3.0% in 2023 and is forecast to shrink further by 1.0% in 2024, before growing by 1.1% in 2025. Both headline and core inflation decreased strongly in 2023 while remaining among the highest in the euro area. Headline inflation has continued to ease somewhat since the beginning of 2024 but stayed elevated compared to the euro area average. It is forecast to stand at 3.6% in 2024, and in 2025, as the fiscal consolidation effort comprises several tax hikes translating into higher prices. The unemployment rate increased to 6.4% in 2023 and is forecast to increase to 7.5% in 2024.

The scoreboard reading for Estonia shows that two indicators were beyond their indicative thresholds in 2023, namely the real effective exchange rate, and unit labour costs. Relevant developments worth highlighting:

- **External sustainability** indicators are stable, although the current account remains in deficit. The current account deficit moderated from 3.9% of GDP in 2022 to 1.7% in 2023, but these levels nonetheless mark a change from Estonia's pre-pandemic surplus of around 1.3% of GDP between 2015 to 2019. From the saving-investment perspective, corporations played a central role, considerably increasing their savings and reducing investments in 2023 due to high geopolitical uncertainty, while households have remained net borrowers since 2021. The net international investment position (NIIP) was around -21% of GDP in 2023, mostly composed of direct investment, and is forecast to increase in 2024. The NENDI, which excludes non-defaultable instruments from the NIIP, was positive.

- **Cost competitiveness** concerns persist and the core inflation differential vis-à-vis the euro area remains high. In 2023, the inflation differential stood at 3.8 pps., and it has remained sizeable, at 2.1 pps. in September 2024. The REER appreciated strongly in 2023, due to the euro nominal exchange rate appreciation and high domestic inflation. A more moderate appreciation continued into 2024. In 2023, nominal wage increases were strong and, along with negative productivity growth on account of the recession, pushed ULCs to rise by over 15%. Wage increases are likely one of the factors contributing to sticky core inflation. The appreciation of the real exchange rate and weak productivity growth could contribute to a loss in export market shares.

- Passive deleveraging helped to reduce **corporate debt** as a share of GDP. The corporate debt-to-GDP ratio declined to 55% in 2023, reaching its lowest value in two decades. While FDI debt increased, debt excl. FDI to GDP fell by around 5%. Deleveraging was driven exclusively by a strong decline in debt securities relative to GDP. Credit growth declined compared to 2021 and 2022 but remained at just below 4% in 2023 despite the recession. The interest burden has been increasing in Estonia in 2023. High borrowing costs together with a large share of flexible rates indicate that corporate interest expenses are likely to remain elevated in 2024. Bankruptcies picked up during 2023, while new business registrations increased more moderately, a common post-pandemic feature in Europe. The profit share continued to fall in 2023, as did unit profit growth.

- **Household debt** remains contained so far, despite solid credit flows. In 2023, the household debt-to-GDP ratio rose by 0.4 pps. to 37% GDP, making Estonia one of the few EU Member States that saw the debt ratio increase in a context of high inflation. A contributing factor was the drop in real GDP. Moreover, credit flows remained resilient in spite of the high cost of borrowing, which peaked at 6.3% in October 2023, the highest level in the euro area. The debt ratio is expected to further increase slightly in 2024. As with corporates, variable rate loans with an interest fixation period of less than one year are prevalent. While this is a risk factor when policy rates are rising, it should help to ease constraints in the current monetary easing cycle. The household savings rate remains relatively low, at 3% of household gross disposable income, noticeably below its 2019 level.

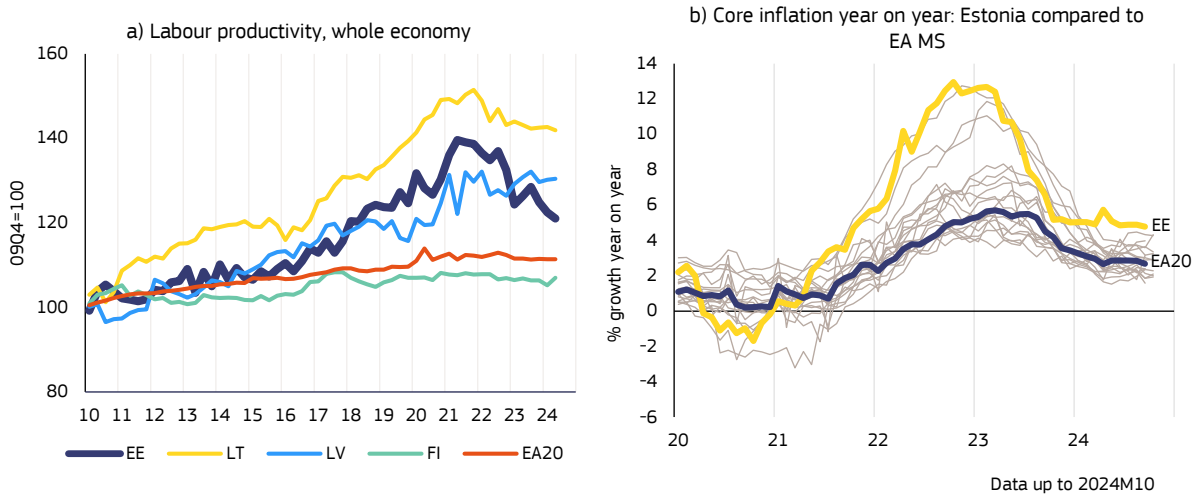
- The **housing market** situation reflects continued high house price growth. House prices are estimated to be slightly overvalued at around 10% and grew by 5.9% in 2023, after increasing by 15.1% and 22.2% in 2021 and 2022, respectively. In 2024-Q2, house prices were still growing at 6.7% year-on-year and overall they were 65% higher than in 2019. Mortgage rates increased from 2.7% in 2022 to 5.5% in 2023, moderating mortgage issuance slightly. Building permits decreased significantly in 2022 and 2023, returning to the lower level of 2015, implying lower supply of housing and supporting the continuation of house price increases. However, the number of permits has started increasing again in 2024. As house price growth outpaced income growth, the price-to-income ratio stood around 17% above the long-term average in 2023, with possible structural implications for the domestic economy. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Estonia was subject to medium risks and that the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([95]).

- **Government debt** is low despite recent increases. It was at 20.2% of GDP in 2023, although it is expected to increase in 2024 and 2025. The fiscal deficit deteriorated in 2023 to 2.8% of GDP and is expected to come to 3% this year and next. Gross financing needs are increasing but remain low.

- The **financial sector** remains resilient. Banks display a very low non-performing loan ratio, while capital ratios and profitability remain above the EU average. Large exposure of the banking sector to real estate represents a risk.

([95]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.6: **Selected graphs for Estonia**



Source: Eurostat and European Commission calculations.

Table 4.6: **Key economic and financial indicators, Estonia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				4.3	-3.0	-1.0	1.1
GDP deflator (1 year % change)				4.1	8.1	5.1	4.0
Harmonised index of consumer prices (1 year % change)				3.1	9.1	3.6	3.6
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**1.3**	**-3.1**	**-2.4**	**-1.4**
Current account balance, balance of payments (% of GDP)		-1.5 (1)	-1.4 (2)	1.4	-1.7	-1.5	-1.0
Net international investment position (% of GDP)	**-35%**	-57.7 (3)	-18.7 (4)	**-28.1**	**-21.1**	**-12.2**	**-12.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				24.4	30.5		
Net lending-borrowing (% of GDP)				2.8	-0.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**14.8**	**32.5**	**36.8**	**25.1**
Nominal unit labour cost index per hour worked (1 year % change)				5.3	15.0	5.5	3.0
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**5.6**	**15.7**	**14.3**	**5.9**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				1.9	7.2	1.1	1.4
Export performance against advanced economies (3y % change)	**-3%**			**3.0**	**7.7**	**-7.8**	**-7.0**
Export performance against advanced economies (1 year % change)				1.8	-4.2	-3.4	2.2
Core inflation[5] differential vis-à-vis the euro area (pps.)				1.0	3.8	2.0	2.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	139.7 (6)	61.4 (7)	**61.9**	**54.5**	**53.8**	**51.8**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**1.5**	**3.8**	**5.2**	**1.3**
Cost of borrowing for corporations				2.8	6.3	6.8	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	130.5 (6)	39.2 (7)	**37.9**	**36.8**	**37.8**	**38.9**
Household debt, consolidated (% of Households' GDI)				58.1	54.9		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**7.3**	**6.3**	**6.9**	**8.2**
House price index, nominal (1 year % change)	**+9%**			**6.1**	**5.9**	**4.0**	**4.0**
House prices over/undervaluation gap [8]				-10.1	7.6		
Building permits (m^2 per 1000 inh)				515.2	402.7		
Cost of borrowing for households for house purchase				2.5	5.6	5.7	
Government							
General government gross debt (% of GDP)	**60%**			**9.0**	**20.2**	**23.2**	**24.2**
General government balance (% of GDP)				-0.4	-2.8	-3.0	-3.0
Banking sector							
Return on equity of banks (%)				9.1	18.5 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				28.8	21.5 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				1.6	1.1 p	1.3	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.7 (9)		**5.2**	**6.4**	**7.5**	**7.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.3**	**2.0**	**2.3**	**0.3**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

IRELAND

In Ireland, external and private debt ratios are high, but the associated macroeconomic risks appear limited. Debt ratios in Ireland are affected by the statistical impact of the extensive operations of multinational corporations. Corporate debt-to-GDP decreased in 2023 despite strong credit growth and credit flows to households were muted. The current account surplus remained high in 2023 and the negative net international investment position improved.

Real GDP declined by 5.5% in 2023 and is forecast to contract further by 0.5% in 2024 before growing by 4.0% in 2025. Headline inflation decreased in line with the euro area average in 2023 and is forecast to stand below the euro area average also in 2024, at 1.4%. Core inflation has also been below the euro area average in 2023 and 2024. The unemployment rate stood at 4.3% in 2023 and is forecast to remain almost unchanged in 2024 and 2025.

The scoreboard reading for Ireland shows that six indicators were beyond their indicative thresholds in 2023, namely the current account balance, the net international investment position, the export performance against advanced economies, unit labour costs, NFC debt, and NFC credit flows. Relevant developments worth highlighting:

- The **external sector** continued to strengthen. External sector data are inflated and made very volatile by activities of multinational enterprises present in Ireland. In 2023, the current account surplus declined from 8.8% of GDP in 2022 to 8.1% of GDP. The trade in goods excluding energy was the main contributor to this change. The surplus remained beyond the indicative upper scoreboard threshold. The net international investment position (NIIP), which had reached around -180% of GDP before the pandemic, increased to around -101% of GDP in 2023. A further increase in this position is expected in the coming years, driven by the continued current account surpluses.

- **Cost competitiveness** indicators reflect inflation rates below the euro area in 2023 and 2024. Although Ireland saw strong increases in ULCs in 2023 – and these continue to be sizeable in 2024 – they come after years of reductions, and in recent years the HICP-REER has been depreciating, with the exception of 2023. Export performance against advanced economies has dropped below the scoreboard threshold in 2023, albeit after a period of very large gains that seems to have reflected to a considerable extent the activities of a limited number of very large multinational enterprises.

- **Corporate debt** is declining but remains high. In 2023, the corporate debt-to-GDP ratio continued to decline, reaching 110%, its lowest value since 2005. This decrease was driven largely by a fall in FDI debt-to-GDP, and was, in contrast to the EU trend, also caused by a comparatively strong decline in debt securities relative to GDP. Corporate credit growth, measured as credit flows excl. FDI over lagged debt stock, was the highest across the EU in 2023 ([96]). The interest coverage ratio fell as interest expenses increased, but less than in most of the other EU countries. Borrowing costs remain high. Unit profit growth declined markedly in 2023 and remained negative in the first half of 2024.

- After a period of strong deleveraging, **household debt** is slowly picking up again, from moderate levels. In 2023, the household debt-to-GDP ratio rose by more than 1 pp., making

([96]) In Ireland, operations by multinational corporations strongly affect corporate credit flows and stocks. Even though Irish credit growth exceeded the threshold of 13% set in the MIP scoreboard, a further decomposition shows that the evolution of bond and loan liabilities was relatively stable.

Ireland one of the few EU countries that saw their debt ratio increasing in 2023. The increase resulted mainly from a fall in nominal GDP coinciding with an uptick in credit flows. A further increase in household debt is expected for 2024. As a result of the rise in borrowing costs, the use of mixed and flexible interest rates for loans for house purchase resurged in 2023, after a long period of persistent decline. That should give some relief to debt service when interest rates go down. At the same time, household savings remain steady and above their pre-pandemic average.

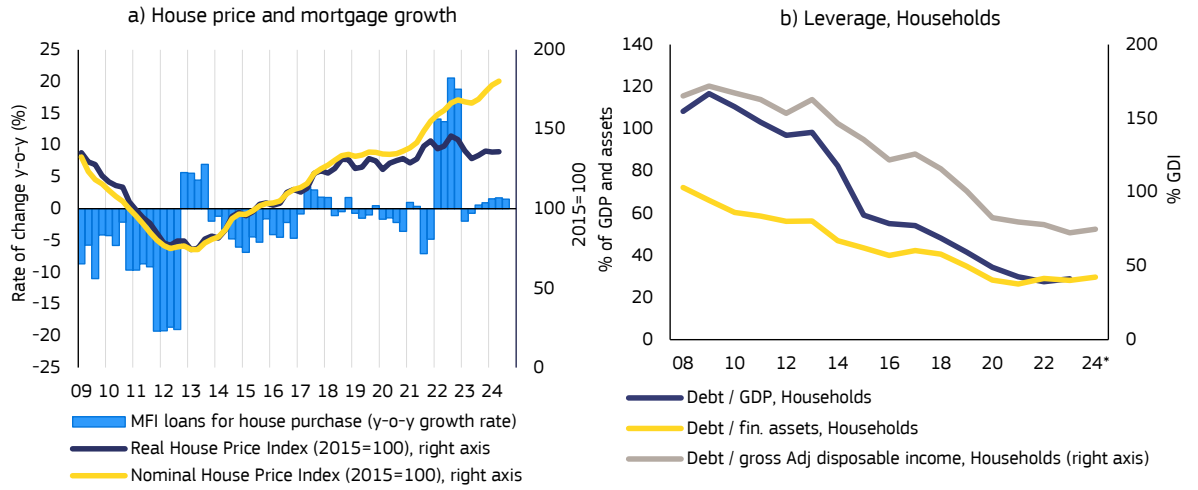
- **Housing market** developments remain a concern. House prices grew 3.1% in 2023, after increasing 8.3% and 12.3% in 2021 and 2022, respectively. In 2024-Q2 house prices growth edged to 8.4% from one year earlier. The house price-to-income ratio remains amongst the highest in the EU, with possible structural implications for the domestic economy, including Ireland's ability to attract skilled workers. Mortgage credit and house transactions remained stable in 2023, even as mortgage rates increased by over 1 percentage point, further highlighting the demand supply imbalance. However, building permits increased by 20.6% in 2023, much offsetting the decrease of 20.5% in 2022 and new housing completions continued to increase. This suggests that housing supply may remain dynamic and may help moderating the pace of house prices. Nonetheless, population growth has been high and should add to housing demand. In terms of financial stability, in February 2024 the ESRB concluded that residential real estate market in Ireland was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([97]).

- **Government debt** remains low and continues to recede. Government debt was broadly stable at 43.3% of GDP in 2023 and is forecast to fal+.21/0.l in 2024 and 2025. Government debt relative to national income remains more significant, at around 85% in 2023, but has been declining markedly too and is expected to recede further. The government balance has been in surplus since 2022 and is forecast to remain so.

- The resilience of the large **financial sector** is underpinned by a well-capitalised banking sector. The profitability of banks (both domestic retail banks and international investment ones) increased in 2023 but remains below the EU average. The non-performing loans ratio remains low but the Stage 2 ratio is rather high, especially due to vulnerabilities in some NFC segments. However, it declined in 2023. Credit provision remained muted over the same period.

([97]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.7: **Selected graphs: Ireland**



Source: ECB, Eurostat and European Commission calculations.

Table 4.7: **Key economic and financial indicators, Ireland**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				7.5	-5.5	-0.5	4.0
GDP deflator (1 year % change)				1.9	3.6	3.3	2.1
Harmonised index of consumer prices (1 year % change)				0.6	5.2	1.4	1.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-0.6**	**9.7**	**10.2**	**10.5**
Current account balance, balance of payments (% of GDP)		5.1 (1)	0.4 (2)	-5.1	8.1	13.7	9.7
Net international investment position (% of GDP)	**-35%**	-149.6 (3)	27.5 (4)	**-180.2**	**-101.4**	**-89.7**	**-79.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-261.0	-279.2		
Net lending-borrowing (% of GDP)				-16.3	6.4		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**-6.0**	**11.9**	**27.0**	**27.9**
Nominal unit labour cost index per hour worked (1 year % change)				-1.1	16.6	7.7	1.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**-1.6**	**-1.2**	**-2.5**	**-2.0**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.4	3.7	-1.3	-0.3
Export performance against advanced economies (3y % change)	**-3%**			**23.6**	**-9.2**	**-7.2**	**-1.3**
Export performance against advanced economies (1 year % change)				4.9	-1.3	0.3	1.7
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				-0.5	-0.5	-0.5	-0.3
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	78.6 (6)	94.6 (7)	**194.9**	**109.7**	**111.4**	**102.1**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-52.3**	**39.5**	**-9.4**	**-2.7**
Cost of borrowing for corporations				2.9	5.6	5.9	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	47.8 (6)	77.2 (7)	**47.9**	**28.9**	**31.4**	**30.7**
Household debt, consolidated (% of Households' GDI)				114.1	72.4	78.9	79.9
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**-2.5**	**3.7**	**11.5**	**4.0**
House price index, nominal (1 year % change)	**+9%**			**7.7**	**3.1**	**7.8**	**5.0**
House prices over/undervaluation gap [(8)]				-6.4	-5.7		
Building permits (m^2 per 1000 inh)				819.4	864.8		
Cost of borrowing for households for house purchase				3.0	3.8	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**60.9**	**43.3**	**41.6**	**38.3**
General government balance (% of GDP)				0.1	1.5	4.4	1.4
Banking sector							
Return on equity of banks (%)				4.5	7.6 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				23.3	21.8 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				6.3	1.3 p	1.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	4.5 (9)		**5.8**	**4.3**	**4.4**	**4.4**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.7**	**6.7**	**3.3**	**1.6**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

GREECE

Vulnerabilities related to the external position, to government debt, and to the banking sector remain, although there are signs of improvement. In 2023, the net international investment position and the government debt-to-GDP ratio improved mainly due to nominal GDP growth. The current account deficit remained high due to relatively robust domestic demand and is forecast to remain elevated. House prices are increasing strongly. The share of non-performing loans in the banking sector has fallen but remains high. Unemployment has decreased but remains high.

Real GDP increased by 2.3% in 2023 and is forecast to grow by 2.1% in 2024 and 2.3% in 2025. At 4.2%, headline inflation was lower than the euro area average in 2023 but it has been above the euro area average since the beginning of 2024 and is expected to average 3.0% this year. Core inflation was also slightly above the euro area average in 2023 and has been above it so far in 2024. While decreasing to 11.1% in 2023, the unemployment rate remained among the highest in the EU. It is expected to decrease to below 10% by 2025.

The scoreboard reading for Greece shows that five indicators were beyond their indicative thresholds in 2023, namely the current account balance, the net international investment position, house prices, government debt, and the unemployment rate. Relevant developments worth highlighting:

- **External sustainability** concerns remain. The current account deficit saw a substantial decline in 2023, to 6.2% of GDP, but it remained high and well above its pre-2020 levels as well as above levels explained by economic fundamentals. Price effects on the trade balance played a major role in the recent dynamics, as the trade balance in real terms has remained broadly stable since its sharp decline in 2020. Continued robust investment activity, partly funded by the RRF, contributed to the negative trade balance. Consumption was also an important factor behind the higher deficit despite a notable slowdown in consumer spending in 2023. The current account deficit is set to stay sizeable in 2024. Grants and loans from the EU will help cover part of external financing needs. The combination of substantial net external borrowing and an expected deceleration in nominal growth will constrain further increases in the net international investment position, which stood at approximately -140% of GDP in 2023.

- **Cost competitiveness** indicators reflect inflation that is broadly in line with the euro area. The core inflation differential vis-à-vis the euro area decreased lately, reaching 0.9 pps. in September 2024. Last year, the HICP-based REER appreciated slightly, as the nominal appreciation was only partly offset by favourable inflation differentials. It remained stable in the first half of 2024. 2023 ULC growth was almost 4%, as nominal wage growth was strong and only partly offset by productivity gains. The ULC-based REER depreciated further in 2023 as the wage growth was lower than that of the trade partners. Following years of improvement in the labour market, the unemployment rate is expected to drop below the 10% scoreboard threshold in 2025. At the same time, unemployment remains high and the labour market faces skill mismatches and structural bottlenecks.

- **Corporate debt** developments remained broadly stable. The corporate debt-to-GDP ratio declined slightly to 52% in 2023, while NFC credit growth was buoyant at just below 5%, supported by the Loan Facility under Greece's Recovery and Resilience Plan. While the interest burden has risen less than in other EU countries and borrowing costs have started to decline somewhat, average borrowing costs remain high compared to historical standards. Thus, the interest burden of NFCs is likely to remain elevated in the near term despite two-thirds of corporate loans facing interest rate resets in 2024. The share of non-performing loans (NPLs) decreased further down to 6.7% in the second quarter of 2024, after averaging at above 8% of

total loans and advances in 2023. Profit indicators deteriorated in 2023 but picked up again slightly at the beginning of 2024.

- **Household debt** continues to decline. The household debt-to-GDP ratio decreased to 41% in 2023, 14 pps. below its pre-pandemic level and below the EU average. It is expected to continue declining in 2024. Deleveraging was particularly helped by still high inflation in 2023. Net credit flows have been negative over the last five years, but are gradually converging to zero. Remaining risk factors focus on the low savings rate, which has been negative over most of the last ten years, and the still high proportion of non-performing loans, in spite of significant progress made over recent years.

- Concerns related to the **housing market** increased due to elevated house price growth. House prices are estimated to be overvalued by around 20% after significant increases of 7.6%, 11.9%, and 13.8% in 2021, 2022, and 2023, respectively. In the second quarter of 2024, house prices continued to increase at 9.3% year-on-year, although they remained below their 2007 levels. House price growth has been driven by both reviving domestic and foreign demand, and limited supply due to years of subdued construction investment. Since 2017, house price growth has exceeded households' income growth by more than 20 pps. Accelerating construction activity (building permits grew by 28.8% in 2023) may moderate the pace of house prices in the following years. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Greece was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([98]).

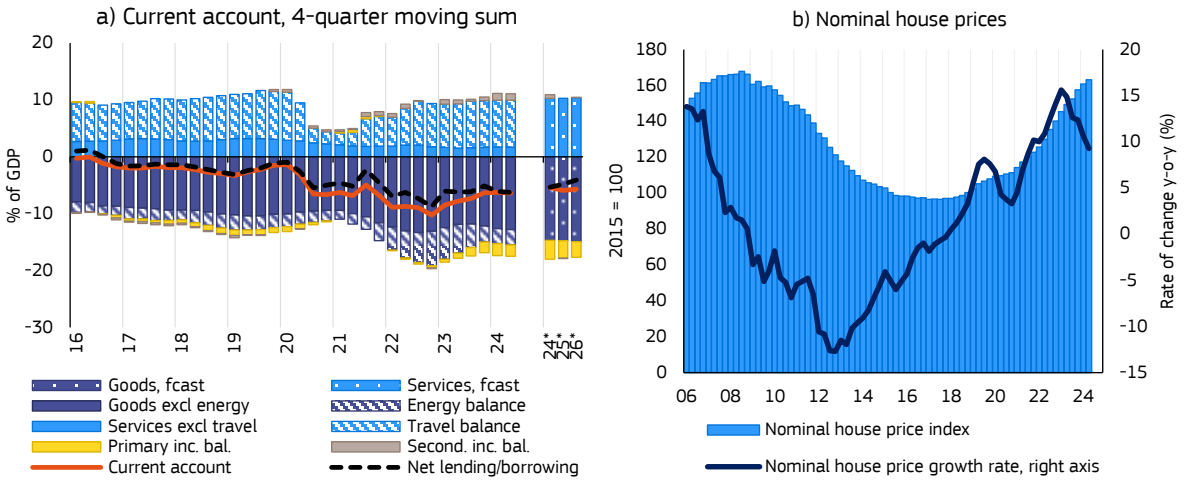
- **Government debt** remains high, although it is declining. Government debt is still the highest in the EU, at 163.9% of GDP in 2023. It is some 15 pps. below its 2019 pre-COVID-19 level and is forecast to fall further in 2024 and 2025 on account of strong nominal GDP growth, and limited and narrowing budgetary deficits. The government budget is expected to continue declining and to get around balance next year with primary surpluses of some 3% of GDP. As Greece's government debt is predominantly held by official lenders at favourable interest rates and long maturities, interest expenditure is contained in the short and medium term, and moreover annual gross financing needs are limited and declining. In 2023, yields on Greek sovereign bonds narrowed further compared with the best rated euro area sovereign debt, helped by the Greek sovereign debt reacquiring investment-grade status. The fiscal sustainability risks are high in the medium term and low in the long term ([99]).

- The **financial sector** situation improved further, but some concerns remain. Whereas in 2023 the overall non-performing loans (NPL) ratio of the banking sector continued decreasing, in 2024 it slightly increased, and at 5.2% in 2024-Q2 it remained the highest in the EU. Risks have largely migrated to the non-bank financial sector and to a lesser extent to the state, and so still have the capacity to weigh on the economy. The share of Stage 2 loans decreased to the EU average, whereas the share of forborne loans is above the euro area average. The capitalisation of the banking sector increased further, but remained below the EU average and profitability was close to the EU average in 2023.

([98]) ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([99]) Estimated based on the Commission's 2024 autumn forecast.

Graph 4.8: **Selected graphs: Greece**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.8: **Key economic and financial indicators, Greece**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.0	2.3	2.1	2.3
GDP deflator (1 year % change)				0.1	5.9	3.5	2.4
Harmonised index of consumer prices (1 year % change)				0.8	4.2	3.0	2.4
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-1.9**	**-7.7**	**-7.3**	**-5.8**
Current account balance, balance of payments (% of GDP)		-1.6 (1)	-0.6 (2)	-2.1	-6.2	-5.4	-5.9
Net international investment position (% of GDP)	**-35%**	-47.9 (3)	-49.7 (4)	**-147.8**	**-139.3**	**-130.4**	**-128.1**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-131.7	-110.7		
Net lending-borrowing (% of GDP)				-1.7	-5.0		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**-3.4**	**-1.8 p**	**3.3**	**7.0**
Nominal unit labour cost index per hour worked (1 year % change)				-0.8	1.8 p	3.3	1.7
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.5**	**-1.2**	**-1.3**	**-1.3**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.2	1.7	0.3	0.1
Export performance against advanced economies (3y % change)	**-3%**			**6.0**	**32.1**	**12.5**	**2.3**
Export performance against advanced economies (1 year % change)				4.8	-0.7	3.3	1.3
Core inflation[5] differential vis-à-vis the euro area (pps.)				-0.5	0.4	0.5	0.2
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	45.9 (6)	60.4 (7)	**59.0**	**52.4 p**	**50.4**	**48.9**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**0.4**	**4.6**	**4.5**	**1.8**
Cost of borrowing for corporations				4.2	5.9	5.8	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	26.3 (6)	33.4 (7)	**57.4**	**40.9 p**	**38.4**	**38.2**
Household debt, consolidated (% of Households' GDI)				75.9	53.1	52.7	53.7
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**-2.2**	**-1.0**	**-0.7**	**4.4**
House price index, nominal (1 year % change)	**+9%**			**2.6**	**13.8 f**	**10.2**	**6.0**
House prices over/undervaluation gap [8]				-8.5	19.6		
Building permits (m^2 per 1000 inh)				84.1	260.7 p		
Cost of borrowing for households for house purchase				3.0	4.1	4.2	
Government							
General government gross debt (% of GDP)	**60%**			**184.8**	**163.9**	**153.1**	**146.8**
General government balance (% of GDP)				0.8	-1.3	-0.6	-0.1
Banking sector							
Return on equity of banks (%)				-0.3	12.0 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.2	16.2 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				40.7	5.0 p	5.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	9.3 (9)		**19.8**	**11.1**	**10.4**	**9.8**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.5**	**4.2**	**2.9**	**1.2**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

SPAIN

In Spain, vulnerabilities related to the external position and to the indebtedness of the private and public sectors are reducing. The net international investment position improved due to nominal GDP growth and current account surpluses, and the trend is forecast to continue in the coming years. The REER appreciated only mildly in 2023 due to favourable inflation differentials and Spain continued to gain export market shares against other advanced economies. Corporate and household debt-to-GDP ratios decreased further in 2023. Government debt remains high but is forecast to decrease due to high nominal growth and narrowing deficits. Unemployment continued to decline but remains high.

Real GDP growth reached 2.7% in 2023 and is forecast at 3.0% in 2024 and 2.3% in 2025 Headline inflation stood well below the euro area average in 2023, at 3.4%, and remained broadly stable in the first half of 2024, albeit above the euro area average. It is expected to stand at 2.8% in 2024. At the same time, core inflation has gradually decreased in line with the euro area average. The unemployment rate decreased to 12.2% in 2023. It is forecast to decrease gradually to 11% in 2024-2025.

The scoreboard reading for Spain shows that four indicators were beyond their indicative thresholds in 2023, namely the net international investment position, unit labour costs, government debt, and the unemployment rate. Relevant developments worth highlighting:

- The **external sector** continued to strengthen, with a current account surplus at 2.7% of GDP in 2023 and an increasing net international investment position (NIIP). The increase in the current account balance was primarily driven by the higher surplus attained by both tourism and non-tourism service exports and the reduction of energy prices. The NIIP, at around -52% of GDP in 2023, continued to experience a notable increase compared to previous years and is expected to further increase in 2024 and 2025.

- **Cost competitiveness** developments remain contained. In 2023, the REER remained broadly stable as nominal appreciations were offset by favourable inflation differentials, a trend that continued in mid-2024. In 2023, ULC growth was around 6%, similar to the euro area overall, as nominal wage growth picked up over the year and was only partly offset by productivity gains. The labour market has improved in the past years and the unemployment rate has decreased markedly while remaining the highest in the EU.

- **Corporate debt-to-GDP** has been declining continuously over the past three years, falling to 66% in 2023, its lowest level since 2002. The deleveraging was driven mainly by a decline in total loan debt excluding FDI, with credit growth remaining negative in 2023. The interest burden of Spanish NFCs has increased strongly, leading to a decline in the interest coverage ratio. Borrowing costs were below the euro area average in 2023 but remained high compared to the previous decade. Bankruptcy procedures picked up during 2023, which could partly be related to the implementation of a new legal framework for insolvencies, while new business registrations increased more moderately than in 2022. Unit profit growth fell during 2023 but picked up somewhat at the beginning of 2024.

- **Household debt** is on a steady downward path. The household debt-to-GDP ratio stands at a moderate level, declining by 5 pps. to 46% in 2023, and is expected to further decrease in 2024. The already low net credit flows to households turned negative in 2023 but are expected to reverse in 2024. The use of flexible interest rates temporarily surged at the end of 2022 for new loans for house purchase in response to the rising borrowing costs, but then returned

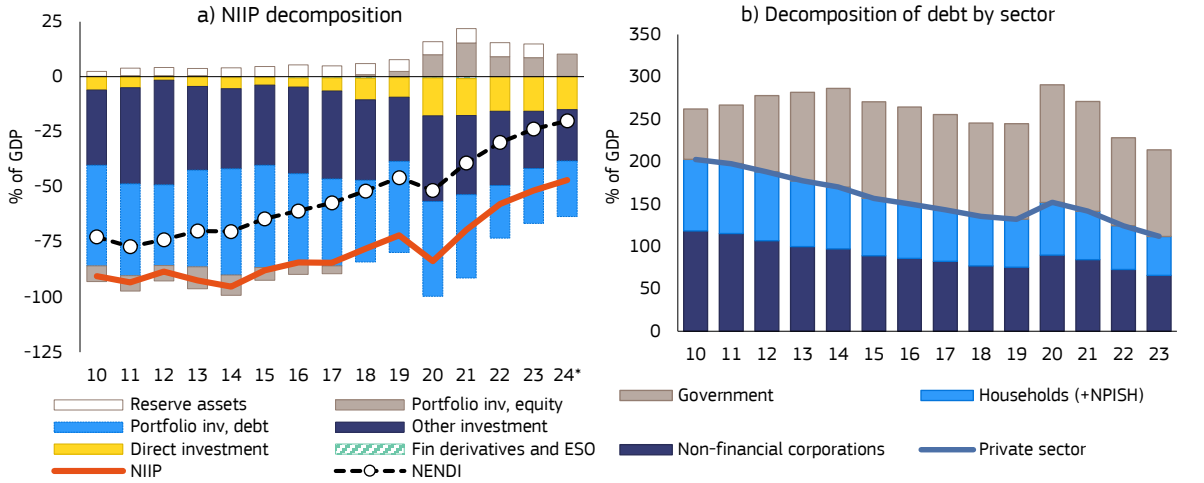
swiftly to its longer-term downward trend. The proportion of non-performing loans among loans given out to households remains above 3% and picked up slightly in 2023.

- **House price** growth has moderated. House prices are estimated to be slightly overvalued by around 10% and their growth was moderate in 2023 (4.0%, after increasing by 3.7% and 7.4% in 2021 and 2022, respectively). In 2024-Q2, house prices continued to grow at a constant pace, by 7.9% year-on-year. Reflecting limited housing investment, house prices have outpaced household income by around 10 pps. since 2015. With the increase in mortgage rates, which rose from 1.5% in 2021 to 3.7% in 2023, mortgage credit reduced by 3.2%, and the number of house transactions fell by 12.5% in 2023. Building permits continued to increase in 2023, signalling that supply remains dynamic and contributing to some moderation in house prices growth. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Spain was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([100]).

- **Government debt** remains high but has kept decreasing. While government debt fell to 105.1% of GDP in 2023, it is still some 7½ pps. above its 2019 pre-COVID-19 level. The government debt-to-GDP is forecast to fall further in 2024 and 2025 on account of high nominal GDP growth and narrowing budgetary deficits. The government deficit came in at 3.5% of GDP in 2023 and is forecast to decrease to 3% of GDP in 2024. Gross financing needs have been above the euro area average. In the course of 2024, yields on Spanish sovereign bonds have slightly improved in comparison with the best rated euro area sovereign debt. The fiscal sustainability risks are high in the medium term and medium in the long term ([101]).

- The **financial sector** remained resilient. In 2023, profitability increased to approach the EU average. However, banking capitalisation remains on the low side compared to other EU peers. The non-performing loans ratio was stable in 2023, remaining slightly above the EU average. The ratio of Stage 2 loans slightly increased in 2023 but remains below the EU average.

Graph 4.9: **Selected graphs: Spain**



Source: Eurostat and European Commission forecasts and calculations.

([100])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([101])Estimated based on the Commission's 2024 autumn forecast.

Table 4.9: **Key economic and financial indicators, Spain**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.4	2.7	3.0	2.3
GDP deflator (1 year % change)				1.3	6.2	3.1	2.4
Harmonised index of consumer prices (1 year % change)				1.5	3.4	2.8	2.2
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**2.5**	**1.3**	**2.1**	**3.2**
Current account balance, balance of payments (% of GDP)		0.8 (1)	-1.0 (2)	2.3	2.7	3.4	3.5
Net international investment position (% of GDP)	**-35%**	-61.9 (3)	-15.8 (4)	**-78.1**	**-51.7**	**-42.1**	**-34.6**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-51.6	-23.8		
Net lending-borrowing (% of GDP)				2.6	3.7		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**2.3**	**10.0 p**	**12.5**	**13.6**
Nominal unit labour cost index per hour worked (1 year % change)				2.1	6.2 p	4.0	2.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.2**	**-0.8**	**-2.5**	**-2.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.6	0.6	0.2	0.0
Export performance against advanced economies (3y % change)	**-3%**			**2.3**	**14.0**	**10.8**	**2.8**
Export performance against advanced economies (1 year % change)				-0.2	6.3	-0.2	-0.9
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.1	-0.8	0.0	-0.1
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	51.5 (6)	47.1 (7)	**78.4**	**65.9 p**	**63.1**	**61.0**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**0.4**	**-3.1**	**1.4**	**1.3**
Cost of borrowing for corporations				1.8	4.5	4.9	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	35.4 (6)	43.8 (7)	**58.7**	**46.1 p**	**43.9**	**42.5**
Household debt, consolidated (% of Households' GDI)				79.9	61.6	60.5	60.5
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**-0.1**	**-1.9**	**1.1**	**1.4**
House price index, nominal (1 year % change)	**+9%**			**6.0**	**4.0**	**2.0**	**3.0**
House prices over/undervaluation gap [8]				0.2	9.1		
Building permits (m^2 per 1000 inh)				338.2	299.7 ps		
Cost of borrowing for households for house purchase				1.9	3.8	3.6	
Government							
General government gross debt (% of GDP)	**60%**			**99.6**	**105.1**	**102.3**	**101.3**
General government balance (% of GDP)				-2.9	-3.5	-3.0	-2.6
Banking sector							
Return on equity of banks (%)				7.3	11.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				13.5	14.7 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				3.7	2.7 p	2.7	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	12.5 (9)		**15.5**	**12.2 d**	**11.5**	**11.0**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**-0.4**	**2.3 d**	**1.0**	**1.0**

(1) See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

FRANCE

In France, vulnerabilities related to cost competitiveness have decreased, but government debt is forecast to increase due to a widening of the government deficit amid relatively weak growth. Cost competitiveness improved, and France gained export market shares against other advanced economies in 2023, with the growth in nominal unit labour costs and the REER appreciation being below the euro area averages. After a small reduction in 2023, government debt is forecast to increase in the next years.

Real GDP growth reached 0.9% in 2023 and is forecast at 1.1% in 2024 and 0.8% in 2025 ([102]). Headline inflation was slightly above the euro area average in 2023. It has come down since the beginning of 2024, broadly in line with the euro area average, and is forecast to stand at 2.4% this year. Core inflation was below the euro area average in 2023 and has stabilised at levels close to 2.2% in recent months, below the euro area average. The unemployment rate remained at 7.3% in 2023, a historically low level but slightly above the euro area average. It is forecast to increase mildly in 2024-2025.

The scoreboard reading for France shows that four indicators were beyond their indicative thresholds in 2023, namely unit labour costs, household debt, NFC debt and government debt. Relevant developments worth highlighting:

- **External sustainability** developments remain contained, despite the net international investment position (NIIP) deteriorating somewhat. The current account deficit reduced slightly, from 1.2% of GDP in 2022 to 1.0% of GDP in 2023, primarily due to the moderation in the energy goods balance. The current account balance is forecast to shift into surplus in 2024 and 2025. The net international investment position deteriorated from around -25% of GDP in 2022 to -28% of GDP in 2023. Looking ahead, the NIIP is projected to increase over the forecast period, remaining above the MIP threshold of -35%.

- Recent **cost competitiveness** developments continue to be more favourable than for the euro area overall, but non-cost competitiveness concerns remain. Last year, the HICP-based REER (42 trade partners) appreciated, pushed by nominal appreciation of the euro but remained broadly stable by mid-2024. In 2023, and over 3 years, France gained export market shares against advanced economies for the first time since 2020. 2023 ULC growth was above 4%, as nominal wage growth was robust and growth in productivity per hour muted. Weak labour productivity in recent years has been partly due to temporary factors linked to support schemes and apprenticeships which underpinned an increase in declared number of hours worked (time spent in training was recorded as effective hours worked), while some key sectors suffered drops in generated value added after the recent crises, accompanied by labour hoarding. Overall, in recent years both the REER appreciation and the growth in unit labour costs have been below the euro area averages.

- **Corporate debt** continued to decline but remains elevated. Corporate debt declined to 92% of GDP in 2023, considerably below its peak of 106% in 2020, and it is expected to fall below pre-pandemic levels in 2024. This decrease can be largely attributed to a marked fall in FDI debt relative to GDP and a decline in credit growth in 2023. The interest coverage ratio of French NFCs has been low relative to other EU countries and fell further as interest expenses

([102])These forecasts are made under a "no-policy-change" assumption which, in the case of France, does not reflect the possible impact of the 2025 draft government budget.

increased. Borrowing costs have started to descend somewhat but remain elevated compared to the preceding decade.

- **Household debt** is on a declining path, but remains high. The household debt-to-GDP ratio decreased in 2023 to 63% but remains high. France is one of the few EU Member States where the debt ratio remains above pre-pandemic levels, although that is expected to change by 2024. Net credit flows continued to contract in 2023, approaching zero even though the cost of borrowing remains among the lowest in the EU. Households' high savings rate and the predominance of fixed interest rates among loans for house purchase have supported household balance sheets in times of rising interest rates: as interest payments remained stable and receipts increased, net interest payments declined in 2023. On the downside, 2021 Household Finance and Consumption Survey data suggest that the debt-service-to-income ratio is higher in France than in most other euro area countries.

- The **housing market** continues to adjust slowly. House prices are estimated to be overvalued by 10-15% and slightly decreased in 2023 by 0.4%, after increasing 6.3% both in 2021 and 2022. Recent data show that the adjustment is ongoing with house prices decreasing 4.6% in 2024-Q2, year-on-year. Since 2015, house prices grew slightly in line with household income. With the increase in mortgage rates, from 1.1% in 2021 to 3.0% in 2023, mortgage credit stabilised, but the number of house transactions decreased by 21.5% in 2023 after a decrease of 4.5% in 2022. Accordingly, building permits also decreased by 26.4% in 2023 but seem to have stabilised in 2024, suggesting that the ongoing adjustment in house prices is already being reflected in the construction sector. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in France was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([103]).

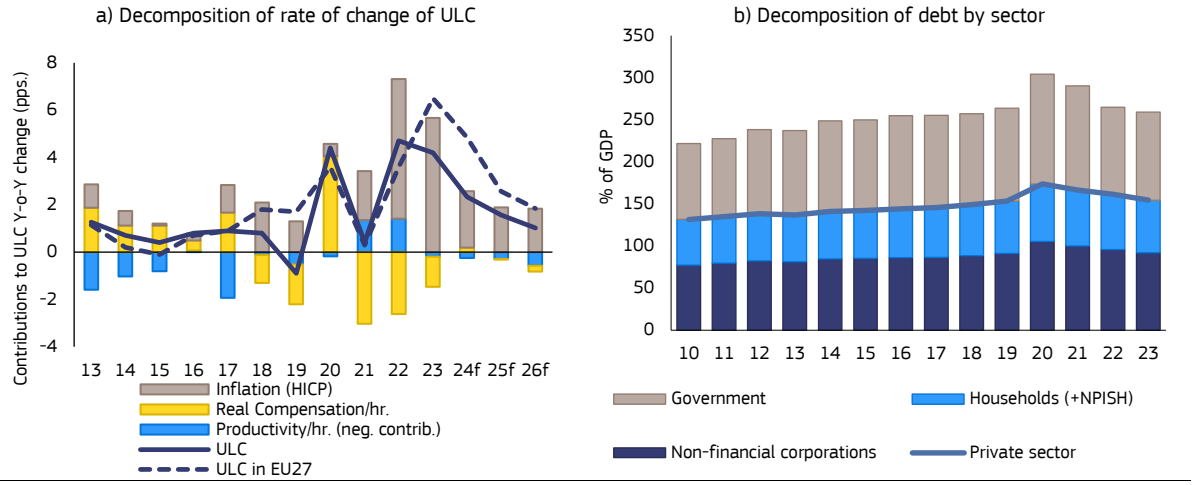
- **Government debt** is high and is increasing with high deficits. While the government debt declined slightly to 109.9% of GDP in 2023, it is still almost 12 pps. above its 2019 pre-COVID-19 level, and debt is forecast to inch up in 2024 and 2025 as the government deficit remains high. The government deficit reached 5.5% of GDP in 2023 and it is expected to widen further in 2024 and to remain elevated in 2025. Gross financing needs are above the euro area average. Yields on French sovereign bonds were somewhat volatile in recent months, particularly since June, and have widened in comparison with the best rated euro area sovereign debt. Government guarantees are among the largest in the EU. An excessive deficit procedure has been opened for France this July. The fiscal sustainability risks are high in the medium term and medium in the long term ([104]).

- The **financial sector** continues to be characterised by the relatively low profitability and capitalisation of banks. The NPL ratio has been stable and close to the EU average, as have Stage 2 loans. Credit flows to households and NFCs contracted significantly in 2023. The correction of commercial real estate prices warrants attention, given the relatively high exposure of the banking sector.

([103])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([104])Estimated based on the Commission's 2024 spring forecast.

Graph 4.10: **Selected graphs: France**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.10: **Key economic and financial indicators, France**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				1.9	0.9	1.1	0.8
GDP deflator (1 year % change)				1.0	5.3	2.2	1.6
Harmonised index of consumer prices (1 year % change)				1.5	5.7	2.4	1.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-0.4**	**-0.6**	**-0.6**	**0.0**
Current account balance, balance of payments (% of GDP)		0.0 (1)	-0.8 (2)	-0.2	-1.0	0.5	0.7
Net international investment position (% of GDP)	**-35%**	-79.8 (3)	11.2 (4)	**-25.7**	**-28.1**	**-22.9**	**-22.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-32.3	-29.4		
Net lending-borrowing (% of GDP)				-0.1	-0.7		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**1.8**	**9.5 p**	**11.6**	**8.3**
Nominal unit labour cost index per hour worked (1 year % change)				0.3	4.2 p	2.3	1.6
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.1**	**-1.8**	**-3.4**	**-0.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.6	3.6	-0.3	-0.4
Export performance against advanced economies (3y % change)	**-3%**			**-2.0**	**2.1**	**-1.5**	**0.2**
Export performance against advanced economies (1 year % change)				-0.6	1.7	-0.5	0.9
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				-0.3	-1.0	-0.5	-0.2
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	49.4 (6)	63.8 (7)	**88.6**	**91.9 p**	**88.7**	**88.9**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**5.5**	**3.1**	**2.2**	**2.7**
Cost of borrowing for corporations				1.5	4.3	4.7	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	42.1 (6)	62.5 (7)	**60.9**	**62.6 p**	**60.5**	**60.7**
Household debt, consolidated (% of Households' GDI)				77.8	77.4	76.2	77.8
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**5.5**	**1.3 p**	**0.0**	**2.8**
House price index, nominal (1 year % change)	**+9%**			**3.1**	**-0.4**	**-4.2**	**-1.0**
House prices over/undervaluation gap [(8)]				7.0	15.3		
Building permits (m^2 per 1000 inh)				573.8	430.4 p		
Cost of borrowing for households for house purchase				1.5	3.0	3.5	
Government							
General government gross debt (% of GDP)	**60%**			**98.4**	**109.9**	**112.7**	**115.3**
General government balance (% of GDP)				-2.7	-5.5	-6.2	-5.3
Banking sector							
Return on equity of banks (%)				6.3	5.9 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				15.7	17.3 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.8	1.9 p	2.0	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	7.8 (9)		**8.9**	**7.3 d**	**7.4**	**7.5**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.4**	**1.9 d**	**1.3**	**0.9**

(1) See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

CROATIA

In Croatia, high core inflation is fuelling cost competitiveness concerns, while house prices continue to grow strongly and show signs of overvaluation; however, the associated macroeconomic risks appear limited. Unit labour costs increased strongly in 2023, while core inflation was among the highest in the euro area and has remained persistently elevated. The government deficit is widening somewhat, but government debt is forecast to decrease further due to nominal GDP growth.

Real GDP growth reached 3.3% in 2023 and is forecast at 3.6% in 2024 and 3.3% in 2025. Headline and core inflation were among the highest in the euro area in 2023, at 8.4% and 8.8%, respectively. Headline inflation has decreased and was close to 3% in the third quarter of 2024, still above the euro area average. It is forecast to stand at 4.0% in 2024. Core inflation remains elevated and above the euro area average, but the differential has narrowed significantly compared to 2023. The unemployment rate continued to decrease and stood at 6.1% in 2023. It is forecast to decrease to around 5% in 2024 and 2025.

The scoreboard reading for Croatia shows that four indicators were beyond their indicative thresholds in 2023, namely the real effective exchange rate, unit labour costs, house prices, and government debt. Relevant developments worth highlighting:

- The **external sustainability** strengthened in 2023, with the current account balance turning positive. The current account balance shifted from a deficit of 3.2% of GDP in 2022 to a surplus of 0.7% in 2023, due to a smaller trade deficit in energy goods and a positive contribution of travel services. The current account is forecast to remain broadly balanced over the coming years. The net international investment position (NIIP) increased from -33.9% of GDP in 2022 to -26% in 2023, owing to the current account surplus and nominal growth. The NIIP excluding non-defaultable instruments (NENDI) was 20.5% of GDP in 2023.

- **Cost competitiveness** concerns persist due to high core inflation. Core inflation was 3.9 pps. above the euro area average in 2023, but the differential decreased to 2.1 pps. by September 2024. The comparatively higher inflation is partly due to the relatively larger size of the tourism-related services in the price index. Last year, the REER appreciated markedly by 4.6%, on the back of nominal exchange rate appreciation and a slightly unfavourable inflation differential. It continued to appreciate in the first half of 2024 but more slowly. In 2023, ULC growth was substantially higher than the euro area average (14.9% vs. 6.3%), as nominal wage increases (partly related to a unique, wide-ranging public wage-system reform) considerably exceeded the productivity gains. At the same time, Croatia has been gaining export shares in recent years.

- **Corporate debt** continued to fall, reaching 43 percent of GDP in 2023. Credit growth remained strong (at above 7%, similar to 2022), but was below nominal GDP growth. Consequently, the corporate debt-to-GDP in Croatia, which is among the lowest in the EU, continued to decline. The decrease in debt-to-GDP was predominantly loan driven and can be largely attributed to a fall in FDI debt-to-GDP. The share of NPLs decreased further but remains above 5% of total loans and advances. Unit profit growth fell during 2023 but picked up somewhat at the beginning of 2024.

- **Household debt** remains contained, but credit flows are growing. The household debt-to-GDP ratio is low, at 31% in 2023. While the household debt ratio declined strongly due to high nominal GDP growth, credit flows to households have been growing strongly since 2020, reaching 9.5% of the (comparatively low) previous year's debt stock in 2023 and showing signs

of further increase. The increase initially reflected strong housing loans dynamics spurred by the government's subsidised housing loans scheme and house price growth. In the meantime, growth of housing loans decelerated despite further growth in prices, and more recent credit growth was mainly driven by general purpose loans. The latter make up almost 40% of the stock of loans to households (and 55% of recent transactions) and are not backed by a mortgage, therefore presenting higher risk, and warranting further monitoring. Non-performing loans have been declining but still made up around 4% of all loans to households by the end of 2023.

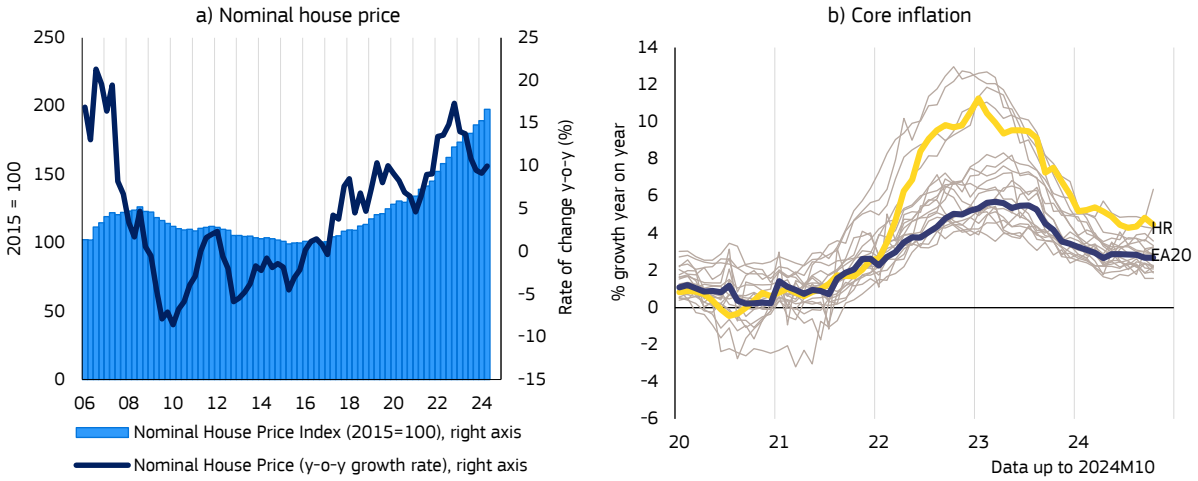
- **Housing market** concerns relate to continued strong house price growth. House prices are estimated to be slightly overvalued at around 10%, and have grown fast, by 11.9% in 2023, after increasing by 7.3% and 14.9% in 2021 and 2022, respectively. In 2024-Q2, house prices showed signs of deceleration, growing by 10.0% year-on-year. However, house price growth has been in line with the growth of households' income since 2015. Mortgage rates increased from 2.8% in 2021 to 3.3% in 2023, and mortgage credit remains dynamic (+9.8% in 2023). Compared with 2015, building permits showed signs of stabilising at a high level, but then continued increasing into mid-2024. If supply remains strong – which may be supported by the announced new legislation increasing taxation on non-rented or shortly-rented properties – it may moderate the evolution of house prices, but it requires close monitoring. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Croatia was subject to medium risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation ([105]).

- **Government debt** is contained and is declining. The government debt decreased further to 61.8% of GDP in 2023 and is forecast to continue decreasing this year and next. The fiscal balance turned into a small deficit in 2023, which is expected to widen further in 2024 and 2025, but to remain contained and below 3% of GDP. In the course of 2024, yields on Croatian sovereign bonds have changed little compared with the best rated euro area sovereign debt; gross financing needs are below the euro area average, whereas average debt maturity is among the lowest in the euro area.

- The **financial sector** remains stable. The non-performing loans ratio dropped below 2.4% (as of second quarter 2024) but remains above the EU average. Bank profitability further increased in 2023, above the EU average. The Common Equity Tier 1 capital ratio remains one of the highest in the EU. Credit growth has slowed down in 2023 but remains rather strong. Croatia's banking system is characterised by large liquidity surplus. The financial sector's exposure to domestic sovereign debt is significant and one of the highest in the euro area.

([105])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.11: **Selected graphs: Croatia**



Source: Eurostat and European Commission calculations.

Table 4.11: **Key economic and financial indicators, Croatia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				3.1	3.3	3.6	3.3
GDP deflator (1 year % change)				1.7	11.7	6.6	3.2
Harmonised index of consumer prices (1 year % change)				1.2	8.4	4.0	3.4
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**2.7**	**-0.6**	**-0.8**	**0.3**
Current account balance, balance of payments (% of GDP)		-1.0 (1)	-1.9 (2)	2.6	0.7	0.1	0.2
Net international investment position (% of GDP)	**-35%**	-55.4 (3)	-30.1 (4)	**-59.2**	**-26.0**	**-21.3**	
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-9.4	20.5		
Net lending-borrowing (% of GDP)				3.8	3.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**0.2**	**17.1 p**	**36.3**	**31.7**
Nominal unit labour cost index per hour worked (1 year % change)				0.8	14.9 p	10.6	3.6
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**2.1**	**4.3**	**4.4**	**4.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.6	4.6	1.4	1.1
Export performance against advanced economies (3y % change)	**-3%**			**11.9**	**36.6**	**17.2**	**5.0**
Export performance against advanced economies (1 year % change)				3.0	5.2	2.8	0.7
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				-0.1	3.9	1.9	0.5
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	72.9 (6)	39.2 (7)	**58.6**	**42.8 p**	**41.2**	
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-3.4**	**7.7**		
Cost of borrowing for corporations				2.7	4.6	5.0	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	49.7 (6)	18.3 (7)	**34.8**	**30.1 p**		
Household debt, consolidated (% of Households' GDI)				48.5	42.2		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**5.9**	**9.5**		
House price index, nominal (1 year % change)	**+9%**			**6.3**	**11.9**	**9.5**	**3.0**
House prices over/undervaluation gap [(8)]				-9.8	10.9		
Building permits (m^2 per 1000 inh)				331.5	520.0		
Cost of borrowing for households for house purchase				3.5	3.2	3.7	
Government							
General government gross debt (% of GDP)	**60%**			**73.3**	**61.8**	**57.3**	**56.0**
General government balance (% of GDP)				0.2	-0.9	-2.1	-2.1
Banking sector							
Return on equity of banks (%)				7.9	15.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				20.7	21.7 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				7.1	2.5 p	2.4	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.8 (9)		**8.8**	**6.1**	**5.1**	**4.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.2**	**2.9**	**2.6**	**3.1**

(1) See Annex 1

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024)

ITALY

In Italy, concerns related to high government debt remain. Following a decrease in 2023, the government debt-to-GDP ratio is forecast to increase in the next few years, despite smaller government deficits, due to unfavourable stock-flow adjustments and interest-growth differentials against a backdrop of low productivity and potential GDP growth. Pressures on Italy's relative cost competitiveness are limited, as unit labour costs have increased less than the euro area average, while Italy gained export market shares against other advanced economies in 2023. Despite significant progress, the continued interconnectedness between the government and the banking sector still represents a risk of feedback loops.

Real GDP growth reached 0.7% in 2023 and is forecast at 0.7% in 2024 followed by 1.0% in 2025. Average headline inflation was slightly above the euro area average in 2023, at 5.9%. It has then fallen well below the euro area average and is forecast to stand at 1.1% on average in 2024. Core inflation has stabilised around 2% in the past months, below the euro area average. The unemployment rate decreased to 7.7% in 2023 and is forecast to continue decreasing in 2024 and 2025.

The scoreboard reading for Italy shows that one indicator was beyond its indicative threshold in 2023, namely government debt. Relevant developments worth highlighting:

- The **external sector** strengthened further in 2023. The current account balance increased from a deficit of 1.7% in 2022 to a broadly balanced position in 2023, primarily due to the moderation in the energy balance. The current account balance is forecast to further increase in 2024 and to broadly stabilise in 2025. Italy's positive Net International Investment Position (NIIP) increased in 2023 and is forecast to continue doing so.

- **Cost competitiveness** developments were overall positive in 2023. Last year, the REER appreciated, pushed by the nominal appreciation of the euro, but depreciated by mid-2024 on the back of a favourable inflation differential. In 2023, over a 3-year period, Italy gained export market shares against advanced economies following several years of losses, and yearly ULC growth was well below the euro area average, at close to 4%. Despite the moderate nominal wage growth, ULCs increased due to a drop in productivity per hour.

- **Corporate debt** reduced further to 58% of GDP in 2023, down from 62% in 2022, reaching its lowest level in two decades. Credit growth was negative in 2023, contracting at around 2%. The interest coverage ratio fell as interest expenses increased but remained relatively high. Borrowing costs remained elevated, and bankruptcies picked up in 2023, while new business registrations increased more moderately. Unit profit growth fell during 2023, turning negative at the beginning of 2024. Italy's NFCs have a comparatively low investment rate (around 20% of gross value added), which fell strongly in 2023 but recovered somewhat at the beginning of 2024.

- **Household debt** continues to fall. The household debt-to-GDP ratio declined to 37% in 2023, helped by high inflation and subdued lending. The debt ratio is set to decline further in 2024. Net credit flows to households hovered around zero in 2023 and 2024 as a result of the rise in borrowing costs. Non-performing loans slightly decreased in 2023 to just below 3% of household loans.

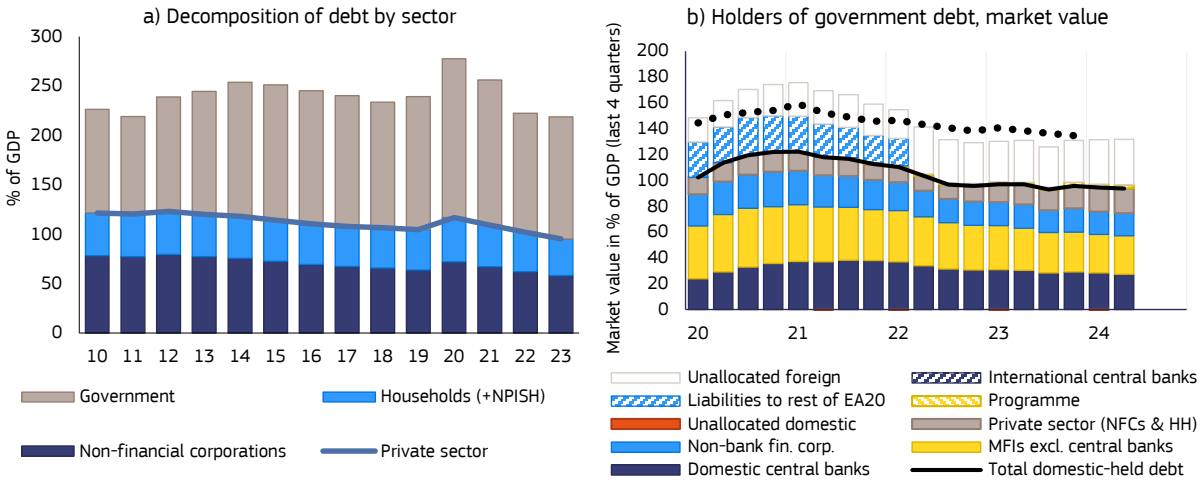
- **House prices** are growing slowly. House prices are estimated not to be overvalued and grew by just 1.3% in 2023, after increasing by 2.5% and 3.8% in 2021 and 2022, respectively. In 2024-Q2, house prices increased by 2.9% year-on-year. House transactions and building

permits decreased in 2023, as the economy adjusted to higher mortgage rates. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Italy was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([106]).

- **Government debt** is high and is expected to increase with still high deficits. Government debt declined to 134.8% of GDP in 2023, close to its 2019 pre-COVID-19 level. Yet it is forecast to inch up in 2024 and 2025 reflecting still sizeable though decreasing government deficits, lower nominal GDP growth against a backdrop of low potential GDP growth, and debt-increasing stock-flow adjustments. The government deficit reached 7.2% of GDP in 2023 and is expected to decline visibly in 2024 but to remain above 3% of GDP this year and next. Gross financing needs are the highest in the euro area and are not declining. Yields on Italian sovereign bonds remain the highest in the euro area, although their spread to the best rated euro area sovereign bonds narrowed in 2023 and to a lesser extent also in 2024. Government guarantees decreased in 2023 but are still among the largest in the EU. An excessive deficit procedure has been opened for Italy this July. The fiscal sustainability risks are high in the medium term and medium in the long term ([107]).

- **Financial sector** vulnerabilities remain despite substantial improvements over recent years. The non-performing loans ratio remained stable at 2.8% (as of the second quarter of 2024) but above the euro-area average. Bank profitability improved significantly and was close to the EU average in 2023. The Common Equity Tier 1 capital ratio remained broadly stable, although below the EU average. Bank lending volumes were very muted in 2023. Italian banks' exposure to domestic sovereign debt is significant and among the highest in the euro area. The link between the government and financial sectors still represents a risk of feedback loops.

Graph 4.12: **Selected graphs for Italy**



Source: Eurostat and European Commission calculations.

([106])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([107])Estimated based on the Commission's 2024 spring forecast.

Table 4.12: **Key economic and financial indicators, Italy**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				0.9	0.7	0.7	1.0
GDP deflator (1 year % change)				0.9	5.8	1.6	1.9
Harmonised index of consumer prices (1 year % change)				1.0	5.9	1.1	1.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**2.4**	**0.1**	**-0.2**	**0.8**
Current account balance, balance of payments (% of GDP)		1.8 (1)	0.5 (2)	2.7	0.0	1.1	1.2
Net international investment position (% of GDP)	**-35%**	-71.3 (3)	24.1 (4)	**-6.1**	**7.4**	**12.1**	**12.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-5.9	5.1		
Net lending-borrowing (% of GDP)				2.7	0.7		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**1.6**	**5.0**	**10.2**	**12.2**
Nominal unit labour cost index per hour worked (1 year % change)				1.0	3.9	5.0	2.8
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.3**	**0.7**	**-1.9**	**-2.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.1	3.5	-1.7	-0.4
Export performance against advanced economies (3y % change)	**-3%**			**-1.0**	**3.1**	**0.8**	**5.6**
Export performance against advanced economies (1 year % change)				-0.6	4.4	0.0	0.3
Core inflation[5] differential vis-à-vis the euro area (pps.)				-0.4	-0.4	-0.6	-0.4
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	62.5 (6)	30.3 (7)	**65.5**	**58.1**	**56.5**	**55.9**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-0.6**	**-1.9**	**-1.0**	**1.9**
Cost of borrowing for corporations				1.8	4.9	5.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	36.6 (6)	28.4 (7)	**40.9**	**37.2**	**36.3**	**35.5**
Household debt, consolidated (% of Households' GDI)				52.6	49.4	48.4	48.5
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**2.5**	**-0.5**	**0.0**	**0.7**
House price index, nominal (1 year % change)	**+9%**			**-0.6**	**1.3**	**3.6**	**3.0**
House prices over/undervaluation gap [8]				-8.5	-8.7		
Building permits (m^2 per 1000 inh)				79.9	80.2		
Cost of borrowing for households for house purchase				1.9	4.2	3.9	
Government							
General government gross debt (% of GDP)	**60%**			**133.9**	**134.8**	**136.6**	**138.2**
General government balance (% of GDP)				-2.1	-7.2	-3.8	-3.4
Banking sector							
Return on equity of banks (%)				5.9	12.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				14.4	16.9 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				8.8	2.7 p	2.8	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	8.6 (9)		**10.6**	**7.7**	**6.8**	**6.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.5**	**3.2**	**2.7**	**2.0**

(1) See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

CYPRUS

In Cyprus, concerns related to household and non-financial corporate debt, government debt, and external debts remain, but are receding overall. The current account deficit widened in 2023 and is forecast to remain very large, reflecting high domestic demand and the repatriation of profits by foreign-owned companies. The corporate, household and government debt-to-GDP ratios continue to decline. The government recorded budgetary surpluses and is forecast to continue doing so, which would further support the reduction of government debt in the coming years.

Real GDP growth reached 2.6% in 2023 and is forecast at 3.6% in 2024 and 2.8% in 2025. Headline inflation was below the euro area average in 2023, at 3.9%. It is forecast to decrease to 2.2% in 2024. Core inflation has been mostly below the euro area average in 2023 and 2024. The unemployment rate stood at 5.8% in 2023 and is forecast to decrease to below 5% in 2024-2025.

The scoreboard reading for Cyprus shows that five indicators were beyond their indicative thresholds in 2023, namely the current account balance, the net international investment position, household debt, non-financial corporate debt, and government debt. Relevant developments worth highlighting:

- **External sustainability** concerns remain. In 2023, the current account deficit widened to 9.5% from 5.4% of GDP in 2022, recording the highest deficit in the EU and far exceeding its average deficits recorded before the pandemic as well as the level suggested by fundamentals. Non-energy goods and primary income balances were the key contributors, mainly reflecting strong domestic demand and the repatriation of profits. The current account deficit remains beyond the indicative scoreboard thresholds, and is forecast to stay high, at 9.2% in 2024 and 8.4% in 2025. The net international investment position (NIIP) increased to around -93% of GDP in 2023, despite the high current account deficit, driven by strong growth and valuation effects. It is forecast to increase in 2024 and 2025. The NIIP largely reflects the activities of special purpose entities (SPEs). The NIIP without the impact of SPEs is estimated at -36% GDP in 2023. The NIIP net of non-defaultable instruments increased from around -164% in 2022 to around -134% in 2023.

- **Cost competitiveness** indicators remain stable. In 2023, the REER appreciated by close to 4%, pushed by nominal appreciation of the euro, but was partly offset by favourable inflation differentials. With the euro strengthening further, the REER continued to appreciate in the first half of 2024, albeit at a slower pace. 2023 ULC growth was close to 4%, as productivity gains were not enough to offset the strong nominal wage growth. Recent increases in unit labour costs and REERs have been more modest than in the euro area overall.

- **Corporate debt** concerns remain, but they have eased over time. The corporate debt-to-GDP ratio continued to decline from 139% in 2022 to 130% in 2023 and fell further to 125% in the second quarter of 2024, reaching its lowest level in two decades. The high share of foreign debt of non-financial ship-owning special purpose entities and high liquidity buffers mitigate risks. Credit growth just turned positive in 2023. Corporate non-performing loans (NPLs) have been steadily declining. More than 60% of loans to NFCs have their interest rates reset in 2024, which may impact the interest burden of corporates and affect their debt service capacity. Unit profit growth fell during 2023 but picked up at the beginning of 2024.

- **Household debt** is declining steadily but concerns remain**.** The household debt-to-GDP ratio dropped by 5 pps. to 64% GDP in 2023, marking the third year of significant decline. The decline is set to continue in 2024, underpinned by real GDP growth and persistent inflation. Downside risks are associated with the significant stock of existing mortgages with highly

variable interest rates (with a fixation period of less than one year). Over time, the share of such loans decreased: by mid-2024, 54% of new loans carried flexible rates, down from more than 90% two years before, although still far above the euro area average. The still tight financing conditions may impact the ability of some households to service their debts. The 2021 Household Finance and Consumption Survey data suggest a high median debt service-to-income ratio compared with other EU countries, especially for debtors in the bottom 40% of the income distribution, which make up around 11% of all households. The household saving rate is low and kept decreasing in 2023, with a rebound expected for 2024 and 2025. Non-performing loans have been declining but remain elevated, at 10% of all household loans by end-2023.

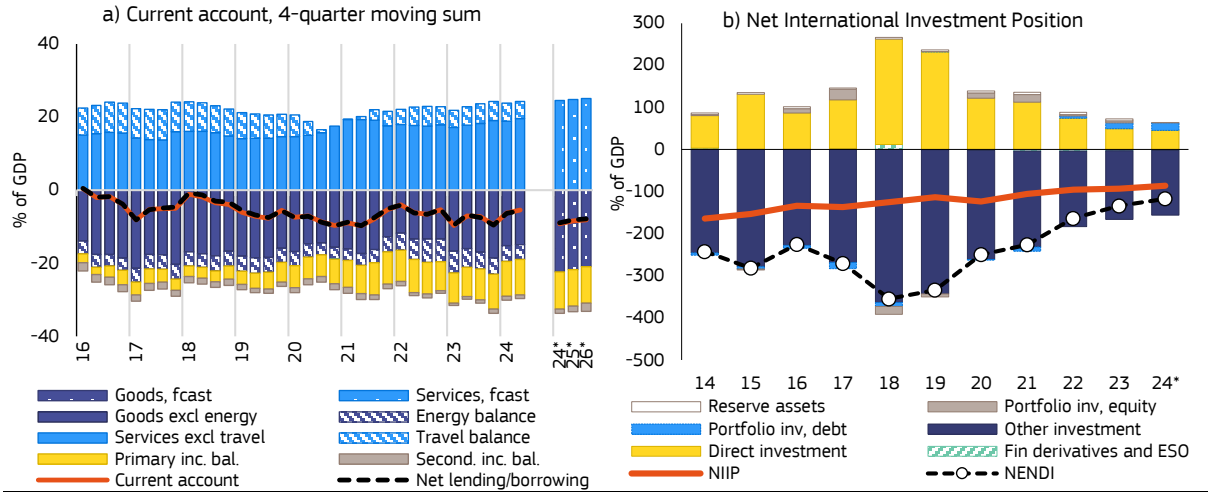
- The Cypriot residential **housing market** remains resilient, and house prices continue to increase, driven by foreign, as well as domestic demand. House prices show no significant deviation from market fundamentals and their evolution has been moderated in 2023 (+2.9%). In 2021, house prices decreased by 3.4% and they increased 2.7% in 2022. For the second quarter of 2024, this moderation continues, as house prices grew by 2.5% year-on-year. In terms of financial stability, in February 2024 the ESRB concluded that residential real estate market in Cyprus was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([108]).

- **Government debt** is moderate and is decreasing visibly. It decreased further to 73.6% of GDP in 2023. It is some 19 pps. below its 2019 pre-COVID-19 level and is forecast to decrease visibly further in 2024 and 2025. The recording of budgetary surpluses since 2022, which are expected to continue, is helping the debt reduction and keeps gross financing needs low. Sovereign bond yields have narrowed compared with the best rated euro area sovereign debt.

- The **financial sector** situation has improved over recent years, but concerns persist. The Cypriot banking sector performed positively in 2023. Rising interest rates and a slow pass-through to deposits pushed banks' profits and solvency ratios to a decade high, with Common Equity Tier 1 and return-on-equity increasing well above the EU average. The non-performing loans further declined, reaching 3.5% in the second quarter of 2024. Risks have largely migrated to the non-bank financial sector and to a lesser extent to the state, and so still have the capacity to weigh on the economy. Credit provision remained very muted in 2023. High exposure to commercial real estate represents a source of risk.

([108])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.13: **Selected graphs: Cyprus**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.13: **Key economic and financial indicators, Cyprus**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				6.0	2.6	3.6	2.8
GDP deflator (1 year % change)				1.1	3.8	3.5	2.3
Harmonised index of consumer prices (1 year % change)				0.7	3.9	2.2	2.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-4.1**	**-6.7**	**-8.0**	**-9.0**
Current account balance, balance of payments (% of GDP)		-2.7 (1)	-0.6 (2)	-4.8	-9.5	-9.2	-8.4
Net international investment position (% of GDP)	**-35%**	-63.1 (3)	-48.0 (4)	**-124.9**	**-92.7**	**-84.4**	**-84.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-319.6	-133.8		
Net lending-borrowing (% of GDP)				-4.5	-9.6		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**0.3**	**3.7 p**	**11.5**	**9.0**
Nominal unit labour cost index per hour worked (1 year % change)				2.3	3.8 p	3.4	1.5
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**-1.5**	**0.3**	**-2.8**	**-2.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-0.1	3.8	-0.4	-0.2
Export performance against advanced economies (3y % change)	**-3%**			**14.3**	**17.4**	**-2.1**	**4.4**
Export performance against advanced economies (1 year % change)				4.5	2.9	6.7	4.7
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				-0.6	-1.1	-0.3	0.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	46.6 (6)	128.6 (7)	**191.3**	**130.2 p**	**120.6**	**118.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**2.8**	**0.4**	**-0.4**	**3.4**
Cost of borrowing for corporations				3.6	5.5	5.6	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	30.3 (6)	90.3 (7)	**96.4**	**64.3 p**	**59.9**	**58.7**
Household debt, consolidated (% of Households' GDI)				128.7	83.7		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**1.3**	**1.0**	**-0.1**	**3.2**
House price index, nominal (1 year % change)	**+9%**			**2.6**	**2.9**	**2.8**	**2.0**
House prices over/undervaluation gap [(8)]				-4.6	-13.3		
Building permits (m^2 per 1000 inh)				1764.2	2103.3		
Cost of borrowing for households for house purchase				2.4	4.2	4.6	
Government							
General government gross debt (% of GDP)	**60%**			**96.5**	**73.6**	**66.4**	**61.4**
General government balance (% of GDP)				-0.1	2.0	3.5	2.7
Banking sector							
Return on equity of banks (%)				-0.4	21.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.8	23.4 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				23.0	3.7 p	3.5	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	7.1 (9)		**8.9**	**5.8 b**	**4.9**	**4.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.1**	**4.2 b**	**3.1**	**1.7**

(1) See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

LATVIA

In Latvia, high inflation from 2022-2023 led to cost competitiveness pressures, but the associated macroeconomic risks appear limited at present. In 2023, REER appreciation and growth in unit labour costs were among the strongest in the euro area. The current account continued to record a deficit that has emerged in recent years. In 2024, headline inflation has eased markedly and contributed to a REER depreciation.

Real GDP growth reached 1.7% in 2023 and GDP is forecast to stagnate in 2024 before growing by 1.0% in 2025. Both headline inflation and core inflation were among the highest in the euro area in 2023, at 9.1% and 8.4%, respectively. Headline inflation is forecast to decrease strongly to 1.2% in 2024. At the same time, core inflation, driven by services inflation, has remained more persistent and slightly above the euro area average in the past months. The unemployment rate decreased further to 6.5% in 2023 and is forecast to increase slightly to 6.7% in 2024-2025.

The scoreboard reading for Latvia shows that four indicators were beyond their indicative thresholds in 2023, namely the current account balance, the real effective exchange rate, unit labour costs, and the participation rate. Relevant developments worth highlighting:

- The **current account** remains in a sizable deficit. Unlike in many EU countries, the current account deficit did not decrease noticeably in 2023. As a result, the three-year average of the current account balance fell below the scoreboard threshold of -4%. From the saving-investment perspective, a lower saving of the economy combined with relatively resilient investment have been the key drivers of persistent current account deficits in the past two years. On a four-quarter-moving-sum basis, the current account deficit narrowed to around 3% in the second quarter of 2024, and it is forecast to reduce further next year. Capital transfers from the EU, including the RRF, are set to noticeably lower external financing needs. The net international investment position was at -26% of GDP in 2023, mostly composed of direct investment, and is forecast to strengthen somewhat. The net position excluding non-defaultable instruments, the NENDI, was positive.

- **Cost competitiveness** concerns persist. In 2023, annual average core inflation was 3.5 pps. above the euro area value and the differential remains, at 1.3 pps. in September 2024. Last year, the HICP-based REER appreciated strongly, driven by both nominal exchange rate appreciations and high inflation differentials, but by mid-2024 it depreciated on account of favourable inflation developments. Nominal wage growth remained rather strong in 2023, despite strong productivity growth, pushing ULC to increase by close to 14%. The ULC-based REER has appreciated markedly over recent years. ULC growth is expected to slow this year on the back of more moderate wage increases and strong productivity growth. The 3-year change in the participation rate dropped by 1.4 pps. in 2023, above the scoreboard threshold.

- **Corporate debt** remained broadly constant as a share of GDP at 36% in 2023, well below its peak value of 83% in 2009 and 2010. Despite an increase in interest expenses, the interest coverage ratio is comparatively high. However, high borrowing costs and a large share of loans with interest resets in 2024 will likely keep the interest burden of Latvian NFCs elevated. Overall financial risks increased somewhat during 2023, as profitability was low and debt service capacity deteriorated, but remain contained. Unit profit growth continued to fall in 2023, even turning negative. **Household debt** remains low, at 19% of GDP in 2023.

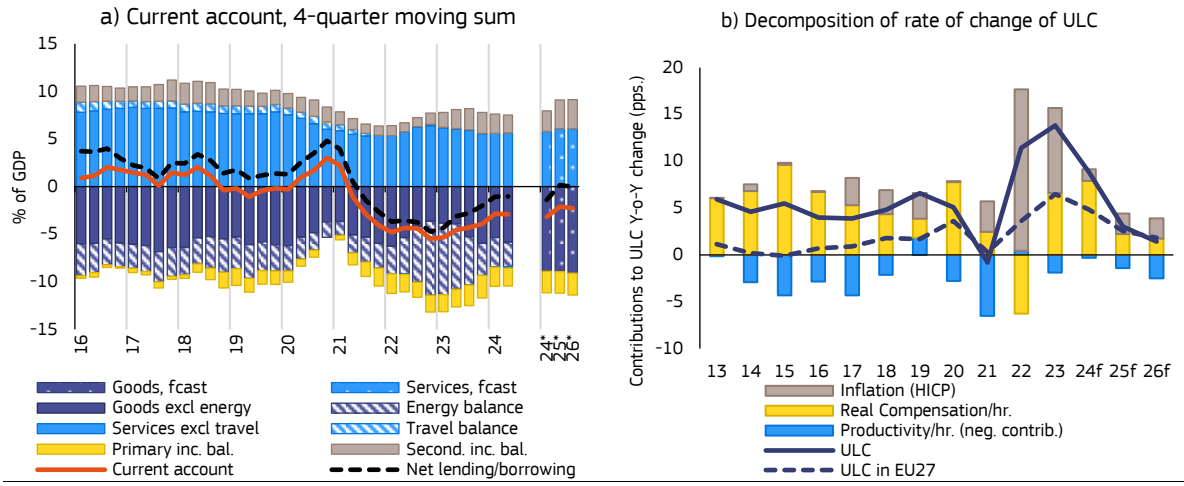
- **House price** growth moderated in 2023. House prices are estimated to be overvalued by around 15%, but growth moderated in 2023, at 3.7%, after recording 10.9% and 13.8% in 2021 and 2022, respectively. More recent data show that house prices continued growing

moderately, by 1.1% year-on-year, in 2024-Q2. Since 2015, house prices have grown slightly faster than household income. House transactions and building permits have fallen since 2021, showing some adjustment to the higher interest rate environment of the last two years. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Latvia was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([109]).

- **Government debt** is limited. Government debt edged up to 45% of GDP in 2023, which is some 7 pps. above its 2019 pre-COVID-19 level, and it is expected to increase further in 2024 and 2025. The fiscal deficit narrowed in 2023 but is expected to increase somewhat in 2024 and 2025, being forecast to average 3% of GDP. Gross financing needs are below the euro area average; yields on Latvian sovereign bonds have narrowed compared with best rated euro area sovereign debt.

- **Financial sector** resilience reflects the sound and well capitalised banking sector. The Common Equity Tier 1 capital ratio declined in 2023 but remains the highest in the EU. Profitability improved significantly in 2023 and is well above the EU average. The non-performing loans ratio at 1.2% (as of 2024-Q1) is one of the lowest in the EU. Stage 2 loans slightly increased in the past few quarters but remained below the EU average. Credit dynamics remain rather muted. Significant exposure of lenders to real estate represents a potential risk.

Graph 4.14: **Selected graphs: Latvia**



Source: Eurostat and European Commission forecasts and calculations.

([109])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Table 4.14: **Key economic and financial indicators, Latvia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.8	1.7	0.0	1.0
GDP deflator (1 year % change)				3.6	6.4	2.5	2.9
Harmonised index of consumer prices (1 year % change)				2.7	9.1	1.2	2.2
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**0.8**	**-4.5**	**-4.2**	**-3.1**
Current account balance, balance of payments (% of GDP)		-1.3 (1)	-2.9 (2)	0.3	-3.9	-3.2	-2.1
Net international investment position (% of GDP)	**-35%**	-51.9 (3)	-21.9 (4)	**-47.1**	**-26.0**	**-25.6**	**-25.3**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				1.4	20.6		
Net lending-borrowing (% of GDP)				1.8	-2.0		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**14.4**	**25.8**	**38.0**	**27.7**
Nominal unit labour cost index per hour worked (1 year % change)				5.1	13.8	8.8	3.0
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**3.6**	**10.8**	**7.9**	**1.0**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				1.3	7.3	-1.5	-0.1
Export performance against advanced economies (3y % change)	**-3%**			**4.5**	**-1.7**	**-5.7**	**-9.0**
Export performance against advanced economies (1 year % change)				1.7	-4.8	-2.1	0.7
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.9	3.5	0.8	0.3
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	75.4 (6)	68.1 (7)	**50.6**	**35.8**	**36.5**	**35.5**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**1.8**	**1.8**	**3.5**	**1.1**
Cost of borrowing for corporations				3.0	5.9	6.5	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	51.9 (6)	18.9 (7)	**21.8**	**18.6**	**19.1**	**19.6**
Household debt, consolidated (% of Households' GDI)				31.3	26.4		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**2.0**	**5.2**	**5.3**	**6.6**
House price index, nominal (1 year % change)	**+9%**			**9.1**	**3.7**	**4.0**	**3.0**
House prices over/undervaluation gap [8]				-1.6	15.4		
Building permits (m^2 per 1000 inh)				304.6	345.5		
Cost of borrowing for households for house purchase				2.7	5.5	5.6	
Government							
General government gross debt (% of GDP)	**60%**			**38.8**	**45.0**	**48.1**	**50.3**
General government balance (% of GDP)				-0.6	-2.4	-2.8	-3.2
Banking sector							
Return on equity of banks (%)				8.8	20.3 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				20.2	20.6 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				4.9	1.3 p	1.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.6 (9)		**7.5**	**6.5**	**6.7**	**6.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.8**	**-1.4**	**1.1**	**0.2**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

LITHUANIA

In Lithuania, inflationary pressures in 2021-23 had an adverse impact on cost competitiveness, and house prices continue to grow strongly, but associated macroeconomic risks appear limited. Headline and core inflation rates in Lithuania were among the highest in the euro area in 2023 but have recently come down markedly. Unit labour costs continued to increase strongly in 2023 and are expected to increase more than the euro area average in 2024.

Real GDP grew by 0.3% in 2023 and is forecast to grow at 2.2% in 2024 and 3.0% in 2025. Headline and core inflation stood among the highest in the euro area in 2023, at 8.7% and 9.6%, respectively. Headline inflation is forecast to decrease markedly to 0.9% in 2024. Core inflation gradually decreased and is expected to stand slightly above the euro area average in 2024. The unemployment rate increased to 6.9% in 2023 and is forecast to increase to 7.5% in 2024 before easing to 7.0% in 2025.

The scoreboard reading for Lithuania shows that three indicators were beyond their indicative thresholds in 2023, namely the real effective exchange rate, unit labour costs, and house prices. Relevant developments worth highlighting:

- **External sustainability** improved in 2023. In 2023, the current account balance increased significantly from a deficit of 6.1% of GDP in 2022 to a surplus of 1.1%, primarily driven by a reduction in the trade in energy goods deficit and higher net-exports of services. It is forecast to further increase this year and next. The net international investment position (NIIP) increased and is expected to continue increasing in 2024. As liabilities largely consist of foreign direct investment, the NIIP net of non-defaultable instruments is positive.

- **Cost competitiveness** concerns persist. In 2023, both average headline and core inflation were among the highest in the euro area. Last year, the REER continued to appreciate strongly, as both nominal exchange rate appreciations and high inflation rate differentials contributed. By mid-2024, it depreciated on account of favourable inflation differentials, which more than offset the nominal euro gains. Overall, the 3-year appreciation of the HICP-based REER stood at 12.8% in 2023. Furthermore, nominal wages increased strongly in 2023 and, along with negative productivity growth, pushed ULC to increase by more than 14%. The 3-year increase in ULC has been above the scoreboard threshold since 2015 and, together with REER appreciations, has added to a long track record of cost-competitiveness declines, although these have so far not translated into losses of export market shares. ULC growth, despite being projected to slow this year and the next, as productivity growth resumes, would still remain above the euro area value.

- **Corporate debt** remained broadly stable at 30 percent of GDP in 2023, despite strong credit growth. Although Lithuania was one of few EU countries not recording a decrease in its corporate debt-to-GDP ratio, its corporate debt remains very low. Despite an increase in corporate interest expenses, the interest coverage ratio remained comparatively high. However, high corporate borrowing costs and a large share of corporate loans with interest resets in 2024 will likely further increase the interest burden of Lithuanian NFCs. Unit profit growth fell during 2023 but picked up somewhat at the beginning of 2024. The **household debt**-to-GDP ratio is low and remained stable at 21% in 2023.

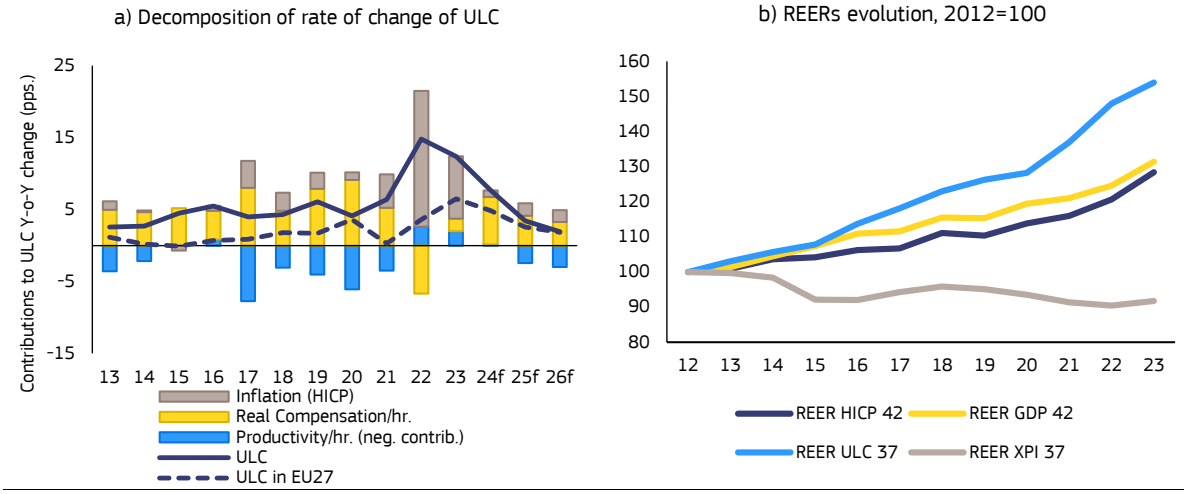
- Strong **house price** growth moderated somewhat in 2023. House prices are estimated not to be overvalued but increased by 9.8% in 2023, after increasing by 16.1% and 19% in 2021 and 2022, respectively. More recent data shows that house prices continue to grow at a strong pace (10.4% year-on-year in 2024-Q2). From 2015 until 2020, house prices grew less than

household income, but more strongly since then. However, in 2023, the house price-to-income ratio stands around its long-term average. House transactions and building permits have fallen since 2021, adjusting to the higher interest rate environment of the last two years. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Lithuania was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([110]).

- **Government debt** remains limited. Government debt receded to 37.3% of GDP in 2023, although it is expected to increase somewhat in 2024 and 2025. The fiscal deficit remained limited in 2023; while it is expected to increase in 2024 and 2025, it is still forecast to be below 3% of GDP over those years. Gross financing needs are below the euro area average.

- The **financial sector** is characterised by a sound and well-capitalised banking sector. While the Common Equity Tier 1 capital ratio declined in 2023, it remains one of the highest in the EU. Profitability significantly increased in 2023 and became one of the highest in the EU. The non-performing loans ratio is at 0.8% (as of 2024-Q2), the lowest in the EU. Credit provision remains dynamic, although credit growth declined in early 2024.

Graph 4.15: **Selected charts for Lithuania**



Source: Eurostat and European Commission forecasts and calculations.

([110])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Table 4.15: **Key economic and financial indicators, Lithuania**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				4.7	0.3	2.2	3.0
GDP deflator (1 year % change)				3.4	9.0	3.6	3.5
Harmonised index of consumer prices (1 year % change)				2.8	8.7	0.9	1.7
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**0.3**	**-1.2**	**-0.8**	**2.1**
Current account balance, balance of payments (% of GDP)		-0.1 (1)	-1.4 (2)	1.7	1.1	2.7	2.5
Net international investment position (% of GDP)	**-35%**	-62.9 (3)	-2.7 (4)	**-30.4**	**-4.6**	**3.3**	**6.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-1.6	26.7		
Net lending-borrowing (% of GDP)				3.1	2.7		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**14.7**	**37.3**	**39.0**	**25.2**
Nominal unit labour cost index per hour worked (1 year % change)				4.8	12.4	7.7	3.4
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**4.5**	**12.8**	**8.9**	**-0.3**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				1.3	6.4	-1.9	-0.6
Export performance against advanced economies (3y % change)	**-3%**			**14.8**	**6.6**	**0.8**	**-0.8**
Export performance against advanced economies (1 year % change)				7.4	-1.9	0.3	2.5
Core inflation[5] differential vis-à-vis the euro area (pps.)				1.3	4.6	0.4	-0.1
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	73.7 (6)	49.3 (7)	**34.2**	**29.9**	**29.6**	**28.2**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**7.3**	**12.1**	**7.9**	**1.2**
Cost of borrowing for corporations				2.6	6.0	6.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	52.8 (6)	16.8 (7)	**22.5**	**21.2**	**21.6**	**22.2**
Household debt, consolidated (% of Households' GDI)				33.3	30.1		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**8.3**	**6.6**	**7.9**	**9.4**
House price index, nominal (1 year % change)	**+9%**			**7.7**	**9.8**	**10.9**	**7.0**
House prices over/undervaluation gap [8]				-13.6	-1.1		
Building permits (m^2 per 1000 inh)				531.1	445.7		
Cost of borrowing for households for house purchase				2.3	5.5	5.5	
Government							
General government gross debt (% of GDP)	**60%**			**36.0**	**37.3**	**38.3**	**41.0**
General government balance (% of GDP)				0.5	-0.7	-2.0	-2.4
Banking sector							
Return on equity of banks (%)				12.0	21.2 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				18.9	18.6 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.5	0.8 p	0.8	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.6 (9)		**6.5**	**6.9**	**7.5**	**7.0**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.6**	**0.3**	**3.2**	**2.8**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

LUXEMBOURG

Private sector debt is high and house prices are estimated to be overvalued despite a strong recent correction. High household indebtedness and moderating house prices can constitute a risk for the domestic banking sector. Unit labour costs increased strongly in 2023 despite a contraction in economic activity and inflation being well below the euro area average.

Real GDP contracted by 1.1% in 2023 and is forecast to rebound and grow by 1.2% in 2024 and 2.3% in 2025. Both headline inflation and core inflation were among the lowest in the euro area in 2023, at 2.9% and 3.9%, respectively, mainly due to emergency measures taken. Headline inflation is forecast to decrease to 2.3% in 2024. Core inflation has continued to decrease in 2024. The unemployment rate increased to 5.2% in 2023, below the euro area average. It is expected to increase to 6.0% in 2024 and 2025.

The scoreboard reading for Luxembourg shows that five indicators were beyond their indicative thresholds in 2023, namely the current account balance, the export performance against advanced economies, unit labour costs, household debt, and NFC debt. Relevant developments worth highlighting:

- The **external sector** displayed gradually declining, but still sizeable, current account surpluses, and a positive but moderating net international investment position. In 2023, the current account surplus decreased to 6% from 6.7% of GDP in 2022, reaching pre-pandemic levels and remaining beyond the indicative upper scoreboard threshold.

- **Cost competitiveness** developments remain moderate. The REER remained relatively constant in 2023 and appreciated by close to 1% in the first half of 2024 on account of euro's appreciation. In 2023, ULC growth was close to 11%, as both strong nominal wage increases and drops in productivity per hour contributed. Over 3 years, ULC appreciated by close to 21%, considerably above the scoreboard threshold. Luxembourg's 3-year export performance against advanced economies has deteriorated in 2023.

- There are concerns about **corporate debt** which increased further from high levels. It reached 273% of GDP in 2023; its highest value since 2000. A fall in debt securities relative to GDP was more than offset by an increase in loan debt. Credit growth was negative in 2023. Overall financial vulnerabilities increased during 2023 on account of high leveraging, a deterioration in debt service capacity and low profitability. Confidence remains low, and unit profit growth fell during 2023, but picked up somewhat in the beginning of 2024. Real investment growth dropped sharply in 2022 and remained negative in 2023. Additionally, a relatively large share of firms reported difficulties accessing finance to fund investment activities according to the latest EIB investment survey ([111]).

- Although declining for a number of years, the high level of **household debt** is a concern, at 68% of GDP in 2023. Luxembourg is one of the few EU Member States where the debt ratio grew and stood above pre-pandemic levels in 2023. Household debt is even higher when expressed as a ratio of household gross disposable income, coming in at around 135%. Net credit flows contracted strongly in 2023 on the back of rising borrowing costs. Risk factors include a still high share of variable rate mortgages, a high median debt service-to-income ratio (16%), reaching 35% for debt holders in the bottom quintile of the income distribution,

([111])EIB Investment Survey 2023: European Union overview.

which make up 9% of all households, and a high price-to-income ratio. On the upside, the gross savings rate is high, and remains firmly above its pre-pandemic levels.

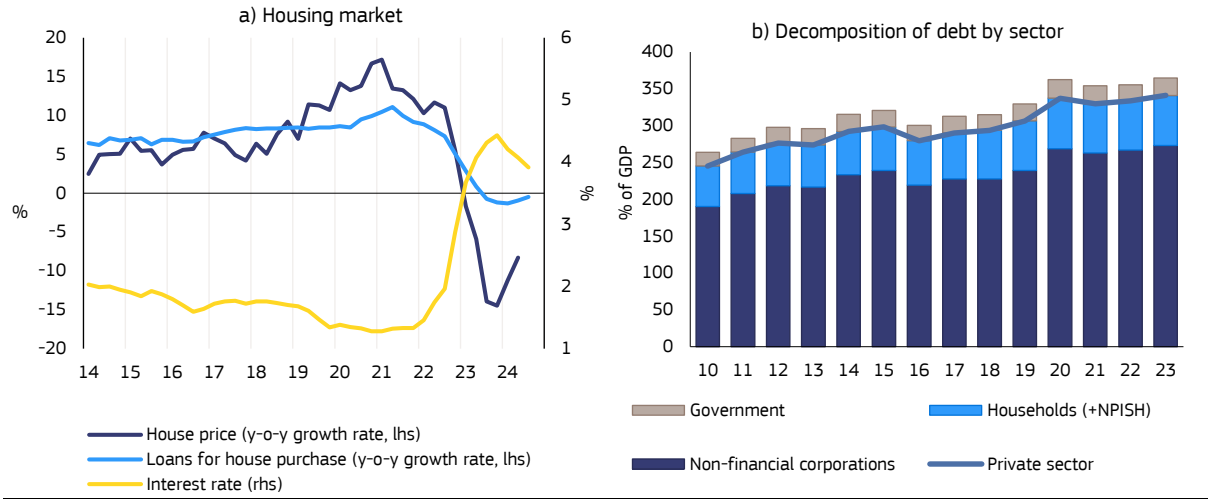
- Concerns related to the **housing market** persist. House prices are still estimated to be overvalued by 45% in 2023 while in 2022 the overvaluation was estimated to be around 60%. Supply constraints continue to support house prices owing to a structural lack of housing supply and low or negative residential real estate investment growth. Still, after years of strong growth, house prices exhibited a significant decrease in 2023 by 9.1%. In contrast, house prices had increased by 13.9% and 9.6% in 2021 and 2022 respectively. In 2024, the correction continues with house prices decreasing by 8.3% in 2024-Q2, year-on-year. The ongoing correction is driven by the adjustment to the current environment of higher interest rates, which increased from 1.3% in 2021 to 4.1% in 2023. The continuation of this correction is unlikely as high population growth, the large number of cross-border workers, tax measures support demand while housing supply remains low. Nevertheless, the growth of house prices exceeded significantly that of households' income, with house price-to-income ratio standing more than 60% above the long-term average, with possible structural implications for the domestic economy. The number of transacted houses decreases accentuated in 2023, decreasing 43.3% after decreasing 15.1% in 2022 and building permits decreased by 7.5% in 2023 after decreasing 22.9% in 2022. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Luxembourg was subject to high risks and the macroprudential policy mix was partially appropriate and partially sufficient to mitigate the situation ([112]).

- **Government debt** remains low. It edged up to 25.5% of GDP in 2023 and is forecast to edge up somewhat further in 2024 but to remain low though. The government balance turned into a small deficit in 2023, which is expected to persist while standing below 1% of GDP.

- The large **financial sector** is stable but has substantial exposures to certain sectors. The banking sector is well capitalised, but profitability remained slightly below the EU average in 2023. The ratio of non-performing loans has been very low despite a mild increase in 2023. High household indebtedness, coupled with still ongoing adjustment of overvalued house prices, represents the main risk for the domestically oriented banking sector. The credit provision has been very muted in 2023. The financial sector is also significantly exposed to the commercial real estate sector, although mainly via large investment funds without a direct link to domestic real estate.

([112])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.16: **Selected graphs, Luxembourg**



Source: Eurostat, ECB and European Commission calculations.

Table 4.16: **Key economic and financial indicators, Luxembourg**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				1.8	-1.1	1.2	2.3
GDP deflator (1 year % change)				1.7	3.4	3.9	3.0
Harmonised index of consumer prices (1 year % change)				1.9	2.9	2.3	2.4
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**7.2**	**7.9**	**6.1**	**5.7**
Current account balance, balance of payments (% of GDP)		5.1 (1)	2.3 (2)	7.7	6.0	5.7	5.5
Net international investment position (% of GDP)	**-35%**	-164.2 (3)	65.6 (4)	**57.1**	**33.1**	**26.2**	**25.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-3739.2	-3867.0		
Net lending-borrowing (% of GDP)				8.5	5.6		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**9.3**	**20.9**	**22.8**	**16.9**
Nominal unit labour cost index per hour worked (1 year % change)				4.2	10.9	2.6	2.7
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.5**	**-1.5**	**-3.7**	**-2.9**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.7	-0.5	-0.3	0.2
Export performance against advanced economies (3y % change)	**-3%**			**2.8**	**-14.4**	**-10.4**	**6.2**
Export performance against advanced economies (1 year % change)				1.2	1.5	1.1	0.5
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.4	-1.1	-0.3	0.3
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	124.6 (6)	87.5 (7)	**231.7**	**273.1**	**262.3**	**237.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-7.8**	**-25.7**	**-5.8**	**-4.6**
Cost of borrowing for corporations				1.3	3.8	4.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	97.2 (6)	81.3 (7)	**65.1**	**67.9**	**65.4**	**64.0**
Household debt, consolidated (% of Households' GDI)				133.2	134.5		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**7.3**	**1.0**	**1.2**	**3.2**
House price index, nominal (1 year % change)	**+9%**			**7.6**	**-9.1**	**-4.7**	**-1.0**
House prices over/undervaluation gap [(8)]				18.3	44.7		
Building permits (m^2 per 1000 inh)				1640.9	913.5 p		
Cost of borrowing for households for house purchase				1.7	4.1	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**21.7**	**25.5**	**27.5**	**27.6**
General government balance (% of GDP)				2.4	-0.7	-0.6	-0.8
Banking sector							
Return on equity of banks (%)				5.5	8.3 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				20.6	18.5 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				0.7	1.3 p	0.9	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.7 (9)		**5.6**	**5.2**	**6.0**	**6.0**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.5**	**1.9**	**0.8**	**0.5**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

HUNGARY

In Hungary, vulnerabilities related to price and cost pressures increased while concerns around government debt and house prices remain. Headline and core inflation rates in Hungary were the highest in the EU in 2023 and led to pressures on the country's cost competitiveness, amplified by very high unit labour costs growth. Inflationary pressures persist in 2024. The large current account deficit closed in 2023 amid a contraction in economic activity. The growth in house prices moderated temporarily in 2023 but prices still show signs of overvaluation. The government deficit increased in 2023 and is forecast to remain significant in the next few years.

Real GDP growth reached -0.9% in 2023 and is forecast at 1.4% in 2024 and 2.6% in 2025. In 2023 average headline and core inflation were the highest in the EU. Both decreased markedly but remain above the EU averages, with headline inflation forecast to stand at 3.8% in 2024. The unemployment rate increased slightly in 2023 and stood at 4.1%, well below the EU average. It is forecast to increase to 4.5% in 2024 and to stand at 4.2% in 2025.

The scoreboard reading for Hungary shows that four indicators were beyond their indicative thresholds in 2023, namely the net international investment position, the real effective exchange rate, unit labour costs, and government debt. Relevant developments worth highlighting:

- **External sustainability** concerns have receded somewhat in recent years. In 2023, the current account balance shifted to a small surplus of 0.8% from a deficit of 8.5% of GDP in 2022, mainly driven by softened domestic demand due to the recession and falling energy prices. The current account has continued to increase this year and is projected to reach around 1% of GDP in 2025. The net international investment position (NIIP) increased from -44.6% of GDP in 2022 to -36.8% in 2023, mainly on the back of nominal GDP growth and valuation effects and is forecast to increase further.

- **Cost competitiveness** concerns persist. In 2023 core inflation was 9.1 pps. above euro area value, and the differential remains high (2.9 pps. in September 2024). Last year, the HICP-based REER appreciated by more than 15%, on the back of a nominal exchange rate appreciation and high inflation. By mid-2024 it depreciated on account of nominal depreciation. Strong nominal wage growth pushed ULC to increase by more than 15% in 2023, while productivity growth was subdued on account of the recession. The 3-year increase in ULC has been above the scoreboard threshold since 2019. ULC continued to grow by close to 12% in 2024-Q2; for 2024 as a whole and for 2025, ULC growth is forecast to be among the highest in the EU.

- Risks associated with **corporate debt** are receding as the debt-to-GDP ratio declined from 63% in 2022 to 56% in 2023. This decrease can to a large extent be attributed to a marked fall in FDI debt-to-GDP. Credit growth eased but remained considerably above the EU average at close to 8%, which was favoured by sizeable government-subsidised loan programmes. The interest coverage ratio fell as interest expenses increased, but less than in most of the other EU countries. Bankruptcies picked up during 2023, while new business registrations fell. Business confidence remains low across sectors, and unit profit growth has fallen markedly from its peak in the beginning of 2023.

- The **household debt**-to-GDP ratio was low and declined in 2023, reaching 17%. Net credit flows to households continued to moderate in 2023 amid higher interest rates but are expected to pick up in 2024. The major driver has been the rise in borrowing costs, which peaked at around 11% in January 2023 but have since then come down somewhat to less than 7% by

mid-2024. The proportion of non-performing loans is on the decline but remained around 4% of all loans to households in 2023.

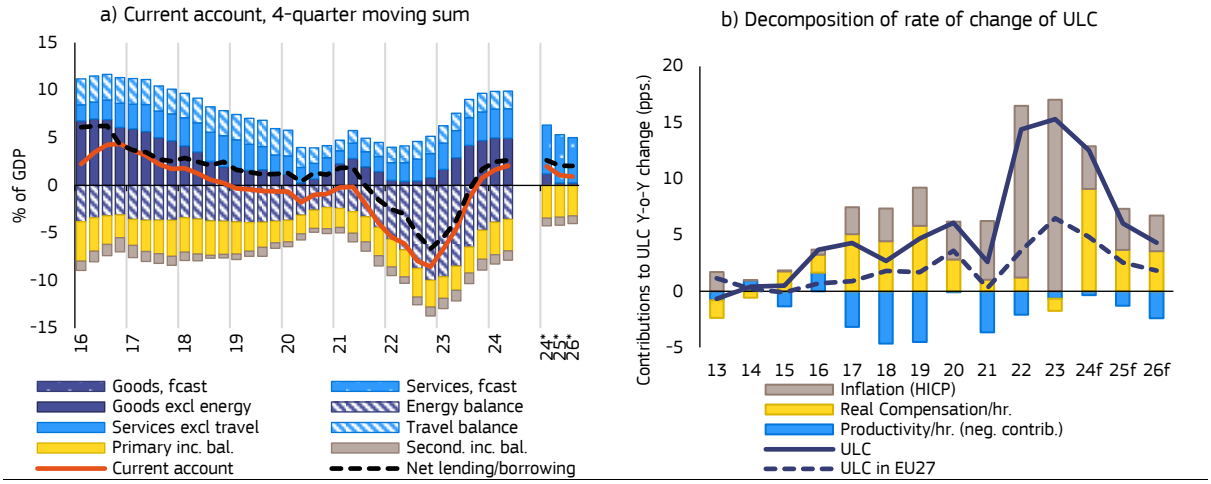
- There are concerns related to the **housing market,** as house prices continue to grow strongly. House price growth moderated to 9.8% in 2024-Q2 from its peak of 22.3% in 2022, but house prices were estimated to be overvalued by around 15% in 2023. Since 2014 until 2023, house price growth exceeded households' income growth resulting in increased concerns about housing affordability. The house price-to-income ratio stands 27% above the long-term average in 2023. Mortgage rates increased from 4.2% in 2021 to 9.8% in 2023. The adjustment to higher interest rates has reduced housing transactions and building activity. The number of housing transactions reduced 9.9% and 27.0% in 2022 and 2023, respectively while building permits fell by nearly 40% in 2023, which may suggest a lower supply in the future and the subsequent risk of lingering price pressures. Despite the decline in transactions, mortgage credit increased in 2023, after some stagnation in 2022, driven by mortgage subsidy schemes and lower lending rates. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Hungary was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([113]).

- **Government debt** is significant and not declining while deficits remain high. While government debt decreased very slightly to 73.4% of GDP in 2023, it is still above its 2019 pre-COVID-19 level by some 8 pps. and is not forecast to improve by 2025. Government deficits have been sizeable since 2020, but their impact on the debt-to-GDP ratio has been mitigated so far by strong nominal GDP growth. The budget deficit worsened to 6.7% of GDP in 2023 and is forecast to narrow gradually in 2024 and 2025, while staying significant at well above 3% of GDP. Government gross financing needs have been sizeable. A significant share of government debt is denominated in foreign currencies (around 30%) or held by non-residents. While Hungarian sovereign bond yields declined in the course of 2023, and by more than benchmark yields, they continue to be among the highest in the EU and have not receded in the course of 2024. The increase in interest expenditure was particularly strong in 2023 and spending on interest is expected to remain elevated in 2025 at least. Government guarantees are significant and have been increasing in recent years. An excessive deficit procedure has been opened for Hungary this July.

- The **financial sector** remains sound overall, but some vulnerabilities remain. Bank profitability strongly increased in 2023 to above the EU average, whereas the Common Equity Tier 1 capital ratio remained slightly below. The non-performing loans ratio has been declining (2.5% in 2023), while the Stage 2 loans ratio has increased significantly since 2020. Government policies, including specific taxes on the banking sector and interest rate caps, have an adverse impact on profitability, which was nonetheless overcome by higher interest income on deposits held at the central bank and weak repricing on rates of deposit held in commercial banks. The extensive use of caps on loans and deposits rates hampers the working of monetary policy too. Hungarian banks' exposure to domestic sovereign debt is among the highest in the EU even if it has declined in recent years, and the government is promoting tax incentives for banks to hold more sovereign debt.

([113])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.17: **Selected graphs: Hungary**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.17: **Key economic and financial indicators, Hungary**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				4.9	-0.9	0.6	1.8
GDP deflator (1 year % change)				4.5	14.6	7.2	4.1
Harmonised index of consumer prices (1 year % change)				2.9	17.0	3.8	3.6
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**1.8**	**-3.9**	**-1.9**	**1.3**
Current account balance, balance of payments (% of GDP)		-0.3 (1)	-4.3 (2)	0.5	0.8	2.0	1.1
Net international investment position (% of GDP)	**-35%**	-53.3 (3)	-15.4 (4)	**-46.5**	**-36.8**	**-34.3**	**-31.8**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-4.6	-6.7		
Net lending-borrowing (% of GDP)				2.1	1.7		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**10.6**	**35.4 p**	**48.4**	**37.6**
Nominal unit labour cost index per hour worked (1 year % change)				3.9	15.3 p	12.5	6.0
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.9**	**10.2**	**6.4**	**9.3**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.2	15.2	-2.1	-0.7
Export performance against advanced economies (3y % change)	**-3%**			**2.8**	**1.2**	**4.2**	**7.2**
Export performance against advanced economies (1 year % change)				0.9	7.5	0.4	4.0
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.9	9.1	3.2	1.5
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	60.7 (6)	46.1 (7)	**50.3**	**55.5 p**	**54.6**	**55.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**9.2**	**8.0**	**6.9**	**7.4**
Cost of borrowing for corporations				1.7	12.7	9.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	41.6 (6)	32.5 (7)	**18.3**	**16.9 p**	**16.8**	**17.3**
Household debt, consolidated (% of Households' GDI)				27.2	24.1	24.3	26.6
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**7.5**	**3.4**	**7.4**	**9.0**
House price index, nominal (1 year % change)	**+9%**			**14.5**	**7.1 p**	**10.0**	**6.0**
House prices over/undervaluation gap [(8)]				1.8	15.3		
Building permits (m^2 per 1000 inh)				406.5	259.6 p		
Cost of borrowing for households for house purchase				4.5	9.8	7.2	
Government							
General government gross debt (% of GDP)	**60%**			**68.6**	**73.4**	**74.5**	**74.5**
General government balance (% of GDP)				-2.2	-6.7	-5.4	-4.6
Banking sector							
Return on equity of banks (%)				14.5	21.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				15.6	17.0 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				6.0	2.5 p	2.3	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.0 (9)		**3.6**	**4.1**	**4.5**	**4.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**3.5**	**2.9**	**2.6**	**1.9**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

MALTA

Economic activity grew robustly in Malta and inflation developments were in line with the euro area average. Cost pressures were limited, and unit labour costs were stable in 2023 while the current account turned to a surplus. Despite a small decrease, the government deficit remains sizable and is forecast to narrow only gradually in the next years.

Real GDP growth reached 7.5% in 2023 and is forecast at 5.0% in 2024 and 4.3% in 2025. Both headline and core inflation decreased gradually in 2023 and 2024, broadly in line with the euro area averages. Headline inflation, which stood at 5.6% in 2023, is forecast to decrease to 2.5% in 2024. The unemployment rate stood at 3.5% in 2023 and is forecast to decrease to close to 3% in 2024-2025.

The scoreboard reading for Malta shows that two indicators were beyond their indicative threshold in 2023, namely the export performance against advanced economies and NFC credit flows. Relevant developments worth highlighting:

- The **external sector** is characterised by a positive current account and net international investment position. In 2023, the current account balance shifted from a deficit of 0.8% of GDP in 2022 to a surplus of 6.4%, with a trade in services surplus more than offsetting the deficits in trade in goods and primary income. The current account is expected to somewhat decrease but remain above 5% of GDP over the forecast period. The net international investment position (NIIP) decreased markedly from around 100 % of GDP in 2022 to around 93% of GDP in 2023. Still, it remains large, reflecting the country's position as an international financial centre.

- **Cost competitiveness** developments were contained, supported by inflation rates very close to those in the euro area. Last year, REER appreciated on account of the nominal euro gains, and continued to appreciate by mid-2024 as well, albeit at lower magnitudes due to more favourable inflation differentials. ULC were broadly constant (-0.1%), as productivity advances were strong and nominal compensation increases subdued.

- The **corporate debt-to-GDP** ratio remained stable at 70% as a result of strong credit growth. Reductions in FDI debt-to-GDP were offset by an increase in debt excl. FDI relative to GDP. Credit growth accelerated to around 18%, the second highest value across the EU.

- **Household debt** is on a declining path. The household debt-to-GDP ratio dropped to 49% in 2023. A further reduction is expected for 2024. Net credit flows to households remained robust in 2023 as borrowing costs continued to be fairly low and stable over the last few years. Credit flows are expected to remain stable in 2024.

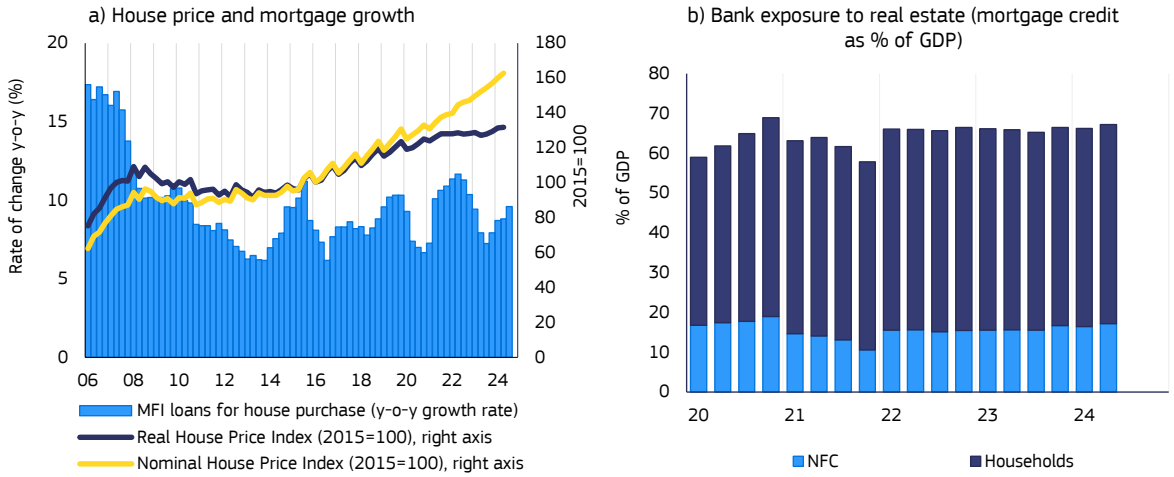
- The **housing market** remains stable. House prices are estimated not to be overvalued but increased by 6.2% in 2023. In 2021 and 2022, house prices increased by 5.1% and 6.7%, respectively, and in 2024 this pace continues, with an annual increase of 7% in 2024-Q2. The evolution of house prices has been broadly in line with households' income and mortgage rates remain low and stable at 2.1% 2023. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Malta was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([114]).

([114])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

- **Government debt** is limited but deficits remain significant. While government debt decreased to 47.4% of GDP in 2023, it is some 8 pps. above its 2019 pre-COVID-19 level, and debt is forecast to increase in 2024 and 2025. Government deficits remain significant despite a reduction to 4.5% of GDP in 2023 and are forecast to remain above 3% of GDP in 2024 and 2025. An excessive deficit procedure has been opened for Malta this July.

- The **financial sector** remains sound overall. The banking sector has high levels of capitalisation and its profitability improved significantly in 2023, remaining only slightly below the EU average. The non-performing loans ratio, at 1.9% (as of second quarter of 2024), has been slightly above the EU average. The financial sector has a relatively high exposure to the housing market, but housing market has been growing with no sign of overvaluation.

Graph 4.18: **Selected charts for Malta**



Source: ECB, Eurostat and European Commission calculations.

Table 4.18: **Key economic and financial indicators, Malta**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				8.0	7.5	5.0	4.3
GDP deflator (1 year % change)				2.1	5.3	2.6	2.5
Harmonised index of consumer prices (1 year % change)				1.5	5.6	2.5	2.2
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**11.4**	**5.0**	**3.7**	**5.8**
Current account balance, balance of payments (% of GDP)		-2.2 (1)	2.6 (2)	16.7	6.4	5.6	5.5
Net international investment position (% of GDP)	**-35%**	-84.3 (3)	-16.4 (4)	**82.6**	**92.9**	**104.6**	**104.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				85.6	142.5		
Net lending-borrowing (% of GDP)				18.6	7.6		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**6.1**	**0.4**	**9.4**	**6.9**
Nominal unit labour cost index per hour worked (1 year % change)				3.1	-0.1	3.8	3.0
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.3**	**-0.5**	**-3.0**	**-0.5**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.6	4.2	-0.1	-0.1
Export performance against advanced economies (3y % change)	**-3%**			**3.8**	**-10.7**	**6.8**	**13.8**
Export performance against advanced economies (1 year % change)				2.8	11.7	5.4	2.2
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.2	0.0	-0.8	-0.5
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	56.4 (6)	59.2 (7)	**72.1**	**69.6**	**64.8**	**61.5**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**5.2**	**18.1**	**1.7**	**1.5**
Cost of borrowing for corporations				3.8	5.0	4.8	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	45.2 (6)	40.2 (7)	**51.9**	**49.1**	**48.9**	**49.8**
Household debt, consolidated (% of Households' GDI)				84.5	80.0		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**10.2**	**6.8**	**7.4**	**8.7**
House price index, nominal (1 year % change)	**+9%**			**5.7**	**6.2 p**	**7.1**	**5.0**
House prices over/undervaluation gap [8]				3.8	-5.1		
Building permits (m^2 per 1000 inh)				3710.5	2221.9		
Cost of borrowing for households for house purchase				2.7	2.2	2.1	
Government							
General government gross debt (% of GDP)	**60%**			**42.1**	**47.4**	**49.8**	**50.4**
General government balance (% of GDP)				2.0	-4.5	-4.0	-3.5
Banking sector							
Return on equity of banks (%)				6.1	10.7 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				20.2	22.1 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				3.1	2.0 p	1.9	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	3.5 (9)		**4.0**	**3.5**	**3.2**	**3.1**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**4.6**	**4.7**	**4.0**	**2.3**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

THE NETHERLANDS

Concerns related to the high current account surplus, to private debt, and to house prices remain. The current account surplus reached 10% of GDP in 2023 and is forecast to remain at this level in coming years. Economic activity remained subdued as the external environment held back exports while private consumption weakened. Private sector debt-to-GDP ratios remain high and house prices continue to be overvalued despite a small correction in 2023.

Real GDP growth reached 0.1% in 2023 and is forecast at 0.8% in 2024 and 1.6% in 2025. Headline inflation decreased throughout 2023 and stood below the euro area average in 2023, at 4.1%. It is forecast to decrease to 3.2% in 2024. Core inflation was well above the euro area average in 2023 but has decreased broadly in line with the euro area average in 2024. The unemployment rate was stable in 2023, at 3.6%. It is forecast to increase gradually to 3.8% in 2025.

The scoreboard reading for the Netherlands shows that four indicators were beyond their indicative thresholds in 2023, namely the current account balance, unit labour costs, household debt, and NFC debt. Relevant developments worth highlighting:

- **External sustainability** concerns related to the high and long-standing current account surplus remain. In 2023, the current account surplus increased to 9.9% of GDP from 6.6% in 2022, and it is expected to increase in the coming years, far exceeding the levels explained by economic fundamentals. Despite rather resilient domestic demand, the surplus increased further mainly due to terms of trade effects. The primary income balance increased slightly, remaining above the pre-pandemic average. The net international investment position (NIIP) remained broadly unchanged in 2023, at 52.9%, but is expected to increase strongly in the coming years, owing to high current account surpluses.

- **Cost competitiveness** developments remain contained. In 2023 core inflation was 1.4 pps. above euro area value, but by September 2024 the differential decreased to 0.9 pps. Last year, the HICP-based REER appreciated marginally, as nominal exchange rate gains of the euro were offset by favourable inflation differentials. The REER remained constant over the first half of 2024. ULCs increased strongly in 2023, at close to 8%, and somewhat higher in the rest of the euro area, driven by robust nominal wage growth and losses in productivity per hour, as economic activity was subdued.

- **Corporate debt** is high but decreased from 129% of GDP in 2022 to 114% in 2023. Despite reaching its lowest level in two decades, the debt-to-GDP ratio remains elevated. Special purpose entities have played an important role in the Netherlands, but their number as well as the foreign assets held by them have decreased over the last years. By the end of 2023, special purpose entities accounted for around 30% of FDI liabilities in the Netherlands ([115]). Bankruptcies picked up during 2023, while new business registrations remained stable. Profit indicators such as unit profit growth deteriorated in 2023. Corporate investment activity has been weak compared to the EU average with both real investment growth and the investment share falling further in 2023.

- Despite a marked decrease over recent years, **household debt** concerns remain. The household debt-to-GDP ratio decreased by 6 pps. in 2023 to just below 95% of GDP,

([115]) Decreased activity among mostly smaller special purpose entities | De Nederlandsche Bank (dnb.nl) and Understanding the relevance of special purpose entities across the euro area | ECB Data Portal (europa.eu)

significantly above the MIP threshold of 55% ([116]). It is expected to decrease further in 2024. The debt ratio is even higher when expressed as a proportion of adjusted household gross disposable income, at 144%. Net credit flows to households contracted significantly in 2023, but are picking up in 2024. On the downside, the 2021 Household Finance Consumption Survey suggests a high median debt-service-to-income ratio of 41% for debt holders in the bottom quintile of the income distribution, which make up around 9% of all households in the Netherlands. On the upside, household gross savings are high and stable.

- Concerns related to the **housing market** remain, in view of high household indebtedness. House prices are estimated to be overvalued by around 15% despite a decrease of 1.9% in 2023. House prices had grown by 14.5% and 13.3% in 2021 and 2022, respectively, and they grew by 7.7% year-on-year in 2024-Q2. The temporary moderation follows several years of strong growth of house prices above the growth of households' income and is partially correcting the existing overvaluation. House prices are expected to remain on a moderated path in 2024 and 2025 but risk to pick up strongly on the back of increased wages and a continuing lack in housing supply. Mortgage rates increased from 1.7% in 2021 to 3.8% in 2023, moderating mortgage credit that nonetheless continued to increase in 2023 by 2.9%. The adjustment to the higher interest rate environment occurred more significantly on the quantities side with both house transactions and building permits falling. The number of house transactions fell by 16.2% and 8.7%, while building permits fell by 14.9% and 14.3% in 2022 and 2023, respectively. The evolution of house prices exceeded slightly households' income which is reflected in the house price-to-income ratio standing around 7% above the long-term average. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in the Netherlands was subject to high risks and the macroprudential policy mix was appropriate and partially sufficient to mitigate the situation ([117]).

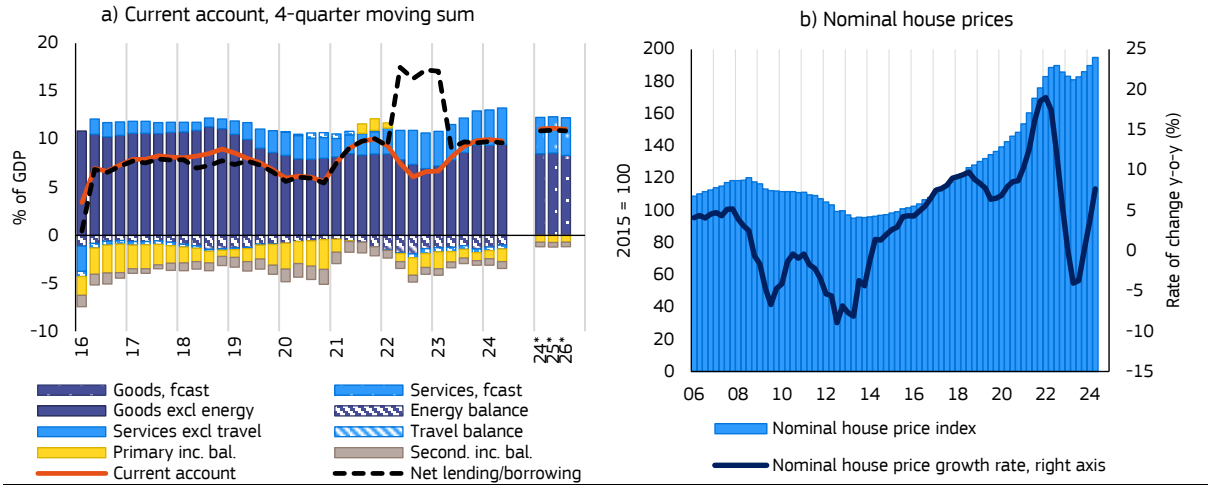
- **Government debt** remains limited. Government debt declined further to 45.1% of GDP in 2023, while it is forecast to remain close to that level in 2024 and 2025 on average on account of the expected moderate government deficits, after a balanced position in 2023. Yields on Dutch sovereign bonds remain one of the lowest in the euro area.

- The **financial sector** is characterised by sound banks and a complex non-banking sector. The capitalisation of banks has been stable in 2023 and remained slightly below the EU average. Profitability increased but remained below the EU average. The non-performing loans ratio remained very low and Stage 2 loans increased slightly but remain below the EU average. Credit growth has been very muted amid tight financial conditions. High exposure of the financial sector, including non-banks, to real estate, and particularly commercial real estate, which is undergoing a price correction at EU level, represents a risk factor.

([116])A data correction by Statistics Netherlands in July 2024 increased the household debt ratio by almost 10 ppt. See here for more details.

([117])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.19: **Selected graphs: The Netherlands**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.19: **Key economic and financial indicators, The Netherlands**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.5	0.1	0.8	1.6
GDP deflator (1 year % change)				2.3	7.3	5.0	3.0
Harmonised index of consumer prices (1 year % change)				1.9	4.1	3.2	2.4
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**7.6**	**8.8**	**9.2**	**10.7**
Current account balance, balance of payments (% of GDP)		1.7 (1)	2.3 (2)	8.0	9.9	11.1	11.1
Net international investment position (% of GDP)	**-35%**	-95.9 (3)	36.2 (4)	**52.6**	**52.9**	**47.9**	**57.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-9.5	13.8		
Net lending-borrowing (% of GDP)				7.4	9.6		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**3.9**	**9.2 p**	**17.3**	**18.2**
Nominal unit labour cost index per hour worked (1 year % change)				2.1	7.9 p	6.1	3.4
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.3**	**2.4**	**1.6**	**-1.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.8	1.1	0.6	0.1
Export performance against advanced economies (3y % change)	**-3%**			**3.3**	**-2.0**	**-4.0**	**-4.3**
Export performance against advanced economies (1 year % change)				1.6	0.4	-2.5	-0.4
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.2	1.4	0.4	0.4
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	75.0 (6)	107.0 (7)	**139.3**	**114.3 p**	**107.0**	**102.9**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-0.2**	**-1.4**	**-2.8**	**0.6**
Cost of borrowing for corporations				1.3	3.9	4.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	47.2 (6)	69.5 (7)	**111.7**	**94.5 p**	**92.3**	**91.5**
Household debt, consolidated (% of Households' GDI)				170.9	143.8	148.5	149.3
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**2.3**	**1.1 p**	**3.4**	**3.8**
House price index, nominal (1 year % change)	**+9%**			**8.2**	**-1.9**	**8.6**	**8.0**
House prices over/undervaluation gap [8]				-1.8	14.2		
Building permits (m^2 per 1000 inh)				670.4	464.3 p		
Cost of borrowing for households for house purchase				2.4	3.8	3.9	
Government							
General government gross debt (% of GDP)	**60%**			**51.7**	**45.1**	**43.3**	**44.3**
General government balance (% of GDP)				1.5	-0.4	-0.2	-1.9
Banking sector							
Return on equity of banks (%)				8.2	11.1 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				18.9	18.6 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				1.9	1.3 p	1.4	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	3.8 (9)		**5.1**	**3.6**	**3.7**	**3.8**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.8**	**2.1**	**2.1**	**1.1**

Notes: See Annex 1.
Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

AUSTRIA

In Austria, high and persistent inflationary pressures have weighed on economic activity while concerns about cost competitiveness have increased. Economic activity contracted in 2023, as the decline in real wages weighed on private consumption. While real wages then increased following the wage rounds at the end of 2023, private consumption has remained muted, and investment has declined amid high interest rates. Unit labour costs increased strongly in 2023 and are forecast to increase further in 2024. The government deficit is expected to be above 3% of GDP in 2024-2025. House prices remain overvalued despite their recent decrease.

Real GDP declined by 1.0% in 2023 and is forecast to contract further by 0.6% in 2024 before growing by 1.0% in 2025. In 2023, both average headline and core inflation rates were noticeably above the euro area averages, at 7.7% and 7.3%, respectively. While the gap narrowed in 2024, core inflation is forecast to average 3.9% this year. The unemployment rate increased mildly to 5.1% in 2023 and is forecast to increase slightly further to 5.3% in 2024-2025.

The scoreboard reading for Austria shows that two indicators were beyond their indicative thresholds in 2023, namely unit labour costs, and government debt. Relevant developments worth highlighting:

- **External sustainability** indicators remained close to balance in 2023. The current account recorded a moderate surplus and the net international investment position remained positive.

- The evolution of **cost competitiveness** indicators mainly reflected moderately higher inflation than in the euro area aggregate. In 2023, core inflation was 2.3 pps. above the euro area value due to services inflation which remains elevated on the back of high nominal wage increases, hence maintaining the high core inflation differential vis-à-vis the euro area. In 2023, the HICP-based REER appreciated by close to 4%, as both nominal euro gains and unfavourable inflation differentials contributed. It continued to appreciate by mid-2024, albeit more slowly. ULC increased strongly, by almost 9% in 2023 as productivity dropped on account of the subdued economic activity and nominal wage increases were robust to catch up with the high past inflation. The 3-year increase in ULC has been very close to or above the scoreboard threshold since 2020.

- **Corporate debt** declined from 74% of GDP in 2022 to 71% in 2023, but debt servicing costs increased while profitability and activity indicators weakened. In contrast to the general trend of loan-driven deleveraging in the EU, debt securities contributed strongly to deleveraging in Austria. The interest coverage ratio fell markedly due to a strong rise in the interest burden. Borrowing costs have plateaued in line with euro area average but remain high and will further affect debt service costs as more than half of the loans to Austrian NFCs have interest rates resetting in 2024. Corporate vulnerabilities increased more than in other EU countries as activity remained weak, profitability low, and debt service capacity deteriorated. The share of NPLs and bankruptcies rose. The profit share fell sharply over the course of 2023, as did gross operating surplus as a percentage of GDP and unit profit growth.

- **Household debt** is at moderate levels and continues to decline. The household debt-to-GDP ratio declined to 45% in 2023 and is expected to further decrease in 2024. Net credit flows to households turned negative in 2023 and are expected to continue doing so in 2024. Households' gross savings are robust and stable and remain above pre-pandemic levels.

- Concerns related to the **housing market** remain despite a recent reduction in house prices. While house prices are still overvalued by an estimated 15-20%, this is a decline relative to

last year when house prices were overvalued by an estimated 30%. In 2023 house prices decreased by 2.9% and in 2024-Q2 continued decreasing at 0.7%, year-on-year. The current moderation follows years of noticeable growth and is driven by the adjustment to higher interest rates. Structural implications for the domestic economy could arise from high prices, as house price growth has exceeded the pace of household income growth by more than 45 pps. since 2008. Mortgage rates increased from 1.2% in 2021 to 3.9% in 2023, impacting mortgage credit that shrunk by 2.4% in 2023. The adjustment to higher interest rates resulted in the number of house transactions declining by 17.0% and 27.4%, while that of building permits by 18.4% and 33.8% in 2022 and 2023, respectively. In terms of financial stability, in February 2024 the ESRB concluded that the residential real estate market in Austria was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([118]).

- **Government debt** is moderate but is increasing. While government debt was essentially unchanged at 78.6% of GDP in 2023, it is some 8 pps. above its 2019 pre-COVID-19 level and is forecast to increase in 2024 and 2025. The government deficit narrowed further to 2.6% of GDP in 2023 but is forecast to worsen to over 3% in 2024 and to not improve in 2025. Gross financing needs increased visibly in recent years but are expected to decline marginally and to come close to the euro area average amid an average debt maturity that is the highest in the euro area; yields on Austrian sovereign bonds have narrowed marginally in comparison with the best rate euro area sovereign debt since late 2022 and stayed much unchanged for most of 2024. This November, the Commission communicated that it will consider proposing to the Council to open an excessive deficit procedure for Austria ([119]). Fiscal sustainability risks are high in the medium term and medium in the long term ([120]).

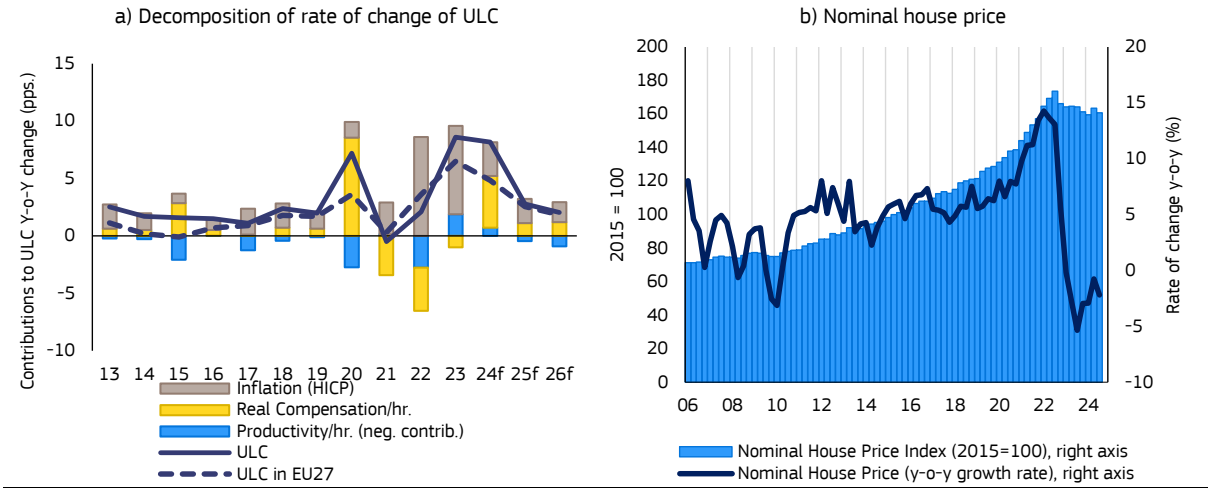
- The **financial sector** remains stable. The Common Equity Tier 1 capital ratio remained stable in 2023, while profitability increased, and both are slightly below the EU average. The non-performing loans ratio slightly increased to 2.2% (as of second quarter of 2024), and the Stage 2 ratio stagnated at levels well above the EU average. The provision of credit, notably mortgages, has further declined. The existing exposure of the banking sector to Russia represents a source of risk.

([118])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024"..

([119])Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 26.11.2024, COM(2024) 959 final.

([120])Estimated based on the Commission's 2024 spring forecast.

Graph 4.20: **Selected graphs: Austria**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.20: **Key economic and financial indicators, Austria**

	Thresholds	Bench. I	Bench. II	average *2017-2019*	*2023*	forecast *2024*	*2025*
Output and Prices							
Real GDP (1 year % change)				2.2	-1.0	-0.6	1.0
GDP deflator (1 year % change)				1.4	6.6	4.2	2.3
Harmonised index of consumer prices (1 year % change)				1.9	7.7	2.9	2.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**1.6**	**0.7**	**0.7**	**1.4**
Current account balance, balance of payments (% of GDP)		1.4 (1)	0.6 (2)	1.5	1.3	1.6	1.4
Net international investment position (% of GDP)	**-35%**	-84.2 (3)	18.4 (4)	**7.5**	**16.6**	**20.7**	**21.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-4.2	-5.6		
Net lending-borrowing (% of GDP)				1.3	1.8		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**5.0**	**10.3**	**19.9**	**20.7**
Nominal unit labour cost index per hour worked (1 year % change)				1.8	8.6	8.2	2.8
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**2.5**	**1.8**	**0.8**	**1.2**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.7	3.9	0.3	-0.2
Export performance against advanced economies (3y % change)	**-3%**			**1.3**	**-1.4**	**-0.9**	**-0.4**
Export performance against advanced economies (1 year % change)				0.6	3.2	-1.1	-1.2
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.8	2.4	1.1	-0.1
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	69.5 (6)	70.9 (7)	**72.7**	**71.4**	**69.4**	**67.6**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**4.0**	**1.3**	**0.2**	**0.6**
Cost of borrowing for corporations				1.5	4.5	5.0	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	48.1 (6)	68.2 (7)	**49.7**	**45.0**	**42.9**	**43.2**
Household debt, consolidated (% of Households' GDI)				69.6	60.7	58.4	60.7
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**2.9**	**-1.6**	**-1.2**	**3.9**
House price index, nominal (1 year % change)	**+9%**			**5.7**	**-2.9**	**0.0**	**1.0**
House prices over/undervaluation gap [(8)]				8.0	20.8		
Building permits (m^2 per 1000 inh)				934.1	467.7 e		
Cost of borrowing for households for house purchase				1.8	3.9	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**74.9**	**78.6**	**79.5**	**80.8**
General government balance (% of GDP)				0.0	-2.6	-3.6	-3.7
Banking sector							
Return on equity of banks (%)				8.4	12.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.1	18.1 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				2.8	2.1 p	2.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.1 (9)		**5.3**	**5.1**	**5.3**	**5.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.0**	**1.8**	**1.1**	**1.1**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

POLAND

In Poland, high inflation increased pressures on cost competitiveness. Inflation rates were among the highest in the EU in 2023, with high services inflation and wage increases pushing core inflation. Inflation rates have converged closer to euro area averages in 2024. Poland's REER has continued to appreciate. Nominal unit labour costs increased markedly in 2023 but are set to slow in 2024. At the same time, Poland recorded a current account surplus in 2023 and gained export market shares against other advanced economies. The government deficit has widened and is forecast to remain significant, partly reflecting higher defence spending.

Real GDP growth declined to 0.1% in 2023 and is forecast to increase to 3.0% in 2024 and 3.6% in 2025, which would make Poland among the fastest growing economies in the EU. Both headline inflation and core inflation were among the highest in the EU in 2023, at 10.9% and 9.3% respectively, despite subdued economic activity. They have decreased markedly towards EU averages and headline inflation is forecast to stand at 3.8% in 2024. The unemployment rate stood at 2.8% in 2023, among the lowest in the EU. It is forecast to remain broadly stable in 2024-2025.

The scoreboard reading for Poland shows that one indicator was beyond its indicative threshold in 2023, namely unit labour costs. Relevant developments worth highlighting:

- **External sustainability** improved somewhat as the current account turned positive. The current account balance turned from a deficit of 2.2% of GDP in 2022 into a surplus of 1.8% in 2023, due to an increase in both energy and non-energy goods balances. The current account is expected to slightly decrease but to remain in surplus over 2024 and 2025. The net international investment position (NIIP) slightly increased in 2023, to -32.6% of GDP, and is expected to further increase. The NIIP excluding non-defaultable instruments (NENDI) is slightly positive.

- **Cost competitiveness** concerns remain. In 2023, core inflation was 4.3 pps. Above the euro area value, but by September 2024, the differential decreased to 1 pp. In 2023, the HICP-REER (42 trade partners) appreciated strongly, by almost 11%, with both nominal exchange rate appreciations and high inflation rate differentials contributing. By mid-2024, the HICP-REER continued to appreciate by more than 6%, on account of strong nominal zloty gains in the context of rising real interest rates. Nominal wage growth was strong in 2023, including due to a large minimum wage increase, and much in excess of productivity growth, pushing ULCs to increase by close to 13%. As productivity is set to accelerate and the labour market to cool, the ULC increase is expected to slow in 2024 and 2025. In terms of export market shares against advanced economies, Poland continues to perform strongly.

- The **corporate debt-to-GDP ratio** continued to fall and stood at 32% in 2023. Credit growth, measured as credit flows excl. FDI relative to lagged debt stock, fell compared to 2022, but remained at 4%. In 2023, the share of total corporate non-performing loans out of total corporate gross loans and advances decreased further but remains at over 5%. Unit profit growth fell sharply during 2023, turning negative at the beginning of 2024. Poland has a low investment rate compared to the EU average and regional peers, while real investment growth improved markedly in 2023, the final year in which EU funding from the 2014-20 programming period could be spent.

- **Household debt** continues to decline as a share of GDP. The household debt-to-GDP ratio is low, at 24% in 2023, and is expected to further decline in 2024. As a result of the extraordinary rise in borrowing costs, net credit flows to households dropped to negative territory in 2022. They hovered around zero in 2023 but are expected to pick up in 2024. The

cost of borrowing peaked at above 9% in November 2022 and has since come down to less than 8% by mid-2024. The proportion of NPLs remains stable at close to 5% of all household loans in 2023, a still relatively high level compared to the EU average.

- The **housing market** has been characterised by strong house price growth recently. House prices were growing at a significant pace in 2023, by 8.8% and showing signs of acceleration, increasing by 17.7% in 2024-Q2 in the context of rising demand for housing as well as additional mortgage support for first time buyers adopted in the runup to the 2023 parliamentary elections. However, there are no signs of overvaluation as house price growth has been broadly in line with household income since 2013. Mortgage rates increased significantly from 3.1% in 2021 to 8.3% in 2023. Housing transactions increased by 3.9% in 2023 after having decreased by 8.2% in 2022. Building permits decreased by 12.7% and 19.4% in 2022 and 2023, respectively but have started to increase in 2024. The slowdown of new housing supply may support further increases in nominal house prices, which would warrant closer monitoring. In terms of financial stability risks, in February 2024, the ESRB concluded that the residential real estate market in Poland was subject to medium risks and that the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([121]).

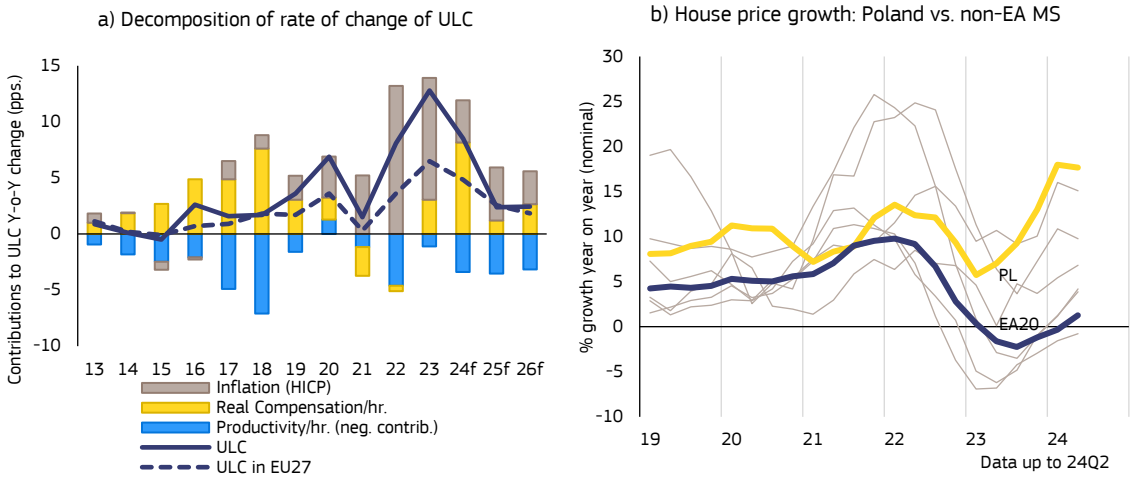
- **Government debt** remains moderate but is increasing and deficits are high. The government debt increased to 49.7% of GDP in 2023 after having declined in earlier years. It is some 4 percentage points above its 2019 pre-COVID-19 level and debt is forecast to increase this year and next to reach 59% of GDP in 2025. The government deficit widened to 5.3% of GDP in 2023 and is forecast to increase further in 2024 and to shrink but remain above 5% of GDP in 2025. Gross financing needs are below the EU average but have been rising on account of the large deficits and average maturities that are among the lowest in the EU. Polish sovereign long-term bond yields declined in the course of 2023, and by more than the best rated sovereign debt, but have not receded in the course of 2024. An excessive deficit procedure has been opened for Poland this July. Fiscal sustainability risks are high in the medium term and medium in the long term ([122]).

- The **financial sector** remains stable. The profitability and capital ratios of banks increased in 2023 and are close to the EU average. In the future, the profitability of banks can be affected by legal risks related to previously granted foreign currency mortgages. The NPLs ratio slightly decreased in 2023, but at 4% (as of second quarter of 2024) remains one of the highest in the EU. The credit dynamics further slowed down in 2023, but in early 2024 there were some signs of recovery. Polish banks' exposure to domestic sovereign debt is significant and among the highest in the EU. Relatively high exposure of banks to domestic sovereign represents a potential source of risk.

([121])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([122])Estimated based on the Commission's 2024 spring forecast.

Graph 4.21: **Selected graphs: Poland**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.21: **Key economic and financial indicators, Poland**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				5.3	0.1	3.0	3.6
GDP deflator (1 year % change)				2.0	9.5	3.9	4.6
Harmonised index of consumer prices (1 year % change)				1.6	10.9	3.8	4.7
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-1.2**	**-0.6**	**0.1**	**1.1**
Current account balance, balance of payments (% of GDP)		0.1 (1)	-2.4 (2)	-1.2	1.8	0.8	0.6
Net international investment position (% of GDP)	**-35%**	-57.9 (3)	-5.8 (4)	**-55.0**	**-32.6**	**-30.1**	**-26.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-14.7	5.2		
Net lending-borrowing (% of GDP)				0.3	1.9		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**5.7**	**23.9 p**	**32.4**	**25.4**
Nominal unit labour cost index per hour worked (1 year % change)				2.3	12.8 p	8.5	2.4
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**-0.1**	**9.2**	**16.5**	**18.0**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.9	10.6	7.0	2.3
Export performance against advanced economies (3y % change)	**-3%**			**13.8**	**7.7**	**9.8**	**12.0**
Export performance against advanced economies (1 year % change)				4.6	7.0	2.9	1.4
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				-0.1	4.3	1.2	1.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	66.5 (6)	29.4 (7)	**40.3**	**32.2**	**30.4**	**28.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**4.0**	**4.0**	**0.3**	**1.3**
Cost of borrowing for corporations				3.6	8.7	7.7	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	44.5 (6)	20.0 (7)	**34.5**	**23.7**	**23.1**	**22.3**
Household debt, consolidated (% of Households' GDI)				48.1	34.3	34.2	34.6
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**5.7**	**-0.2**	**4.3**	**4.8**
House price index, nominal (1 year % change)	**+9%**			**6.4**	**8.8**	**16.3**	**8.0**
House prices over/undervaluation gap [(8)]				-11.4	-1.5		
Building permits (m^2 per 1000 inh)				621.2	540.5		
Cost of borrowing for households for house purchase				4.4	8.3	7.7	
Government							
General government gross debt (% of GDP)	**60%**			**47.9**	**49.7**	**54.7**	**58.9**
General government balance (% of GDP)				-0.8	-5.3	-5.8	-5.6
Banking sector							
Return on equity of banks (%)				6.9	11.6 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.1	18.1 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				6.3	4.1 p	3.9	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	2.8 (9)		**4.1**	**2.8**	**2.9**	**2.8**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.4**	**4.3**	**1.6**	**1.1**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

PORTUGAL

In Portugal, concerns related to the external debt as well as to the private and public sector indebtedness have moderated. The current account turned to a surplus in 2023, which together with nominal GDP growth contributed to a decrease in external debt. The government debt-to-GDP ratio is continuing to decrease due to nominal GDP growth and the government balance surplus, a trend that is forecast to persist in the coming years. House prices continue to rise very strongly, and overvaluation has increased.

Real GDP growth reached 2.5% in 2023 and is forecast at 1.7% in 2024 and 1.9% in 2025. Headline and core inflation have remained close to the euro area averages in 2023 and the first half of 2024. Headline inflation is forecast to stand at 2.6% in 2024, close to the euro area average. The unemployment rate increased slightly in 2023, to 6.5%. It is forecast to decrease marginally in 2024-2025.

The scoreboard reading for Portugal shows that four indicators were beyond their indicative thresholds in 2023, namely the net international investment position, unit labour costs, household debt, and government debt. Relevant developments worth highlighting:

- **External sustainability** continues to improve. The current account balance turned from a deficit of 1.9% of GDP in 2022 to a slight surplus of 0.5% of GDP in 2023, mainly due to a rebound in the energy balance and steady growth in foreign tourism. The surplus will increase further in 2024 and is forecast at around 1% in 2025. The net international investment position (NIIP) continued to increase from -83% of GDP in 2022 to -72.3% in 2023, mainly due to nominal growth and the current account surplus, and a further increase is expected for 2024.

- **Cost competitiveness** developments remain contained. In 2023, the REER appreciated by 2%, pushed by nominal euro gains, and it continued to marginally appreciate into 2024. ULCs rose by 7.2% in 2023 as nominal wage growth was strong and only partly offset by productivity gains. ULC growth has been stronger than the euro area average in 2021 and 2023, but REER growth has overall been more contained.

- **Corporate debt** continued to decline on the back of active deleveraging. The corporate debt-to-GDP ratio declined from 79% in 2022 to 71% in 2023, which is the lowest value for Portugal since the beginning of the monetary union. The interest coverage ratio of Portuguese NFCs is low compared to other EU countries and fell further as interest expenses surged. Borrowing costs increased substantially in 2023 but moderated somewhat in 2024. A large share of corporate loans will have their interest rates reset in 2024, suggesting a further decline in the interest coverage ratio and possible deterioration in the debt service capacity. Bankruptcies picked up during 2023, while new business registrations declined. Unit profit growth fell during 2023, but increased somewhat at the beginning of 2024.

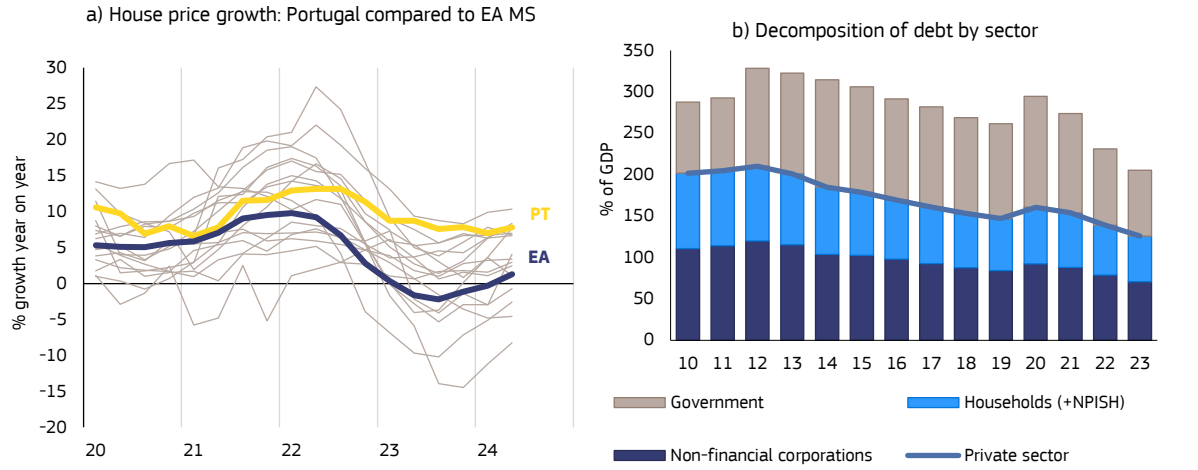
- **Household debt** continues to decline. The household debt-to-GDP ratio dropped to 55% in 2023, helped by high inflation, reaching the MIP threshold. The ratio is expected to decline further in 2024. As a result of the rise in borrowing costs, net credit flows to households hovered around zero in 2023 and are expected to stay there in 2024. Reflecting the large stock of highly flexible mortgage loans (which have become less common among new loans given out), debt servicing costs also rose significantly: net interests paid by households doubled from 1% of gross disposable income in 2021 to 2% in 2023. The savings rate of households recovered to 8% in 2023 and is expected to increase further in 2024 due to positive real wage developments.

- Concerns related to the housing market remain, as house prices continued to grow strongly. House prices increased by 8.2% in 2023 and are estimated to be overvalued by around 25-30%. The growth continued in 2024-Q2 at 7.8% year-on-year. Since 2016, house prices in Portugal have grown between 7% and 13% each year, significantly higher than incomes and housing affordability concerns are becoming highly significant with house price-to-income ratio standing around 30% above the long-term average in 2023. This cumulated growth of house prices has been driven by strong tourism demand, significantly supported by short-term rentals, low interest rates and a low level of residential construction. Mortgage rates increased from 0.8% in 2021 to 4.0% in 2023, impacting mortgage credit that decreased by 1.4%. The adjustment to the higher interest rate environment is occurring more significantly on the quantities side with house transactions decreasing by 19.8% in 2023 after stabilising in 2022. However, building permits continued to increase, at 5.4% in 2023. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Portugal was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([123]).

- **Government debt** is high but is declining. Government debt decreased further to 97.9% of GDP in 2023 and it is some 19 pps. below its 2019 pre-COVID-19 level. It is forecast to continue declining in 2024 and 2025. The government balance improved further, recording a budget surplus in 2023, and it is expected to remain in positive territory in 2024 and 2025. These developments, together with a strong nominal GDP growth, helped debt reduction. Gross financing needs have fallen, while yields on Portuguese sovereign bonds and spreads vis-à-vis the best rated euro area sovereign debt have declined. Fiscal sustainability risks are now medium in the medium term and low in the long term ([124]).

- The **financial sector** showed improvements in 2023, while some moderate vulnerabilities remain. Banks' capital ratio and profitability increased in 2023 and are close to the EU average. The non-performing loans ratio declined and at 2.7% (as of the first quarter of 2024) remained above the EU average, as do Stage 2 loans, which slightly increased in 2023. Credit dynamics remained very muted in 2023, with some signs of recovery in the first half of 2024. Risks associated with financial and public sector feedback loops have decreased.

Graph 4.22: **Selected graphs: Portugal**



Source: Eurostat and European Commission calculations.

([123])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([124])Estimated based on the Commission's 2024 autumn forecast.

Table 4.22: **Key economic and financial indicators, Portugal**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				3.0	2.5	1.7	1.9
GDP deflator (1 year % change)				1.7	6.9	3.8	2.5
Harmonised index of consumer prices (1 year % change)				1.0	5.3	2.6	2.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**1.1**	**-0.7**	**-0.1**	**0.9**
Current account balance, balance of payments (% of GDP)		-0.4 (1)	-0.4 (2)	1.0	0.5	1.2	0.9
Net international investment position (% of GDP)	**-35%**	-56.7 (3)	-14.6 (4)	**-105.5**	**-72.3**	**-60.6**	**-55.1**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-52.9	-19.4		
Net lending-borrowing (% of GDP)				2.0	1.9		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**5.2**	**11.0 e**	**16.6**	**16.8**
Nominal unit labour cost index per hour worked (1 year % change)				2.6	7.2 e	6.0	2.7
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.8**	**-1.4**	**-0.6**	**-0.3**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.0	2.3	-0.1	-0.1
Export performance against advanced economies (3y % change)	**-3%**			**6.5**	**16.2**	**15.7**	**6.5**
Export performance against advanced economies (1 year % change)				2.3	6.7	1.7	-0.1
Core inflation[5] differential vis-à-vis the euro area (pps.)				-0.2	0.4	-0.2	-0.2
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	51.9 (6)	58.8 (7)	**88.1**	**70.8 e**	**67.2**	**64.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-1.2**	**-0.6**	**1.4**	**0.0**
Cost of borrowing for corporations				2.6	5.4	5.5	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	32.6 (6)	32.3 (7)	**65.6**	**55.0 e**	**51.9**	**49.3**
Household debt, consolidated (% of Households' GDI)				84.0	71.4	67.9	65.7
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**0.9**	**0.1**	**-0.5**	**-0.7**
House price index, nominal (1 year % change)	**+9%**			**9.8**	**8.2**	**7.5**	**5.0**
House prices over/undervaluation gap [8]				-0.8	27.7		
Building permits (m^2 per 1000 inh)				438.0	628.7 ep		
Cost of borrowing for households for house purchase				1.5	4.1	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**121.1**	**97.9**	**95.7**	**92.9**
General government balance (% of GDP)				-1.1	1.2	0.6	0.4
Banking sector							
Return on equity of banks (%)				2.1	13.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				14.5	17.9 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				9.6	2.7 p	2.6	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.0 (9)		**7.7**	**6.5**	**6.4**	**6.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.1**	**4.0**	**3.5**	**2.7**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

ROMANIA

The macroeconomic risks related to external sustainability and cost competitiveness have generally increased. Large fiscal deficits have fuelled domestic demand growth, resulting in high current account deficits, which are persisting. Headline and core inflation have declined steadily but remain among the highest in the EU, partly due to large increases in wages. The REER has appreciated further, and unit labour costs grew by 15% in 2023, with wage dynamics remaining strong into 2024. Risks are mitigated by still low levels of domestic and external indebtedness.

Real GDP growth reached 2.4% in 2023 and is forecast at 1.4% in 2024 and 2.5% in 2025. In 2023 both average headline and core inflation were among the highest in the EU, coming in close to 10%. Inflation rates have reduced in 2024, and headline inflation is forecast to decrease to 5.5% this year. At the same time, core inflation remains very high and well above the EU average, fuelled by strong increases in the services component. The unemployment rate remained stable in 2023, at 5.6%, and is expected to remain almost unchanged in 2024-2025.

The scoreboard reading for Romania shows that three indicators were beyond their indicative thresholds in 2023, namely the current account balance, the net international investment position, and unit labour costs. Relevant developments worth highlighting:

- **External sustainability** concerns remain. Large fiscal deficits have fuelled domestic demand growth, resulting in sizeable current account deficits, which markedly exceeded estimated current account benchmarks. Despite some reduction, the current account deficit remained substantial, at 7% in 2023, down from 9.2% in 2022. The deficit is expected to widen to about 8% of GDP in 2024 before improving somewhat. A growing cost of government debt adds to the primary deficits expected for the next two years, keeping the economy heavily reliant on external financing. Capital transfers from the EU, including the RRF, and foreign direct investment covered slightly more than half of external financing needs in 2023. Substantial foreign exchange reserves mitigate the immediate risks of liquidity drying out. The net international investment position (NIIP), which stood at close to -40% of GDP in 2023, was broadly stable, owing to strong nominal growth. The NIIP seems unlikely to improve substantially, as nominal growth is slowing down and external financing needs remain substantial. The composition of the NIIP is dominated by non-defaultable instruments, notably FDI.

- **Cost competitiveness** concerns persist due to significant inflation differentials and high wage increases. In 2023 core inflation was 4.7 pps. above euro area value, and remains high, reaching 3.7 pps. in September 2024. In 2023, the REER appreciated by more than 5%, as both nominal effective exchange rate appreciations and high inflation rate differentials contributed. By mid-2024, it continued to appreciate by close to 3%, on account of nominal gains of the Romanian leu and still unfavourable inflation differentials. In 2023 nominal wage increases were strong and ULC grew by close to 15%, despite the solid productivity growth. ULC has continued to grow strongly in 2024. The 3-year increase in nominal ULC has been above the scoreboard threshold since 2016.

- In 2023, **corporate debt** decreased to 28% of GDP from 30% in 2022. This was the lowest across the EU and also the lowest value recorded for Romania since 2007. Deleveraging was exclusively loan driven and supported by a strong decline in FDI debt-to-GDP. Credit growth eased slightly to close to 10% in 2023, but remained considerably above the EU average. Bankruptcies picked up somewhat during 2023, while new business registrations fell. According to the latest EIB investment survey, Romania is the EU country with the largest share of firms reporting to be finance-constrained.

- **Household debt** remains low and has fallen further. The household debt-to-GDP ratio is the lowest in the EU and declining, reaching 12.5% in 2023. Net credit flows to households are very low as well, even when expressed as a share of the previous year's debt stock (2.8%), but consumer credit started to accelerate in 2024. Non-performing loans remain stable at a bit below 4% of all loans to households in 2023.

- The situation on the **housing market** remains stable. House prices are estimated not to be overvalued and their evolution has been moderate, increasing 3.3% in 2023 and 6.8% year-on-year in 2024-Q2, after 4.4% in 2021 and 2022, which was below the growth in private consumption deflator. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Romania was subject to low risks and the macroprudential policy mix was appropriate and sufficient ([125]).

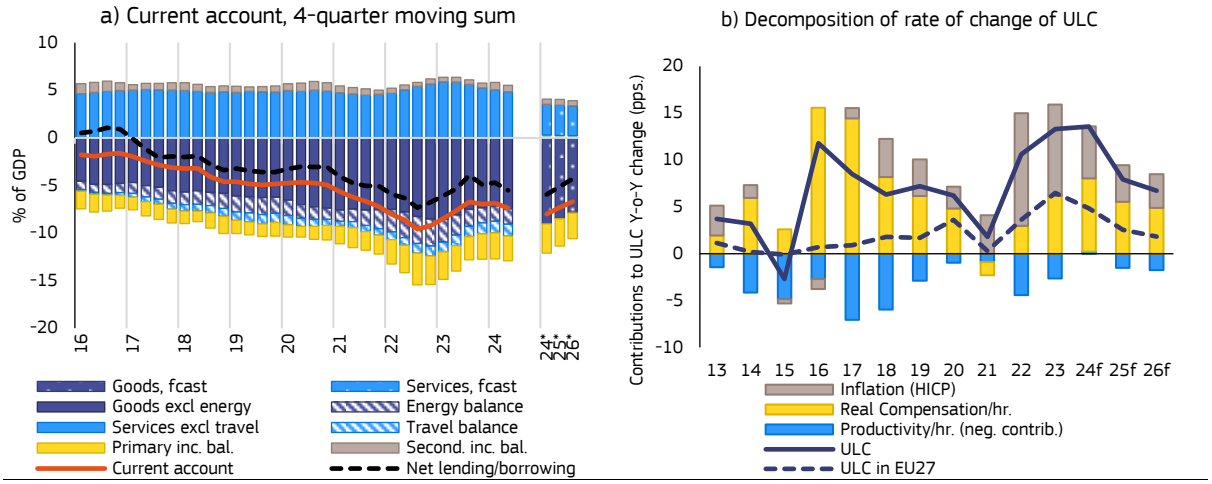
- **Government debt** is contained but is increasing as the government deficit remains very high. The government deficit remained at 6.5% of GDP in 2023 and is forecast to widen to 8% in 2024. The government debt increased to 48.9% of GDP in 2023, despite the strong nominal GDP growth. It is some 14 pps. above its 2019 pre-COVID-19 level and is forecast to increase further to 56% of GDP in 2025, as nominal GDP growth slows down and the deficit remains high. Around half of the government debt is denominated in foreign currencies, which can create risks for financing, and about half was held by non-residents at the end of 2023. Gross financing needs have become more significant in recent years on account of continued high deficits. Sovereign bond yields remain among the highest in the EU and have not improved in 2024 after declining in 2023. An excessive deficit procedure for Romania has been ongoing since 2020. The fiscal sustainability risks are high in both the medium and the long term ([126]).

- The **financial sector** is stable but subject to moderate risks in specific asset categories. The Common Equity Tier 1 capital ratio and profitability slightly increased in 2023 and were well above the EU average. The non-performing loans ratio of the banking sector mildly declined in 2023, but at 2.6% (as of second quarter of 2024) remains above the EU average. Helped by monetary easing and high increases in disposable income, private credit has been growing strongly in 2024. Romanian banks' exposure to domestic sovereign debt is rather significant and the highest in the EU, partly due to shallow financial markets, and has increased recently.

([125])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([126])Estimated based on the Commission's 2024 spring forecast.

Graph 4.23: **Selected charts: Romania**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.23: **Key economic and financial indicators, Romania**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				6.1	2.4	1.4	2.5
GDP deflator (1 year % change)				5.9	12.8	9.0	5.9
Harmonised index of consumer prices (1 year % change)				3.0	9.7	5.5	3.9
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-3.0**	**-7.8**	**-8.1**	**-7.4**
Current account balance, balance of payments (% of GDP)		-0.4 (1)	-4.1 (2)	-4.2	-7.0	-8.0	-7.3
Net international investment position (% of GDP)	**-35%**	-53.3 (3)	-11.4 (4)	**-44.8**	**-39.5**	**-38.0**	**-39.0**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-4.5	-4.8		
Net lending-borrowing (% of GDP)				-3.0	-4.9		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**23.6**	**27.5 p**	**42.3**	**38.9**
Nominal unit labour cost index per hour worked (1 year % change)				7.3	13.3 p	13.6	7.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**-2.0**	**6.7**	**7.6**	**6.8**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.1	5.5	2.3	1.6
Export performance against advanced economies (3y % change)	**-3%**			**11.6**	**6.8**	**6.5**	**8.9**
Export performance against advanced economies (1 year % change)				3.1	4.4	2.0	3.6
Core inflation[(5)] differential vis-à-vis the euro area (pps.)				0.7	4.7	5.4	2.3
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	66.4 (6)	23.6 (7)	**32.6**	**28.2 p**	**26.3**	**25.1**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**1.0**	**9.6**	**5.8**	**3.7**
Cost of borrowing for corporations				5.4	9.0	8.2	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	52.6 (6)	14.1 (7)	**15.8**	**12.5 p**	**12.3**	**12.4**
Household debt, consolidated (% of Households' GDI)				24.1	20.0 f	26.5	27.8
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**8.0**	**2.8**	**8.1**	**9.8**
House price index, nominal (1 year % change)	**+9%**			**5.0**	**3.3**	**5.1**	**5.0**
House prices over/undervaluation gap [(8)]				-11.7	-16.1		
Building permits (m^2 per 1000 inh)				541.6	456.9 p		
Cost of borrowing for households for house purchase				4.9	7.3	6.5	
Government							
General government gross debt (% of GDP)	**60%**			**34.9**	**48.9**	**52.2**	**56.1**
General government balance (% of GDP)				-3.2	-6.5	-8.0	-7.9
Banking sector							
Return on equity of banks (%)				12.5	16.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				18.1	19.9 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				5.3	2.5 p	2.6	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.6 (9)		**5.4**	**5.6**	**5.5**	**5.5**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**2.9**	**2.7**	**2.0**	**1.1**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

SLOVENIA

While high inflation continued to weigh on cost competitiveness in 2023, the government deficit narrowed, and macroeconomic risks appear to be limited. Inflation was well above the euro area average in 2023 but has decreased markedly. Unit labour costs increased strongly but the current account balance turned to a surplus. The government deficit has narrowed, and government debt is forecast to decrease in the next years, supported by nominal GDP growth. House prices have remained dynamic but are estimated to be only slightly overvalued.

Real GDP growth reached 2.1% in 2023 and is forecast at 1.4% in 2024 and 2.5% in 2025. Both headline and core inflation decreased markedly in 2023, while being above the euro area averages, at 7.2% and 6.7%, respectively. They have continued to decline in 2024 and headline inflation is forecast to decrease to 2.1% in 2024. The unemployment rate decreased slightly to 3.7% in 2023. It is expected to remain stable in 2024 and 2025.

The scoreboard reading for Slovenia shows that two indicators were beyond their indicative thresholds in 2023, namely unit labour costs, and government debt. Relevant developments worth highlighting:

- **External sustainability** improved further in 2023 as the current account turned positive. In 2023, the current account balance significantly increased from a deficit of 1.1% of GDP to a surplus of 4.5%. The change was primarily driven by the increase in both energy and non-energy goods balances. The net international investment position (NIIP) turned positive for the first time in 2023. The NIIP net of non-defaultable instruments remains positive.

- **Cost competitiveness** indicators showed some deterioration in 2023. In 2023, both average headline and core inflation rates were noticeably above the euro area, but they reduced considerably by mid-2024. Last year, the REER appreciated by close to 3%, as both nominal euro gains and unfavourable inflation differentials contributed, while remaining stable by mid-2024. 2023 ULCs increased markedly, by more than 8%, as nominal wage increases were robust and more than offset the strong productivity per hour gains. The 3-year increase in ULC has been above the scoreboard threshold since 2020.

- In 2023, the **corporate debt**-to-GDP ratio declined further, reaching with 35% its lowest value in over two decades. This decrease was predominantly driven by a fall in debt securities relative to GDP and reductions in total debt excluding FDI to GDP. Credit growth turned negative and was among the lowest across the EU. Despite an increase in interest expenses, the interest coverage ratio remained comparatively high. However, high borrowing costs and a large share of loans with interest rate resets in 2024 will likely further increase the interest burden.

- **Household debt** is low and continued to decline on the back of passive deleveraging. The household debt-to-GDP ratio reached 24% in 2023.

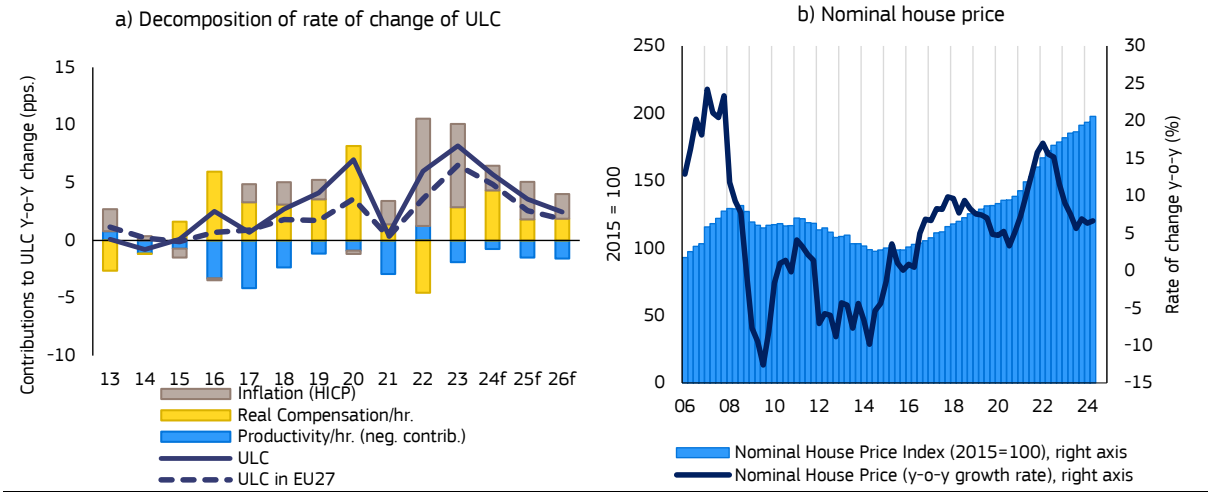
- The **housing market** continues to be characterised by strong house price growth. House prices increased by 7.2% in 2023 and 6.7% year-on-year in 2024-Q2. In 2021 and 2022, house prices grew 11.5% and 14.8%, respectively. Since 2015, house price growth exceeds households' income growth by around 15 pps. but are estimated to be only slightly overvalued. Mortgage rates increased from 1.8% in 2021 to 4.0% in 2023, causing the growth of mortgage credit to decline to only 0.7% in 2023. The adjustment to the higher interest rate environment is expressed by the lower number of transactions which declined by 7.6% and 20.0% in 2022 and 2023, respectively. Building permits remain at a high level when compared with 2015, while reduced by 3.9% in 2023. In terms of financial stability, in February 2024, the ESRB

concluded that the residential real estate market in Slovenia was subject to medium risks and that the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([127]).

- **Government debt** remains contained and is declining. Government debt decreased to 68.4% of GDP in 2023, and it is forecast to continue decreasing in 2024 and 2025. The government deficit narrowed further to 2.6% of GDP in 2023 and it is forecast to recede further in 2024 and 2025. Gross financing needs are below the euro area average. Since late 2022, yields on Slovenian sovereign bonds have been slightly narrowing in comparison with the best rated euro area sovereign debt.

- The sound **financial sector** reflects an increase of banking sector capitalisation and profitability in 2023, which are close to the EU average. The non-performing loans ratio remained stable in 2023, and at 1.6% (as of second quarter of 2024) is also close to the EU average. After a strong decline in late 2022, credit growth remained very muted in 2023, and there are some signs of recovery in 2024. The increase in house prices in recent years that represents a source of risk seems to have some to an end in 2024.

Graph 4.24: **Selected graphs: Slovenia**



Source: Eurostat and European Commission forecasts and calculations.

([127])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Table 4.24: **Key economic and financial indicators, Slovenia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				4.4	2.1	1.4	2.5
GDP deflator (1 year % change)				1.9	10.1	3.0	3.7
Harmonised index of consumer prices (1 year % change)				1.7	7.2	2.1	3.2
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**6.1**	**2.4**	**2.1**	**3.5**
Current account balance, balance of payments (% of GDP)		0.5 (1)	0.2 (2)	6.6	4.5	3.0	2.9
Net international investment position (% of GDP)	**-35%**	-65.2 (3)	5.8 (4)	**-20.0**	**2.3**	**4.3**	**4.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-3.3	18.2		
Net lending-borrowing (% of GDP)				6.0	4.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**5.6**	**15.2**	**21.2**	**18.4**
Nominal unit labour cost index per hour worked (1 year % change)				2.5	8.2	5.7	3.6
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.4**	**1.1**	**-0.1**	**0.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.4	2.9	-0.5	0.9
Export performance against advanced economies (3y % change)	**-3%**			**12.3**	**0.2**	**-1.9**	**0.8**
Export performance against advanced economies (1 year % change)				3.7	1.3	0.3	1.0
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.2	1.7	0.0	0.7
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	58.1 (6)	54.3 (7)	**44.0**	**34.7**	**33.3**	**31.5**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**-2.6**	**-2.1**	**-4.2**	**0.5**
Cost of borrowing for corporations				2.1	4.9	5.3	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	41.5 (6)	35.1 (7)	**27.1**	**23.9**	**24.3**	**24.5**
Household debt, consolidated (% of Households' GDI)				38.4	33.2	33.8	35.3
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**6.1**	**3.9**	**6.1**	**7.1**
House price index, nominal (1 year % change)	**+9%**			**7.9**	**7.2**	**7.2**	**5.0**
House prices over/undervaluation gap [8]				-4.6	3.9		
Building permits (m^2 per 1000 inh)				348.5	466.9		
Cost of borrowing for households for house purchase				2.4	4.1	3.7	
Government							
General government gross debt (% of GDP)	**60%**			**70.6**	**68.4**	**67.1**	**64.4**
General government balance (% of GDP)				0.5	-2.6	-2.4	-2.1
Banking sector							
Return on equity of banks (%)				10.0	16.8 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				17.7	18.0 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				6.2	1.5 p	1.6	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.2 (9)		**5.4**	**3.7**	**3.5**	**3.6**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**3.3**	**1.4**	**0.4**	**0.0**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

SLOVAKIA

Concerns related to cost competitiveness, the housing market, and government debt have increased. Inflation rates were among the highest in the euro area in 2023, and core inflation remains persistent. Unit labour costs have increased strongly and a further increase in real wages is expected. The government deficit has increased and is growing further, contributing to an increase in government debt despite supportive GDP growth. House prices have decreased but still show signs of overvaluation.

Real GDP growth reached 1.4% in 2023 and is forecast at 2.2% in 2024 and 2.3% in 2025. Headline and core inflation were among the highest in the euro area and EU in 2023, at 11% and 9.5%, respectively. They have declined markedly since their peaks, but core inflation has remained persistent and above the euro area average in 2024. Headline is forecast at 3.1% in 2024 and 5.1% in 2025. The unemployment rate decreased to 5.8% in 2023 and is expected to decrease further over 2024-2025.

The scoreboard reading for Slovakia shows that five indicators were beyond their indicative thresholds in 2023, namely the current account balance, the net international investment position, the real effective exchange rate, the export performance against advanced economies, and unit labour costs. Relevant developments worth highlighting:

- **External sustainability** concerns remain but displayed some improvement. In 2023, the current account balance increased significantly from its large deficit in late 2022, from -9.6% of GDP to -1.7%, in part due to cyclical effects. The current account balance is forecast to remain around its pre-pandemic levels of around -3% in the coming years. Strong nominal growth and valuation effects contributed to the net international investment position rising to -55% of GDP in 2023. The NENDI, which accounts for instruments that are subject to lower default risks, also experienced a slight increase, reaching almost -15%. The marked reduction in the large negative NIIP is unlikely to continue, owing mainly to slowing nominal growth and persistent current account deficits.

- **Cost competitiveness** concerns persist. In 2023, core inflation was 4.5 pps. above euro area value, but the differential vis-à-vis the euro area decreased to 1.6 pps. in September 2024. Last year, the HICP-based REER appreciated by 6.2% compared to 2022, as a result of both nominal exchange rate appreciations and high inflation rate differentials. By mid-2024, it remained stable, as nominal euro gains were offset by favourable inflation differentials. In 2023, nominal wage increases were strong and pushed ULC to increase by more than 9%, despite the solid productivity growth. The ULC is expected to decelerate in 2024 and 2025 and significant growth in real wages is further expected over the forecast horizon. The 3-year increase in ULC has been above the scoreboard threshold since 2018.

- Passive deleveraging helped to reduce **corporate debt** as a share of GDP. As a result, the corporate debt-to-GDP ratio fell from 46% in 2022 to 41% in 2023, reaching its lowest level since 2005. This decrease was mainly driven by a fall in debt securities relative to GDP, and strongly supported by reductions in FDI debt-to-GDP. Credit growth declined as well but remained above the EU average.

- **Household debt** remains moderate, with strong nominal growth keeping it stable. The household debt-to-GDP ratio stands at 44% in 2023, which is below 2021 and 2022 levels. At the same time, it is above that of regional peers. Slovakia is one of the only Member States where the debt ratio remains above pre-pandemic levels, although that is expected to change as household debt is forecast to further decrease in 2024. Passive deleveraging has been

significant in 2023, as a result of high inflation. Net credit flows contracted strongly in 2023 and are expected to decline further in 2024. The gross household savings rate is modest, at almost 7% in 2023, but is expected to pick up somewhat in 2024, helped by buoyant growth in real wages.

- The **housing market** has started growing again, following a small reduction in house prices in 2023. On average, house prices decreased by 0.2% in 2023 but more recent quarterly data shows an increase by 4.0% in 2024-Q2 year-on-year. The recent moderation follows years of noticeable growth and is driven by the adjustment to the higher interest rate environment, as mortgage rates increased from 1.0% in 2021 to 3.8% in 2023. Nonetheless, house prices are estimated to be overvalued by 10-15%. Since 2015, house prices grew slightly above the pace of households' income. As a result, housing affordability concerns are becoming significant. Building permits reduced by 3.9% in 2023 after reducing by 16.2% in 2022. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Slovakia was subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([128]).

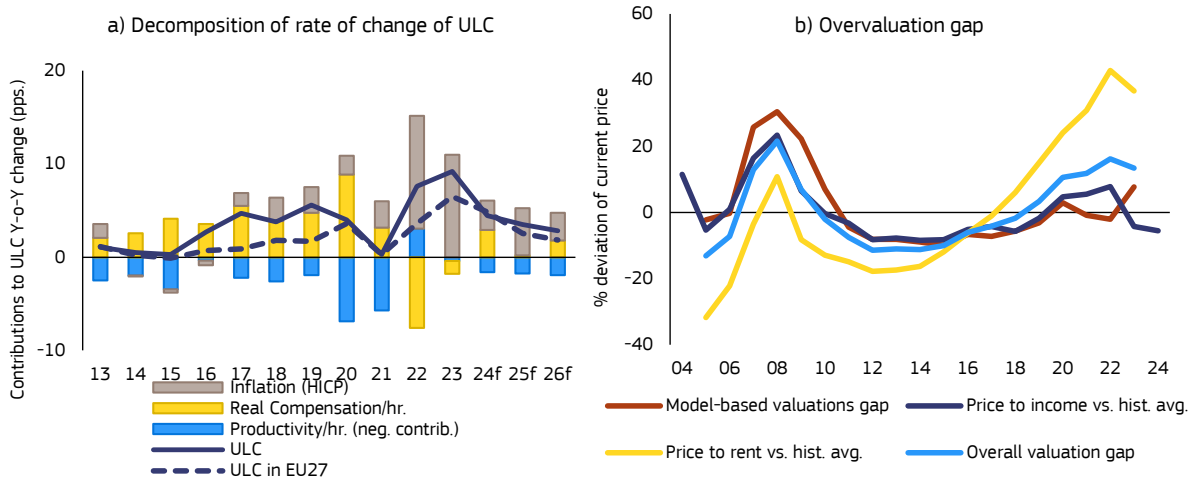
- **Government debt** remains moderate but is increasing and deficits are high. While government debt decreased to 56.1% of GDP in 2023, it is some 8 pps. above its 2019 pre-COVID-19 level and moreover debt is forecast to increase in 2024 and 2025 to just below 60% of GDP. The government deficit worsened significantly to 5.2% of GDP in 2023 and is forecast to widen further in 2024 before decreasing in 2025. Gross financing needs have been below the euro area average but increased markedly in 2023 and are not expected to fall amid high deficits. Yields on Slovak sovereign bonds rose in 2022 to become one of the highest in the euro area, widening in relation to the best rated euro area sovereign debt and did not decline in the course of 2023 or 2024. An excessive deficit procedure has been opened for Slovakia this July. Fiscal sustainability risks are high both in the medium and the long term ([129]).

- The **financial sector** resilience improved as banking sector capitalisation increased in 2023, to a level close to the EU average. Profitability increased but less than elsewhere in the EU and remained below the EU average in 2023. The non-performing loans ratio, which has been steadily decreasing as of 2026, slightly increased in 2023 and 2024 and now stands at 2.0% (as of second quarter of 2024). Credit growth has been slowing down since its peak in the first half of 2022. The high growth of house prices until 2022 was followed by a correction in 2023 and early 2024, which led to a reduction in potential risks on the financial sector.

([128])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([129])Estimated based on the Commission's 2024 spring forecast.

Graph 4.25: **Selected graphs: Slovakia**



Source: Eurostat and European Commission forecasts and calculations.

Table 4.25: **Key economic and financial indicators, Slovakia**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				3.1	1.4	2.2	2.3
GDP deflator (1 year % change)				1.9	10.1	4.4	3.8
Harmonised index of consumer prices (1 year % change)				2.2	11.0	3.1	5.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-1.9**	**-5.4**	**-4.7**	**-2.6**
Current account balance, balance of payments (% of GDP)		-0.3 (1)	-0.8 (2)	-2.3	-1.7	-2.8	-3.5
Net international investment position (% of GDP)	**-35%**	-50.1 (3)	-6.3 (4)	**-67.5**	**-54.9**	**-48.1**	**-47.4**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-15.2	-14.8		
Net lending-borrowing (% of GDP)				-1.7	-0.4		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**11.5**	**17.8**	**22.7**	**18.0**
Nominal unit labour cost index per hour worked (1 year % change)				4.7	9.2	4.5	3.5
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**1.1**	**7.5**	**6.6**	**6.8**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.9	6.2	0.4	2.7
Export performance against advanced economies (3y % change)	**-3%**			**2.4**	**-3.1**	**2.4**	**10.8**
Export performance against advanced economies (1 year % change)				-0.2	4.7	7.5	3.9
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.8	4.5	1.4	1.8
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	70.7 (6)	45.1 (7)	**48.4**	**41.4**	**38.7**	**37.8**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**0.7**	**2.5**	**2.1**	**3.8**
Cost of borrowing for corporations				2.2	5.3	5.9	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	47.6 (6)	29.3 (7)	**42.1**	**44.0**	**42.1**	**41.0**
Household debt, consolidated (% of Households' GDI)				60.7	61.1		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**9.8**	**4.6**	**2.2**	**3.5**
House price index, nominal (1 year % change)	**+9%**			**7.5**	**-0.2**	**2.0**	**2.0**
House prices over/undervaluation gap [8]				-0.9	13.4		
Building permits (m^2 per 1000 inh)				429.1	372.0		
Cost of borrowing for households for house purchase				1.6	3.8	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**49.6**	**56.1**	**58.9**	**59.8**
General government balance (% of GDP)				-1.1	-5.2	-5.8	-4.7
Banking sector							
Return on equity of banks (%)				9.0	11.5 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				16.4	18.6 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				3.3	1.8 p	1.9	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	5.9 (9)		**6.8**	**5.8**	**5.5**	**5.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.4**	**2.0**	**2.0**	**1.0**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

FINLAND

In Finland, corporate and household debt-to-GDP ratios have decreased. Cost competitiveness pressures are limited due to relatively low inflation amid persistently weak economic activity. Household debt has decreased due to a contraction in credit flows, but it remains elevated while higher borrowing costs have led to a significant increase in debt servicing costs. Government debt has increased and is forecast to increase further in the next years due to higher deficits and low nominal GDP growth.

Real GDP contracted by 1.2% in 2023 and is forecast to contract by 0.3% in 2024 before growing by 1.5% in 2025. Both headline and core inflation decreased strongly in 2023 and were close to 4%, below euro area averages. Inflation has reached low levels in 2024, with headline inflation forecast to stand at 1.0% in 2024 while core inflation has been below 2% in the past months. The unemployment rate increased slightly to 7.2% in 2023. It is expected to increase to around 8% in 2024-2025.

The scoreboard reading for Finland shows that four indicators were beyond their indicative thresholds in 2023, namely the export performance against advanced economies, unit labour costs, household debt, and government debt. Relevant developments worth highlighting:

- **External sustainability** is marked by modest current account deficits and a positive net international investment position. Despite a considerable increase, the current account balance remained negative in 2023, at -0.4% of GDP. The net international investment position was positive in 2023, at 12.6% of GDP.

- **Cost competitiveness** developments were contained due to lower headline and core inflation rates than in the euro area. Last year, the REER appreciated by 3%, as the nominal appreciation was not fully offset by favourable inflation differentials, but it depreciated by mid-2024. 2023 ULC growth was more than 5%, as both nominal wage growth and a drop in productivity contributed.

- Corporate deleveraging has continued in 2023, while **corporate debt** servicing costs increased**.** In 2023, the corporate debt-to-GDP ratio declined to 76% from 80% in 2022, reaching its lowest level since 2007. The interest coverage ratio has fallen strongly over the last quarters and was among the lowest in the euro area, driven by a strong increase in the interest burden. Borrowing costs remain high and a large share of corporate loans will have their interest rates reset in 2024, suggesting that the Finnish interest coverage ratio will not improve significantly in the near term. Despite a deterioration in debt service capacity, overall financial vulnerabilities of the corporate sector remain contained. Unit profit growth fell during 2023 but picked up in the beginning of 2024. Real investment growth has been weak and saw a marked fall from 2022 to 2023, mainly driven by a sharp drop in construction investment.

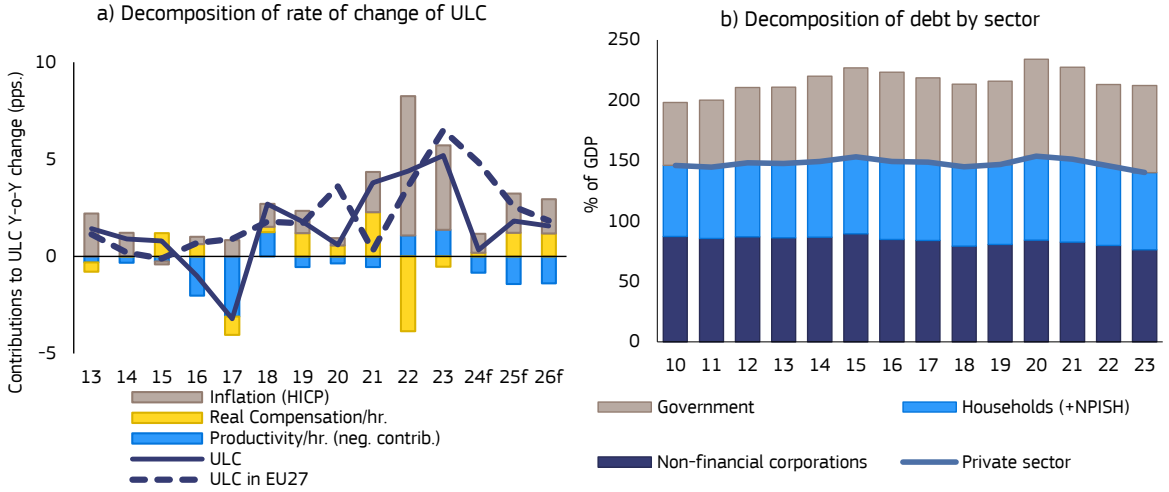
- **Household debt** has been declining in recent years but remains high. The household debt-to-GDP ratio decreased to 64% in 2023. It is expected to decrease further in 2024, while remaining above the MIP threshold of 55%. Net credit flows contracted strongly in 2022 and 2023 and are expected to remain around 0 in 2024. In Finland, virtually all loans that are being given out for house purchase have flexible interest rates with a fixation period of one year or less. As a result, the sudden surge in borrowing costs as of mid-2022 has given rise to a significant increase in debt servicing costs: net interests paid by households increased from 0.8% in 2021 to 2.4% of (adjusted) gross disposable income in 2023. Household gross savings remained stable in 2023, below their pre-pandemic levels. They are expected to remain there in the next two years, in spite of positive real wage developments.

- **House prices** continue to fall. House prices are estimated not to be overvalued and decreased by 5.7% in 2023 and 4.8% year-on-year in 2024-Q2. The increase of interest rates from 0.7% in 2021 to 3.9% in 2023 is also being reflected in lower house transactions, -16.6% and -24.5%, and building permits, -18.0% and -43.4% in 2022 and 2023, respectively. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Finland is subject to medium risks and the macroprudential policy mix was appropriate and sufficient to mitigate the situation ([130]).

- **Government debt** is moderate but is increasing. The debt ratio increased slightly further to 77.1% of GDP in 2023. It is some 12 percentage points above its 2019 pre-COVID-19 level, and debt is forecast to rise further in 2024 and 2025 and to reach almost 85% of GDP in the latter. The government deficit widened to 3% of GDP in 2023 and is forecast to exceed 3% in 2024 but to decline in 2025. Gross financing needs have increased in recent years and are estimated to have been marginally in excess of the euro area average this year; yields on long-term Finnish sovereign bonds have been broadly stable compared with the best rated euro area sovereign debt. Government guarantees, and the related implicit liabilities for the public sector, are the largest in the EU. The fiscal sustainability risks are high in the medium term and medium in the long term ([131]).

- Despite some specific challenges related to interest rate dynamics, the **financial sector** faces limited risks. The capitalisation and profitability of the banking sector increased in 2023 and remained close to the EU average. The non-performing loans ratio increased slightly to 1.2% (as of second quarter of 2024) but still remained one of the lowest in the EU. The high share of mortgage debt with variable interest rates represents a risk.

Graph 4.26: **Selected graphs: Finland**



Source: Eurostat and European Commission forecasts and calculations.

([130])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

([131])Estimated based on the Commission's 2024 spring forecast.

Table 4.26: **Key economic and financial indicators, Finland**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				1.9	-1.2	-0.3	1.5
GDP deflator (1 year % change)				1.4	3.9	1.4	2.1
Harmonised index of consumer prices (1 year % change)				1.0	4.3	1.0	2.0
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**-1.1**	**-0.8**	**-1.1**	**-0.6**
Current account balance, balance of payments (% of GDP)		-1.2 (1)	-0.2 (2)	-0.8	-0.4	-0.6	-0.9
Net international investment position (% of GDP)	**-35%**	-79.4 (3)	3.9 (4)	**-1.5**	**12.6**	**16.9**	**15.7**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				3.6	6.7		
Net lending-borrowing (% of GDP)				-0.7	-0.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**-1.4**	**14.0**	**10.3**	**7.5**
Nominal unit labour cost index per hour worked (1 year % change)				0.4	5.2	0.3	1.8
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**0.3**	**-1.9**	**-4.2**	**-2.9**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				0.1	3.1	-1.7	-0.2
Export performance against advanced economies (3y % change)	**-3%**			**5.2**	**-6.0**	**-8.1**	**-7.2**
Export performance against advanced economies (1 year % change)				3.1	-2.9	-1.9	-0.5
Core inflation[5] differential vis-à-vis the euro area (pps.)				-0.5	-0.9	-0.7	0.2
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	67.3 (6)	86.5 (7)	**81.3**	**76.3**	**75.7**	**75.4**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**4.6**	**2.6**	**-1.2**	**3.3**
Cost of borrowing for corporations				1.5	4.9	5.2	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	51.9 (6)	61.7 (7)	**65.5**	**63.9**	**63.2**	**62.8**
Household debt, consolidated (% of Households' GDI)				89.4	85.1	84.4	86.9
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**4.1**	**-0.4**	**0.1**	**3.0**
House price index, nominal (1 year % change)	**+9%**			**0.8**	**-5.7**	**-3.0**	**0.0**
House prices over/undervaluation gap [8]				-2.1	-10.3		
Building permits (m^2 per 1000 inh)				675.7	355.0		
Cost of borrowing for households for house purchase				0.9	3.9	4.1	
Government							
General government gross debt (% of GDP)	**60%**			**65.8**	**77.1**	**82.6**	**84.7**
General government balance (% of GDP)				-0.8	-3.0	-3.7	-3.0
Banking sector							
Return on equity of banks (%)				7.3	13.5 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				19.8	19.7 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				1.4	1.1 p	1.2	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.7 (9)		**7.7**	**7.2**	**8.2**	**7.9**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**1.9**	**2.6**	**0.7**	**-0.4**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

SWEDEN

Concerns related to house prices, household debt, and corporate debt remain. The corporate and household debt-to-GDP ratios have decreased due to high inflation, but they remain high, and the interest rate coverage ratio of Swedish corporates is low compared to other EU Member States. Household debt has declined as a percentage of nominal GDP but remains among the highest in the EU. The prevalence of variable interest rates weighed on households' balance sheets during the monetary policy tightening cycle and contributed to a reduction in private consumption. House prices corrected in 2023 but remain overvalued, while the banking sector's exposure to real estate represents a risk.

Real GDP declined by 0.3% in 2023 and is forecast to grow by 0.3% in 2024 and by 1.8% in 2025. Both headline and core inflation have declined markedly in 2023 and 2024 in a context of weak economic activity and declining energy prices. Headline inflation stood at 5.9% in 2023 and is forecast to decrease to 1.9% in 2024, with core inflation easing to close to the euro area average in the past months. The unemployment rate stood at 7.7% in 2023 and is expected to increase to above 8% in 2024 and 2025.

The scoreboard reading for Sweden shows that three indicators were beyond their indicative thresholds in 2023, namely the current account balance, household debt, and NFC debt. Relevant developments worth highlighting:

- The **external sector** is marked by an increased current account balance and positive net international investment position compared to 2022. In 2023, the current account balance reached 6.5% of GDP, and it is forecast to slightly increase. The net international investment position (NIIP) continued increasing to 36.1% of GDP in 2023, mainly due to the current account surplus. A further increase of the NIIP is expected in 2024.

- **Cost competitiveness** developments remain contained. Last year, the REER depreciated by more than 3% as the Swedish krona lost value, while inflation kept pace with trade partners. The REER continued to marginally depreciate by mid-2024 on account of a broadly stable nominal exchange rate and favourable inflation differentials. ULC growth was 7% in 2023 driven mainly by falling labour productivity coupled with a pick-up in nominal wage growth.

- **Corporate debt** concerns remain. In 2023, the corporate debt-to-GDP ratio declined to 117% but remained above its pre-pandemic level. This decrease was driven by a fall in debt securities relative to nominal GDP, and reductions in FDI debt-to-GDP. The interest coverage ratio of Swedish NFCs has been low compared to other EU countries and fell further as interest expenses surged. Borrowing costs have started to descend but remain high. Bankruptcies picked up markedly during 2023, while new business registrations fell. Overall financial vulnerabilities increased mostly due to a deterioration in the debt service capacity, but also increased leveraging and weak activity.

- **Household debt** concerns remain. Despite a decline, Sweden's household debt ratio is among the highest in the EU, both as a share of GDP (85% in 2023) and as a share of household GDI (124% in 2023). It declined over the last three years on the back of high headline inflation and is expected to fall further in 2024 due to muted credit flows. The rise in borrowing costs and the large (and recently increasing) share of loans with an interest rate fixation period of less than a year led to higher interest payments in 2023. They were overall partially offset by increased interest receipts, reflecting Sweden's high (aggregate) gross savings rate. As a result, net interest payments by the household sector only rose by around one third in 2023. As savers do not necessarily coincide with borrowers, the increased interest burden could still cause

distress for pockets of vulnerable households, but the expected monetary easing is set to bring the interest burden down again.

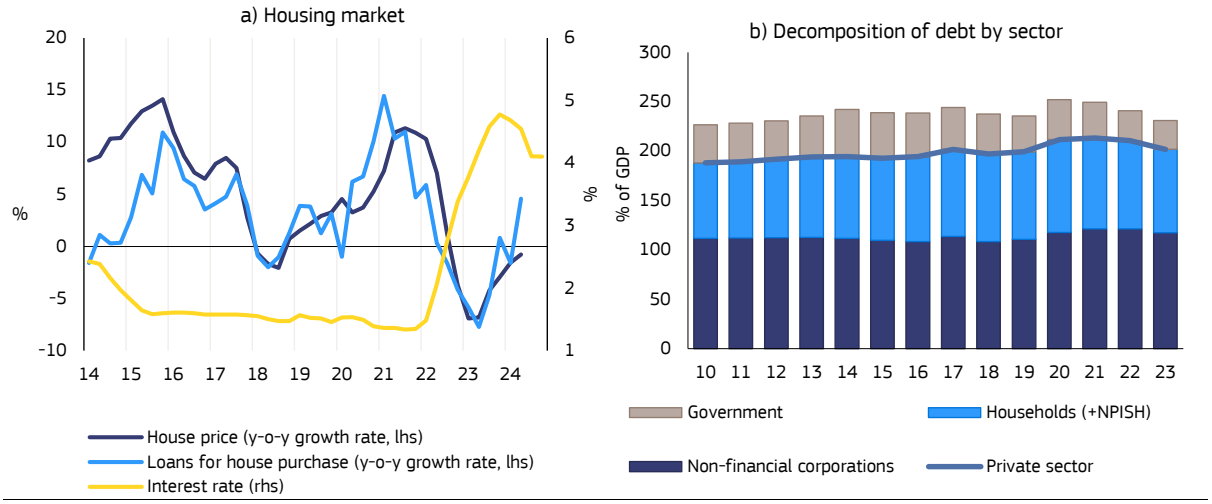
- Concerns related to the **housing market** persist. After years of high increases, house prices started to correct in 2022 due to higher interest rates, with mortgage interest rates increasing from 1.4% in 2021 to 4.3% in 2023. The prevalence of long mortgage maturities, short interest fixation periods, and limited mortgage amortisation requirements increases the sensitivity of households' borrowing capacity to changes in interest rates. In 2023, nominal house prices declined by 5.3%. They were estimated to be overvalued by 15-20%, which is roughly 5 pps. less than the year before. House prices continued to decrease in 2024, albeit at a slower pace (-0.8% year-on-year in 2024-Q2). At the same time, a continued house price moderation seems unlikely as supply constraints remain, incomes are growing and borrowing costs are declining while the regulated rental market is hardly an alternative for housing acquisition. The impact of the ongoing adjustment was also significant for the construction sector, with a fall in obtained building permits by 21.6% and 55.1% in 2022 and 2023, respectively. The evolution of house prices exceeded household' incomes, with house price-to-income ratio standing around 13% above the long-term average, with possible structural implications for the domestic economy. In terms of financial stability, in February 2024, the ESRB concluded that the residential real estate market in Sweden was subject to high risks and the macroprudential policy mix was appropriate and partially sufficient to mitigate the situation ([132]).

- **Government debt** remains limited. It declined to 31.5% of GDP in 2023 and is forecast to increase in 2024 but to remain limited. The government deficit was below 1% of GDP in 2023 and is expected to increase in 2024 but to remain contained. Yields on Swedish sovereign bonds have been the lowest in the EU.

- The **financial sector** is stable, but characterized by high exposure to real estate, both directly and indirectly. The still ongoing correction of real estate prices represents a challenge for the financial sector as well as for households that are highly indebted, although mortgages have very long maturities and delinquencies are very low. The Common Equity Tier 1 capital ratio and profitability remained close to the EU average in 2023, with an increase in both. The non-performing loans ratio mildly increased in 2023, but at 1% (as of the second quarter of 2024) is among the lowest in the EU. Credit provision to both corporates and households at a peak in the first half of 2022 kept declining until the end of 2023. Exposure to CRE is a source of risk.

([132])ESRB (2024): "Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, February 2024".

Graph 4.27: **Selected graphs, Sweden**



Source: Eurostat, ECB and European Commission calculations.

Table 4.27: **Key economic and financial indicators, Sweden**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.1	-0.3	0.3	1.8
GDP deflator (1 year % change)				2.4	6.1	2.3	1.4
Harmonised index of consumer prices (1 year % change)				1.9	5.9	1.9	1.5
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**2.5**	**6.1**	**6.1**	**6.7**
Current account balance, balance of payments (% of GDP)		0.2 (1)	1.4 (2)	3.2	6.5	6.9	6.7
Net international investment position (% of GDP)	**-35%**	-86.7 (3)	8.6 (4)	**7.1**	**36.1**	**53.4**	**58.4**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-11.7	-7.0		
Net lending-borrowing (% of GDP)				3.3	6.5		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**6.9**	**11.3**	**15.7**	**13.1**
Nominal unit labour cost index per hour worked (1 year % change)				2.5	7.0	3.8	1.9
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**-5.9**	**-7.5**	**-12.6**	**-8.1**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				-2.8	-3.3	-0.1	-0.6
Export performance against advanced economies (3y % change)	**-3%**			**-3.0**	**-2.9**	**-6.7**	**-0.8**
Export performance against advanced economies (1 year % change)				-0.4	2.0	-0.8	-0.3
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.2	1.6	0.3	-0.7
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**	65.6 (6)	64.2 (7)	**110.9**	**117.2**	**114.4**	**112.0**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**7.1**	**0.8**	**-2.0**	**1.1**
Cost of borrowing for corporations				1.1	5.1	5.1	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**	54.2 (6)	71.3 (7)	**88.5**	**84.6**	**83.4**	**83.4**
Household debt, consolidated (% of Households' GDI)				126.4	123.6	124.3	126.1
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**5.7**	**0.6**	**1.2**	**3.2**
House price index, nominal (1 year % change)	**+9%**			**2.7**	**-5.3**	**1.0**	**4.0**
House prices over/undervaluation gap [8]				24.8	18.4		
Building permits (m^2 per 1000 inh)				712.4	329.5		
Cost of borrowing for households for house purchase				1.5	4.3	4.4	
Government							
General government gross debt (% of GDP)	**60%**			**39.0**	**31.5**	**32.8**	**32.7**
General government balance (% of GDP)				0.8	-0.6	-1.9	-1.4
Banking sector							
Return on equity of banks (%)				11.3	13.1 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				20.4	20.4 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				1.1	1.0 p	1.0	
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.8 (9)		**6.7**	**7.7**	**8.5**	**8.4**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.9**	**1.9**	**1.6**	**1.0**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

EURO AREA

While the euro area current account balance returned to a surplus in 2023, the inflationary episode has put pressures on cost competitiveness, with strong REER appreciation and high unit labour cost growth. Lasting differentials in cost and price developments among euro area Member States remain a challenge.

Real GDP growth reached 0.4% in 2023 and is forecast at 0.8% in 2024 and 1.3% in 2025. Headline inflation stood at 5.4% in 2023 and has continued to decrease in 2024, where it is forecast to stand at 2.4%. Core inflation has decreased very gradually over the past months. The unemployment rate was stable in 2023 and stood at 6.6%. It is forecast to remain almost unchanged over 2024-2025.

The scoreboard reading for the euro area shows that three indicators were beyond their indicative thresholds in 2023, namely the export performance against advanced economies, unit labour costs, and government debt. Relevant developments worth highlighting:

- **External sector** developments remain contained. In 2023, the current account surplus increased to 1.7%, mainly due to terms-of-trade normalisation increasing the trade balance, but it remained below pre-pandemic levels. The current account surplus is forecast to remain stable. The net international investment position (NIIP) increased to around 3% of GDP in 2023. The NIIP excluding non-defaultable instruments (NENDI) remained stable at around -24% of GDP in 2023.

- **Cost competitiveness** risks are increasing. In 2023 average headline and core inflation rates remained high after the 2022 shock, at 5.4% and 5%, respectively. By September 2024, annual inflation rates came down markedly, but they are still not at target level. In 2023, REER appreciated by close to 5%, due to nominal euro gains, and it continued to appreciate by mid-2024, albeit at lower magnitudes, as favourable inflation differentials arose. 2023 ULC surged markedly, by more than 6%, as productivity dropped on account of the subdued economic activity, and nominal wage increases were robust to catch up with the high past inflation.

- **Corporate debt** dynamics slowed and deleveraging continued while costs of debt servicing increased. In 2023 NFC debt-to-GDP stood at 75% down from 80% in 2022. Deleveraging was loan driven and supported by a strong reduction in FDI relative to GDP. The interest coverage ratio fell across the region as interest expenses continued to rise. Borrowing costs have plateaued but remained high. Weak activity and a deterioration in debt service capacity have contributed to a rise in corporate financial vulnerabilities, but overall corporate financial risks remain contained. Real investment growth has been falling and turned negative in the first quarter of 2024.

- **Household debt** in the euro area has been receding. The household debt-to-GDP ratio in the euro area declined to 53% in 2023, dipping below the MIP threshold of 55%. The household debt-to-gross disposable income dropped to 71%, its lowest level since 2004. Net credit flows contracted abruptly in 2023 to around zero. The cost of borrowing for loans for house purchase peaked at around 4% by the end of 2023 and has since come down mildly. The gross savings rate picked up mildly in 2023 and stands above its pre-pandemic level.

- **Housing market** concerns in the euro area are moderate. House prices decreased 1.2% in 2023 after increasing by 7.1% in 2022. In real terms growth in 2022 was only 0.2% and in 2023 the decrease was 6.9%. Across euro area countries, the recent evolution of house prices is heterogeneous, with recent data showing an acceleration of growth rates overall, including in

countries where house prices had recently decreased. Mortgage rates have started to gradually decrease, and credit shows some signs of recovering, while housing transactions remain low. The price-to-income ratio had improved in 2023, but recent data suggests this improvement to have ended. For buyers needing credit, borrowing capacity remains low but is expected to start to recover as interest rates decrease. Rents have grown more slowly than incomes when measured with rental indices, but for new contracts, the increase in the last decade is significant, particularly in major cities. The slowdown in new building permits granted since 2022 suggests that supply is likely to remain constrained. Dwelling completions have declined in the past two years from already low levels.

- Concerns related to **government debt** have decreased, but the pace of improvement faltered somewhat recently. Government debt decreased further to around 89% of GDP in the euro area and 82% in the EU in 2023 ([133]). While it is almost 10 percentage points below the picks recorded in 2020, it is still above the 2019 pre-COVID-19 levels. Government debt for the EU and euro area is forecast to edge up marginally in 2024 and even more in 2025. In 2023, the average government deficits were largely unchanged at 3.6% and 3.5% in the euro area and the EU, respectively, amid a weakening of the economic momentum, which meant an interruption of the improvements of the budgetary balances recorded in 2021 and 2022. The average deficit is forecast to hover 3% in both the euro area and the EU in 2024 and 2025. After having increased in 2022 and 2023, yields on government bonds bottomed out in late 2023, but often edged up again in the course of 2024 until late spring, including for the best rated issuers. They then declined amid some flight to safety in financial markets, lower inflation readings, and the subsequent firming of expectations of monetary easing, but increased again in October.

- The euro area **financial sector** on aggregate remains sound. The Common Equity Tier 1 capital ratio of banking sector mildly increased, whereas profitability increased significantly in 2023 amid still significant net interest rate margins. The non-performing loans ratio started to increase as well. Stage 2 loan ratio remained rather stable but high. Credit dynamics remained very muted in 2023 amid still tight financial conditions. The resilience of the banking sector has continued into 2024, with a persisting profitability in the first half of the year and a stability of capital ratios. Financing conditions for the private sector show some signs of easing, and credit growth starts to recover in some Member States.

([133])Data for euro area and EU aggregates for government debt presented here, and in the table below, are on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility).

Table 4.28: **Key economic and financial indicators, Euro Area**

	Thresholds	Bench. I	Bench. II	average 2017-2019	2023	forecast 2024	2025
Output and Prices							
Real GDP (1 year % change)				2.0	0.4	0.8	1.3
GDP deflator (1 year % change)				1.4	5.9	2.9	2.2
Harmonised index of consumer prices (1 year % change)				1.5	5.4	2.4	2.1
External position							
Current account balance, balance of payments (% GDP, 3y average)	**-4%/6%**			**3.1**	**1.4**	**1.2**	**1.9**
Current account balance, balance of payments (% of GDP)				2.9	1.7	1.9	1.9
Net international investment position (% of GDP)	**-35%**			**-12.6**	**2.7**		
NENDI - NIIP excluding non-defaultable instruments (% of GDP)				-29.6	-24.3		
Net lending-borrowing (% of GDP)				2.7	2.0		
Competitiveness							
Nominal unit labour cost index per hour worked (3y % change)	**9% (EA) 12% (Non-EA)**			**3.1**	**10.0**	**14.8**	**13.7**
Nominal unit labour cost index per hour worked (1 year % change)				1.5	6.3	4.5	2.4
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**±3% (EA) ±10% (Non-EA)**			**2.7**	**1.4**	**-4.9**	**-4.4**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)				1.1	4.8	-0.9	-0.5
Export performance against advanced economies (3y % change)	**-3%**			**1.9**	**-4.3**		
Export performance against advanced economies (1 year % change)				0.3	1.7		
Core inflation[5] differential vis-à-vis the euro area (pps.)				0.0	0.0	0.0	0.0
Corporations							
Non-financial corporate (NFCs) debt, consolidated (% of GDP)	**+85%**			**81.0**	**75.1 p**	**68.1**	**67.1**
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	**+13%**			**1.5**	**1.2 f**	**0.7**	**2.0**
Cost of borrowing for corporations				1.7	4.7	5.1	
Households and housing market							
Household debt, consolidated (% of GDP)	**+55%**			**57.2**	**52.9 p**		
Household debt, consolidated (% of Households' GDI)				77.5	71.0		
Household credit flow, consolidated (% debt stock t-1)	**+14%**			**3.2**	**0.6 p**		
House price index, nominal (1 year % change)	**+9%**			**4.5**	**-1.2**	**0.7**	**1.7**
House prices over/undervaluation gap [8]							
Building permits (m^2 per 1000 inh)				437.1	346.6		
Cost of borrowing for households for house purchase				1.8	3.7	3.8	
Government							
General government gross debt (% of GDP)	**60%**			**87.4**	**88.9**	**89.1**	**89.6**
General government balance (% of GDP)				-0.7	-3.6	-3.0	-2.9
Banking sector							
Return on equity of banks (%)				5.5	8.6 p		
Tier-1 capital ratio banking sector (% risk-weighted assets)				15.9	17.3 p		
Gross non-performing loans, domestic and foreign entities (% gross loans)				3.8	1.9 p		
Labour market							
Unemployment rate (% labour force Y15-74)	**+10%**	6.8 (9)		**8.3**	**6.6**	**6.5**	**6.3**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**-0.2 pp**			**0.8**	**2.5**	**1.8**	**1.3**

Notes: See Annex 1.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn forecast 2024).

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

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 form regressions capturing the main determinant of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turrini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(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 Coutinho, Turrini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(3) Prudential NIIP/NENDI benchmark: the prudential threshold for NIIP is the country-specific level beyond which estimates suggest that a balance of payments crisis is more likely. Turrini and Zeugner (2019), "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper 97, DG ECFIN, European Commission.

(4) Fundamentals-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 and Zeugner (2019), "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper 97, DG ECFIN, European Commission.

(5) HICP inflation excluding energy, food, alcohol and tobacco.

(6) Prudential threshold for non-financial corporate and household debt-to-GDP ratio: corresponds to the level above which banking crises become more likely. It is derived from regressions minimising the probability of missed crises and that of false alerts. Bricongne et al. (2019), "Is Private Debt Excessive?", Open Economies Review, 1-42.

(7) Fundamentals-based benchmarks for non-financial corporate and household debt-to-GDP ratios: assesses private debt from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Bricongne et al. (2019), "Is Private Debt Excessive?", Open Economies Review, 1-42.

(8) House prices over/undervaluation 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 and Turrini (2017), "Assessing House Price Developments in the EU", European Economy, Discussion Papers 48, DG ECFIN, European Commission.

(9) Non-accelerating wage rate of unemployment

Source: European Commission

Table 1.1: MIP Scoreboard 2023

	External imbalances and competitiveness					Internal imbalances						Employment indicators[1]	
2023	**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 performance against advanced economies** (3 year % change)	**Nominal unit labour cost index (per hour worked)** (3 year % change)	**General government gross debt** (% of GDP)	**Household (incl. NPISH) debt, consolidated** (% of GDP)	**NFC debt, consolidated** (% of GDP)	**Household (incl. NPISH) credit flow, consolidated** (% debt stock t-1)	**NFC (excl. FDI) credit flow, consolidated** (% debt stock t-1 excl. FDI)	**House price index, nominal** (1 year % change)	**Unemployment rate** (% labour force Y15-74)	**Labour force participation rate** (3 year change in pps) (% pop Y15-64)
Thresholds	-4%/+6%	-35%	±3% (EA) ±10% (Non-EA)	-3%	9% (EA) 12% (Non-EA)	60%	55%	85%	14%	13%	9%	10%	-0.2 %
EU	1.6	0.9e	3.4	-4.0	10.7	80.8	51.8p	73.5p	0.7p	1.5	-0.3	6.1	2.6
EA	1.4	2.7	1.4	-4.3	10.0	87.4	52.9p	75.1p	0.6p	1.2	-1.2	6.6	2.5
BE	-0.1	51.5	0.0	-6.0	15.8p	103.1	57.1p	96.4p	2.3	3.2	2.3	5.5	2.1
BG	-0.9	-6.8	8.5	15.4	26.9	22.9	23.5	48.3	16.3	8.5	9.9	4.3	1.3
CZ	-2.1	-13.4	24.2	0.8	17.2	42.4	31.0	41.8	4.9	0.6	-1.7	2.6	0.7
DK	10.1	51.3	-1.0	2.5	5.7	33.6	88.3	108.6	0.4	4.7	-4.2	5.1b	1.8b
DE	5.8	70.8	1.9	-7.8	11.0p	62.9	51.0p	59.6p	0.7	2.7	-8.5	3.1	2.4b
EE	-3.1	-21.1	15.7	7.7	32.5	20.2	36.8	54.5	6.3	3.8	5.9	6.4	2.0
IE	9.7	-101.4	-1.2	-9.2	11.9	43.3	28.9	109.7	3.7	39.5	3.1	4.3	6.7
EL	-7.7	-139.3	-1.2	32.1	-1.8p	163.9	40.9p	52.4p	-1.0	4.6	13.8ep	11.1	4.2
ES	1.3	-51.7	-0.8	14.0	10.0p	105.1	46.1p	65.9p	-1.9	-3.1	4.0	12.2d	2.3d
FR	-0.6	-28.1	-1.8	2.1	9.5p	109.9	62.6p	91.9p	1.3p	3.1	-0.4	7.3d	1.9d
HR	-0.6	-26.0	4.3	36.6	17.1p	61.8	30.1p	42.8p	9.5	7.7	11.9	6.1	2.9
IT	0.1	7.4	0.7	3.1	5.0	134.8	37.2	58.1	-0.5	-1.9	1.3	7.7	3.2
CY	-6.7	-92.7	0.3	17.4	3.7p	73.6	64.3p	130.2p	1.0	0.4	2.9	5.8b	4.2b
LV	-4.5	-26.0	10.8	-1.7	25.8	45.0	18.6	35.8	5.2	1.8	3.7	6.5	-1.4
LT	-1.2	-4.6	12.8	6.6	37.3	37.3	21.2	29.9	6.6	12.1	9.8	6.9	0.3
LU	7.9	33.1	-1.5	-14.4	20.9	25.5	67.9	273.1	1.0	-25.7	-9.1	5.2	1.9
HU	-3.9	-36.8	10.2	1.2	35.4p	73.4	16.9p	55.5p	3.4	8.0	7.1p	4.1	2.9
MT	5.0	92.9	-0.5	-10.7	0.4	47.4	49.1	69.6	6.8	18.1	6.2p	3.5	4.7
NL	8.8	52.9	2.4	-2.0	9.2p	45.1	94.5p	114.3p	1.1p	-1.4	-1.9	3.6	2.1
AT	0.7	16.6	1.8	-1.4	10.3	78.6	45.0	71.4	-1.6	1.3	-2.9	5.1	1.8
PL	-0.6	-32.6	9.2	7.7	23.9p	49.7	23.7	32.2	-0.2	4.0	8.8	2.8	4.3
PT	-0.7	-72.3	-1.4	16.2	11.0e	97.9	55.0e	70.8e	0.1	-0.6	8.2	6.5	4.0
RO	-7.8	-39.5	6.7	6.8	27.5p	48.9	12.5p	28.2p	2.8	9.6	3.3	5.6	2.7
SI	2.4	2.3	1.1	0.2	15.2	68.4	23.9	34.7	3.9	-2.1	7.2	3.7	1.4
SK	-5.4	-54.9	7.5	-3.1	17.8	56.1	44.0	41.4	4.6	2.5	-0.2	5.8	2.0
FI	-0.8	12.6	-1.9	-6.0	14.0	77.1	63.9	76.3	-0.4	2.6	-5.7	7.2	2.6
SE	6.1	36.1	-7.5	-2.9	11.3	31.5	84.6	117.2	0.6	0.8	-5.3	7.7	1.9

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) Unemployment rate and labour force participation rate: b = extension of of the data collection period from two weeks to four weeks since Q4 2023 for DK; census revision of the population counts for CY. d = ES and FR 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. 4) Labour force participation rate: b = for DE, the flag is referring to a break in its t-3 counterpart as part of the three-year difference calculation.
Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for real effective exchange rate), and OECD.

Table 2.1: Auxiliary indicators, 2023

2023	Net international investment position (excl. Non-defaultable instruments)	Current plus capital account (Net lending-borrowing)	Net trade balance of energy products	Real GDP per capita	Gross fixed capital formation	Gross domestic expenditure on R&D	Export market share (% world exports)	Labour productivity (per hour worked)	Core inflation differential vis-à-vis the euro area
	(% of GDP)	(% of GDP)	(% of GDP)	(2015 EUR)	(% of GDP)	(% of GDP)	(3 year % change)	(1 year % change)	(pps)
EU	-19.6e	1.8	-2.3	31030.0	22.0	na	-5.0	-0.5	0.7
EA	-24.3	2.0	-2.4	34110.0	21.9	na	-5.0	-0.9	0.0
BE	31.3	-0.5	-3.0p	40370.0p	24.4p	3.3p	-6.4	0.3p	1.0
BG	46.0	2.4	-2.2	8850.0	18.7	0.8p	15.0	-1.6	4.0
CZ	28.6	1.5	-2.7	18230.0	27.3	1.8p	0.4	-0.8	4.4
DK	37.1	9.5	-0.6	55280.0	22.6	na	2.1	1.5	-0.4
DE	53.1	5.3	-2.1p	39380.0p	21.5p	3.3p	-8.2	-0.6p	0.2
EE	30.5	-0.5	-1.8	18200.0	27.9	na	7.3	-6.3	3.8
IE	-279.2	6.4	-1.8	82780.0	23.2	na	-9.5	-7.1	-0.5
EL	-110.7	-5.0	-2.8p	18800.0p	15.2p	1.5p	31.5	0.5p	0.4
ES	-23.8	3.7	-2.1p	25730.0p	19.7p	na	13.5	0.6p	-0.8
FR	-29.4	-0.7	-2.4p	35260.0p	23.1p	na	1.7	0.2p	-1.0
HR	20.5	3.5	-4.8p	14970.0p	22.5p	1.4	36.1	0.5p	3.9
IT	5.1	0.7	-2.9	30720.0	22.5	1.3p	2.7	-1.7	-0.4
CY	-133.8	-9.6	-4.4p	29150.0p	21.2p	na	16.9	1.0p	-1.1
LV	20.6	-2.0	-3.4	15020.0	24.9	0.8	-2.1	1.9	3.5
LT	26.7	2.7	-3.8	16840.0	23.7	1.1p	6.2	-2.0	4.6
LU	-3867.0	5.6	-3.9	95660.0	18.1	na	-14.7	-2.8	-1.1
HU	-6.7	1.7	-4.7p	14740.0p	26.0p	1.4d	0.8	0.7p	9.1
MT	142.5	7.6	-5.2	29700.0	18.6p	0.6	-11.1	1.3	0.0
NL	13.8	9.6	-1.2	46240.0p	20.1	na	-2.3	-1.3p	1.4
AT	-5.6	1.8	-2.3	41770.0	24.9	3.3p	-1.8	-1.9	2.4
PL	5.2	1.9	-2.6	15280.0	17.7	1.6p	7.2	1.1p	4.3
PT	-19.4	1.9	-2.7e	20090.0e	20.1e	1.7p	15.7	0.5e	0.4
RO	-4.8	-4.9	-1.6p	11170.0p	27.0p	0.5p	6.4	2.6p	4.7
SI	18.2	4.5	-3.0	23170.0	21.3	2.1p	-0.2	1.9	1.7
SK	-14.8	-0.4	-3.2	17240.0	22.3	1.0	-3.5	0.4	4.5
FI	6.7	-0.5	-1.4	41140.0	23.2	3.1	-6.3	-1.4	-0.9
SE	-7.0	6.5	-1.0	48840.0	25.0	3.6p	-3.3	-1.2	1.6

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

1) Gross domestic expenditure on R&D: For EU, EA, DK, EE, IE, ES, FR, CY, LU and NL the data were not available on 31 October 2024.
Source: European Commission, Eurostat, and International Monetary Fund (World Economic Outlook, for world exports of goods and services).

Table 2.1 (continued): Auxiliary indicators, 2023

2023	Household (incl. NPISH) debt, consolidated	Gross non-performing loans, domestic and foreign entities	Tier-1 capital ratio banking sector	Return on equity of banks	Standardised house price-to-income ratio	Building permits	Long-term unemployment rate - % labour force Y15-74	Youth unemployment rate - % labour force Y15-24	Employment rate % pop Y20-64	Young people neither in employment nor in education or training- % pop Y15-29	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 - % pop Y0-64
	(% of GDI)	(% gross loan)	(% risk-weighted assets)	(%)	(ratio vs the average, since 2000)	(m² per 1000 inh)	(%)	(%)	(%)	(%)	(%)	%	%	%
EU	70.5	1.9p	17.5p	9.0p	100.9	372.9	2.1	14.5	75.3	11.2	21.3	16.2	6.8	8.0
EA	71.0	1.9p	17.3p	8.6p	100.0	346.6	2.4	14.5	74.7	11.3	21.6	16.4	6.4	8.8
BE	76.3	1.6p	17.9p	11.4p	102.9	670.3p	2.2	16.1	72.1	9.6	18.6	12.3	6.1	10.5
BG	na	2.9p	20.9p	16.3p	58.3d	833.0	2.3	12.1	76.2	13.8	30.0	20.6	18.0	7.0
CZ	44.3	1.2p	19.5p	13.7p	115.1	339.2	0.8	8.3	81.7	10.1	12.0	9.8	2.7	5.1
DK	139.6	1.3p	21.0p	11.7p	105.1	420.3p	0.5b	11.5b	79.8b	8.6b	17.9	11.8	4.9	9.8
DE	66.1	1.3p	17.7p	5.7p	103.3	297.8p	1.0	5.9	81.1	8.8	21.3	14.4	6.9	9.9
EE	54.9	1.1p	21.5p	18.5p	105.3	402.7	1.3	17.3	82.1	9.6	24.2	22.5	2.5	5.9
IE	72.4	1.3p	21.8p	7.6p	95.2	864.8	1.1	10.7	79.1	8.5	19.2	12.0	6.0	9.1
EL	53.1	5.0p	16.2p	12.0p	103.3ep	260.7p	6.2	26.7	67.4	15.9	26.1	18.9	13.5	8.3
ES	61.6	2.7p	14.7p	11.8p	96.6	299.7ps	4.3d	28.7d	70.5d	12.3d	26.5	20.2	9.0	8.4
FR	77.4	1.9p	17.3p	5.9p	103.2	430.4p	1.8d	17.2d	74.4d	12.3d	20.4	15.4	6.6	9.2
HR	42.2	2.5p	21.7p	15.7p	93.3	520.0	2.1	18.9	70.8	11.8	20.7b	19.3b	2.8	5.5
IT	49.4	2.7p	16.9p	12.7p	85.1	80.2	4.2	22.7	66.3	16.1	22.8	18.9	4.7	8.9
CY	83.7	3.7p	23.4p	21.8p	71.1	2103.3	1.8b	16.6b	79.5b	13.9b	16.7	13.9	2.4	4.4
LV	26.4	1.3p	20.6p	20.3p	87.4	345.5	1.8	12.3	77.5	10.0	25.6	22.5	6.2	7.0
LT	30.1	0.8p	18.6p	21.2p	90.4	445.7	2.3	13.8	78.5	13.5	24.3	20.6	6.1	8.0
LU	134.5	1.3p	18.5p	8.3p	132.5	913.5p	1.7	18.8	74.8	8.5	21.4	18.8	2.5	3.9
HU	24.1	2.5p	17.0p	21.8p	102.6p	259.6p	1.4	12.8	80.7	10.9	19.7	13.1	10.4	4.9
MT	80.0	2.0p	22.1p	10.7p	100.1p	2221.9	0.8	9.2	81.3	7.6	19.8	16.6	4.1	3.6
NL	143.8	1.3p	18.6p	11.1p	106.8	464.3p	0.5	8.2	83.5	4.7	15.8	13.0	2.7	8.2
AT	60.7	2.1p	18.1p	12.8p	125.6	467.7e	1.1	10.4	77.2	9.4	17.7	14.9	3.7	5.7
PL	34.3	4.1p	18.1p	11.6p	87.9	540.5	0.8	11.4	77.9	9.1	16.3	14.0	3.0	3.9
PT	71.4	2.7p	17.9p	13.8p	127.8	628.7ep	2.5	20.5	78.0	8.9	20.1	17.0	4.9	6.3
RO	20.0	2.5p	19.9p	16.8p	58.7	456.9p	2.2	21.8	68.7	19.3	32.0	21.1	19.8	5.2
SI	33.2	1.5p	18.0p	16.8p	103.8	466.9	1.4	9.9	77.5	7.8	13.7	12.7	2.0	3.8
SK	61.1	1.8p	18.6p	11.5p	97.2	372.0	3.8	19.8	77.5	11.2	17.6	14.3	7.0	4.6
FI	85.1	1.1p	19.7p	13.5p	83.5	355.0	1.6	16.2	78.2	9.2	15.8	12.2	2.8	8.7
SE	123.6	1.0p	20.4p	13.1p	112.9	329.5	1.6	22.1	82.6	5.7	18.4	16.1	2.5	8.0

Flags:b:Break in series. d:Definition differs. e:Estimated. p:Provisional. s:Eurostat estimate.

1) Household (incl. NPISH) debt: Gross adjusted disposable income data were not available on 31 October 2024 for BG. 2) Standardised house price-to-income ratio: d = due to missing adjusted gross disposable income, compensation of employees used instead for BG; e = source NCB for house prices for EL. 3) Labour Force Survey indicators: b = DK extended the data collection period from two weeks to four weeks since Q4 2023, CY made census revisions of the population counts; d = ES and FR 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. 4) People at risk of poverty or social exclusion & people at risk of poverty after social tranfers: b = for HR, administrative sources used for part of income data: employee cash or near cash income, wages and salaries, social benefits, old age, survivor's and disability pensions.
Source: European Commission, Eurostat, and European Central Bank (for gross non-performing loans - domestic and foreign entities, tier-1 capital banking sector and return on equity of banks).