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ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG

AIECE General Report

Part I

November 2017

ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG
AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

AIECE General Report

Part I

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Abstract

The General Report was prepared for the AIECE (Association d'Instituts Européens de Conjoncture Economique) Autumn Meeting 16-17 November 2017 in Brussels. It summarises the assessment of the AIECE member institutes regarding the economic situation and the outlook in the euro area and in the home economies of the AIECE member institutes.

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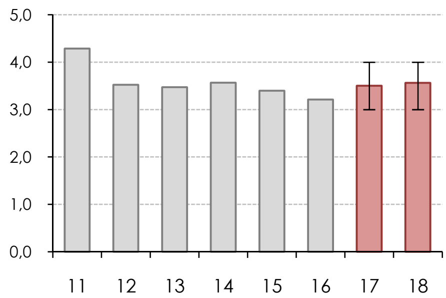
We would like to thank all the AIECE member institutes who participated to the AIECE General Report survey. Their answers greatly contributed to this document.

1. Key Global Developments

After the subdued development in 2016, global growth is projected to strengthen in 2017 and 2018. According to the IMF,[1] global GDP is projected to increase from 3.2 percent in 2016 to 3.6 percent in 2017 and 3.7 percent in 2018. This is in line with most AIECE institutes' forecasts, which projected global activity to gain momentum in 2017 (average forecast of the institutes 3.5 percent) and 2018 (average forecast 3.6 percent), see figure 1.

Figure 1: Global GDP
Percentage change, volume



Source: IMF (WEO), Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=21).

The pickup of the global economy, which started in the second half of 2016, intensified further in the first half of 2017. Consistent with the global upswing, world trade also gained strength in late 2016. Spreading from East Asia, a reinforced import demand stimulated goods trade in key emerging market economies in the region. In China steady growth continued in 2017 with domestic demand increasing and infrastructure investment picking up. The country is still in transition to slower growth, moving from export-led growth towards more domestic based consumption.

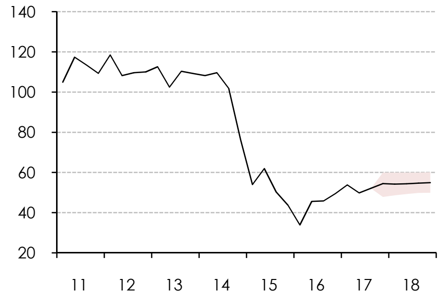
Brazil and Russia, which suffered from recession in 2016, are recovering in 2017. Emerging market economies in Eastern Europe increased their recent growth performance, while development in many Latin American, sub-Saharan African and Middle East countries is still lackluster.

In most advanced economies current growth dynamics are favorable. The US economy is again growing at a robust pace with an expected continuation in 2018. Unemployment rate is at historical lows, supporting consumption expenditure which has been the main growth driver in the recent past. In Japan higher external demand is boosting growth in 2017 and 2018.

Based on strengthening domestic demand and exports, economic performance in the euro area improved in the first half of 2017. Industrial activity is recovering. The upswing is spreading across regions and sectors. The European

[1] IMF, World Economic Outlook, October 2017.

Figure 2: Crude oil prices
Brent, USD per Barrel



Source: WDS – WIFO-Data-System, Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=23).

Figure 3: Exchange rates
USD per Euro

Source: WDS – WIFO-Data-System, Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=21).

Commission's sentiment indicator has recently climbed to a very high level, comparable to that of 2007. This reflects the currently strong business and consumer confidence, expecting the cyclical upturn to continue this year (more on this in section 2.1 – Euro Area growth outlook).

With the increasing global economic activity the downward trend of commodity prices turned around. This boost has faded in spring 2017, compared with a year before, leading to a rather stable development in recent time. The price for crude oil (Brent) fell in March and again in May and July 2017 and picked up in autumn again, standing about 58 $ per barrel in October 2017 (see figure 2). The average price forecast of the AIECE institutes shows a continuation of the recent development with a slight upward trend (2017: 52.7$ per barrel, 2018: 54.5$ per barrel).

Weaker energy price development is holding down inflationary pressure boosted by the cyclical recovery in most advanced economies. Central banks are expedited to gradually normalize monetary policy as the recovery continues (more on this in section 3 - Policy Environment).

Between January and October 2017 the Euro has risen by 10.8 percent against the US Dollar, standing at 1.18 USD per Euro in October 2017. The forecast of the AIECE institutes can be seen in figure 3. The average forecast is 1.13 USD per Euro for 2017 and 1.17 USD per Euro for 2018, with 16 institutes are expecting a (small) appreciation, 2 institutes a (small) deprecation and 1 institute a stable development between 2017 and 2018.

Although unusually low financial market volatility is currently observed, the underlying risks have not disappeared. In China recent signs for asset price bubbles - especially in the property market - and financial sector vulnerabilities arose, inducing a major risk for the global outlook. Further downside risks comprise a new escalation of the European sovereign debt crises, geopolitical tensions and high policy uncertainty.

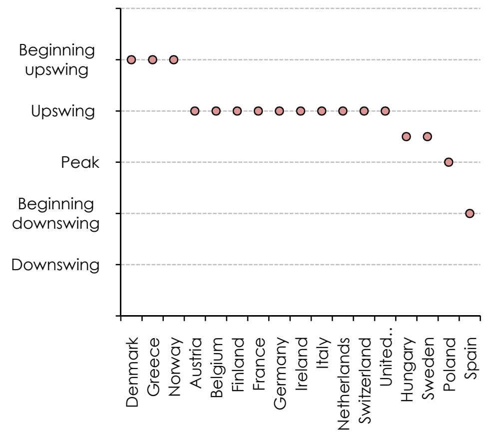
2. Outlook for Europe

In 2017 economic development gained momentum and the upswing is spreading across countries in Europe. In most of the home countries of the AIECE member institutes economic development was buoyant in the first half of 2017, with an acceleration compared to the second half on 2016. According to the AIECE institutes' assessment, their home economies are currently in the phase of a cyclical recovery (see figure 4). From the 17 countries, whose institutes have answered this question, 10 estimate their country to be in an upswing phase. AIECE institutes in Denmark, Greece and Norway see their home economy in a beginning upswing, while the upturn might have already peaked in Poland, Hungary and Sweden. According to one institute in Spain, their home economy is already in a beginning downswing phase.

This assessment for the home economies of the AIECE institutes is in line with the mainly strong growth projections for 2017 and 2018. According to the AIECE institutes' forecasts of their economies, in most countries growth is expected to pick up in 2017. Only in Spain, Sweden, Switzerland and the UK the projected growth rates in 2017 are somewhat lower compared to 2016. In 2018 the recovery is expected to continue at a steadily pace in the countries of the AIECE institutes (see figure 5).

Growth is still heterogeneous between the countries, but with the upswing growth gaps are narrowing. Greece and Italy are on the path of recovery with projected growth rates of 1.0 percent and 1.5 percent in 2017, respectively. Because of the weak performance in the first half of 2017 in Switzerland, KOF Swiss Economic Institute anticipates only moderate GDP growth of 0.8 percent. For the UK, Belgium, France, Norway, and Germany growth projections are more optimistic, with forecasts between 1.6 and 1.9 percent for 2017. This is slightly below the AIECE institutes' forecast of the euro area of 2017 (2.1 percent). Stronger than in the euro area growth is projected in Denmark, Sweden,

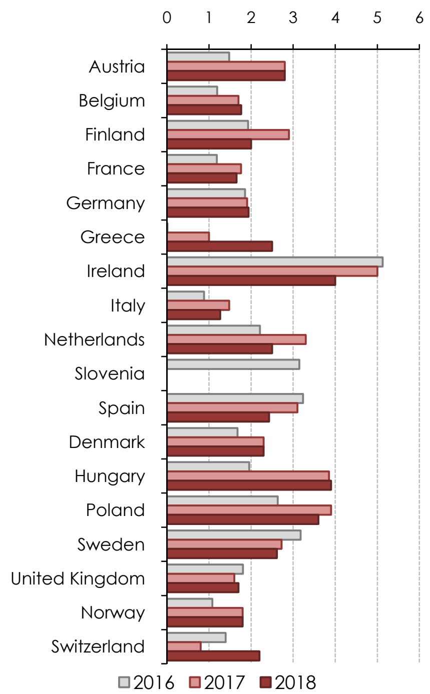
Figure 4: Current cyclical stance of AIECE Economies



Source: All AIECE institutes, average for each country (n=27).

Figure 5: GDP growth in AIECE economies

In percent, volume



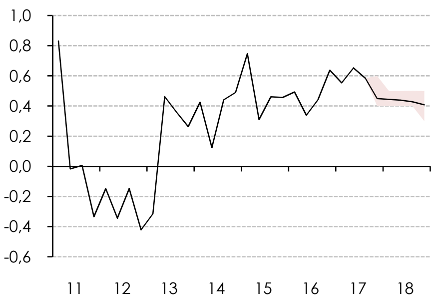
Source: IMF (WEO), Macrobond and all AIECE institutes, average for each country (n=28).

Austria and Finland with annual GDP growth forecasts between 2.3 and 2.9 percent for 2017. Growth rates of over 3 percent are expected in the economies of Spain, Netherlands, Hungary, Poland and Ireland.

For most countries growth projections for 2018 are similar to that of 2017. A substantial acceleration is expected in Switzerland (from 0.8 percent to 2.2 percent in 2018) and in Greece (1.0 percent to 2.5 percent in 2018).

Figure 6: Euro area GDP

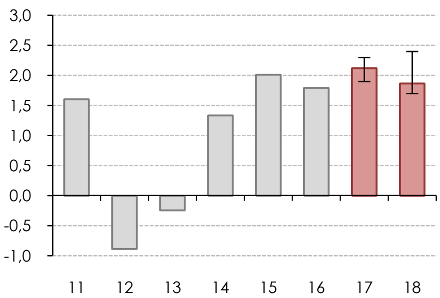
Percentage change Q-o-Q, volume, seasonally and calendar adjusted



Source: Eurostat, Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=13).

Figure 7: Euro area GDP

Percentage change, volume



Source: IMF (WEO), Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=26).

2.1 Euro Area growth outlook

The economy of the euro area has gathered strength during 2017 with internal demand being the main driver for growth in the second quarter. The industrial activity is picking up, the global recovery supports euro area exports. With a similar pace as in the first and the second quarter of 2017, euro area GDP grew by 0.6 percent in the third quarter compared to the previous quarter in seasonally adjusted terms. According to the received answers from the AIECE institutes, this has actually marked the peak in the euro area GDP growth rates. The quarterly projections of the AIECE institutes show a declining development over the forecast period with growth rates falling to 0.4 percent at the end of 2018 (see figure 6).

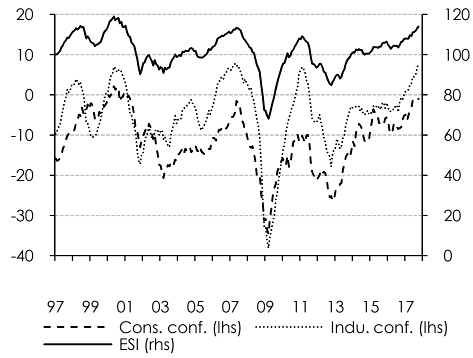
On annual side the average GDP forecast for the euro area of the institutes is 2.1 percent in 2017 (after a GDP growth of 1.8 percent in 2016). In 2018 growth dynamics are expected to decline slightly, leading to the institutes' average of 1.9 percent. The institutes' projections for 2018 are spreading, ranging from 1.7 percent to 2.4 percent. This reflects the uncertainty concerning next year's development (see figure 7). Compared to the AIECE spring forecast the outlook clearly improved for both, 2017 (+0.5 percentage points) and 2018 (+0.3 percentage points).

Confidence indicators are at high levels

Confidence indicators are still suggesting that economic activity will remain lively at least until the end of 2017. They are observing an upward trend since autumn 2016, continuing to indicate a buoyant mood among both firms and consumers (see figure 8). The European Commission's Economic Sentiment Indicator (ESI) for the euro area is currently standing at the highest level of record since January 2001. The current value from October 2017 is even slightly above the peak in summer 2007. Similarly, consumer and industrial confidence are increasing and have reached the highest levels in 16 and 10 years, respectively. The course of the indicators points to an ongoing expansion of economic activity. But some caution is required in translating these survey data into euro area GDP growth rates, as the relationship between qualitative survey data and hard economic data might have changed in recent times (*European Commission, European Economic Forecast Winter 2017, Box 1.2*).

Figure 8: Confidence indicators for the Euro Area

Balance, Index standardized, seasonally adjusted



Source: European Commission, Macrobond.

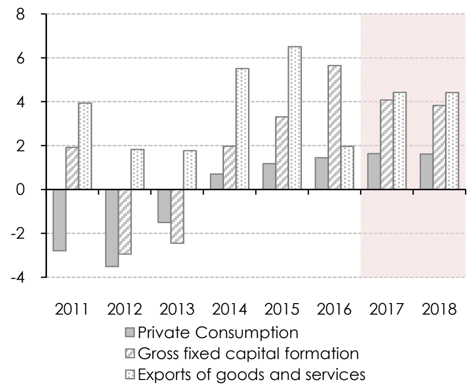
External and domestic demand are leading the recovery

The pickup of the global demand boosted export demand in the euro area. According to the results of the aggregated forecasts of the AIECE institutes from the euro area on their home country, in 2017 and 2018 exports of goods and services are expected to expand at 4.4 percent, after an increase of only 2 percent in 2016. Private consumption is again projected to be a stable contributor of growth over the forecast horizon. Gross fixed capital formation is expected to increase as well, but with slower rates compared to 2016 (see figure 9) .

Considering the AIECE institutes' projections for the euro area gross fixed capital formation, the deceleration in 2017 growth can be seen as well (from 4.5 percent in 2016 to an average value over the institutes of 3.5 percent). In 2018 the average value of the institutes' forecasts is 3.4 percent, with a big range, amounting from 2.2 percent to 4.7 percent. Projections for the euro area private consumption growth indicate a robust expansion in 2017 and 2018. According to the AIECE institutes, it will grow at average

Figure 9: Consumption, investment and external demand in AIECE economies from the Euro Area

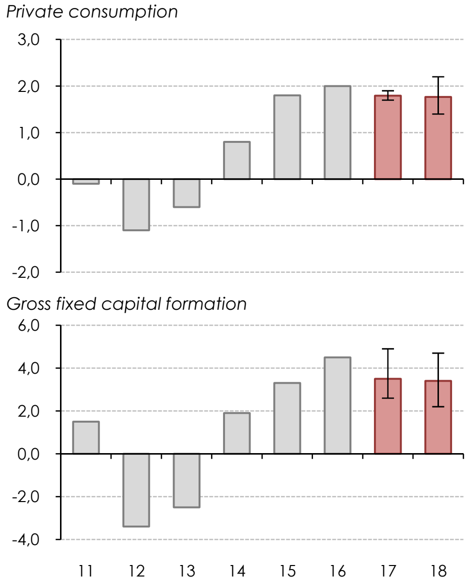
Percentage change, volume



Source: Eurostat, Macrobond and all AIECE institutes, weighted average for each country (n=20).

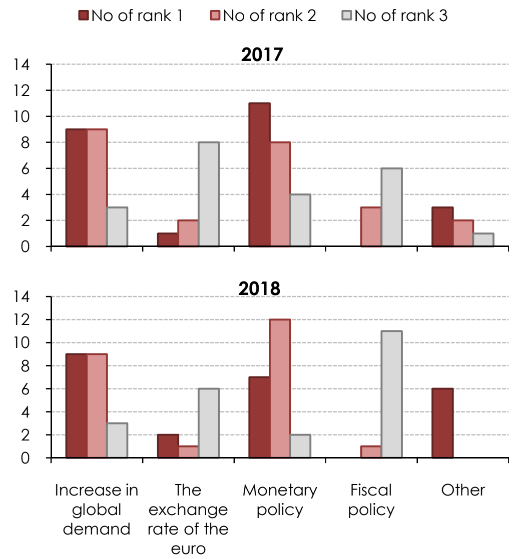
Figure 10: Consumption and investment in the Euro Area.

Percentage change, volume



Source: Eurostat, Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=15).

Figure 11: Important growth factors in the Euro Area



Source: All AIECE institutes, same weight for each institute (n=24).

rates of 1.8 percent in 2017 and 2018, respectively (see figure 10).

Important growth factors in the Euro Area/Europe

According to the answers of the AIECE member institutes, the current stance of monetary policy and the increase in global demand are the most important factors for growth in the euro area in the year 2017. They are ranked as the main positive factors. The current exchange rate of the euro and fiscal policy are also named as positive growth factors by some institutes, but mostly as factor of third importance. A further positive effect stated by institutes is the increase in the domestic demand triggered by the reinforcement in confidence (see figure 11).

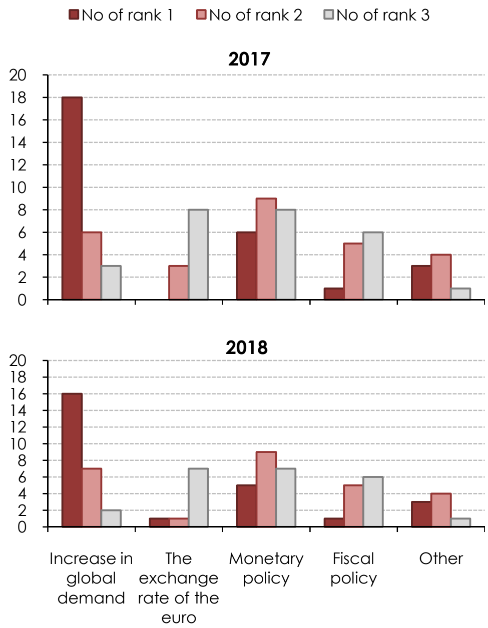
Monetary policy is seen to remain supportive in 2018, too, even to a lesser extent. Also the increase in global demand is expected to be an important growth driver again. While the positive effect from a favorable exchange rate is slightly diminishing, AIECE member institutes again assign fiscal policy positive demand effects. Also internal factors are expected to have positive effects on euro area growth in 2018.

The evaluation for the euro area is slightly different compared to that of the home countries of the AIECE member institutes. While the increase in global demand is again seen as supportive factor for the home economies of most AIECE institutes in 2017 and 2018, both monetary and fiscal policy are assessed to be less favorable in the individual countries compared to the euro area as a whole. As for the euro area, internal factors are seen on the country level as important, too. For Belgium, France, Germany and Greece the recovery in domestic demand is named as important growth enhancing factor in 2017 and 2018. In Hungary the inflow of EU funds and a strong wage growth are expected to increase domestic demand (see figure 12).

Questions for discussion:

- Do you think the cyclical peak has already passed in your country?
- Many survey indicators have reached multi-year highs, what does this imply for GDP forecasts?
- What hinders investment demand in Europe in 2018?
- Do you think the recent political turbulences in Spain (Catalan independence) do have an impact on the economy in Spain?

Figure 12: Important growth factors in AIECE Economies

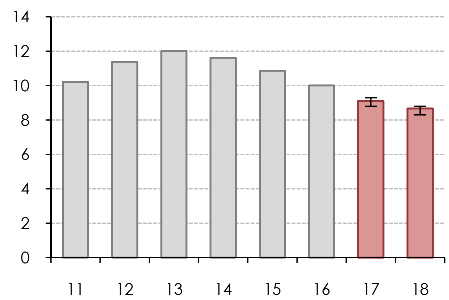


Source: All AIECE institutes, same weight for each institute (n=27).

2. 2 Labour market

Figure 13: Euro Area unemployment rate

Percent of total labour force (Eurostat definition)

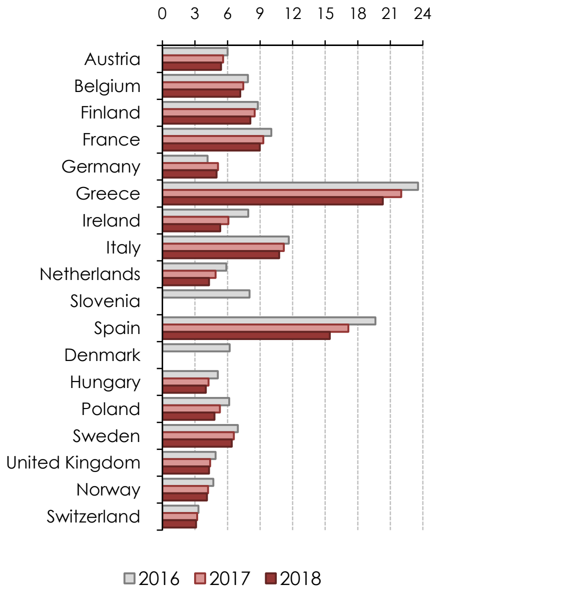


Source: IMF (WEO), Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=15).

Unemployment rate decreases continuously

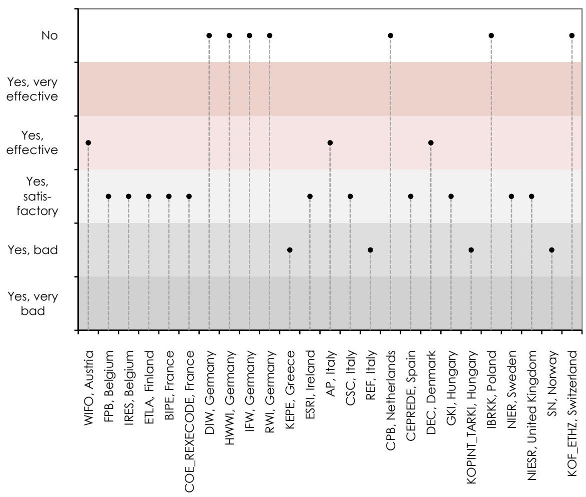
In 2013 the annual unemployment rate in the euro area peaked at 12 percent. Since then a continuous decrease, due to the favorable economic environment, set in. AIECE institutes expect that this positive trend will continue in 2017 and 2018 (see figure 13). The monthly figures of the euro area unemployment rate reveal a rather constant decrease without an increase in improvement since the start of 2017. Contrary to this, in 2018 the downward forces on the unemployment rate should abate according to the institutes.

Figure 14: Unemployment rate in AIECE economies
Percent of total labour force (Eurostat definition)



Source: IMF (WEO), Macrobond and all AIECE institutes, average for each country (n=28).

Figure 15: Government measures to raise employment
Answers to Question 2.2.1: "Is the government in your country currently taking measures to raise employment? If yes, how do you evaluate them?"



Source: All AIECE institutes (n=25).

AIECE institutes do not expect that the rate will return to its pre-crisis level of 7.5 percent last seen in 2007. As GDP grows stronger than the potential output till 2018, the output gap is widening and the lowest unemployment rate will still not be reached.

Differences in national unemployment rates still high

Almost all AIECE institutes are expecting a decrease of the unemployment rate in their countries. Only in Germany, the rate should increase in 2017 and stay about the same level in 2018. Spain, one of the most dynamic growing countries in the euro area, is making strong progress. Nevertheless, it will require many more years of above average GDP growth rates in order to get close to unemployment rates as seen in many other countries (see figure 14). Greece still remains in an outstanding adverse situation with an unemployment rate of more then 20 percent. As business cycle conditions in Italy are not as favorable as in other countries, this country is making just slow labour market progress. Over the forecast horizon only marginal improvements in unemployment rate reduction can be observed there.

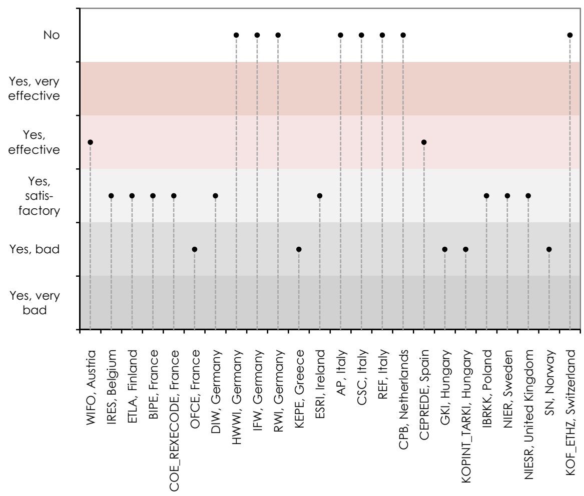
Labour market policy in times of strong growth

Political measures in order to increase employment are absent in countries where the unemployment rate is already low. According to the answers of the institutes (see figure 15) there exists no such measures in Germany, the Netherlands, Poland and Switzerland. In countries where public measures are implemented, only a minority (Austria and Denmark) is considering them as effective. In most cases they are classified just as satisfactory or bad. This could be caused during phases of a business cycle upswing, as those measures only lead to windfall gains.

Compared to employment measures, those concerning unemployment show a similar regional picture of distribution. An outstanding exception is Italy, where – in spite of a still large unemployment rate – the institutes are reporting no policy measures. The majority of countries with such programs report a satisfactory effectiveness. In Hungary and Greece, institutes doubt about its effectiveness. In Hungary the measures concentrate on shifting public workforce to the private sector (see figure 16).

Figure 16: Government measures to reduce unemployment

Answers to Question 2.2.2: "Is the government in your country currently taking measures to reduce unemployment? If yes, how do you evaluate them?"



Source: All AIECE institutes (n=24).

Questions for discussion:

- Do we expect to see a hysteresis effect in unemployment – contrary to the USA – at the end of the current business cycle for Europe?
- Could higher labour mobility ease the regional scarcity of qualified work and what is the role of wage flexibility for concerned professions?
- Do you regard the decrease of unemployment appropriate to GDP dynamics when compared to past business cycles?

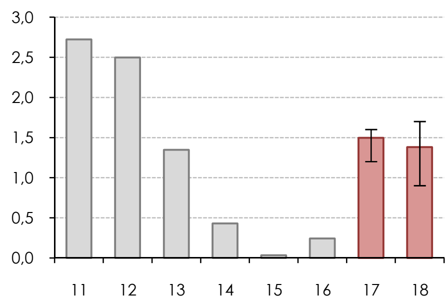
2.3 Inflation and house price development

Inflation trends slowly heading upwards

After three years of inflation rates below 0.5 percent, rates of about 1.5 percent are expected for 2017 and 2018 in the euro area (see figure 17). At the beginning of 2017 higher crude oil prices and a weaker euro (compared to the US Dollar) pushed the inflation rate towards 2 percent. Since May price

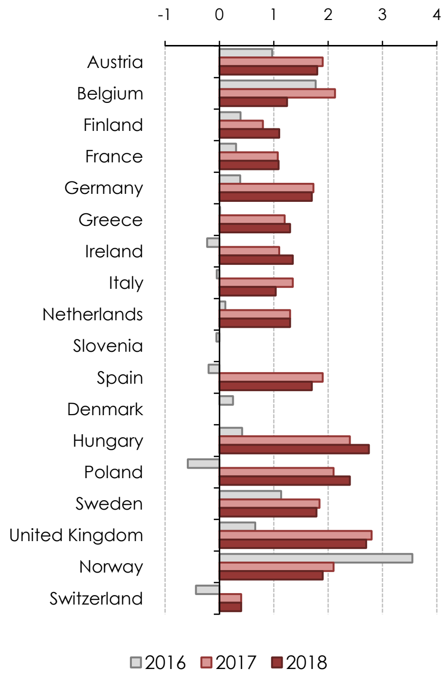
Figure 17: Euro Area consumer price inflation

In percent, HICP



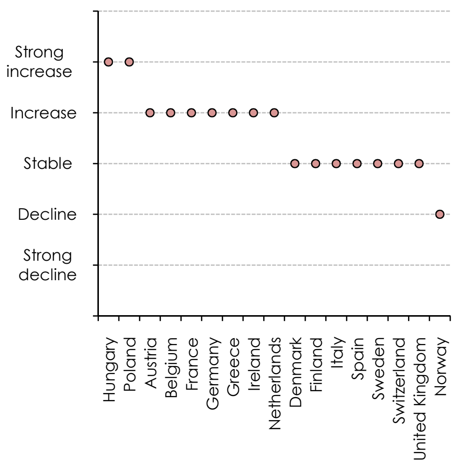
Source: IMF (WEO), Macrobond and all AIECE institutes, the same weight for each institute. – Error bands indicate the upper and lower extremes of the member institutes' projections (n=20).

Figure 18: Consumer price inflation in AIECE economies
In percent, HICP



Source: IMF (WEO), Macrobond and all AIECE institutes, average for each country (n=27).

Figure 19: Wage dynamics in AIECE Economies



Source: All AIECE institutes, average for each country (n=24).

pressures in the currency union abated and the inflation rate hovered around 1.5 percent, henceforth.

The same trend is observed for the individual countries by the AIECE institutes (see figure 18), but the size of increase differs considerable between countries. In Austria, Switzerland, Finland, France, Belgium and Sweden the increase in 2017 is quite contained with growth rates below 1 percent, compared to 2016, and no considerable further changes are expected for 2018 (except in Belgium, where a decrease of 0.9 percentage points in 2018 is predicted). For the rest of the countries this year a surge of between 1.2 and 1.4 percentage points is expected and levels are kept for 2018. Especially outstanding are jumps of 2 percentage points or more as reported by Hungary, Poland, the UK and Spain. Almost all of these countries have their own currency and are not part of the euro area. An exception is Norway, where a decrease is predicted, compared to the very high level of 2016.

The sources of this surge are a mixture of raw material price development, exchange rate variations and the opening of a positive output gap. The latter materializes in somehow stronger wage dynamics. Only one of the surveyed AIECE institutes (Norway) reported falling wage dynamics. A strong increase is expected for Hungary and Poland. All other institutes estimate either a normal increase or a stable development (see figure 19).

Asked for the main factors of wage developments most countries rank the cyclical stance in their country as the strongest driver. Inflationary pressure influencing wage bargaining and labour productivity developments are mentioned as additional factors.

The influence of flexible worker contracts/part time work is rated as rather limited (see figure 20).

House price development seems not to be a risk this time

House prices played a decisive role in the last economic boom and its burst in 2007/2008 had negative effects on GDP growth in countries like Spain, Ireland, the Netherlands and the UK. Upbeat expectations concerning further increases led to credit financed overinvestment which triggered a financial crisis in 2008. For this reason AIECE member institutes have been surveyed to answer questions concerning a current overevaluation and price trends of such properties.

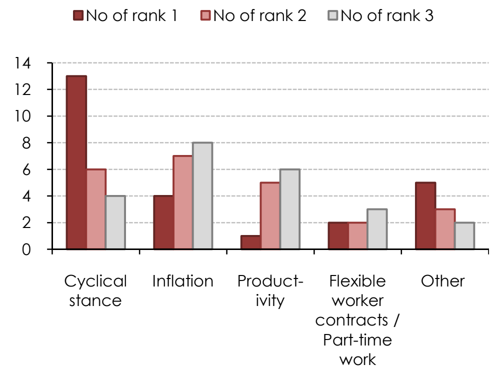
Most of the countries reported only minor price increases of less than 5 percent in 2017 (see figure 21). They do not expect a speeding-up of increases to over 5 percent in 2017. Such high price increases are expected only for Germany, Hungary, Ireland, Poland, the Netherlands and Sweden. Only for Belgium, Germany, Norway, Poland, Switzerland prices are currently rated as already overvaluated. All other countries rate them as appropriate and no country reports an under valuation on average. In Norway and in Greece house prices should even start to shrink modestly.

2.4 Non-Euro Area outlook[2]

Denmark

Denmark's GDP grew by 1.7 percent in 2016. According to the Danish Economic Council, GDP is projected to grow by 2.3 percent in 2017 and 2018, respectively, driven mainly by domestic demand. Supported by strong employment growth, private consumption will grow at a robust pace (2.3 percent in 2017, 2.4 percent in 2018). Gross fixed capital formation is expected to support GDP growth, too, while the contribution of net trade is forecasted to be marginally negative in 2018. Conditions on the labor market are sound

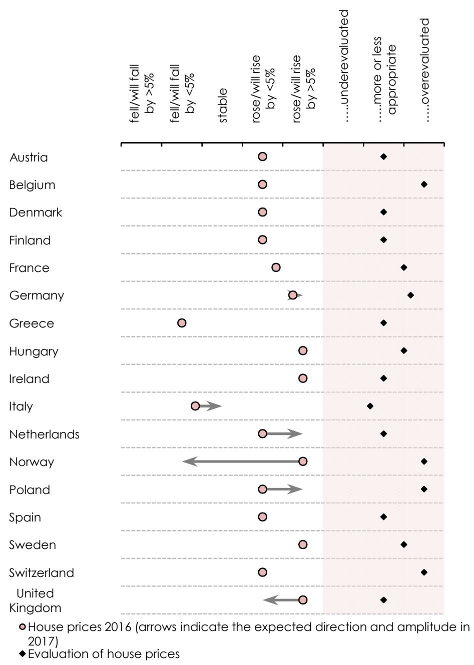
Figure 20: Main factors driving wage dynamics in AIECE Economies



Source: All AIECE institutes (n=24).

Figure 21: House price development and evaluation

Answers to Questions 2.5.1 to 2.5.3

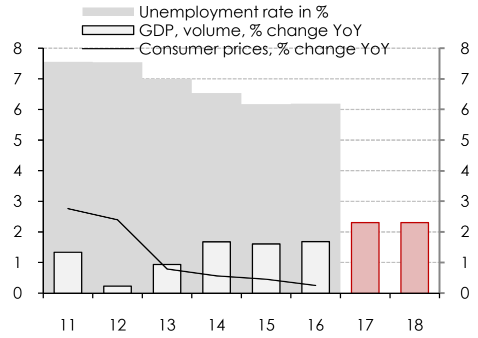


Source: All AIECE institutes (n=26).

[2] With a view changes, the individual country descriptions in this chapter are directly taken from the AIECE institutes' forecasts.

Figure 22: Outlook for Denmark

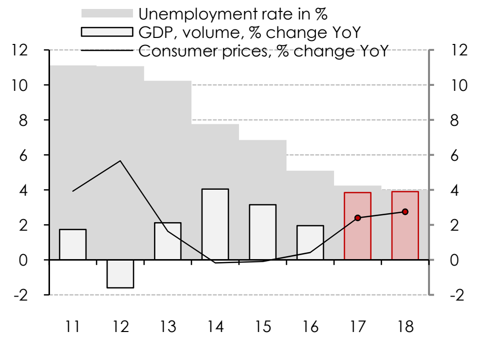
Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond and DEC Danish Economic Council.

Figure 23: Outlook for Hungary

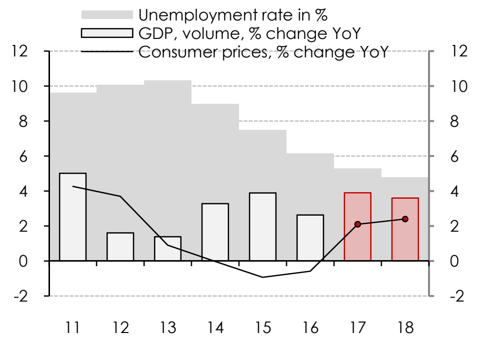
Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond, GKI Co Economic Research Company and Kopint-Tárki Institute of Economic Research.

Figure 24: Outlook for Poland

Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond and IBRKK Institute for Market, Consumption and Business Cycles Analysis.

with employment growth and declining unemployment (see figure 22).

Hungary

In Hungary, the years 2017 and 2018 will be marked by a strong economic growth, close to 4 percent, primarily driven by domestic demand. Especially in 2017, strong consumption growth will be accompanied by a steep rebound of gross fixed capital formation. In 2018, a boost from automotive export, following the completion of a large-scale investment project, will keep the pace of economic growth close to 4 percent amid a small deceleration of consumption growth.

This is a significant acceleration compared to the GDP growth of 2.2 percent in 2016, driven by the renewed inflow of EU transfers and the pre-election demand boost. Although the Hungarian growth rate is far above the EU average, it is only very modest in the CEE region. Growth is unsustainable in the Hungarian model without EU transfers. The government will soon have to decide on the revision of its European policy, including its accession to the euro area, providing that it does not want to end up on the EU's periphery, on a disadvantageous economic trajectory leaving to a relative decline (see figure 23).

Poland

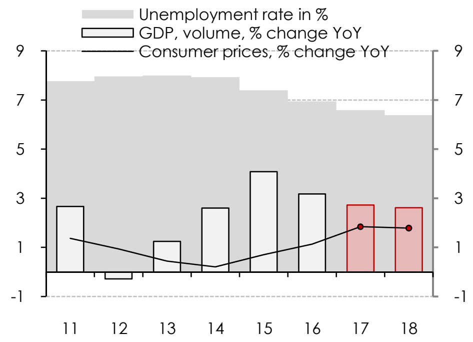
According to IBRKK, GDP in Poland is expected to grow by 3.9 percent in 2017 and 3.6 percent in 2018. Growth is driven by private consumption of households, resulting from social expenses supporting families with more than one child. The program is partially financed by more efficient tax collections. Changes of law make institution investment uncertain, thus investments are done mainly by the state enterprises while private investors are still hesitating (see figure 24). Growing foreign demand is resulting in exports, however, due to high import intensity of exports, in the second half of this year, and in 2018, net export could be negative.

Sweden

The Swedish economy is in an upward spiral, with rising demand and production reinforcing one another. The AIECE institutes in Sweden expect GDP to grow with 2¾ percent in 2017. In 2018, stronger growth abroad and expansionary fiscal policy at home will bring solid growth again. The NIER believes that the surplus target will not be met next year, and so fiscal policy will need to be tightened in 2019 to get back on target. According to NIER, unemployment will fall to 6.2 percent at the end of 2018, and the shortage of labour force offering the required skills will increase further. Despite the strong labour market, wage growth will not pick up notably, and inflation, which has climbed above 2 percent in recent months, will fall back again next year. The Riksbank will not begin to raise the repossession rate until next autumn (see figure 25).

Figure 25: Outlook for Sweden

Growth, consumer prices and unemployment



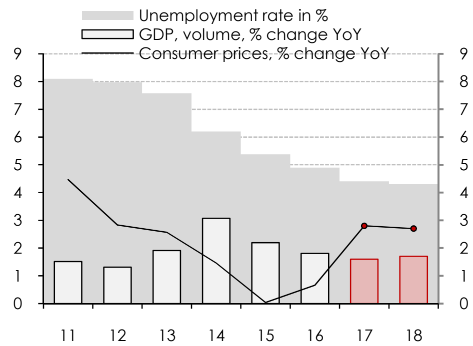
Source: IMF (WEO), Macrobond, CSE Confederation of Swedish Enterprise and NIER National Institute of Economic Research.

United Kingdom

The economic and political backdrop remains highly uncertain. Negotiations for the withdrawal from the EU started in June and although they are well under way, progress is slow. On the assumption of a smooth withdrawal from the EU, GDP is forecasted to grow by 1.6 percent in 2017 and 1.7 percent in 2018. External demand and gross fixed capital formation are seen as the main engine of GDP growth. Inflation is expected to rise, amounting to 2.8 percent in 2017 and 2.7 percent in 2018. The Bank of England raised the policy rate by 25 basis points to 0.5 percent in November, the first increase since July 2007. For the future NIESR expects a raise every six months until the policy rate reaches 2 percent in the middle of 2021 (see figure 26).

Figure 26: Outlook for United Kingdom

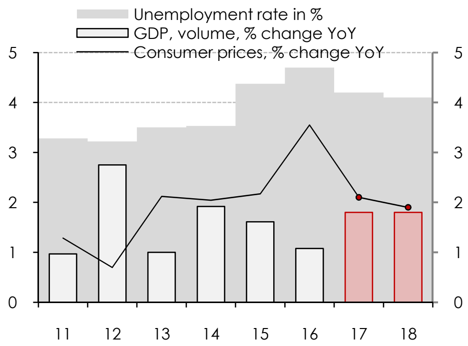
Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond and NIESR The National Institute of Economic and Social Research.

Figure 27: Outlook for Norway

Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond and SN Statistics Norway.

Norway

After having been in a cyclical downturn for almost three years, growth in the Norwegian economy has picked up. Statistics Norway expects GDP to grow 1.8 percent in 2017 and 2018, respectively. Highly expansionary fiscal and monetary policy, a weak Krone and strong construction growth have eased the downturn and fuelled the economic turnaround. In addition, impulses from petroleum investments changed from strongly negative in the years 2014 - 2016 to weakly positive in the first half of 2017. Going forward, Statistics Norway expects that as a result of relatively high growth in demand from Norway's trading partners, a still weak Krone and low interest rates, the Norwegian economy will be in an economic upturn that will turn into a weak expansion in 2020. In the period 2014 to 2016 house prices rose by an annual average of 5.3 percent. This trend reversed in 2017 and according to monthly statistics from Real Estate Norway, seasonally adjusted house prices have been falling since May. The reversal must be seen in light of both changes in the mortgage regulations and the record high level of residential construction in recent years. Statistics Norway expects the weak housing market developments to continue through this year and in 2018 and then level off (see Figure 27).

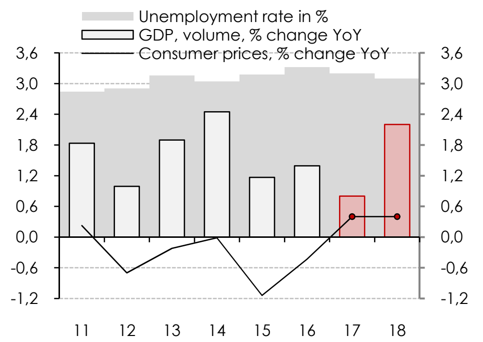
Switzerland

This year, the Swiss GDP will rise by 0.8 percent due to the weak first six months. Over the next two years, the economy will gain momentum with a GDP growth of 2.2 percent in 2018 and 1.9 percent in 2019, respectively. The Swiss economy benefits from the positive development of the international economic environment that supports the Swiss export sector. Both the recovery of the labour market and price increases are slow. Economic indicators (KOF Economic Barometer and KOF Business Situation Indicator) currently show a positive economic picture for Switzerland. However, because of the weak figures for the winter

2016/17, the annual growth rate for 2017 will only be 0.8 percent. Economic development during the forecast period will be buoyed up considerably by the development of the global economy. Robust economic development in Europe and the USA will benefit Swiss exporters. In particular, there might be stronger stimuli in trade with the European neighbors during the forecast period. Downward pressure on prices should lessen slightly; hence the margins of export-orientated companies will gradually recover (see figure 28).

Figure 28: Outlook for Switzerland

Growth, consumer prices and unemployment



Source: IMF (WEO), Macrobond and KOF-ETHZ Swiss Economic Institute.

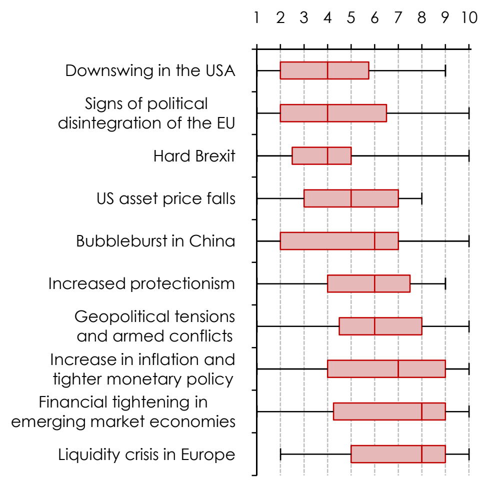
Questions for discussion:

- Is a rise in inflation a problem in certain non-euro area countries and how will the individual monetary policy react?
- Why is the expected growth in Switzerland 2017 below the Euro area average?
- How important are expenditures financed by EU funds for the growth dynamics in Hungary?
- What do you assume concerning the results of the Brexit negotiations and how do they affect the economy in the UK and in Europe?
- Is the slight slowdown in the UK's economy a first negative impact of the Brexit?

2.5 Risks to the outlook

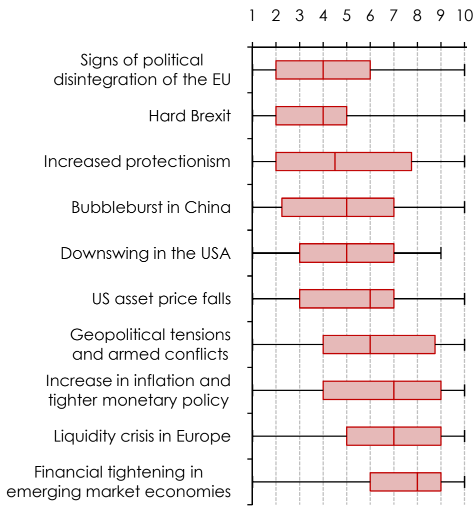
For the underlying report member institutes were surveyed for possible downside risks they assume for their forecast for Europe. From this no clear-cut risk evaluation emerged. For almost all asked risk categories answers span from no risk to high risk. The closest distribution of answers can be observed for the risk of a hard Brexit (see figure 29). The median is at level 4, the range reaches from 1 (high risk) to 10 (no risk).

Figure 29: Main downside risks to the growth-projection for Europe



Source: All AIECE-Institutes. – The figure shows how AIECE institutes evaluate 10 main downside risks to the projection according to their importance, where 1 is the most important. For each risk, the figure shows a box plot with the minimum, the 25%-quartile, the median, the 75%-quartile and the maximum of the member institutes' answers (n=23).

Figure 30: Main downside risks to the growth-projection for AIECE economies



Source: All AIECE-Institutes. – The figure shows how AIECE institutes evaluate 10 main downside risks to the projection according to their importance, where 1 is the most important. For each risk, the figure shows a box plot with the minimum, the 25%-quartile, the median, the 75%-quartile and the maximum of the member institutes' answers (n=26).

As largest risks (median level 4) to economic growth projections for Europe the ones stemming from a political disintegration of the EU, a hard Brexit and a downswing of the US economy are regarded. For the latter it is not clear whether the risk of a downswing itself is rated as high or the transmission of an adverse development to the EU. The distribution of respective answers is the smallest in the case of the Brexit question.

A financial tightening in emerging market economies is regarded as a low risk. AIECE institutes assume an increase in inflation together with a tighter monetary policy and a liquidity crisis in Europe as further low risks, too.

Asking member institutes for the same events if they regard them as a risk to their home economy gives a rather similar picture (see figure 30). Again the signs of political disintegration of the EU and a hard Brexit are regarded as major downside risks for their country forecasts. But this time the danger of a downswing of the US economy is rated lower and has the same median as the risk of a bubbleburst in China. A hard Brexit is regarded by the UK, Ireland, the Netherlands, Denmark and Norway as an imminent risk. Like for the EU as a whole, a financial tightening in emerging market economies and a liquidity crisis in Europe are are regarded as the lowest risks.

Questions for discussion:

- As the risk of a downturn in the US seems to be a major one, do you expect the unemployment rate to fall below 4 percent as only seen in 2000?
- Would a recession in the US hamper EUs economy with a delay?
- How may the new fiscal package in the US affect its economy?
- How sensitive is the euro area business cycle to a tightening of monetary conditions?
- Do you rate US or European stock prices as overvalued?

3. Policy Environment

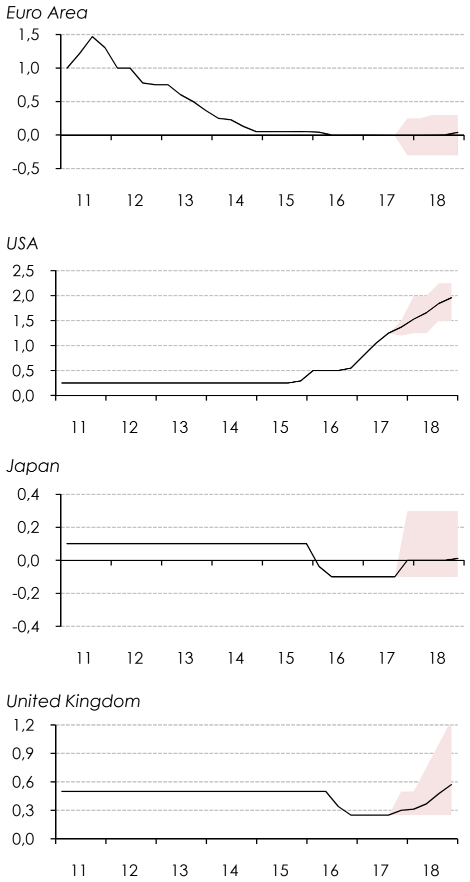
3.1 Monetary policy

In 2017 the euro area and the EU as a whole have seen a steady, but still subdued recovery of inflation – which means inflation started increasing slightly from its very low levels in the previous years, but is still away from the close to but below 2 percent target of the European Central Bank. The September forecasts from the ECB macroeconomic projections for the euro area inflation point to expected 1.5 percent HICP for 2017, 1.2 percent HICP for 2018 and 1.5 percent for 2019. There was a slight revision downwards of inflation for the next year from 1.3 percent to 1.2 percent and from 1.6 percent to 1.5 percent for 2019. The AIECE institutes also expect an inflation of 1.5 percent this year, but of 1.4 percent next year. Overall the economic expansion, which was higher than expected throughout the year, has been stable and broad-based, but has not yet led to excessive inflationary pressures. The volatility in exchange rates and especially the strengthening of the Euro has been a source of uncertainty, which might undermine inflationary developments in the euro area. Given all of this, monetary policy is expected to stay accommodative for a prolonged time until headline inflation starts showing signs of a sustained upward trend.

On 26 October 2017 after its Governing Council, the ECB announced the further steps in implementing its Asset Purchase Programme (APP) and its calibration: "*From January 2018 the net asset purchases are intended to continue at a monthly pace of €30 billion until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation aim.*"[3] As we discuss below, this was a widely expected decision, nevertheless it was a very much

[3] https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp171026.en.html

Figure 31: Quarterly profile of main policy rates



Source: ECB, Federal Reserve, Bank of Japan, Bank of England, Macrobond and all AIECE institutes, same weight for each institute (Euro Area n=19; USA n=14; Japan n=9; United Kingdom n=8).

needed signal to markets about what to expect further in 2018 and 2019. It came as a continuation of the ECB strategy throughout 2017 to communicate that it will aim at preserving the current accommodative monetary policy stance and would seek to ensure growth-enhancing credit conditions for a prolonged period.

While the ECB will keep its rates unchanged throughout 2017, interest rates in the US continued their path to normalization in 2017 (as shown on Figure 31) and are expected to continue doing so under the new US Federal Reserve Chair Jerome Powell, announced by President Trump on 2 November. On its recent meeting on 2 November, the Monetary Policy Committee of the Bank of England decided expectedly on the first interest rate hike of the Bank Rate since 2007, coming as a result of the currently estimated inflation in the UK of around 3 percent.

Policy expectations and preferred policy stance

AIECE institutes were asked what was the current monetary policy stance in their country for 2017 and whether they found it appropriate, as well as about their expectations about next year There is a split between AIECE institutes from the euro area in their assessment of the current monetary policy – 8 institutes find it expansionary, while another 8 find it very expansionary. Institutes in 2 countries – Greece and Ireland – find the current monetary policy to be neutral. Institutes from non-euro area countries more or less share the view that their monetary policy stance is expansionary. In terms of how appropriate the current monetary policy was for the home country, a majority of the respondents from the euro area find the current monetary policy to be more or less appropriate. 2 of the German institutes find the monetary policy to be too loose, while the respondents from Greece find it too tight. Interestingly, one institute from France also finds the stance to be too loose. In the non-euro area countries, some respondents from Denmark, Hungary, Norway and Sweden find that their monetary policy stance is too loose, while the rest find it more or less appropriate. In terms of their expectations about the future, there is a smaller share of institutes that expect monetary policy to be very expansionary next year than the number of institutes that assess it like this during 2017 (see Figure 32).

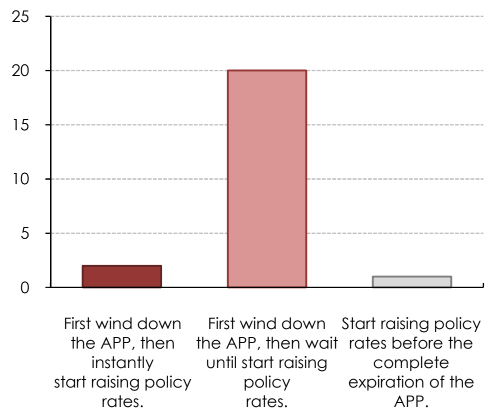
Figure 32: Monetary policy stance in AIECE economies and evaluation
Answers to Questions 2.3.1 to 2.3.3

Source: All AIECE institutes, average for each country (n=27).

ECB measures

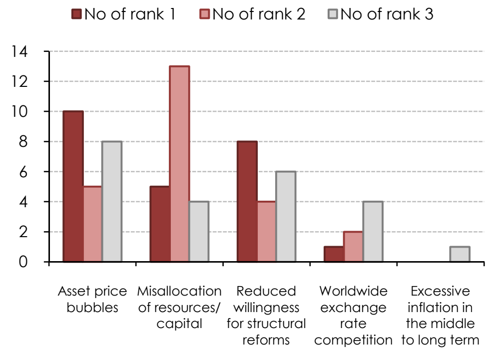
We asked the AIECE institutes about their expectations on the future ECB measures for the near and medium term. Firstly, we asked them about their expectations on the imminent decision from the ECB Governing Council Meeting on October 26 about the possible extension and future calibration of the Asset Purchase Programme. While 16 of the AIECE institutes assume that the APP will be expanded until September 2018 with a diminishing size of monthly asset purchases, as was indeed announced on October 26, another seven institutes answered that the APP will be expanded until the end of 2018. In terms of the normalization strategy of the ECB, there is widespread consensus that the ECB will wait for some time after the winding down of the APP programme, before it starts raising rates (see Figure 33). 20 respondents think so, while 2 institutes believe the increase of rates will start immediately after the completion of the APP. There was a discussion earlier in 2017 about the possibility that the ECB starts raising rates even before the complete expiration of the APP and there is one institute that still believes that is possible.

Figure 33: Expected normalization strategy of the ECB
Number of Answers



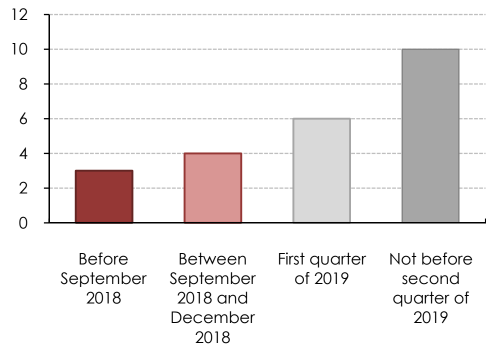
Source: All AIECE institutes (n=23).

Figure 34: Main risks associated with ECB's net asset purchases



Source: All AIECE institutes (n=24)

Figure 35: Expected time when ECB will start raising rates
Number of Answers



Source: All AIECE institutes (n=23).

What concerns the risks associated with the ECB`s Asset Purchase Programme, Figure 34 points to asset prices bubbles as the most often recognized risk – it was chosen by 23 of the respondents as a risk factor. It also comes most often as the highest ranked risk, with 10 of the institutes putting it in first place. The possibility of misallocation of resources and capital due to the ECB asset purchases is the second most often mentioned risk, with 22 respondents, followed by the risk of reduced willingness for structural reforms. Interestingly, only one institute sees excessive inflation in the middle or long term as a potential risk from the ECB quantitative easing.

Furthermore, we aimed at finding out when first increases of interest rates from the ECB can be expected. Figure 35 points that most respondents do not expect changes in 2018 – only 7 institutes suppose interest rates to first increase either before September 2018 (3 institutes) or between September 2018 and December 2018 (4 institutes). From the 16 institutes that answered interest rates will not be increased before 2019, the large majority (10 institutes) expect them to be raised not before the second quarter of 2019. The majority of the AIECE institutes therefore sees that the normalization strategy of the ECB will further result in keeping the interest rates at near-zero rates for as long as possible.

Figure 36 gives information about the expectations on the next interest rate hike of the Federal Open Market Committee in the US. There is a wide-spread majority that this will happen at the December meeting, with only three deviations from this answer.

Questions for discussion:

- Do you expect further appreciation of the Euro/USD exchange rate in the upcoming months?

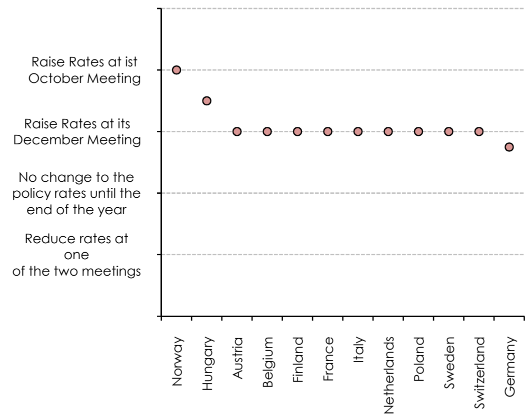
- Would a further appreciation of the euro bring considerable downward pressure on euro inflation through reduced exports for the euro area?

3.2 Fiscal policy

Cyclical recovery will ease public finance constraints automatically, leaving more space for a neutral fiscal policy stance

Fiscal policy and its effects have been a contentious topic throughout the past several years in the European Union ever since the European Central Bank has hit the zero-lower bound on the nominal interest rates and since the introduction of its non-conventional measures. On one hand, there are good theoretical reasons to argue that fiscal policy is much more efficient while monetary policy is constrained and can therefore have been used more actively while output gaps were still negative and the euro area was in an environment of low-growth and low-inflation. On the other hand, the fiscal burden of the Great Recession has resulted in such high debt-to-GDP ratios in some Member States that many have started doubting the public finance sustainability of these countries. The problem in the euro area of the past years has been that the countries that could pursue a more expansionary fiscal policy did not have incentives to do so, while the countries that needed to have a fiscal expansion could not, because of government budget constraints.

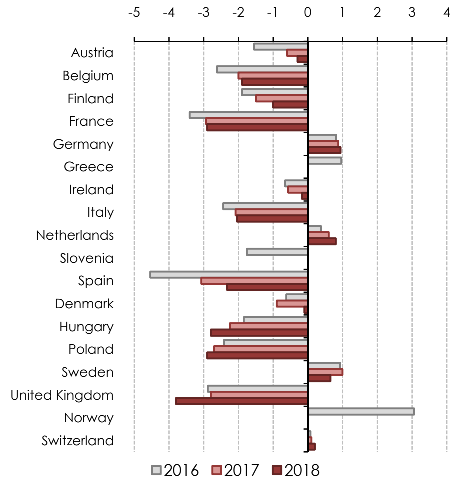
Figure 36: Expected decision of the Federal Open Market Committee with respect to the federal funds rate



Source: All AIECE institutes, average for each country (n=20).

Figure 37: Public sector fiscal balance in AIECE economies

Net lending / net borrowing as percent of GDP



Source: IMF (WEO), Macrobond and all AIECE institutes, average for each country (n=23).

Figure 38: Fiscal policy stance in the Euro Area and evaluation

Answers to Questions 4.2.1 to 4.2.3

Source: All AIECE institutes, average for each country (n=23).

Overall, the cyclical recovery across the European Union has helped economies to automatically improve their public finances by reducing the burden on the budget from automatic stabilizers. The overall fiscal stance of the euro area was neutral in 2017, following recommendations in 2016 by the European Commission to follow a more neutral fiscal policy approach. Figure 37 points to the fact that almost all European Union member states, with the exception of Hungary, Poland and the UK, will have a significant improvement in their projected government budget deficit in 2018 in comparison to 2017 and a big part of this has been induced by the cyclical recovery. A number of countries in the European Union will also manage to run a government budget surplus.

The European Fiscal Board issued its first recommendation on the overall direction of fiscal policy in the single currency area in June 2017[4]. It proposed that for 2018 for the euro area level an appropriate fiscal stance would be a neutral one and it could be achieved by having differentiated national fiscal policy measures. Furthermore, the Board proposes that investment spending should be increased as part of government expenditure, as it was the component that suffered mostly from reductions during the fiscal consolidation period in the aftermath of the crisis.

We asked AIECE institutes what was the current fiscal stance for 2017 in the euro area according to their view, whether they find it appropriate and what would they expect for 2018. Figure 38 points that a majority of countries found that the euro area as a whole ran a neutral fiscal policy throughout 2017, with a small number of institutes (6) assessing it as expansionary, while 2 institute finding it contractionary. What concerns their assessment on the suitability of this stance, most institutes find it was appropriate, but there are concerns from some Greek, Italian, French, Belgian, UK and Norwegian partners that this stance was

[4] https://ec.europa.eu/info/publications/assessment-prospective-fiscal-stance-appropriate-euro-area_en

too contractionary. For 2018, a large majority of the respondents do not expect changes in the fiscal policy stance for the euro area. The only exceptions are the respondents from Belgium and France, which expect it to become more expansionary, while the Italian partners expect it to become less expansionary and turn neutral.

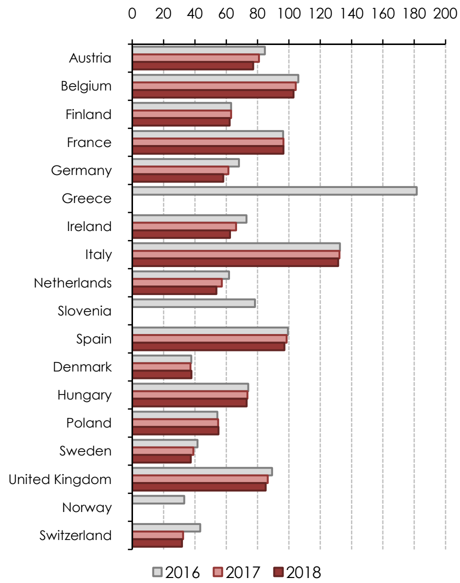
The situation is much more nuanced when it comes to the national fiscal policy stance (Figure 39). Half of the answers point that the fiscal policy stance in their home country during 2017 was neutral. But the other half is split. Expectedly, the continuing and large-scale fiscal consolidation efforts imposed in Greece have led the Greek partner institute to assess the fiscal policy stance as very contractionary. AIECE institutes from Belgium, Denmark and the United Kingdom also see their current fiscal policy stance as contractionary. On the other hand, 9 AIECE institutes see their fiscal policy stance during 2017 as expansionary, with a consensus about this from the institutes in Finland, Hungary, the Netherlands and Norway. A wider consensus can be found around the assessment of how appropriate the current stance of fiscal policy was in 2017 – in 12 countries it was assessed to be more or less appropriate, whereas in Greece and Norway institutes classify them as too contractionary. The expectations for next year are largely for a neutral fiscal stance. In 2 countries there are expectations fiscal policy would turn from expansionary to neutral (Finland, Italy and Norway), while respondents from the Netherlands, Hungary and Sweden expect an expansionary fiscal stance.

Gross public debt in AIECE economies has been reduced throughout 2017 and will continue reducing in 2018, but only slightly. Figure 40 gives an overview of gross public debt in percent of GDP in the AIECE economies. AIECE respondents answered whether there are measures currently

Figure 39: Fiscal policy stance in AIECE economies and evaluation
Answers to Questions 2.3.1 to 2.3.3

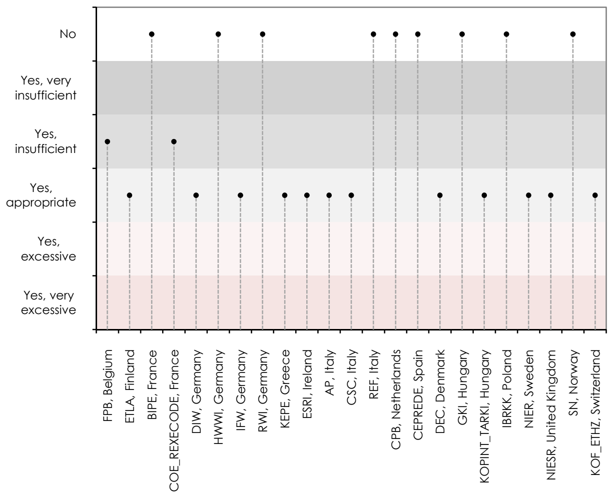
Source: All AIECE institutes, average for each country (n=27).

Figure 40: Gross public debt in AIECE economies
Percent of GDP



Source: IMF (WEO), Macrobond and all AIECE institutes, average for each country (n=23).

Figure 41 Government measures to reduce public debt
Answers to Question 2.3.4: "Are there currently implemented measures to bring down the level of public debt in your country? If yes, how do you evaluate them?"



Source: All AIECE institutes (n=23).

implemented to bring down the level of public debt in their country (Figure 41), with 9 institutes saying there are no such measures in their county, while 14 institutes find there are measures implemented for this. Interestingly, most institutes find the measures adopted to be appropriate – 12 out of 14 answers. The only respondents that find there are measures adopted, but they are insufficient, are from Belgium and France. As to what specifically are these measures, they are split between fiscal rules about deficits and public spending cuts.

Questions for discussion:

- Do you see significant risks (either downward or upward) to the current broad-based, stable and sustained economic expansion across the European Union for the next year?
- Are there significant dangers of overheating for the German economy, as recently identified by the German Council of Economic Experts?
- What are the reasons behind the diverging views on the current and the appropriate stance of national fiscal policy currently and for the next year?

4. Risks, Challenges and Economic Policy

2017 has been a year of significant political changes across developed countries, with a change of US administration and national elections in the two major euro area economies – France and Germany, accompanied by elections in a number of other European countries. We sought the opinion of the AIECE experts to comment on some of the most prominent policy proposals and reforms that have come as a result of these possible changes in the political environment.

Financial regulation – appropriate or excessive?

Furthermore, we wanted to get the opinion of the experts on financial regulatory issues, as well as on one specific, widely discussed topic - the low profitability of banks and credit institutions across the European Union in the past few years. While on one hand, the financial sector finds that a significant reason for this was connected with the long period of extremely low interest rates combined with the tightening of banking regulation, which require banks to hold more capital and guide their decisions about credit given much tighter borrower-based measures and overall systemic risk buffers. The institutions have on the other side demanded that banks should reform their business models and make use of the important cost reductions made possible by considerable digitalization and automation efforts. Furthermore, the increased financial regulation as part of the Basel III package and macroprudential instruments might have brought excessive burden on small and medium sized credit institutions in comparison to big banks.

First, we sought the experts' opinion on financial regulation and how the efforts made in the aftermath of the Global Financial Crisis have addressed some important risks in the financial system. We asked whether the banking regulation set in place after the global financial crisis appropriately addresses financial stability risks. There is a very widely shared dominant view that the banking regulation was needed, but there is a split of opinion whether it is already appropriately addressing financial stability risks. Around half of the respondents find it is, while the rest of the respondents find it is either not enough (e.g. capital requirements are too low) or that there are other risks, which have been left out of current regulation. The topics where there is a further need for improvement according to the respondents evolve the bank-sovereign nexus, setting up of a common deposit insurance scheme and most of all the completion of the banking union. Only one institute has mentioned that the increase in banking regulation might have contributed to low profitability of banks and thus to the search for yield in more risky segments. On the question whether new banking regulation after the crisis burdened smaller credit institutes disproportionally relative to big banks, opinions are split – 5 responses say yes, while 4 do not think so. Interestingly, one answer points to the fact that some consolidation of banks in Europe could actually be beneficial from an efficiency and stability perspective, while another points to the fact that the difference in the burden is not so much in terms of different banking size, as in terms of different business models.

Low bank profitability across the European Union

We asked our AIECE experts to comment on the above mentioned topic of the banking sector low profitability rates of the past years. Around half of them agree that the zero interest rates have contributed to the low profitability of banks, while some of the respondents point to the weak economy, the effects of competition or of the lacking efforts to make use of cost reductions coming from digitalization as important reasons as well. What concerns financial regulation, the case made by financial market participants and banks does not seem to be endorsed by a majority of the respondents. Around a third of them (5) do not find convincing evidence that enhanced banking regulation has eroded bank profitability, while 3 find there are other reasons for that. Only 3 institutes believe this has been the case and that low bank profits are due to enhanced financial regulation. 2 institutes find actually the opposite – that enhanced financial regulation actually might strengthen the profitability of banks through increasing the stability and confidence in the financial sector. One respondent answered that if bank profitability was weakened due to financial regulation, then that is for the greater good.

European Monetary Union future and national economic policy

In line with the current debates on the future of the European Monetary Union and its setup, we asked a question of whether some form of tax harmonization across the EU would be needed and a question on the idea of enhancing the current EU budget. There is surprisingly an overwhelming majority in favor of some kind of tax harmonization arrangements – and the most often mentioned reason behind this is to avoid a race to the bottom that could be detrimental to national finances. Two countries – Hungary and Poland, do not see the need for such an initiative yet. The need for an enhanced EU budget is also seen as a potential positive idea, with a majority of respondents seeing it either as a good idea or a good idea under some conditionality (8 respondents), with some respondents pointing to the importance that it will enable counter-cyclical fiscal policy at the euro area level when national government cannot do so and would thus make asymmetric shocks more easy to overcome. The institutes from Germany are more or less skeptical to this idea, but they give very convincing arguments against it – that currently the efficiency of the spending of the EU funds and resources is not guaranteed, that sometimes the projects funded are questionable and that in times of EU skepticism it is not politically viable to direct more funds to the EU. In a sense, while one side argues for the benefits of having an enhanced size of the budget to deal with major shocks, the other requires improved efficiency of the usage of EU funds available. The two sides do not necessarily contradict each other.

The German current account surpluses, which have been presented often as a possible source of problems for the euro area, are seen as having negative effects on the rest of the EU member states by a majority of the institutes. But 5 institutes do not find the high current account surpluses of Germany to be problematic.

The new French President Macron has started as one of his first initiatives a significant labour market reform to address some possible problems of the French labour market. We have therefore asked whether revising labour market policies (by reducing employment protection, decentralizing labour negotiations, enhancing training programmes) would increase productivity in France and whether it would help decrease long-term, equilibrium unemployment in France. This is one of the questions with the most divided answers, both due to the complexity of the question as it is stated and from the fact that a labour market reform has many macroeconomic effects. On productivity, 5 institutes see proposed reforms as enhancing productivity, while another three see positive effects on productivity, but coming with certain costs. 3 institutes are skeptical on this and see other economic policies as more appropriate to induce productivity increases, for example a well-directed industrial policy. Another 4 institutes see the effect on productivity as unclear. On the question whether these changes will lead to lower equilibrium unemployment rates, there is a larger consensus that this will be the case. However, there are 3 respondents that do not agree that unemployment will definitely be decreased by this approach and another 2 that find it unclear ex-ante. Furthermore, one institute mentions the issues with the measure of the equilibrium unemployment rate itself, while another two mention that the reforms will have positive outcomes only if done properly and not by just shifting the labour force into part-time or low-paying jobs.

On the question of whether President Trump will manage to push for a significant tax reform and what will be its effects, the opinions tend to be negative. All respondents are skeptical that a tax reform can be signed this year. Some respondents also believe a significant tax reform will not come at all during the Trump Administration, while the majority expects it next year. The mentioned effects of this reform include a temporary, but small GDP and private investment boost, widening of income inequalities and possible negative effects on the deficit and budget sustainability.

Questions for discussion:

- What would be important further steps in ensuring that financial regulation in the euro area will both be efficient and will have lowest possible costs in terms of GDP and credit growth?
- What would be the most appropriate next step in strengthening European Monetary Union institutional architecture and euro area integration?
- Does the current extreme surge in the value of cryptocurrencies represent a bubble and present an imminent danger to financial stability?

5. Appendix: Questionnaire

Country questions

2.1.1 Please choose the three most important factors according to their positive effect on 2017 growth in your country and rank them from 1 to 3, where 1 is the most important … *Increase in global demand / The exchange rate of the euro / Monetary policy / Fiscal policy / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

2.1.2 Please choose the three most important factors according to their positive effect on 2018 growth in your country and rank them from 1 to 3, where 1 is the most important … *Increase in global demand / The exchange rate of the euro / Monetary policy / Fiscal policy / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

2.1.3 What are the main downside risks for the growth projection in your country over the next two years? Please rank them according to their importance from 1 to 10, where 1 is the most important … *Bubbleburst in China / Financial tightening in emerging market economies / Downswing in the USA / US asset price falls / Increased protectionism / Signs of political disintegration of the EU / Hard Brexit / Geopolitical tensions and armed conflicts / Increase in inflation and tighter monetary policy / Liquidity crisis in Europe*

2.1.4 Please indicate the current cyclical stance of your country … *Beginning upswing / Upswing / Peak / Beginning downswing / Downswing*

2.1.5 What is currently the output gap, according to your estimates?

2.2.1 Is the government in your country currently taking measures to raise employment? … *Yes / No*

If you answered with 'Yes', how do you evaluate them? They are … *Very effective / Effective / Satisfactory / Bad / Very bad*

Please indicate significant implemented measures to raise employment in your country.

2.2.2 Is the government in your country currently taking measures to reduce unemployment? … *Yes / No*

If you answered with 'Yes', how do you evaluate them? They are … *Very effective / Effective / Satisfactory / Bad / Very bad*

Please indicate significant measures to reduce unemployment in your country.

2.2.3 How are the recent dynamics in nominal wages in your country? … *Strong increase / Increase / Stable / Decline / Strong decline*

2.2.4 What are the three main factors driving the variation in nominal wage growth in your country? Please rank them from 1 to 3, where 1 is the most important … *Cyclical stance / Inflation / Productivity / Flexible worker contracts & Part-time work / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

2.3.1 What is the fiscal policy stance in your country during 2017? … *Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

2.3.2 What is the expected fiscal policy stance in your country during 2018? … *Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

2.3.3 Do you think that the current stance of fiscal policy is appropriate for your country? … *Too contractionary / More or less appropriate / Too expansionary*

2.3.4 Are there currently implemented measures to bring down the level of public debt in your country? … *Yes / No*

If you have choosen 'Yes', please specify them.

How do you evaluate them? … *Very insufficient / Insufficient / Appropriate / Excessive / Very excessive*

2.4.1 What is the monetary policy stance in your country during 2017? … *Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

2.4.2 What is the expected monetary policy stance in your country during 2018? … *Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

2.4.3 Do you think that the current stance of monetary policy is appropriate for your country? … *Too tight / More or less appropriate / Too loose*

2.5.1 In 2016 house prices in your country have … *risen by more than 5% / risen by less than 5% / remained more or less stable / fallen by less than 5% / fallen by more than 5%*

2.5.2 In 2017 house prices in your country are expected to … *rise by more than 5% / rise by less than 5% / remain more or less stable / fall by less than 5% / fall by more than 5%*

2.5.3 In your opinion, compared to the fundamentals, they are … *overevaluated / more or less appropriate / undereva-luated*

Euro Area and EU questions

4.1.1 Please choose the three most important factors according to their positive effect on 2017 growth in the euro area and rank them from 1 to 3, where 1 is the most important … *Increased global demand / The exchange rate of the euro / Monetary policy / Fiscal policy / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

4.1.2 Please choose the three most important factors according to their positive effect on 2018 growth in the euro area and rank them from 1 to 3, where 1 is the most important … *Increased global demand / The exchange rate of the euro / Monetary policy / Fiscal policy / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

4.2.1 What is the aggregate fiscal policy stance in the euro area during 2017? … *Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

4.2.2 What is the expected aggregate fiscal policy stance in the euro area during 2018? … *Very contractionary / Con-tractionary / Neutral / Expansionary / Very expansionary*

4.2.3 Do you think that the current stance of fiscal policy is appropriate for the euro area? … *Too contractionary / More or less appropriate / Too expansionary*

4.3.1 What will be the outcome of the Asset Purchase Programme (APP) in 2018? … *APP will be left to expire with the end of 2017 / APP will be expanded until September 2018 with the same size of monthly asset purchases / APP will be expanded until September 2018 with a diminishing size of monthly asset purchases / APP will be expanded until end of 2018 with the same size of monthly asset purchases / APP will be expanded until end of 2018 with a diminishing size of monthly asset purchases*

4.3.2 What will be the normalization strategy of the ECB? … *First wind down the APP, then instantly start raising policy rates / First wind down the APP, then wait until start raising policy rates / Start raising policy rates before the complete expiration of the APP.*

4.3.3 When will the ECB first start raising rates? … *Before September 2018 / Between September 2018 and December 2018 / First quarter of 2019 / Not before second quarter of 2019*

4.3.4 Please assess the effect of an increase in the ECB rate of 1 percentage point on the inflation rate in the euro area.

4.3.5 Please choose the three main risks associated with ECB's net asset purchases and rank them from 1 to 3, where 1 is the most risky? … *Asset price bubbles / Misallocation of resources/capital / Reduced willingness for structural reforms / Worldwide exchange rate competition / Excessive inflation in the middle to long term / Other*

If you included 'Other' as one of the three most important factors, please give a short description.

4.3.6 Do you think the banking regulations set in place after the global financial crisis appropriately address financial stability risks? Please comment.

4.3.7 Do you think the banking regulations set in place after the global financial crisis disproportionally burden small and medium credit institutes in comparison to big banks? Please comment.

4.3.8 Do you think that banks` low profitability in the recent years is due to the zero interest monetary policy in the euro area? Please comment.

4.3.9 Do you think that banks` low profitability in the recent years is due to the enhancement of financial regulatory rules across the EU? Please comment.

Risks and challenges for Europe

6.1 What are the main downside risks to your projection for growth in Europe for the next two years? Please rank them according to their importance from 1 to 10, where 1 is the most important … *Bubbleburst in China / Financial tightening in emerging market economies / Downswing in the USA / US asset price falls / Increased protectionism / Signs of political disintegration of the EU / Hard Brexit / Geopolitical tensions and armed conflicts / Increase in inflation and tighter monetary policy / Liquidity crisis in Europe*

6.2 In your opinion, is there a need for a harmonization of some taxes – or at least their basis – across the EU? Please discuss.

6.3 In your opinion, is there a need of an enhanced EU budget? Please discuss.

6.4 What will the Federal Open Market Committee decide to do with respect to the federal funds rate? … *Raise Rates at its October Meeting / Raise Rates at its December Meeting / No change to the policy rates until the end of the year / Reduce rates at one of the two meetings*

6.5 Will President Trump sign legislation for a significant tax reform already this year and what will be the effects on the US economy? Please discuss.

6.6 Do you think the high current account surpluses of Germany present an important negative effect on the rest of the EU member states? Please discuss.

6.7 In your opinion, does revising France's labour market policies (by reducing employment protection, decentralizing labour negotiations to firm level, making training programmes more accessible and responsive to labour demands) increase productivity in France? Please discuss.

6.8 Do you think reducing employment protection would reduce the equilibrium unemployment rate in France? Please discuss.

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