Centre of Planning and

Economic Research (KEPE)

Association d'Instituts Européens
de Conjoncture Economique (AIECE)

AIECE General Report: Part 1

For the AIECE Spring Meeting 2018

Warsaw, May 17–18, 2018

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Abstract

The General Report was prepared for the AIECE (Association d'Instituts Européens de Conjoncture Economique) Spring Meeting, 17-18 May 2018 in Warsaw. 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.

Contents

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

Broad-based growth acceleration

Against the backdrop of the rebound in investment, manufacturing and trade, the broad-based global economic recovery was sustained in the second half of 2017, with growth accelerating over 4%. The cyclical upturn strengthened in advanced economies in 2017, driven mainly by investment spending. The upturn exceeded expectations in the euro area, Japan and the United States. Growth remained strong in emerging Asia, led in China and India primarily by net exports and private consumption. In commodity-exporting economies, notably Brazil and Russia, the economic upturn in 2017 was driven by the gradual recovery of investment. The growth performance of other emerging and developing economies was mainly explained by fixed investment and private consumption.

Following a 3.8% growth rate in 2017, global GDP is projected by international institutions to grow at rates close to 4% in both 2018 and 2019. This is more or less in agreement with the average forecasts of AIECE institutes, which stand at 3.9% for 2018 and 3.8% for 2019.

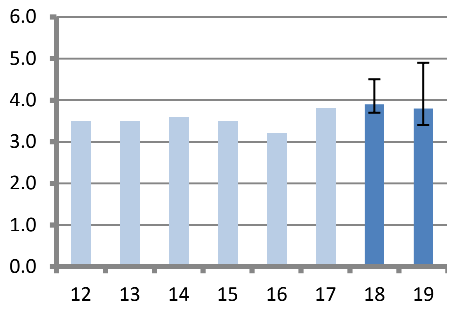
In the USA, economic activity in 2017 surprised to the upside, with domestic demand gaining momentum and external demand remaining strong. Growth in the USA is expected to receive further support in the short-to-medium term, on the basis of the recent tax reform (tax reductions) and the overall expansionary fiscal policy (public spending increases).

In Japan, the pick-up in growth was mainly driven by the recovery in consumer spending and investment, in combination with the positive effects from the implementation of a fiscal stimulus package. Growth prospects will depend more on export dynamics, as the fiscal stimulus momentum will ease, and the shrinking labour force (related to population aging) will weigh on the growth outlook.

Growth in China has remained solid in 2017, with growth driven primarily by net exports and private consumption, and to a lesser extent by state-led investment. However, it is expected to soften in the near term, as fiscal policy will gradually become more neutral, and regulatory policies more restrictive, to mitigate financial risks.

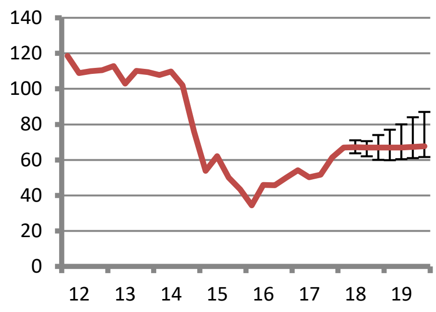
The markedly stronger than expected rebound in the euro area, in particular in the second half of 2017, was more broad-based and relied on significant policy stimulus and

Figure 1: Global GDP
Percentage change, volume



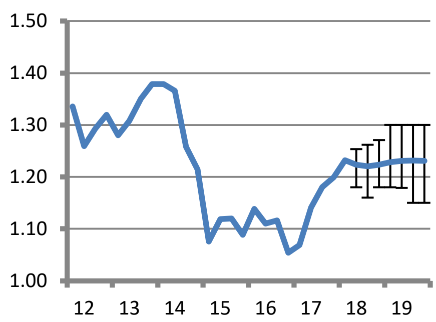
Source: IMF, AIECE Institutes, all institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=18).

Figure 2: Crude oil prices
Brent, USD per Barrel



Source: World Bank, AIECE Institutes, all institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=21).

Figure 3: Exchange rates
USD per Euro



Source: Eurostat, AIECE Institutes, all institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=21).

strong global demand. It was supported by highly accommodative monetary policy and the steady fading out of the crisis-related drags, which strengthened confidence and domestic demand. The growth momentum is expected to moderate gradually, but will remain robust, driven mainly by domestic demand. Following the high levels recorded in December 2017 and January 2018, the European Commission's Economic Sentiment Indicator has already shown some signs of correction, from February to April 2018.

Upswing in global trade and rise in commodity prices

The 2017 upsurge in global trade reflected the rebound in investment in both advanced and emerging as well as developing economies. Export and import growth was broad-based among advanced economies; commodity exporters led the rebound in import growth, while the recovery in export growth was stronger in emerging Asia. With reference to global trade in goods, the AIECE institutes forecast a gradual deceleration in volume terms, from a growth rate of 5.4% in 2017 down to 4.4% in 2018 and 4.1% in 2019.

Following the collapse in crude oil prices, leading to a low of around 32$ per barrel in the first quarter of 2016, oil-exporting economies, like Russia, benefitted from the gradual upturn, in particular during the second half of 2017. With crude oil prices around 65$ in March 2018, the AIECE institutes expect for 2018 and 2019, on average, a rather modest upward adjustment with prices reaching 67$ per barrel. With commodity prices partially recovering, growth in large commodity exporters, like Brazil, rebounded in 2017. Apart from energy prices, the recent rise in commodity prices was further driven by metals, while agricultural commodity prices have been also catching up. Although core inflation still remains below target in many cases, headline inflation is rising modestly in advanced economies, at the back of stronger energy prices. Among emerging and developing economies, inflation developments vary, with core inflation in Brazil and Russia reaching historical lows, picking up in India in the second half of 2017, moving around 2 percent in China, while remaining high in other regions (such as in sub-Saharan Africa, the Middle East etc.).

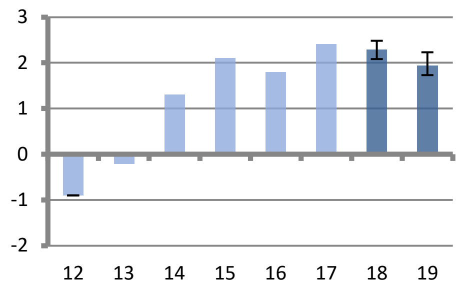
Policy interest rates

Across central banks in major advanced economies, it seems that since the last part of 2017 the direction of monetary policy is drifting more apart. The ECB and the Bank of Japan are willing to preserve the accommodative policy stance, while the signals from the US Federal Reserve (Fed) are more to the direction of a faster normalization. According to the forecasts by the AIECE institutes, the ECB and the Bank of Japan policy rates are expected to remain around zero in 2018 and approach 0.3 and 0.1, respectively, by the end of 2019. A far different path is forecasted for the Fed's main policy rate, with gradual increases leading to a rate of 2.1 by the end of 2018 and 2.6 by the end of 2019. Similarly, the Bank of England is expected by AIECE institutes to follow a course of a gradual increase in the main policy rate, reaching 0.8 and 1.2 by the end of 2018 and 2019, respectively.

Strengthening Euro/Dollar exchange rate

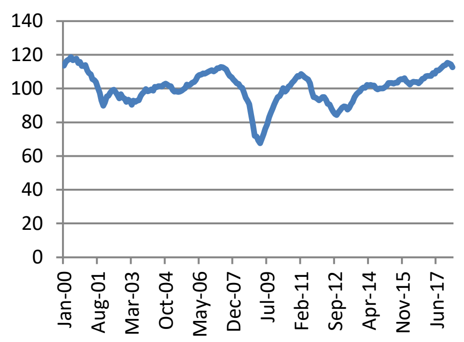
Since the last quarter of 2016, the Euro has been increasing against the US Dollar, reaching a level above 1.2 USD per Euro in the first quarter of 2018 (on a basis of end-of-period values). According to their forecasts, the AIECE institutes do not expect any significant further appreciation of the Euro against the US Dollar, with the average forecasts amounting to 1.22 USD per Euro and 1.23 USD per Euro for 2018 and 2019, respectively.

Figure 4: Euro area GDP
Annual percentage change, volume



Source: Eurostat and all AIECE institutes, the same weight for each institute - Error bands indicate the upper and lower extremes of the AIECE institutes' projections (n=23).

Figure 5: Economic Sentiment Indicator (ESI) for the euro area



Source: European Commission.

2. Euro Area Outlook

2.1 GDP growth and main aggregates

In 2017 the economy featured a markedly stronger economic recovery than expected

Last year's estimated growth rate for the euro area economy has been upgraded to 2.4%, or 0.3 percentage points higher than the rate envisaged in November in *AIECE General Report* (see Figure 4). The upgrade reflects a stronger-than-expected rebound of domestic demand, supported by improving labour market conditions, high consumer and business confidence, and favourable financing conditions. The acceleration of global economic activity and trade and the corresponding increase in external demand played a positive role as well.

Growth momentum is expected to be sustained in 2018

The European Commission's monthly Economic Sentiment Indicator (ESI) registered slight decreases over the first quarter of the current year (see Figure 5). Nevertheless, it remains at historically high levels thereby revealing optimistic expectations regarding the growth prospects of the euro area economy.

AIECE institutes seem to share households' and businesses' optimism. Indeed, compared to the November *AIECE General Report*, the average growth projection for the euro area has been revised upwards from 1.9% to 2.3% for 2018.

Growth is expected to remain broad-based across individual member-states of the euro area

While the AIECE institutes growth projections for their home countries range from 1.2% for Italy to 4.8 % for Ireland, it is evident that for a second year in a row, all member-states will register positive growth rates (see Figure 6). In line with this trend, 14 out of 17 euro area institutes have adjusted upwards their November forecasts for their home countries.

Economic expansion will be driven by domestic and external factors alike

On 8 March 2018, the Governing Council of the ECB signaled its intension to continue its accommodative monetary stance. Meanwhile, very favourable indicators (e.g. broad-based robust economic expansion in advanced and emerging economies, notable expansion of import-intensive investment worldwide, US fiscal policy changes) suggest that global economic activity and trade will remain robust. In response to these trends and to the prospect of business and consumer confidence hovering high, AIECE institutes project that euro area growth will benefit mostly from buoyant confidence on the part of businesses and consumers, global trade and monetary policy stimulus (see Figure 7).

In line with the above projections, private consumption, private investment and exports are set to remain the top contributors to euro area GDP growth.

Euro area investment expenditure is rising despite impediments to investment growth in member-states

Gross fixed capital formation is expected to gain momentum this year, with investment growth becoming more broad-based across member-states. In relation to the cyclical position of each individual economy, all euro area AIECE institutes reported for their home countries either normal or strong investment expenditure, with the exception of the Greek institute.

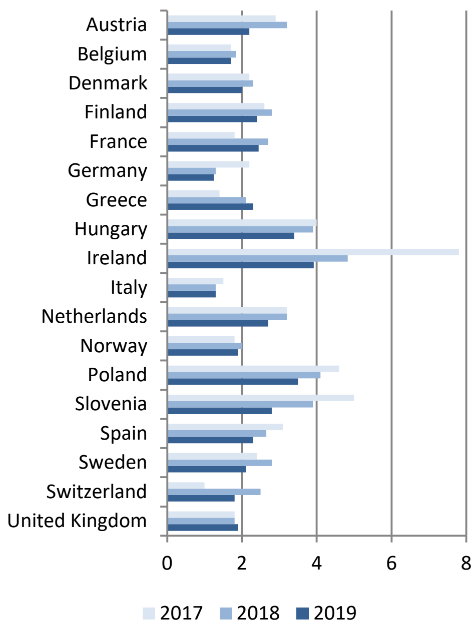
Regarding the presence of country-specific impediments to investment activity, AIECE institutes made reference to policy and outlook uncertainty (FPB and IRES for Belgium, IFW for Germany and KEPE for Greece), uncertainty related to the potential access to the UK market (ESRI for Ireland), lack of competitiveness (Roe-Rexecode for France), excess of accumulated stocks prior to the crisis (CERPEDE for Spain), non-performing loans and weak bank lending (REF for Italy and KEPE for Greece), expected demand (AP for Italy), city planning policies (ETLA for Finland) and lack of new projects or bottlenecks appearing at the level of preparation of projects co-funded by the EU (Analytics CCIS for Slovenia). Interestingly, the remainder euro area AIECE institutes reported no country- specific impediments to investment.

Euro area growth is projected to continue at a more moderate pace in 2019

According to the average projection of AIECE institutes, economic growth in the euro area is set to decelerate and stand at 1.9% in 2019. To a certain degree, this loss of growth momentum is related to the expectations regarding the course of monetary policy over the forecast horizon. In particular, the AIECE institutes' answers reveal that monetary policy will continue supporting growth but less so than in 2018, as it is expected that the ECB will proceed to a gradual normalization of its policy (see Figure 7).

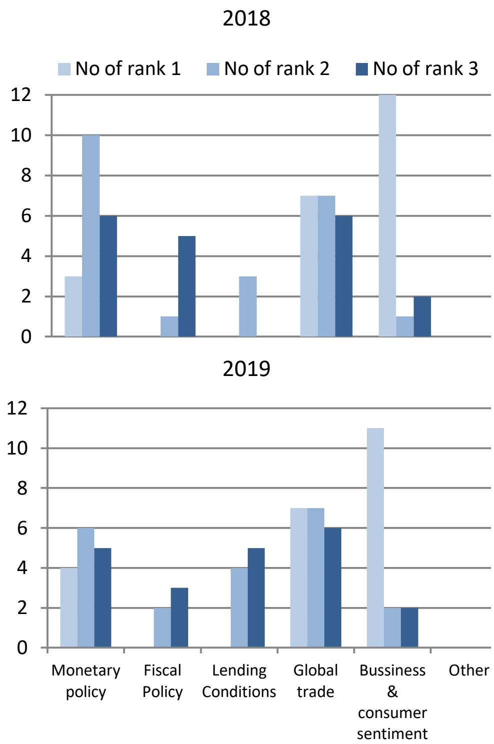
As regards GDP components from the expenditure side and their contributions to growth, private consumption, private

Figure 6: GDP growth in AIECE economies
Annual percentage change, volume



Source: Eurostat and all AIECE institutes, average for each country (n=26).

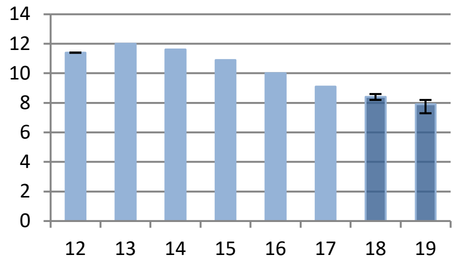
Figure 7: Important growth factors in the euro area



Source: All AIECE institutes (n=23 for 2018 and n=22 for 2019).

Figure 8: Euro area annual unemployment rate

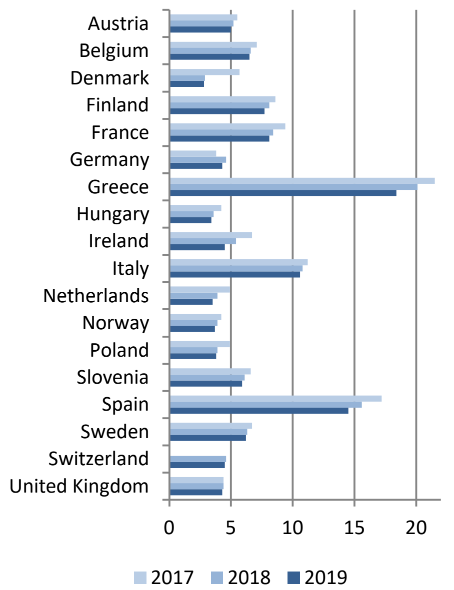
Percent of total labour force - Eurostat definition



Source: Eurostat and all AIECE institutes, the same weight for each institute - Error bands indicate the upper and lower extremes of the AIECE institutes' projections (n=16).

Figure 9: Annual unemployment rates in AIECE economies

Percent of total labour force - Eurostat definition



Source: Eurostat and all AIECE institutes, average for each country (n=25).

investment and exports are expected to remain the primary contributors.

2.2 Labour market conditions

Labour market conditions are gradually improving

Supported by stronger economic expansion, total employment in the euro area increased by 1.6% in 2017. On an annual basis, this is the highest increase recorded in the euro area since the outbreak of the Global Financial Crisis. In line with this development, the unemployment rate over the same year fell to 9.1%. Looking forward, AIECE institutes project that unemployment will keep on its downward trend falling to 8.4% and 7.9% over the current and the next year, respectively (see Figure 8).

Unemployment remains elevated in a certain number of member-states

As unemployment falls in almost every region of the euro area, unemployment rate differentials across member-states show a tendency to narrow. However, notable differences are set to remain. This is evident when one contrasts the unemployment rates that are expected to prevail in Netherlands, Germany and Ireland with those of Greece, Spain and Italy (see Figure 9).

Highly skilled workers' responses to low wages or unemployment across countries are mixed

Figure 10 summarizes institutes' answers regarding the responses of highly skilled workers to low wages and unemployment in their home countries. While no clear pattern emerges from this picture, taking into account the answer of each institute and connecting it with current economic performance of the institutes' home country reveals some interesting regularities. For example, economic asymmetries across member-states (i.e. differences regarding the overall economic performance or the size and the depth of the production base) seem to mark the options of low-paid/unemployed but highly qualified workers and therefore the direction of labour flows in the continent. On average, in countries characterized by healthier economic fundamentals and a richer production base, highly qualified workers respond to low wages or unemployment by searching for better-paid jobs domestically. On the contrary, in countries with relatively weaker economic fundamentals skilled but low-paid or unemployed workers tend to seek better job opportunities abroad.

Non-negligible shares of involuntary part-time work uncover true labour underutilization in Europe

During the recovery of the European economy the ratio of part-time employment to total employment increased considerably[1]. This development should raise no concern as long as the option of part-time work aligns workers' preferences with employers' demand. However, given the tendency of European firms to make greater use of part time work, one naturally wonders whether part time employment is voluntary thereby reflecting workers' actual preferences or involuntary in the sense that workers remain employed part time despite preferring a full-time job.

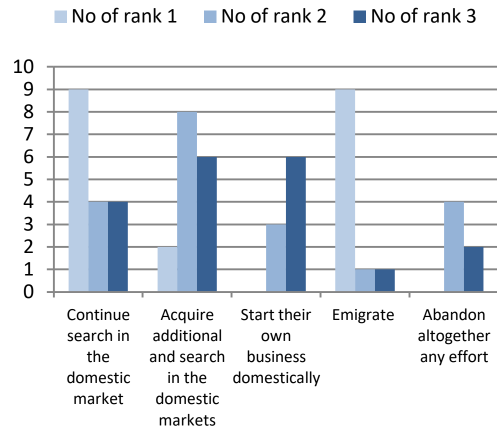
To shed some light on this issue, AIECE institutes were asked to assess the proportion of involuntary part-time work out of total part-time work in their home countries. Despite significant cross country-variation, institutes' answers revealed the presence of medium to high shares of involuntary part time work in the majority of countries (see Figure 11). Perhaps, this is an implicit indication of 'hidden' labour underutilization which is not captured by the official unemployment rates.

2.3. Prices and costs

Euro area HCPI inflation is set to remain mild over the next two years

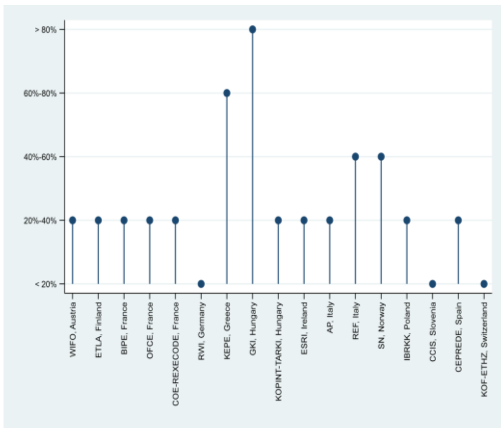
In 2017, the euro area HCPI inflation accelerated to 1.5% from 0.2% in 2016. The increase of headline inflation was driven by rising energy prices and the soft recovery of primary commodity prices. Meanwhile, core inflation (all items except energy and unprocessed food) remained at low levels as domestic factors (e.g. wage growth dynamics) exerted no pressures. According to AIECE institutes, euro area HCPI inflation is projected to remain at 1.5% in 2018 before picking up slightly to 1.6% in 2019 (see Figure 12).

Figure 10: Responses of highly-skilled workers to low wages and unemployment in AIECE countries
Answers to Question 2.5.2



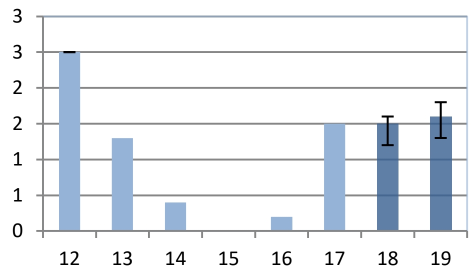
Source: All AIECE institutes, (n=20)

Figure 11: Shares of involuntary part-time work out of total part-time work



Source: All AIECE institutes (n=17)

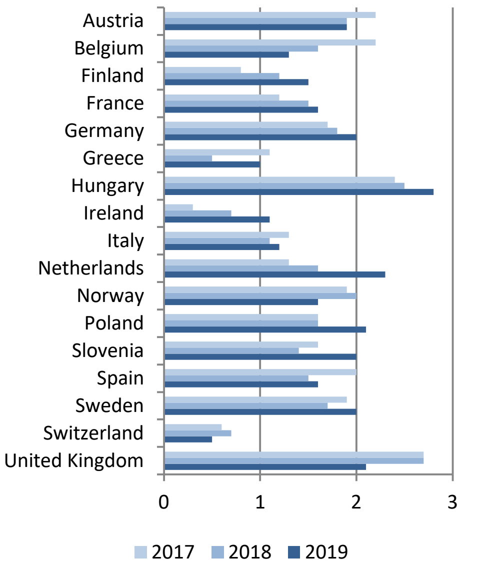
Figure 12: Euro area HICP inflation
Annual average rate of change



Source: Eurostat and all AIECE institutes, the same weight for each institute - Error bands indicate the upper and lower extremes of the AIECE insitutes' projections (n=19).

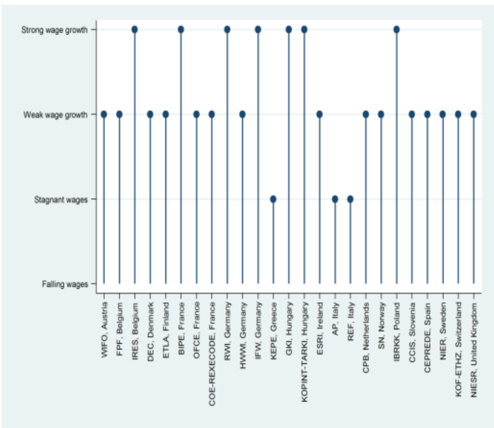
[1] According to the ECB this ratio now at stands at 22% (see, the ECB Economic Bulletin, Issue 2/2018 – Boxes, Recent developments in part-time employment).

Figure 13: HICP inflation in AIECE economies
Annual average rate of change



Source: Eurostat and all AIECE institutions, average for each country (n=24).

Figure 14: Nominal wage dynamics
Answers to Question 2.5.1



Source: All AIECE institutes (n=25).

HICP inflation projections of euro area AIECE institutes for their home countries suggest that inflation in member states will keep moving in the same direction (see Figure 13). At the same time, inflation rate differentials among member states are set to persist, as inflation in the periphery of the euro area is expected to remain modest. Needless to say, a lower inflation in the periphery is welcomed as long as it helps countries in the periphery to increase their cost competitiveness vis-à-vis their counterparts in the core of the euro area.

Nominal wage dynamics remain weak in most euro area economies

Improving labour market conditions amid stronger than expected economic recovery should offer some support to nominal wage growth in most member states of the euro area. Nevertheless, the majority of euro area AIECE institutes reported either weak nominal wage growth (10 institutes) or stagnant wages (3 institutes) (see Figure 14). Interestingly, institutes originating from the same country seem to evaluate differently wage dynamics in their home countries (Belgium, Germany and France).

Regarding the factors weighing on nominal wage growth, poor labour productivity and low inflation rates stand out as the most important (see Figure 15). The ranking of the remainder factors differs considerably across institutes' answers, possibly reflecting the different economic conditions prevailing in each country.

2.4 Economic Inequality

According to a recent report prepared under the umbrella of the OECD Centre for Opportunity and Equality[2], income inequality in OECD-EU countries has increased considerably over the last four decades. This longer-term trend has been linked to several factors, ranging from changes in technologies to changes in labour market structures and weaker redistribution policies. Meanwhile, private wealth inequality is trending upwards as well, surpassing income inequality.

Rising economic inequality is neither a mere philosophical issue nor a phenomenon affecting only those belonging to the bottom income decile of the population. It is widely acknowledged that high economic inequality lowers

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[2] See, OECD, 2017, *Understanding the socio-economic divide in Europe,* (Background Report).

individuals' trust to institutions and undermines social stability thereby threatening the smooth function of the economy. Against this background, AIECE institutes were asked to (a) assess the current trend of economic inequality in their home countries, (b) evaluate domestic policies aimed to tackle inequality, and (c) name the age group that is most vulnerable to poverty.

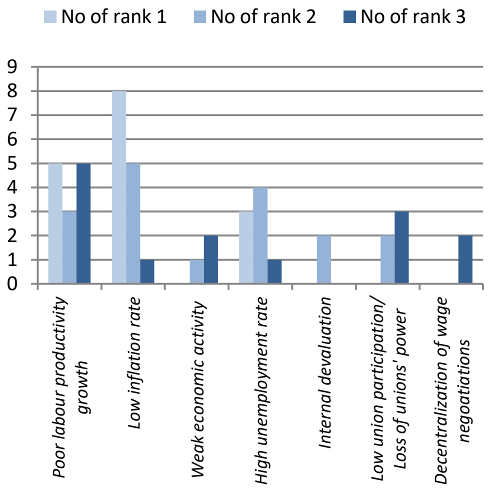
AIECE answers to the first question reveal that economic inequality does not evolve uniformly across Europe (see Figure 16). As for the existence of government measures to tackle inequality, 10 out of 22 AIECE institutes gave a positive answer. However, only half of these institutes evaluate the corresponding measures as satisfactory or efficient. Regarding, the age profile of individuals that are most vulnerable to poverty, it seems that the young and the elderly are facing the highest risk (see Figure 17).

Questions for discussion

1. While the widespread adoption of flexible labour contracts (e.g., temporary, part-time, sub-contracting, etc) is often a sign of a superior method of allocating labour, more and more low-skilled European workers face an increasingly difficult workplace. What should be done to reverse the structural trend toward insecure and less stable jobs?
2. Poor labour productivity was identified by AIECE institutes as one of the most important factors weighing on nominal wage growth. What explains poor labour productivity growth in certain euro area economies?
3. Do labour market reforms involve a trade-off between the efficiency and the equity objective?
4. How one might explain the differences among AIECE countries regarding the age profile of individuals that are more vulnerable to poverty?

Figure 15: Factors weighing on nominal wage growth

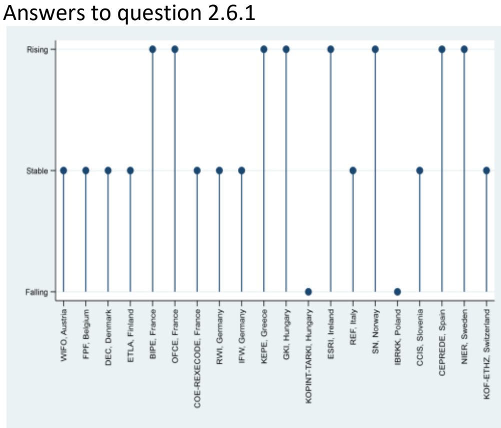
Question answered by AIECE institutes reporting falling/stagnant wages or weak wage growth



Source: All AIECE institutes, the same weight for each institute (n=25)

Figure 16: Current trends of inequality in AIECE countries

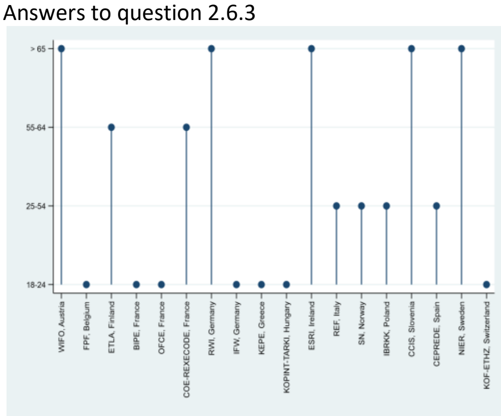
Answers to question 2.6.1



Source: All AIECE institutes (n=20).

Figure 17: Age profile of individuals facing the highest risk of poverty in AIECE countries

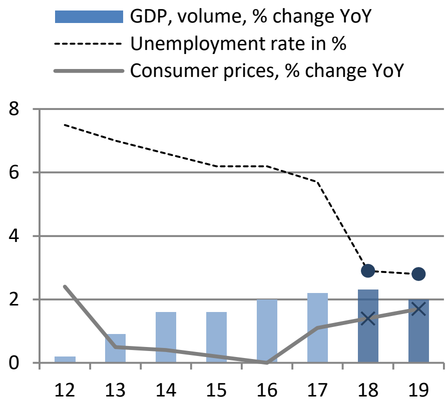
Answers to question 2.6.3



Source: All AIECE institutes (n=18).

3. Non Euro Area Outlook

Figure 18: Outlook for Denmark
Growth, consumer prices and unemployment



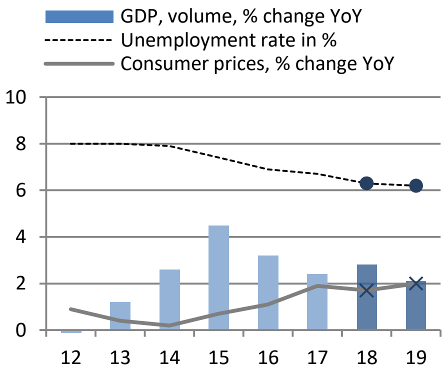
Source: Eurostat, IMF and DEC Danish Economic Council

Denmark

The Danish economy remains on a solid, broad-based upswing. The Danish Economic Council expects GDP growth to reach 2.3% in 2018 and 2.0% in 2019. Private consumption is expected to pick up, fuelled by high consumer confidence and rising household disposable income. Private investment is also expected to increase, supported by optimistic business sentiment, capacity utilization pressures, and a possible frontloading of residential construction before the property tax reform takes full effect. The outlook for exports remains positive, as Danish firms are well-positioned competitively to benefit from growth in Denmark's main export markets.

The unemployment rate lies close to its estimated structural level and labour market pressures remain contained, although they are set to build up as employment is anticipated to increase further. Wage growth is expected to pick-up slightly from its current moderate pace, contributing, together with increasing energy prices, to a slow rise in inflation.

Figure 19: Outlook for Sweden
Growth, consumer prices and unemployment



Source: Eurostat and NIER National Institute of Economic Research.

Sweden

The Swedish economy will continue to strengthen, with NIER forecasts for GDP growth standing at 2.8% for 2018 and 2.1% for 2019. The global economic upswing and the competitive value of the krona will fuel strong export growth in 2018 and 2019. Business investment is expected to grow rapidly over the same period, due to strong demand growth and high capacity utilisation. Lower housing prices, on the other hand, could have tangible negative consequences for household consumption and housing investment. Consumer confidence has fallen considerably in recent months, probably as a result of the turbulence in the housing market, but households still operate from a strong position due to higher incomes, all-time high savings and improving labour market conditions. The NIER expects private consumption to grow at a steady 2.1% in 2018 and 2019.

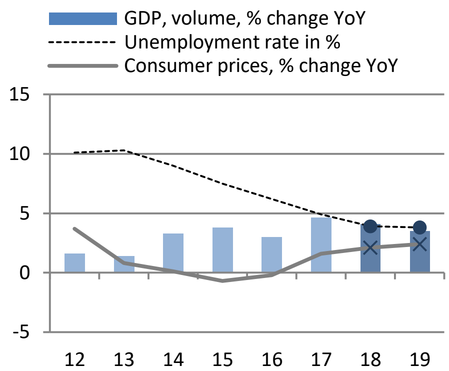
Employment growth is expected to be more subdued in 2018 and 2019, but the unemployment rate will, nevertheless, continue to fall gently down to 6.2% in 2019. Wage growth is foreseen to accelerate gradually due to large labour shortages, but inflation is not expected to reach 2% until 2020. A repo rate hike is not anticipated until the first quarter of 2019. Given the rapid increase in population, unchanged personnel density in the provision of public services such as health care and education will require taxes to be raised or benefits to be cut.

Poland

Strong GDP growth in the Polish economy is expected to continue, with the IBRKK forecasts standing at 4.1% for 2018 and 3.5% for 2019. Private consumption growth has been the primary driving force of the Polish economy over the past two years, and although it is set to slow gradually over the forecast horizon, it will nevertheless remain strong due to fast wage growth and high consumer confidence. The utilization of European funds via public companies, high capacity utilization, low interest rates and a solid demand outlook point to a prospect of solid investment growth. However, as pointed out by the IBRKK, labour shortages and an unfavourable political sentiment restrain Polish and foreign private corporations from expanding their investments. Polish exports are expected to grow strongly in 2018 and 2019, stimulated by growth in key export markets and more particularly in the EU.

Employment is expected to continue rising, the unemployment rate will decrease further, and wage growth is anticipated to strengthen due to an increasing scarcity of qualified workers. Wage hikes are expected to induce a gradual increase in inflation, but the inflation rate will remain moderate. Monetary policy is anticipated to remain expansionary, with interest rates being kept low over the next two years.

Figure 20: Outlook for Poland
Growth, consumer prices and unemployment

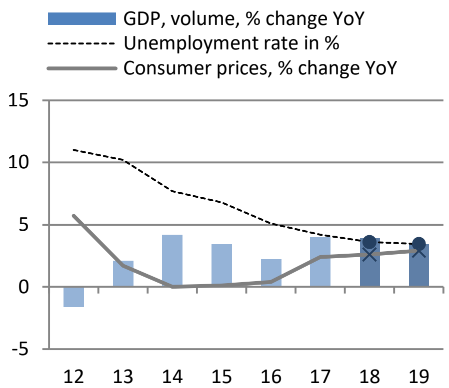


Source: Eurostat and Eurostat and IBRKK Institute for Market, Consumption and Business Cycles Analysis.

Hungary

GDP growth in Hungary is forecasted within a range of 3.8% to 4% in 2018, and a range of 3.2% to 3.6% in 2018. The dynamic expansion of private consumption is anticipated to remain a key engine of growth over the forecast horizon, although a moderate slowdown in consumption growth is expected in 2019, as the impact of minimum wage increases on consumption fades. Investment is anticipated to grow at a strong rate, supported by the renewed inflow of EU funds, FDI inflows and high capacity utilization. The global upturn, along with the new automotive facilities starting production in 2018, will help to maintain healthy export growth. On the other hand, import growth is expected to be particularly strong, due to the dynamic expansion of consumption and investment.

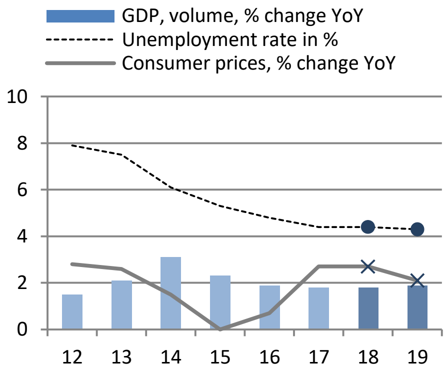
Figure 21: Outlook for Hungary
Growth, consumer prices and unemployment



Source: Eurostat, GKI Economic Research Co. and Kopint-Tárki Institute of Economic Research.

Employment is expected to increase and the unemployment rate will decrease further, with shortages of skilled labour persisting and contributing to wage growth. Consumer price inflation will remain close to target. Fiscal expansion will continue, and the general government deficit is projected to range between 2.5% to 2.8% in 2018, reaching 2.8% in 2019.

Figure 22: Outlook the UK
Growth, consumer prices and unemployment



Source: Eurostat and NIESR The National Institute of Economic and Social Research.

UK

GDP growth in the UK for the first quarter of 2018 was reported at just 0.1% q-on-q. This development is most likely partly explained by the temporary disruption of economic activity caused by severe weather in March. Given the past experience of considerable upward revisions of UK national accounts data in the case of similar weather episodes, the NIESR remains relatively optimistic about the country's prospects. NIESR forecasts for GDP growth stand at 1.8% for 2018 and 1.9% for 2019, under the assumption of a soft Brexit scenario according to which successful Brexit negotiations will play a leading role in promoting GDP growth.

While negotiations on key Brexit issues are still in progress, uncertainty with respect to their outcome will continue to weigh on business investment. Furthermore, uncertainty, together with persistent elevated inflation and the losses of real disposable income resulting from the sterling's earlier depreciation, will continue to exert a dampening effect on private consumption. According to NIESR, consumption growth is expected to be subdued over the forecast horizon, while investment growth is expected to slow down in 2018 and pick up again in 2019.

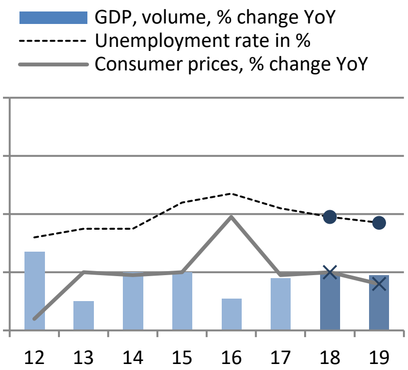
UK exporters will continue to benefit from the upswing in global activity and the sterling's competitive value, although export growth is expected to slow down gradually, as the impact of the sterling's depreciation unwinds. Import growth is projected to fall, due to weaker private consumption.

The unemployment rate is forecasted to remain close to equilibrium and wage growth appears to be accelerating. Consumer price inflation is slowing down in recent months and is expected to ease further to 2.1% in 2019.

Norway

The downturn of the Norwegian economy bottomed out just over a year ago, and GDP growth in 2017 was somewhat higher than anticipated. Statistics Norway expects GDP growth to reach 2.0% in 2018 and 1.9% 2019. Private investment, excluding housing investment, is expected to strengthen, led by an increase in petroleum investment, but also driven by higher capacity utilization, growing optimism and continuing favourable credit conditions in the economy. Growing employment and declining unemployment are anticipated to boost private consumption, through increased confidence and higher incomes. Prospects for exports are also positive, since a weaker krone has improved Norwegian competitiveness, thus helping businesses to take advantage of the global upturn.

Figure 23: Outlook for Norway
Growth, consumer prices and unemployment



Source: Eurostat and SN Statistics Norway

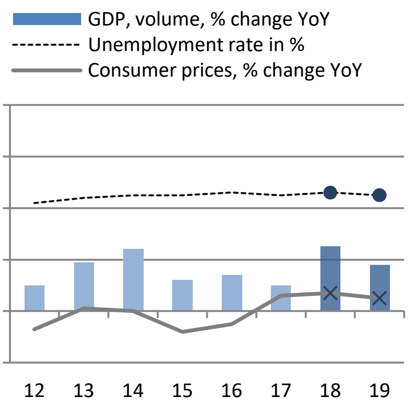
The housing market in Norway is experiencing a downturn, with prices falling and investment in dwellings forecasted to decline in 2018. The krone is projected to gain against most currencies in 2018, driven by sustained growth in the economy. These developments are likely to exert countering effects on growth, with risks of a serious negative impact being nevertheless low.

Wage growth is weak but is expected to pick up gradually, as the oil sector recovers and labour market conditions improve. Statistics Norway forecasts the inflation rate at 2% this year and 1.6% in 2019, the latter estimate being related to the expected appreciation of the krone.

Switzerland

The Swiss economy is showing good momentum, with internationally and domestically focused sectors expanding strongly. KOF expects GDP growth to reach 2.5% in 2018 and 1.8% in 2019. The primary drivers of this positive outlook will be the improved economic situation of the country's major trading partners and the depreciation of the Swiss Franc against the Euro, with the latter factor enabling exporting companies to widen their profit margins. These conditions are expected to support strong export growth, while also fostering business investment. Private consumption is anticipated to grow moderately over the forecast horizon, supported by a return to nominal wage increases, a decline in unemployment and a continuation of negative interest rates. Consumer price inflation is forecasted at 0.7% in 2018 and 0.5% in 2019. Monetary policy is expected to remain focused at keeping

Figure 24: Outlook for Switzerland
Growth, consumer prices and unemployment



Source: Eurostat, Swiss Federal Statistical Office and KOF Swiss Economic Institute.

the attractiveness of Swiss franc investments low, and therefore the policy rate is expected to remain at its current negative level in 2018.

KOF points out that part of the expected improvement in GDP figures during 2018 can be attributed to license fees from large-scale international events such as the Olympic Games in South Korea, as Switzerland hosts the headquarters of some of the major international sports federations and associations (IOC, FIFA etc.). For 2019, the absence of such major sporting events, together with the gradual slowdown in the global economy, are reasons behind the expected lower GDP growth.

Questions for discussion

1. How do you expect the positive growth outlook for the euro area to affect economic developments in your country?
2. Do you see a risk of a sharper downturn in Swedish and Norwegian housing markets?
3. How do you assess the risk of higher labour shortages in non-euro area countries, and what could this imply for future wage growth? What are the policy options to address this issue?
4. How is the stronger representation of the one-centered Hungarian political model likely to affect economic policy in the country?

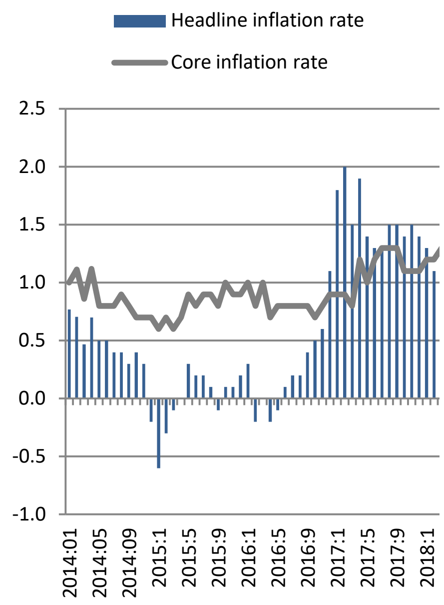
4. Policy Environment

4.1. Monetary Policy

The main monetary policy tools currently employed by the ECB in order to maintain price stability (headline inflation below but close to 2% over the medium term) while also promoting economic recovery in the euro area are the policy rates and the Asset Purchased Programme (APP).

Recent inflation data for March 2018 indicate that headline inflation in the euro area remains subdued at 1.3% (see Figure 25), a figure slightly higher than that of the preceding month. Core inflation - which excludes energy and unprocessed food prices - lies at the same level as headline inflation, after being lower for most of the period since December 2016.

Figure 25: Headline and core inflation rates in the euro area



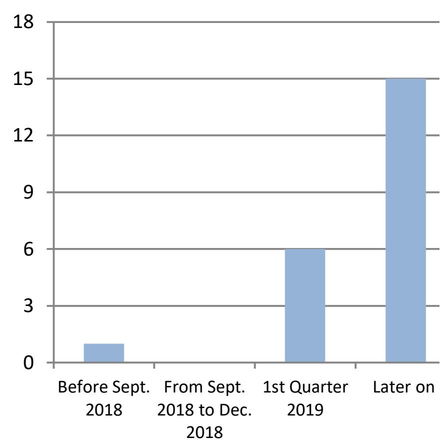
Source: Eurostat.

Policy rates

The low/negative policy rates (NIR) applied by the ECB since June 2014 have been consistent with the target of raising inflation in the euro area, while also providing vital support to the recovery of euro area GDP by (a) encouraging investors to switch from low yield government securities to riskier assets such as equities, corporate bonds, or any property that provide a better return, and (b) reducing the cost of funds even for those borrowers/investors of large companies who can directly finance their investments through commercial paper and corporate bond markets.[3]

Nevertheless, the use of low/NIR as a monetary policy vehicle (by the ECB and/or other European Central Banks[4]) has not avoided criticism, with opposing arguments being mostly linked to the possibility of excessive risk-taking by commercial banks, which might cause financial fragility[5]. More specifically, as banks' margins are squeezed due to low/NIR, they may start lending to riskier borrowers to maintain their profit levels. As a result, apart from boosting investment and strengthening aggregate demand, low/NIR policies may undermine financial stability and contribute to the build-up of asset price bubbles. Such potential risks require close monitoring and supervisory scrutiny by the corresponding monetary authorities.

Figure 26: The expected time for raising the ECB policy rates

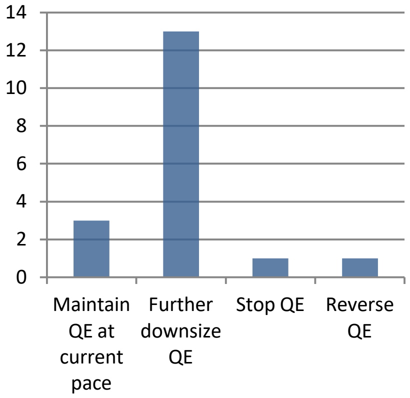


Source: AIECE Institutes (n=22).

In view of the above and given the positive growth outlook for the euro area, AIECE institutes were asked about the

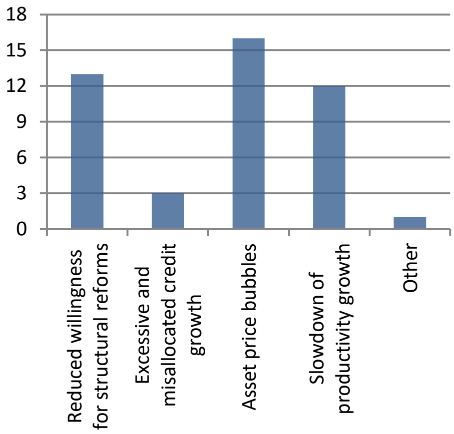
[3] See Viňals et al, 2016.
[4] For example, the Danmarks Nationalbank, the Sveriges Riksbank and the Central Bank of Hungary.
[5] See Palley, 2016; Heider et al., 2017.

Figure 27: Expected stance with respect to the ECB's QE programme



Source: AIECE Institutes (n=18).

Figure 28: The basic risks linked with the ECB`s net assets purchase program



Source: AIECE Institutes (n=21).

possible timing of a rise in ECB policy rates. The majority of respondents (15 out of 22 institutes) believe that policy rates will start increasing later that the 1st quarter of 2019, 6 institutes believe that the increase will be initiated in 1st quarter of 2019 and 1 institute suggests that interest rates will increase before September 2018.

Quantitative easing

The ECB's quantitative easing (QE) policy, implemented since 2015 though an APP covering purchases of private and public-sector securities from banks, has contributed towards raising the inflation rate and supporting the ongoing recovery of the euro area through the credit channel. With effect from January 2018 and up until September 2018, APP net purchases will run at a reduced monthly pace of €30 billion (from a previous pace of €60 billion per month). The ECB intends to continue carrying out asset purchases until the path of inflation is consistent with the target. In this framework, AIECE institutes were asked to express their opinion on what the future of the QE programme should be. The majority (13) of the AIECE institutes recommend that the pace of the QE should be further downsized, while 3 institutes suggest that the programme should maintain its current pace. In addition, 1 institute suggests that QE should be terminated and 1 institute recommends that it should be reversed.

Further to the downsizing of the APP from January 2018, AIECE institutes were asked to assess any remaining important risks for the euro area in relation to the programme. The majority of institutes (16) believe that there is still a risk of asset-price bubbles, 13 institutes perceive a risk of reduced willingness for structural reforms, 12 institutes point to a possible slowdown in productivity growth, while one institute traces a risk with respect to mispricing of risks and moral hazard.

4.2 Fiscal Policy

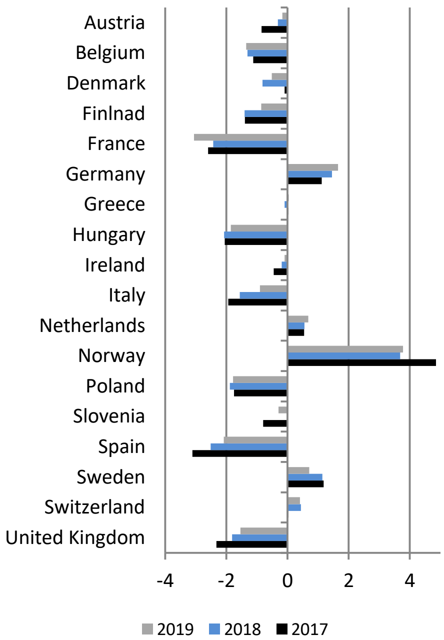
The fiscal policy stance is becoming more neutral throughout euro area countries

The effect of fiscal policy on output is one of the most controversial issues in modern macroeconomics. There is now growing awareness that fiscal policy transmission to the real economy depends crucially on the phase of the business cycle. In normal periods, the economy is mainly financed by the private sector and therefore the importance of public spending increases or tax cuts in raising aggregate demand remains low. However, during recession, fiscal policy might be an effective tool to increase output. Nevertheless, a number of euro area countries have recently pursued tight fiscal policy amidst the recession mainly as a sequent of the sovereign debt crisis. Fiscal consolidation in these countries received much criticism and its effectiveness was questioned due to their disappointing growth performance.

As most euro area countries are currently recovering, it is expected that automatic stabilizers will improve public finances without the need for further policy intervention. Furthermore, as incomes are improving, tax revenues increase and the eligibility for government benefits falls, leaving more space for a more neutral fiscal policy stance. Figure 29 shows that most AIECE economies, with the exception of Belgium, Denmark and Norway, will have an improvement in their fiscal position in 2018. Also, Germany, Netherlands, Norway, Slovenia, Sweden and Switzerland are expected to run a fiscal surplus.

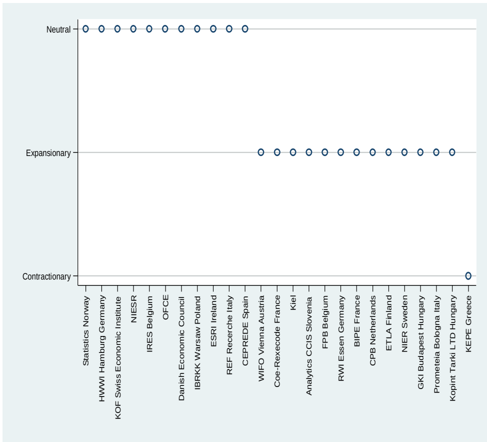
AIECE institutes were asked about their country's fiscal stance in 2018 and whether they find it appropriate. Furthermore, they were asked about the expected fiscal stance for 2019. Eleven (11) out of 25 institutes consider the fiscal policy stance in their country in 2018 to be neutral, 13 institutes find it expansionary, and the Greek institute reports a very contractionary stance. Eleven (11) institutes expect that fiscal policy in their country during 2019 will be neutral, 8 believe that it will remain expansionary and 6 of them expect that it will switch to contractionary. Regarding their assessment of the suitability of this stance, most institutes believe that it will be appropriate.

Figure 29: Net lending/borrowing % GDP



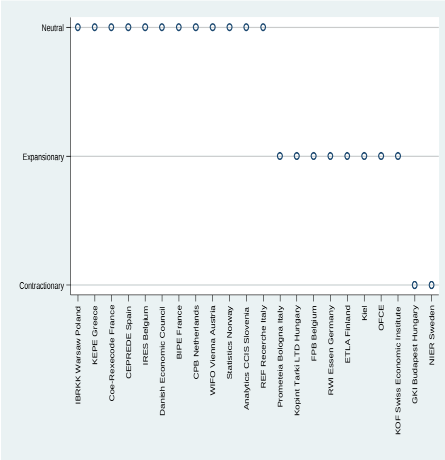
Source: IMF – WEO Database

Figure 30: Fiscal policy stance in AIECE countries during 2018



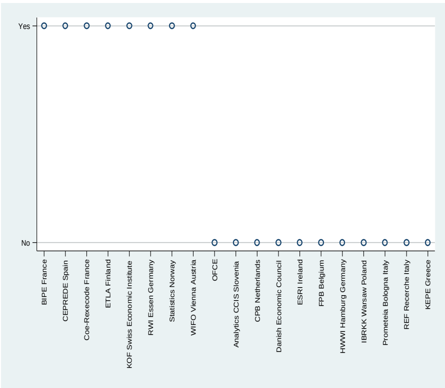
Source: All AIECE Institutes (no=25).

Figure 31: Fiscal policy stance in the Euro area during 2018



Source: AIECE Institutes

Figure 32: Does the current state of the social security system justify further policy action within the next two years?



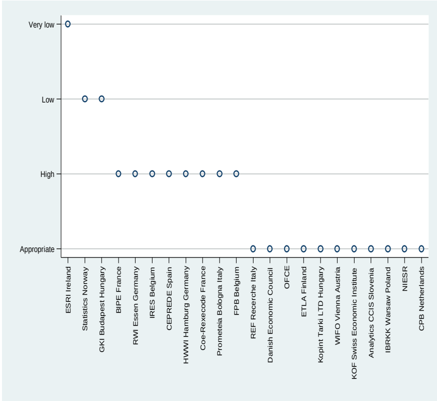
Source: AIECE Institutes

The majority of institutes believe that the euro area as a whole runs a neutral fiscal policy in 2018 (Figure 31), with a lower number of institutes assessing it as expansionary and two of them finding it contractionary. Most institutes believe that fiscal policy in the euro area will remain neutral in 2019, and assess this stance as being appropriate.

AIECE institutes were also asked whether the current state of the social security system in their country justifies further policy action within the next two years. Responses were balanced, as eight of them were positive while the remaining eleven were negative (Figure 32). With respect to the possible policy actions needed to restore sustainability, a number of institutes are either in favor of a reform of the social security system or of an increase in the retirement age. Specifically, Coe-Rexecode (France) answered that a reform in the retirement and social protection system is needed, BIPE (France) and CEPREDE (Spain) responded that a reform of the pension system is necessary, while ETLA (Finland) thinks that the government should proceed with a reform of the social security system. Three institutes (GKI-Hungary, KOF Swiss Economic Institute and WIFO-Austria) think that an option could be an increase in the retirement age, while RWI Essen Germany responded that the pension system should adapt to the challenges of demographic change through the increase of the participation rate and the extension of the working life. Other possible policy actions include: a VAT increase (KOF Swiss Economic Institute), a broadening of the tax base (GKI Budapest Hungary), a widening of the revenue base of the health fund (Kopint Tarki LTD Hungary), a fair revision of the retirement system which encourages to stay longer in work and it takes account of those who have been in hard physical work (Statistics Norway) and free dental care for certain vulnerable groups (Statistics Norway). NIESR answered that New Universal Credit is being phased in and there now exist a number of challenges.

AIECE institutes were asked to assess the appropriateness of current corporate tax rates in their countries, from the point of view of encouraging investment. Eleven (11) institutes consider corporate tax rates as being appropriate, while nine of them assess them as being high (Figure 33). However, 3 of them think they are low or very low. Overall, the majority of institutes would not recommend a reduction in corporate tax burdens within the next two years.

Figure 33: Appropriateness of corporate tax rates from the point of view of encouraging investment



Source: AIECE Institutes

Questions for discussion

1. In view of the expected rise in the ECB interest rates, do you think that fiscal policy of individual member states should change? To which direction?
2. Do you believe that a major public investment program should be imlemented by European Union authorities as a means to promote growth in more vulnerable countries?
3. What is your opinion about Mario Draghi's proposal for a government-backed fiscal tool designed to help weaker countries if they are being overly penalized by investors during a debt crisis.

5. Risks and Challenges for Europe

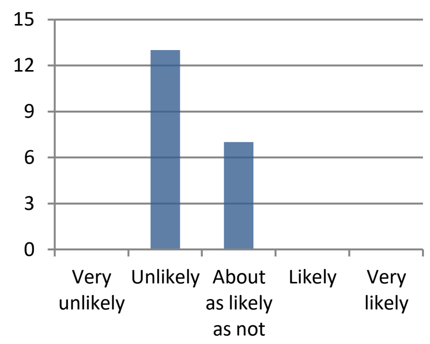
Downside risks to the outlook for Europe

The downside risks to the outlook for Europe seem to lie more on the external side. A significant number of AIECE institutes seem to be more wary of risks such as the rising protectionism (while not that much the rising populism), a stronger tightening of US monetary policy and sharp corrections in financial markets. In contrast, risks directly related to the European environment, such as domestic political tensions in certain EU countries or political disintegration of the EU are highly ranked only by a small number of the AIECE institutes. A rapid rise in commodity prices does not appear to constitute a major downside risk according to many AIECE institutes, while a higher than expected rise in energy prices is highly ranked by a limited number of institutes. Finally, opinions with regard to a hard BREXIT are more divided.

Brexit

With less than one year left to reach an agreement on the arrangements for the UK's withdrawal from the EU, uncertainty with respect to the outcome of Brexit negotiations remains high. Thus far an agreement has been reached with respect to citizens' rights, the financial settlement and a 21-month 'status quo' transition period until 31 December 2020. However, fundamental issues concerning the Irish border and the governance of the withdrawal agreement remain unresolved, while many challenges lay ahead with respect to key aspects of the future EU-UK relationship, including trade, labour mobility/immigration, and security and defence.

Figure 34: Possibility of no-deal Brexit
Number of answers



Source: All AIECE Institutes (n=20).

In the light of the above progress and given that in the framework of Brexit negotiations 'nothing is agreed until everything is agreed', AIECE institutes were asked to assess the possibility of a no-deal Brexit. The majority of respondents (13) assess a no-deal Brexit scenario as being unlikely, while a fair share of respondents (7) consider this scenario to be about as likely as not.

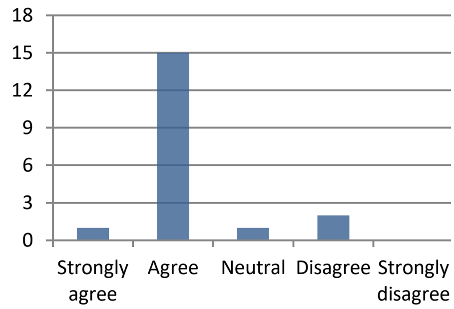
A no-deal Brexit scenario is clearly the one posing the greatest economic risks and challenges, including all possible negative implications from a return to tariffs under WTO rules. However, less extreme negotiation outcomes, also involve considerable uncertainties and costs. For example, with respect to the EU-UK future trade relationship, the plausible scenario of a free trade agreement without a customs union is expected to raise several frictions to trade, due for example to the introduction of non-tariff barriers and border checks, the consequent negative impact on value chains which are currently closely integrated, and the resulting negative impact on productive activities in the UK and the EU, particularly in sectors such as manufacturing, logistics, agriculture and food. Notably, individual EU countries are exposed to a different extent to these risks depending on their current productive structure and trading relationship with the UK. Therefore, challenges may also emerge with respect to the determination of the EU's position on the specifics of relevant arrangements.

Together with the imminent economic costs of a more distant relationship between the EU and the UK, other crucial issues emerge in view of global matters and the preservation of the historic alliance and close partnership of the UK and the EU. In this framework, AIECE institutes were asked whether in the light of global geopolitical tensions and increasing protectionism, the two sides should give ground in order to achieve a closer and deeper economic cooperation post Brexit. Furthermore, institutes were asked whether negotiations between the UK and the EU could lead to an acceleration in trade barriers and regulatory realignments, with potential adverse effects for investment and potential growth. With respect to the first question, most respondents (16 out of 19 institutes) were in agreement with the idea of giving ground to achieve a closer and deeper cooperation. Concerning the risk of an acceleration of trade barriers and regulatory realignments due to Brexit, respondents were divided in their perceptions.

Skilled labour mobility across EU Member-States: A factor contributing to economic efficiency or a source of divergence?

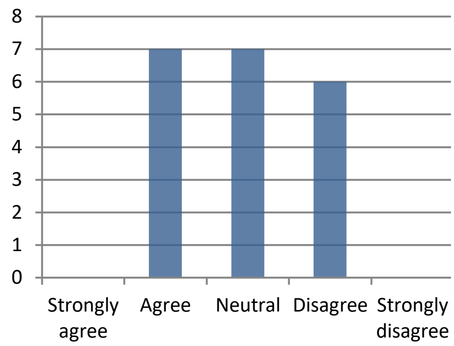
Given the economic asymmetries that prevail among EU Member-States, more and more highly-skilled workers migrate from the periphery and the east to the north and west of Europe. This flow of highly skilled labour from currently weak European economies to stronger ones has the potential to (a) balance demand and supply in national labour markets, (b) smoothen compensations of skilled workers across Europe, and (c) direct skilled and talented individuals to the most profitable occupations. At the same time, however, it might deprive the weaker economies of one valuable production factor thereby undermining their prospects to catch up with the stronger economies.

Figure 35: Should the UK and the EU give ground in order to achieve a closer and deeper economic co-operation post Brexit?
Number of answers



Source: All AIECE Institutes (n=19).

Figure 36: Could the EU-UK negotiations lead to an acceleration of trade barriers and regulatory realignments?
Number of answers



Source: All AIECE Institutes (n=20).

Five out of sixteen institutes that provided comments on this issue seem to acknowledge both the pros and the cons of highly-skilled labour mobility across EU Member-States. More than half of the institutes' answers were focused on the losses that '*human capital flight*' might bring to the weaker economies (e.g. lower potential growth, delays in catching up with the stronger economies, loss of competitiveness). Finally, two institutes mentioned that outward migration of talented individuals might be reversed in the future thereby helping the spillover of knowledge and technology from stronger to weaker economies.

Internal devaluation and the unbearable burden of being worker in EA Member-states with poor cost competitiveness

To improve their cost competitiveness and eliminate external imbalances, some deficit countries of the euro area have resorted to the policy of internal devaluation. Either explicitly or implicitly all institutes which commented on this issue seem to admit that internal devaluation is the only mechanism that has been left to members of a currency union to re-establish their cost competitiveness. At the same time, the majority of institutes seem to acknowledge that through internal devaluation, labour bears a disproportionally higher burden of the adjustment because it is the least mobile factor.

Against this background, eight institutes laid emphasis on the need for a fairer burden sharing between factors of production through tax reforms and further policy coordination between creditor and debtor countries.

Regarding the policy of competitive devaluation as a means to preserve or strengthen the competitive advantage in surplus Member States and the likely consequences of this policy on deficit Member States, institutes' answers suggest that this is a controversial issue. For example, while some institutes hold a skeptical stance over wage restraint policies in surplus countries, others believe that wage levels should be determined solely by domestic labour market conditions and not by external factors. Possibly, the wide spectrum of ideas on this issue reflects contrasting economic philosophies, traditions and schools of thought.

The risk of less inclusive growth

The AIECE institutes express their opinion as to the risk of less inclusive growth, since higher growth does not necessarily imply inclusiveness. Apart from mentioning that this issue constitutes an ideological question politicians must decide upon, some of the institutes recognize the real and significant risk of a growth process not equally shared and its effects not equally distributed to the benefit of all. They claim that the implemented structural reforms, especially in terms of taxation and social and public expenditure, lead to a rise in inequalities, this development being a trend alongside with globalization. It is argued that the risk of higher but less inclusive growth is already a descriptive feature in Europe, as real wages have stagnated at the same time that operating profits stand at a high level and capital owners have taken out high returns investing in asset and equity markets.

In order for the gains from economic progress to ensure improvements of living standards for all segments of society, the AIECE institutes suggest some general (and in only a few cases some more specific) directions and measures to be implemented. In addition, a number of AIECE institutes indicate the difficulty in finding a way forward to that matter, or even the impossibility of making the necessary political decisions on the fiscal side, as well as the fact that it does not seem to be high on the policy agenda in advanced economies or at the EU level.

More generally, according to the AIECE institutes, reforms should have social as well as economic targets. To encourage more inclusive growth there should, therefore, be a change in the current policy mix directly encouraging more fiscal and social spending on part of national governments in exchange for a less expansionary monetary policy stance (though, it is mentioned that current research based on UK data shows little evidence of a negative distributional effect of the monetary policy undertaken in the period 2008 to 2014, Bunn & al., 2007).

Other general suggestions refer to resorting to the European Semester to advise countries to provide suggestions on the most urgent reforms to be implemented. It is further indicated that policies are necessary that ensure equal opportunities (notably through professional training) and favour redistribution of wealth without deterring work and entrepreneurship. Emphasis is also put on adequate labour market policies to increase labour participation and employment as much as possible, reduce long-term unemployment (the latter being especially important if there is a large positive output gap which makes structural unemployment more visible), and policies to provide unemployment protection as well.

According to some of the more specific suggestions of the AIECE institutes, actions to ensure the promotion of policies enhancing more inclusive growth could include higher taxes on passive wealth (inheritance tax, real estate tax). In more specific terms, the example of the Strategy for Responsible Development is mentioned, which has been launched by the Polish government in 2016. One of its targets is to promote inclusive growth, first of all by social programs supporting low income households with many children, e.g. investments in social sphere, such as nurseries, kindergartens etc.

Finally, it should be said that not all institutes see a conflict arising between high and inclusive growth, on the basis of the argument that higher growth as a rule creates opportunities for workers that would have problems to get a job in a weak growth environment. At the same time it is indicated, that less inclusive growth can be seen as positive in some sense, while it is, still, stressed that it remains questionable whether this type of non-inclusive growth is maintainable in the long run, as it weakens the environment and social coherence, but also the consensus about the credibility of the democratic institutions.

Questions for discussion

1. How do you assess the risk of global trade levels not being sustained over the medium to long term, thus endangering the sustainability of high global growth levels?
2. On what issues do you believe that the EU and the UK should give ground in order to achieve deeper cooperation
3. Do you see any special opportunities for specific sectors in your home countries as a result of Brexit? To what extent could these compensate for the costs of Brexit?
4. Do you believe that European Union's policy measures regarding labour mobility should be complemented by measures to address the 'human capital flight' problem faced by weaker European economies?
5. Should euro area national governments try to coordinate their policies regarding wage setting?

Questions for discussion posed by AIECE institutes

- What measures should be taken in priority to reinforce the euro area?
- How likely is it that the euro area will hold together once the ECB's monetary policy has been normalized and interest rates have risen?
- The effect of a global trade war for the growth prospects in Europe and the World: what can history tell us?
- What could be the causes and consequences of a major downturn in international equity markets.

7. Appendix: Questionnaire

Country questions

2.1.1 Please choose the three most important factors expected to have a positive impact on GDP growth in 2018 and rank them from 1 to 3, where 1 is the most important *… Monetary policy / Fiscal policy / Lending conditions and market funding / Global output and trade / Business and consumers' sentiment/ Other*

If you included 'Other' as an option, please specify.

2.1.2 Which of the following GDP components are expected to be the most important drivers of GDP growth in 2018? Please choose three components and rank them from 1 to 3, where 1 is the most important *… Private consumption / Private investment / Public consumption / Public investment / Exports*

2.1.3 Please choose the three most important factors expected to have a positive impact on GDP growth in 2019 and rank them from 1 to 3, where 1 is the most important *… Monetary policy / Fiscal policy / Lending conditions and market funding / Global output and trade / Business and consumers' sentiment / Other*

If you included 'Other' as an option, please specify.

2.1.4 Which of the following GDP components are expected to be the most important drivers of GDP growth in 2019? Please choose three components and rank them from 1 to 3, where 1 is the most important *… Private consumption / Private investment / Public consumption / Public investment / Exports*

2.2.1 How do you evaluate investment expenditure in the light of your country's cyclical position? *… Very weak / Weak / Normal / Strong / Very strong*

2.2.2 What is the most important impediment to investment growth in your country, if any?

2.1.3 By historical and international norms, would you consider the household saving ratio in your country to be *… Very high / High / Normal / Low / Very low*

2.1.4 Do you expect an increase in your country's household saving ratio over the next two years? *… Yes / No*

If yes, please mention the main reasons.

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

2.3.2 What is the expected fiscal policy stance in your country during 2019? *... 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 In your opinion, does the current state of the social security system in your country justify further policy action within the next two years?

If yes, please mention possible policy actions.

2.3.5 From the point of view of encouraging investment, the current corporate tax rates in your country are: *… Very high / High / Appropriate / Low / Very low*

2.3.6 Taking into account your country's room for fiscal manoeuvring, would you recommend a reduction in corporate tax burdens within the next two years? *… Yes / No*

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

2.4.2 What is the expected monetary policy stance in your country during 2019? *… Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

2.4.3 From your country's perspective, the monetary policy environment is *… Too tight / More or less appropriate / Too loose*

2.5.1 Which of the following describes more accurately nominal wage dynamics in your country? *… Falling wages / Stagnant wages / Wage growth is weak / Wage growth is strong*

If you have selected one of the first three options, please choose 3 factors affecting wage dynamics and rank them from 1 to 3, where 1 denotes the factor with the highest influence *… Poor labour productivity growth / Low inflation rate / Weak economic activity / High unemployment rate/Implementation of internal devaluation policy / Decreased labour union participation / Loss of labour unions' wage negotiation power / Decentralization of negotiation processes*

If you have selected the fourth option, please choose 3 factors affecting wage dynamics and rank them from 1 to 3, where 1 denotes the factor with the highest influence *... High labour productivity growth / Strong economic expansion / Shortage of labour / Strong wage negotiation power on the part of labour unions*

2.5.2 Which is the most likely response of unemployed or low-paid but highly skilled workers in your country? Please select from the following list the three most likely responses and rank them accordingly, with 1 denoting the most likely response *… Continual search for better job opportunities in the domestic market / Acquire additional skills so as to adjust to the demands of the domestic labour market / Emigrate to stronger economies that offer better job opportunities / Abandon altogether any effort to improve their conditions*

2.5.3 In your opinion, which is the proportion of involuntary part-time work out of total part-time work? *… Below 20% / Between 20% and 40% / Between 40% and 60% / Between 60% and 80%/Above 80%*

2.6.1 Which of the following describes more accurately recent developments regarding economic inequality in your country? *… Economic inequality is falling/ Economic inequality has remained stable/ Economic inequality is rising*

2.6.2 Is the government in your country currently taking measures to reduce economic inequality? *... Yes/No*

2.6.3 Regarding poverty across generations which age group faces the highest risk of falling into poverty in your country? *… People aged between 18 and 24 / People aged between 25 and 54 / People aged between 55 and 64 / People aged over 65*

Euro area and EU questions

4.1.1 Please choose the three most important factors expected to have a positive impact on euro area GDP growth in 2018 and rank them from 1 to 3, where 1 is the most important *… Monetary policy / Fiscal policy / Lending conditions and market funding / Global output and trade / Business and consumers' sentiment / Other*

If you included 'Other' as an option, please specify.

4.1.2 Which of the following GDP components are expected to be the most important drivers of euro area GDP growth in 2018? Please choose three components and rank them from 1 to 3, where 1 is the most important *… Private consumption / Private investment / Public consumption / Public investment / Exports*

4.1.3 Please choose the three most important factors expected to have a positive impact on euro area GDP growth in 2019 and rank them from 1 to 3, where 1 is the most important *… Monetary policy / Fiscal policy / Lending conditions and market funding / Global output and trade / Business and consumers' sentiment / Other*

If you included 'Other' as an option, please specify.

4.1.4 Which of the following GDP components are expected to be the most important drivers of euro area GDP growth in 2019? Please choose three components and rank them from 1 to 3, where 1 is the most important *… Private consumption / Private investment / Public consumption / Public investment / Exports*

4.2.1 What is the aggregate fiscal policy stance in the euro area during 2018? *... Very contractionary / Contractionary / Neutral / Expansionary / Very expansionary*

4.2.2 What is the expected aggregate fiscal policy stance in the euro area during 2019?... *Very contractionary / Contractionary / 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 In your opinion, the ECB's Quantitative easing programme should: *… Maintain its current pace / Be further downsized/ Stop / Be reversed*

4.3.2 Further to the downsizing of the APP, do you still perceive important risks in any of the following areas?

Reduced willingness for structural reforms in Eurozone *... Yes/No*

Excessive and rather misallocated credit growth *... Yes/No*

Asset price bubbles *... Yes/No*

Slowdown of the productivity growth *... Yes/No*

Other *... Yes/No*

If you included 'Other' as an option, please specify.

4.3.3 When do you think most likely that the ECB will raise its policy rate? *… Before September 2018/ From September 2018 to the end of the year/ In the first quarter of 2019/ Later*

Risks and Challenges for Europe

6.1 What are the main downside risks to the projection for growth in Europe over the next two years? Please rank them according to their importance from 1 to 10, where 1 is the most important: … *A higher than expected rise in energy prices / Stronger tightening of US monetary policy / Geopolitical risks and armed conflicts / Rising protectionism / Rising populism / Rapid rise in commodity prices / Hard Brexit / Political disintegration of the EU / Sharp corrections in financial markets / Domestic political tensions in certain EU countries*

6.2 Given the progress on Brexit negotiations, what is your current assessment of the possibility of no-deal Brexit? *… Very unlikely/ Unlikely / About as likely as not / Likely / Very likely*

6.3 Could the negotiations between the EU and the UK lead to an acceleration in trade barriers and regulatory realignments, with potential adverse effects for investment and potential growth? *... Strongly agree / Agree / Neutral / Disagree / Strongly disagree*

6.4 In the light of growing global geopolitical tensions and increasing protectionism, should the two sides give ground in order to achieve a closer and deeper economic co-operation post Brexit? *... Strongly agree / Agree / Neutral / Disagree / Strongly disagree*

6.5 The flow of highly skilled labour from currently weak European economies to stronger ones (a) balances demand and supply in national labour markets, (b) smoothens compensations of skilled workers across Europe and, (c) directs skilled and talented individuals to the most profitable occupations. At the same time, it deprives the weaker economies of one valuable production factor thereby undermining their prospects to catch up with the stronger economies. Please discuss.

6.6 To improve cost competitiveness and eliminate external imbalances, some deficit countries of the euro area have resorted to internal devaluation. While this adjustment mechanism is supposed to exert a downward pressure on rewards of all factors of production, it seems that labour bears a disproportionally higher burden of the adjustment. Please discuss.

6.7 Competitive devaluation (i.e. suppressing wages through the market mechanism) on the part of euro area member-states with high wage and price flexibility might delay the improvement of cost-competitiveness of deficit member-states, thereby turning internal devaluation in the latter countries into an endless process. Please discuss.

6.8 How do you assess the risk of higher but less inclusive growth? What actions should be taken to ensure that the necessary structural reforms for more inclusive growth will be implemented? Please discuss.

8. References

Viňals, J., Gray, S. and Eckhold, K. (2016). “The Broader View: The Positive Effects of Negative Nominal Interest Rates”, IMF *Direct*, (April 10).

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