European Commission

Directorate-General for Economic and Financial Affairs

COMMISSION STAFF WORKING DOCUMENT

European Economic Forecast

Autumn 2010

CONTENTS

Overview		1
PART I:	Economic developments at the aggregated level	5
	1. The EU economy: a gradual and uneven recovery	7
	1.1. Recovery progressing	7
	1.2. Looking ahead	9
·	1.3. Uncertainty remains high	27
•	1.4. Economic challenges2. The impact of fiscal consolidation on Europe's economic outlook	28 31
	2.1. Introduction	31
	2.2. The required fiscal consolidation efforts in Member States	33
	2.3. Macroeconomic effects of higher debt	34
	2.4. The macro-economic impact of fiscal consolidations	37
	2.5. Conclusions	45
	3. Restoring growth potential in the EU: the role of product and	40
	labour market reforms	48
	3.1. Introduction3.2. Growth prospects in the eu in the short to medium run	48
	3.2. Growth prospects in the eu in the short to medium run3.3. The impact of reforms on growth: How much and when can they deliver?	49 51
	3.4. Conclusions	59
PART II:	Prospects by individual economy	61
	Member States	63
	 Belgium: Gradual recovery in an uncertain environment Bulgaria: Growth drivers reverse but external imbalances keep unwinding 	64 67
	3. The Czech Republic: Gradual recovery alongside consolidation effort 1. The Czech Republic: Gradual recovery alongside consolidation effort 2. The Czech Republic: Gradual recovery alongside consolidation effort	70
	4. Denmark: Domestic demand drives the recovery	· 73
	5. Germany: Rebalancing under way as the upswing keeps	
	momentum	76
,	6. Estonia: Post-crisis acceleration of growth	80
	7. Ireland: Painful but necessary adjustment to facilitate gradual	
	recovery	83
	Greece: Rebalancing growth amidst ongoing fiscal consolidation	87
	Spain: Prospects for a slow recovery while external imbalances	07
	recede	90
	10. France: Consolidation to start in earnest	94
	11. Italy: Back to moderate growth	98
•	12. Cyprus: Economic recovery constrained by domestic and	100
	external imbalances	102 105
	13. Latvia: Export driven recovery gains momentum14. Lithuania: Recovery gathers momentum and becomes broad	105
	based	108
	15. Luxembourg: Strong rebound but future prospects remain	.00
	exceptionally uncertain	111
	16. Hungary: Recovery firming up, yet fiscal challenges remain	113

18. 19.	Malta: A stronger than expected recovery The Netherlands: A slow-paced recovery sets in Austria: Steady recovery facilitating fiscal consolidation Poland: Restrained rebound turns into solid, domestic-demand	11 <i>6</i> 119 122
	driven recovery Portugal: Fiscal consolidation and private sector deleveraging Romania: Economy not out of the woods yet	126 129 132
	Slovenia: An export-driven recovery held back by low investment Slovakia: An externally-driven recovery	135 138
25.	Finland: Strong domestic demand boosting recovery Sweden: Broad-based recovery helps to bring public finances	141
	back to surplus	144
27.	The United Kingdom: External demand and private investment to support recovery	147
Cai	ndidate Countries	151
	Croatia: Recovery in the offing after two years of recession The former Yugoslav Republic of Macedonia: From a mild	152
	recession to a modest recovery	155
	Iceland: Domestic debt overhang impedes economic recovery Turkey: Robust growth driven by domestic demand	157 160
Oth	er non-EU Countries	163
33.	The United States of America: A return to a new normal? Japan: Weak growth ahead China: World locomotive powering ahead	164 167 170
35.	EFTA: Faring well	173
36.	Russian Federation: Below pre-crisis growth	177

183