June 29, 2015

Sovereign report: GERMANY

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Scope considers Germany one of the strongest sovereign debt issuers in Europe and worldwide. At the same time its demographic profile displays structural challenges which may burden its competitiveness, economic growth and public finances in the long term. In our view the federal and state governments seem to act and plan in recognition of this challenge in pursuit of a balanced budget and debt reduction. While the debt reduction policy should strengthen Germany's individual credit stance, it could be less beneficial for the eurozone as Germany becomes an increasingly reluctant saviour – whether through providing a domestic stimulus or support to fellow members states. This in turn might backfire on its own highly open economy which remains strongly linked to other euro area countries.

This report is not a basis for a credit rating of Germany. Scope Ratings has stated publicly it does not plan to assign public ratings to sovereigns. However, we deem an analysis of a country's credit fundamentals relevant to our rating assessments of different asset classes.

Credit strengths

- Germany is one of the largest and wealthiest economies in the world with a diversified economy as well as strong and effective institutions.
- It has a moderate debt level compared to euro area peers and a track record of prudent fiscal policy aimed at further debt reduction.
- The country is a net external creditor with a highly competitive manufacturing sector.
- Germany is a primary benchmark issuer for the euro area benefiting from an exceptionally low cost of funding.

Credit weaknesses

- Germany's declining and aging population trend is the most acute in the euro area.
- The country's demographic profile means low structural economic growth the one hand and pushes up age related budget expenditure on the other, making the task of balancing future budgets very challenging.
- Germany's international competitiveness could be undermined by its tight labour market arising from its demographic profile.
- Germany's open export driven economy is vulnerable to further weakness in the immediate region as well as to geopolitical disruption elsewhere.

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Macroeconomic outlook: favourable economic conditions facilitate growth, but could be short-lived

Following GDP expansion at 1.6% in 2014, we expect Germany's economy to grow at 1.5% in 2015 and 1.6% 2016. Beyond 2017 it is likely to fluctuate between 1.5-1.7% (table1).

Table 1 : Germany: selected economic indicators

	2009	2010	2011	2012	2013	2014	2015f	2016f
Real GDP growth, %	-5.6	3.9	3.7	0.6	0.2	1.6	1.5	1.6
Nominal GDP (EURbn)	2,455	2,570	2,695	2,751	2,814	2,908	3,002	3,089
Nominal GDP (USDbn)	3,446.9	3,384.5	3,698.9	3,579.8	3,732.7	3,783.4	3,380.9	3,478.5
GDP per capita (USD)	42,035	41,374	45,245	43,739	45,510	46,896	41,890	43,094
Population (year-end, m)	82.0	81.8	81.8	81.8	82.0	80.7	80.7	80.7
C/A balance, % GDP	5.8	5.7	6.1	7.1	6.7	7.6	7.8	7.6
Inflation, annual ave, %	0.2	1.2	2.5	2.1	1.6	0.8	0.5	1.6
Govt balance, % GDP	-3.0	-4.1	-0.9	0.1	0.1	0.7	0.6	0.5
GG gross budgetary debt, % GDP	72.4	80.4	77.8	79.2	77.0	74.6	71.7	69.2
Unemployment %	7.7	6.9	5.9	5.4	5.3	5.0	4.8	4.6

Source: Eurostat, IMF, Scope calculations

Unlike 2010-2012, when the net exports element was the main driver, we expect private consumption to take the lead, thus continuing the trend started in 2014. Strong private consumption should be supported by good employment prospects and low unemployment (both pushing up earnings), with low interest rates and low energy prices boosting real households' disposable income and cutting costs for business.

Euro depreciation should have a limited positive impact on net exports due to a high import component in Germany's exports. The public sector's contribution is set to be almost neutral due to the 'debt brake' policy aimed at establishing a balanced federal budget by 2016 and balanced regional budgets by 2020.

Inflation is likely to pick up to 1.6% in 2016 after a dip in 2015 due to a gradual increase in oil prices, a significant proportion of expensive alternative energy in the country's energy production and euro depreciation. The current account surplus should remain above 7.5% in 2015-2016 but then decline.

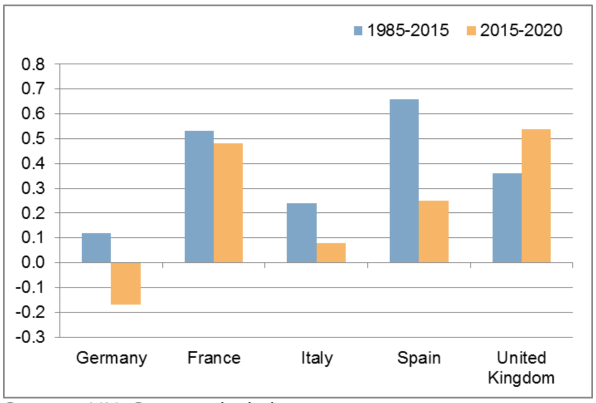
Favourable factors supporting growth could be short-lived. According to the IMF[1], oil prices should rise gradually from USD58 a barrel in 2015 to USD66 a barrel in 2016. As for the ECB's asset purchase programme launched in March 2015 – which has significantly pushed down the cost of EU sovereign debt as well as contributing to euro depreciation – could be tapered by 2017. If and when temporary factors ease off, Germany's GDP growth and public finance balances could fall under the influence of structural factors, especially its demographic profile.

Germany's demographics are a key factor shaping the country's economic outlook and public finance

In the last 30 years, Germany's population grew at the slowest rate among euro area peers (table 2). As a result, its median age was the highest, at 46.3 years (table 3). Gradual aging has occurred in spite of one of the highest immigration rates among major euro area countries (table 4) indicating a worsening of the negative natural growth rate. In the next five years the negative natural growth rate is likely to intensify, whereas the immigration rate will remain positive, but slow down reflecting stricter immigration policies, according to the UN Population Forecast. These trends will accelerate population decline. Indeed, in the medium- to long-term UN Population Forecast suggests that in 35 years the total population in Germany will be almost 10% less and in 55 years it will decrease by almost 18% (table5).

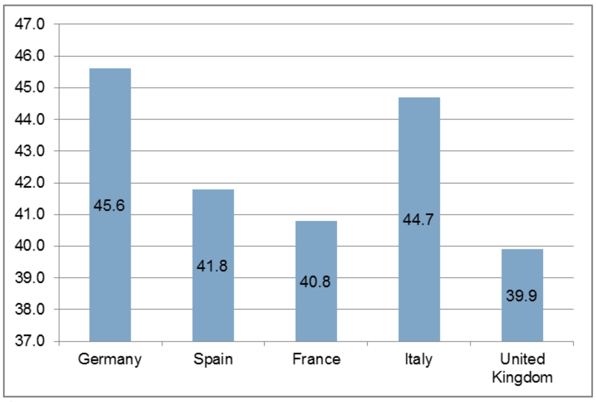
[1] World Economic Outlook, April 2015.

Table 2: Average annual population growth, %



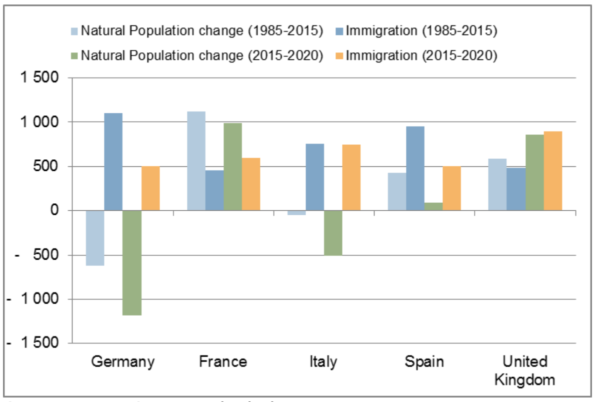
Source : UN, Scope calculations

Table 3 : Median age of population in 2014



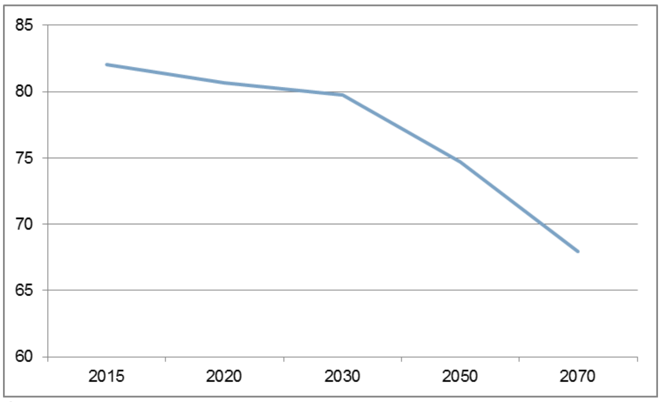
Source : Eurostat

Table 4 : Avg annual natural growth and immigration, td



Source : UN, Scope calculations

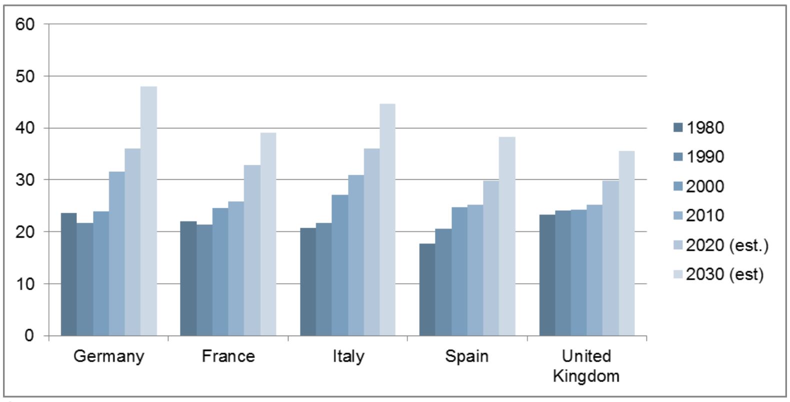
Table 5 : UN forecast: total pop. growth in Germany, m



Source : Eurostat

Population decline will be accompanied by aging, triggering significant shifts. The most important is the decline of the labour force and the rise in the number of pensioners – in both absolute and relative terms as a share in the total population. In 2010 one pensioner was supported by roughly two persons of working age, in 2040 this ratio will be almost one to one (table 6). By the old-age dependency ratio, which compares population aged above 65 years and population between 15 and 64 years, Germany leads other euro area major countries, at least until 2030.

Table 6 : Old age dependency ratio (65+), %

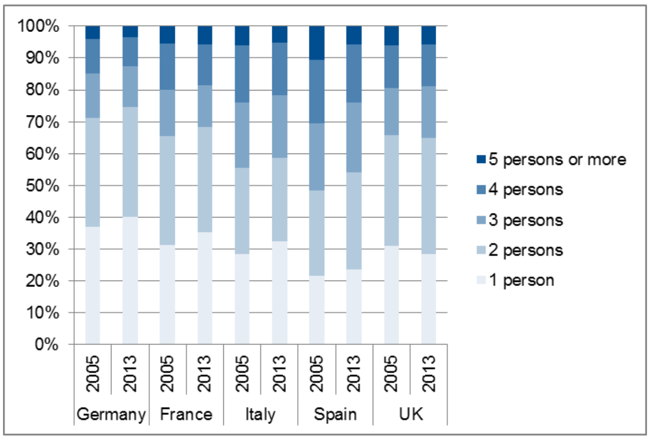


Source : UN

Another remarkable feature of German demographics is a significant share of small size families and families without children. In 2013 almost 77% of German households were one or two-member households compared to France with 69% or Spain's 57%

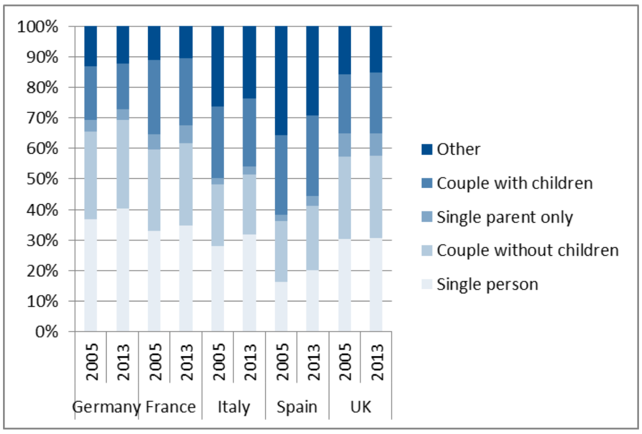
(table 7). About 69% of households represented families without children vs 62% in France and 41% in Spain (table 8). Finally, the portion of the older age group (over 80 years old) in the total population is getting bigger as standards of living and health care increase (table 9).

Table 7 : Breakdown of households by size, % of total households



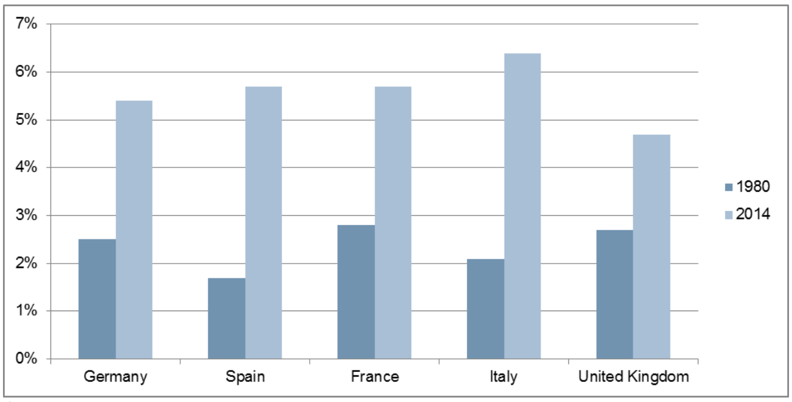
Source : Eurostat

Table 8 : Breakdown of households by type, % of total households



Source : Eurostat

Table 9 : Proportion of population aged 80 years and more, % of total population



Source : Eurostat

There are important demographic implications on Germany's economic outlook and public finance.

i. Increasing labour force shortages constrain potential economic growth. To maintain the current GDP growth rate - has been around 1.1% on average since 2001 - the country has to invest more to accelerate labour productivity. So far the proportion of investment in GDP has been fairly static, indicating investment has been growing in line with GDP growth.

ii. Germany's current account surplus is likely to diminish:

   a. the shrinking labour force has already put upward pressure on wages and salaries, undermining Germany's cost competitiveness advantage and therefore contributing to slow down in the country's exports growth rate – this is set to exacerbate;

   b. the increase in the number and proportion of pensioners should lead to a deterioration of the county's savings ratio (as the drawdown of savings at some point will exceed new savings) and thus to a narrowing of its high current account surplus.

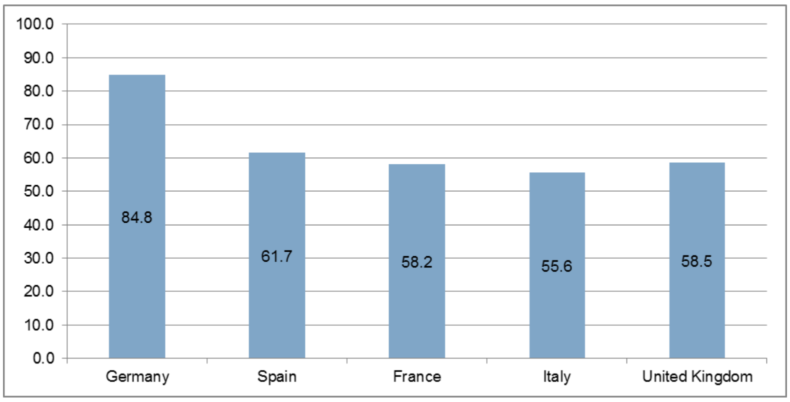
iii. A slower GDP growth rate on one hand and rising public old-age related expenditures on the other could eventually cause a deterioration of government budget balances and push up the stock of public debt.

Germany's export-oriented economy is diversified but also prone to volatility as a consequence...

At almost EUR 35,000[2] German GDP per capita in 2014 was 18% higher than the Euro 19 average. The country's economy accounts for almost 28% of euro area countries' output, which makes it the biggest economy in the monetary union and the fourth in the world.

Germany's economy is well diversified though tilted to industrial production rather than services. German manufacturing encapsulates a significant proportion of export oriented industries and activities[3]. Openness of the economy distinguishes it from other major economies in the Euro area. In 2014 the share of exports and imports of GDP stood at 84% compared to 58% in France or 55% in Italy (table10).

Table 10 : Openness of the economy in 2014 (exports & imports relative to GDP), %



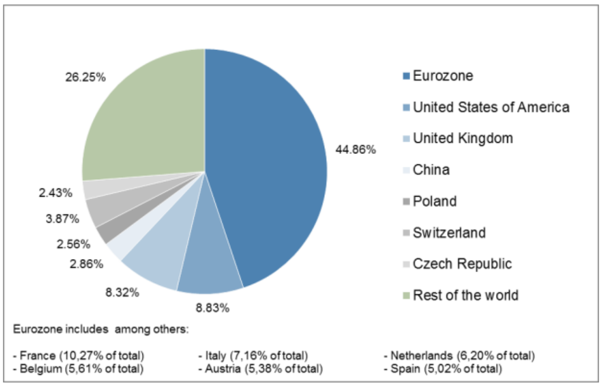
Source : IMF, Eurostat, Scope calculations

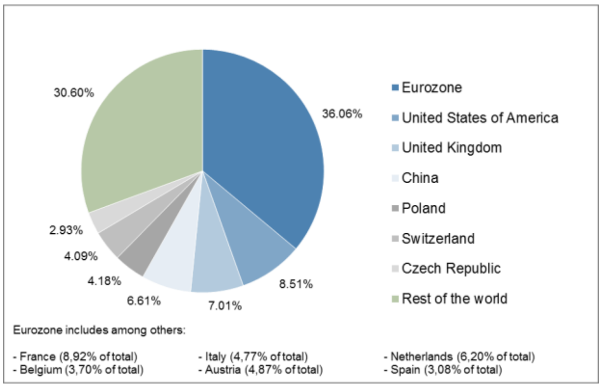
This high level of openness means that the German economy benefits more than other countries from an uptick in global trade but is much more vulnerable in a downturn. In 2009 – a crisis year – the 5.6% GDP contraction was induced by an 18% slump in exports.

It makes the economy susceptible to concerns about the viability and durability of the Euro area monetary union and to geopolitical risks. Almost one third of German exports go to euro area countries; other single largest markets are the US, UK, China, Poland, the Czech Republic and Switzerland (table11). Although dependence on slower growing euro area countries diminished in the last 10 years and faster growing non-euro area markets increased, the share of the euro area remains high. Elsewhere, the importance of non-Euro CEE economies collectively as export destinations means a degree of susceptibility to the current Russia-Ukraine stand-off, while the weight of China in exports could lead to a set-back, should the current South China Sea or North Korea related disputes escalate. Overall, susceptibility to political risks strongly affects Germany's investment growth rate. The strong correlation between growth in exports and investments in German economy was highlighted by the EC[4] in its report on Germany.

[2] In 2014 at market prices.
[3] According to EC, the manufacturing sector has accounted for 80% of average of annual value of total German's exports since the early 2000s. Country Report Germany 2015, including an in-depth review on the prevention and correction of macroeconomic imbalances. Brussels, 18 March 2015.
[4] The same source.

Table 11 : Germany's export markets in 2004 (left chart) vs 2014 (right chart)



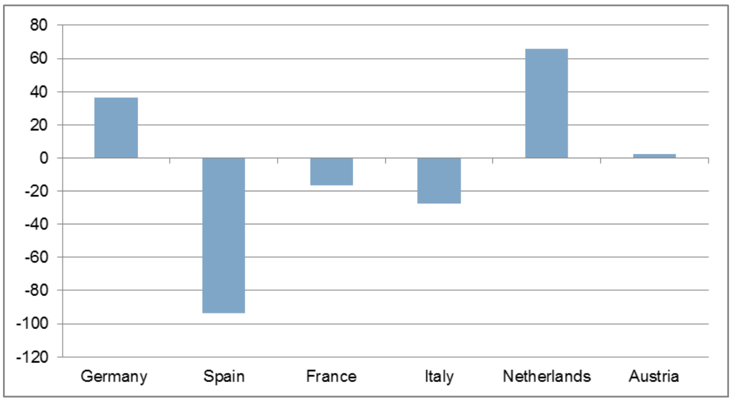


Source: International Trade Centre, Scope calculations

... However, external vulnerability risk is low

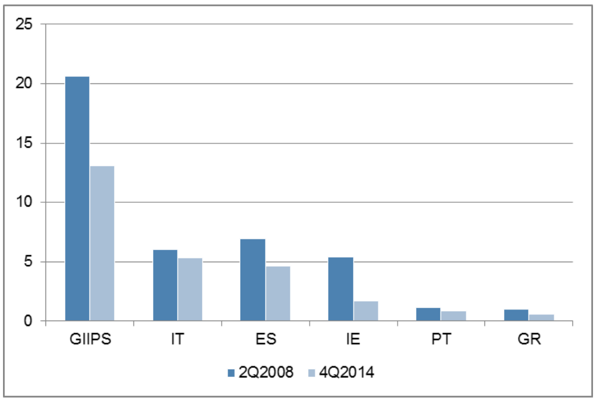
External risks – in terms of capital account vulnerabilities – are low given the country's positive net international investment position. This stood at 36% of GDP at end-2014. Germany is one of the few net external creditors in the euro area (table12). As a net creditor Germany is immune from sudden disruptions to external credit flow, but is exposed to potential deterioration of its foreign assets. For instance, its banking sector's assets are exposed to weaker euro area countries, whose current recovery is constrained by deleveraging (table13). Though this exposure is less than it was pre-crisis, it has eased rather than disappeared due to favourable economic conditions and the ECB's ultra-accommodative monetary policy.

Table 12 : Net international investment position in 2014, % of GDP



Source : Eurostat

Table 13 : German banks' claims on euro area periphery economies, % of total claims

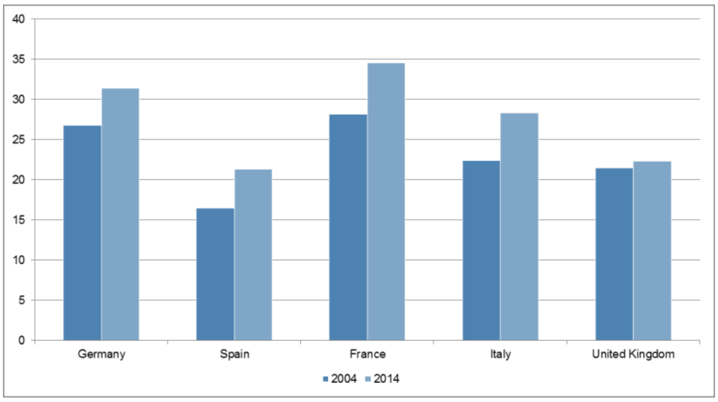


Source : Bank of International Settlements

Germany's cost competitiveness remains strong but has started to erode

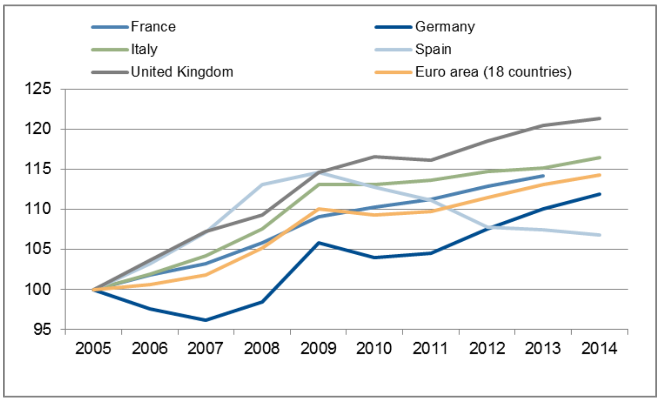
In spite of having one of the highest private-sector labour costs, Germany stands out among major euro area economies in the efficient use of its labour (tables 14). Relative unit labour cost (ULC), which measures the average labour cost per unit output and represents one of the key characteristics of a county's cost competiveness, was the lowest among major euro area countries until 2012. It had been the lowest for almost a decade until it was challenged by Spain, which has gone through drastic internal devaluation process in post-crisis years (table15).

Table 14 : Total hourly labour costs, EUR



Source : Eurostat

Table 15 : Average cost of labour per unit of output, 2005=100



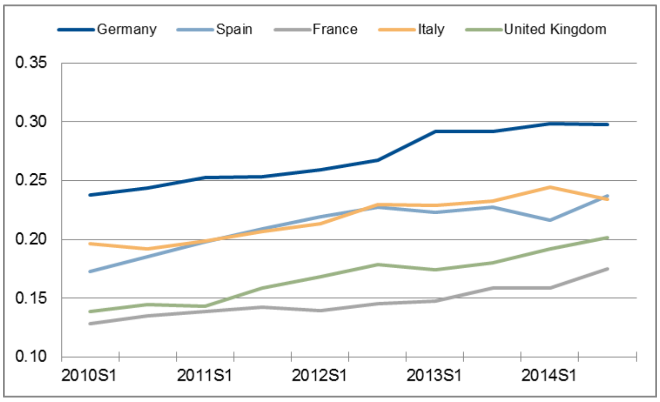
Source : OECD

Since 2012, the gap with other countries started to narrow due to significant wage growth– a rise not accompanied by a boost in productivity. In 2014, Germany's employees saw almost a 3% rise in wages, enjoying the highest collectively bargained wage growth since 1993. The introduction of a minimum wage in 2015 aimed at tackling in-work poverty and income inequality has pushed wages up again.

Historically low and falling levels of unemployment (5% in 2014) as well as the growing number of job vacancies give reason to believe that a further rise of negotiated wages in 2015 is coming. As elaborated on earlier, we attribute this trend to the significant demographic challenges the German economy is facing and think that rising labour costs trend is likely to continue. It should be noted, however, that rising domestic labour costs could be mitigated by Germany's further integration into global value chains. This has allowed companies to cut costs of production by using cheap labour and resources outside the country. However, further outsourcing could increase Germany's exposure to geopolitical risks and amplify its volatility.

It is worth emphasising that labour costs is not the only driver of the expected loss of export competitiveness. Energy costs for German households and companies is one of the highest compared to its euro area peers, if taxes are included (table 16). The additional energy costs arise from energy policies favouring renewables and decommissioning nuclear energy.

Table 16 : Cost of energy for households, incl. taxes, EUR per KWh



Source : Eurostat

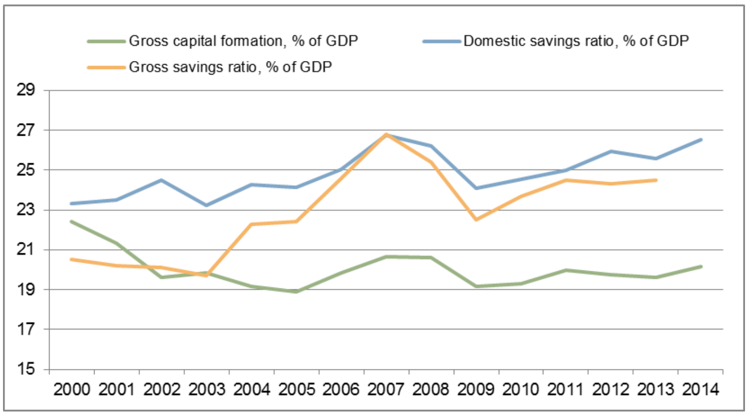
Germany's high current account surplus is likely to diminish in future

Germany's net creditor position is largely a result of current account (CA) surpluses accumulated since 2002. At end 2014, the Germany's current account surplus was a historically high 7.6% of GDP, compared to only 1.9% in 2002. The country's high CA surplus derives from highly competitive goods exports (mostly manufacturing and chemical industries), with investment revenue of the private sector outpacing non-residents' income in Germany due to very low domestic interest rates and low prices for energy, 60%[5] of which is imported. Export growth goes hand in hand with import expansion due to a high proportion of import components in the country's final export goods. As explained earlier, we expect Germany's high current account to shrink due to demographic changes in the country in future.

A high level of savings has not translated into increasing investment in the economy

Germany's savings ratio is high and exceeds the eurozone average. This should normally mean that resources available for investment are ample for future growth. At the same time a significant and rising portion of these savings is channelled abroad or invested outside the private corporate sector[6], keeping the investment element in Germany's GDP fairly constant. Given Germany's demographic challenges, a constant share of investment may not be enough to maintain the current level of output, let alone its increase (table 17).

Table 17 : Savings vs investments, % of GDP



Source : Eurostat, Scope calculations

Though house prices are rising, there is no sign of a bubble

Despite low interest rates and increased demand for mortgages there is no evidence of a housing bubble in Germany.

Between 2004 and 2013 house prices went up by almost 10% in Germany and 35% in the seven largest cities[7]. Taking into account low interest rates, rising households' earnings and still relatively cheap residential property, we believe house prices could rise further. However further potential appreciation could be limited by the country's demography. An increasing share of small-sized households and households without children means a rising proportion of the population with little incentive to buy. Moreover, bubble development typically requires a combination of rising prices and deterioration of lending standards, which is not currently the case in Germany[8].

Germany has strong institutions conducive to growth and a rock-solid reputation in honouring debt obligations

Germany's strong institutions facilitate economic growth. For the last 10 years (since 2003) Germany occupied the highest percentile among 189 countries on the rule of law, control of corruption and government effectiveness, components of the World Bank World Governance Indicators ranking.

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[5] EU energy in figures, statistical pocketbook, 2014
[6] Country Report Germany 2015, including an In-depth review on the prevention and correction of macroeconomic imbalances, p.32, Brussels, 18 March 2015
[7] See Bundesbank
[8] Bundesbank recent lending survey indicates that demand for mortgages has been rising and expected to rise further but credit standards have not been loosened and loan-to-value and loan-to-cost ratios have increased only marginally over the past quarters, Germany: selected issues, Recent housing market developments, IMF, June 2014, p.41.

Since World War Two Germany has demonstrated a very strong willingness and commitment to honour its obligations in full and on time.

Germany is a member of the EU Monetary Union, whose policy towards price stability undertaken by the ECB has been efficient and credible. This is demonstrated by very low inflation volatility over the last 10 years in Germany and the CPI rate rebound from the deflationary level in 2015 triggered by the ECB's very accommodative policy.

Adherence to balanced budgets is strong…

Fiscal/calendar year 2014 was exceptionally good for German public finances: all government levels (federal, state, local budgets and the Social Security Fund) posted a surplus, which amounted to 0.6% of GDP combined, the first time since German unification. The lowest surplus at 0.1% of GDP has been realised by the state (Länder) budgets (first time since 2007), whereas the federal budget achieved 0.4% of GDP (first since 2000). Local governments as well as the Social Security Fund have been posting surpluses for a number of years. The budget surplus allowed the German government to continue reducing its public debt, which had fallen to 74.7% to GDP from 80% in 2010 by end 2014.

The German government is strongly committed to reduce its debt further to comply with the Maastricht criteria of 60% of GDP. According to the April 2015 Stability Programme, the government forecasts 0-0.5% budget surpluses in 2015-2019, which should allow it to bring down debt-to-GDP ratio to 61.5% by the end of 2019.

To achieve this, the programme does not entail revenue-increasing or expenditure- saving measures. It relies heavily on re-balancing the general government expenditure. It envisages certain increase in age-related expenditure (healthcare, first of all), which is offset by a reduction in unemployment and child benefits, education and childcare. Also, a significant decrease in interest payments is to be offset by an increase in investment programme in the region of EUR15bn to finance public transportation, efforts to increase energy efficiency and infrastructure at the municipal level. Indeed, thanks to the decreasing cost of government debt, Germany managed to save around EUR5bn in 2014 compared to 2013.

In coming years, the enforcement of the balanced budget at all government levels will be ensured by a balanced–budget rule stipulated in the federal constitution as well as in constitutions or budget laws of the majority of the state governments[9]. The balanced-budget rule (the 'debt brake' principle) stipulates that structural budget deficit[10] of the federal government is restricted to a maximum of 0.35% of GDP as of 2016, while the structural budget balances of the federal state governments has to be balanced by 2020. While the federal government lays out specific implementation rules for the federal budget, the federal states have to lay those rules themselves. Existing rules do not allow the Social Security Fund to raise debt on its own, while local governments can only borrow for investment purposes, which limits accumulation of their historically low debt.

…but the demographic challenge could trigger its deterioration in future

Debt reduction efforts rely strongly on favourable economic and demographic conditions, which may change after 2019 or even earlier. Their absence could reverse Germany's public debt's downward trajectory. These conditions include:

i) exceptionally low interest payments stemming from the accommodative monetary policy of the ECB and its QE programme;
ii) reliance on above the potential GDP growth level, which implies cyclically high revenues and lower expenditures, especially in the first two years of the programme;
iii) reliance on a jump in the women's labour participation rate from 73.9% in 2010 to 78-79% by 2020;
iv) a drop in a number of retirees in the coming years as post-war generation associated with low birth rates enters the pension system.

Beyond the general warnings by the IMF on the non-recurrence of one-off factors boosting GDP – as discussed earlier – there are key concerns on some of these assumptions. Point (iii) on a higher participation rate by woman may be unrealistic as: a) the joint taxation of income for married couples and free health insurance coverage for non-working spouses has remained intact

[9] According to the EC, Berlin, Brandenburg, North Rhine-Westphalia and Saarland have not adopted balanced-budget rules in their legislation. p.59 Country report Germany 2015, Brussels 18 March 2015.

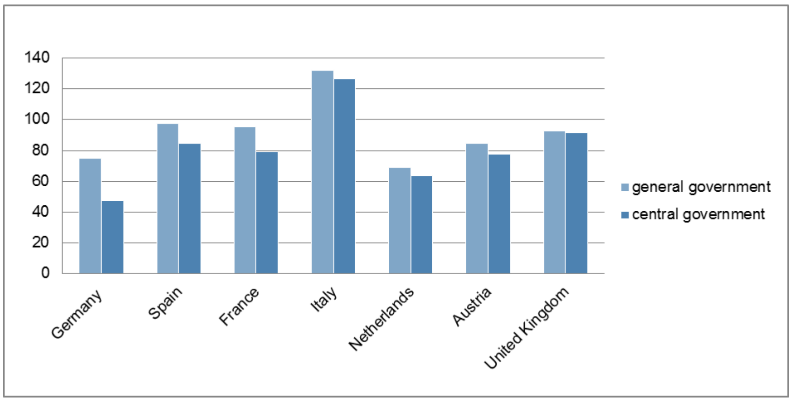
[10] Structural budget balance is determined by the actual budget balance, which is adjusted by cyclical effects, for instance automatic stabilisers during the economic downturn – unemployment benefits – and one-off effects, for instance, transfer of a central bank's profits to the central government budget.

discouraging second earners from taking a job; and b) is counter-intuitive given the reduction in childcare expenditures in the budget. Regarding point (iv) the projected tailing off in new retiree numbers, this may also be unrealistic as beyond 2020, 'baby boomers' will start retiring putting much more pressure on the pension system.

Germany's debt burden is moderate and its refinancing needs are low

At 74.7% of GDP Germany has the least indebted public sector among the major euro area economies (the Netherlands is an exception) (table 18). Public debt is mostly concentrated at the federal government (64% of the total public debt at 2014-end) with state governments accounting for almost a third of the total. The bulk of the German general government indebtedness is in the form of market debt (debt securities accounting for 73% of the total) with the rest made up of loans.

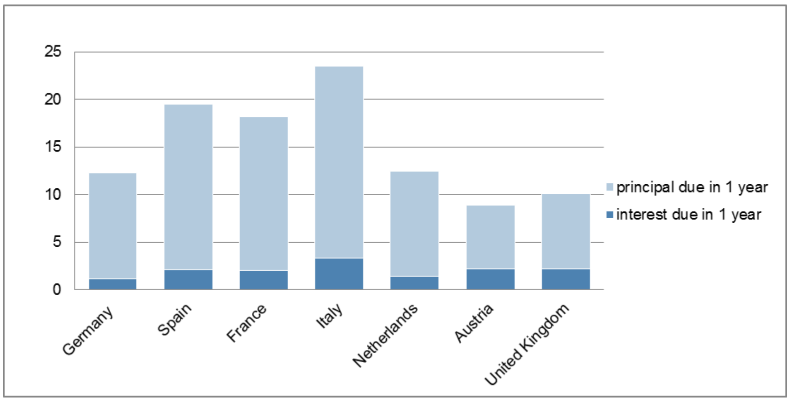
Table 18 : Debt of general and central governments, end 2014, % of GDP



Source : Eurostat

Though a significant share of general government debt is held by non-residents (about 66% by the end of the Q3 2014) exposing it to market sentiment, the government's refinancing needs are low. Combined debt securities interest and principal payment due in 2015 account for 12% of GDP, the lowest among the major euro area economies reflecting a significant proportion of long-term debt in the country's debt portfolio (75% at end 2014) (table 19).

Table 19 : Market debt refinancing needs of general governments for 2015, % GDP



Source : ECB

Interest payments have been falling over the last years and stood at 3.9% of budget revenue by the end of 2014 indicating high debt affordability. Since March 2015 interest payments are on a downward trend again triggered by the ECB QE programme.

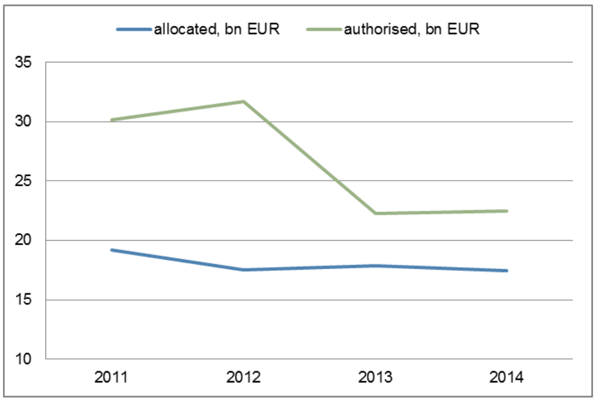
Contingent-liability risk is manageable and likely to stay contained

Germany's contingent liabilities could be divided into three categories.

1. Long standing guarantee facilities regularly replenished by the finance ministry;
2. Contingent liabilities associated with EU rescue facilities set up to support weaker euro area countries hit by the sovereign crisis in 2009-2012; and
3. Contingent liabilities associated with the domestic banking system, which had particularly expanded as a result of the global financial crisis

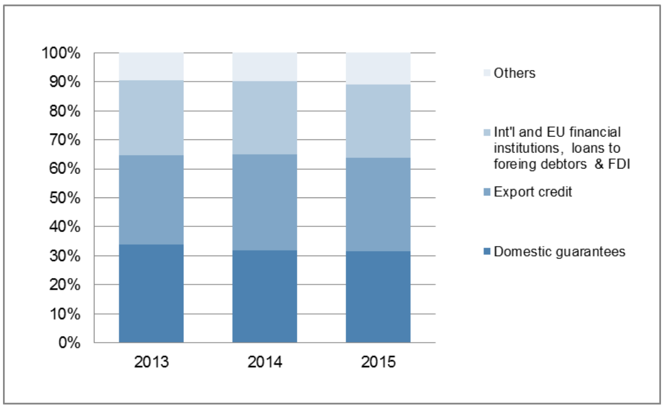
By end 2014 contingent liabilities in the first group made up 22% of GDP, if accounted for as a maximum authorised amount, or 17%, if accounted for as an actual use. This is manageable given quite stable actually used amount of guarantees since 2010 (table 20). The bulk of guarantees are issued to exporters and local entities operating in transport, agriculture and other industries (table 21). The second biggest portion of such guarantees is associated with the German share in EU and international financial institutions like European Investment bank (EIB), European Investment Fund (EIF), the World Bank, the European Bank for Reconstruction and Development (EBRD) and others.

Table 20 : Central government guarantees, % of GDP



Source : Germany Ministry of Finance, Scope calculations

Table 21 : Composition of central government guarantees



Source : German Ministry of Finance

The second group includes Germany's guarantees and callable capital in the European Financial Stability Facility (EFSF), European Stability Mechanism (ESM) and European Financial Stability Mechanism (EFSM). The main risk that could arise from Germany's participation in these rescue facilities is associated with a Greek default and exit.

Materialisation of direct contingent liabilities related to a Greek exit is manageable for Germany. However, its potential knock-on effect on countries like Spain and Italy, could pose more risk given the magnitude of their refinancing needs, should it lead to their inability to refinance their debt on the private capital market. The Greek government accounts for almost 75% the EFSF's disbursed amount of debt leaving the EFSF's other borrowers – Ireland (10%) and Portugal (15%) far behind. Germany's total exposure in case of the Greek default could be around 2% of GDP taking into account the German size of the irrevocable and unconditional guarantee[11] towards the EFSF debt and the Greek outstanding debt of EUR130.9bn[12]. It should be noted that the guarantee associated with Greek default is unlikely to be called earlier than 2023, the year of the first principal payment. Since July 2013 the EFSF cannot take part in any new country programmes, as its role was taken over by the ESM, an EU permanent rescue and stability mechanism.

The ESM, where Germany's callable capital amounts to EUR168.3bn, does not have any exposure to Greece, its main borrowers are Spain and Cyprus with outstanding debt of EUR 38.2bn and EUR5.7bn[13] respectively. Similarly, the EFSM, a facility which the

[11] The size is determined by Germany's share in the ECB's capital, which is 29.13%.
[12] As of 22 April 2015.
[13] As of 22 April 2015.

European Commission (EC) can borrow up to EUR60bn on behalf of the EU, has not lent to Greece. EFSM's drawn exposure amounted to EUR43.8bn[14] of loans granted to Ireland and Portugal.

As for the third category, following one of the biggest aid packages (9% of GDP) in post-crisis years provided by the German state to the banking group Hypo Real Estate (HRE) and the bail-out of WestLB provided by the state of North Rhine Westphalia and two bank savings associations, the German banking system has improved its capitalisation and asset quality as revealed by the recent review and stress tests by the EBA and ECB. Even Landesbanken with their high operational costs, traditionally low capitalisation level and weak business models passed the test. Importantly, the EU Bank Recovery and Resolution Directive (BRRD), which the German government passed into national law in November 2014 and which takes effect on 1 January 2015, limits taxpayers' liabilities for distressed banks by sharing potential costs with creditors and owners. All this is likely to limit future potential contingent liabilities in the banking sector.

[14] At end 2013.

Appendices

Selected Statistics

	2009	2010	2011	2012	2013	2014
Economy and Institution						
Real GDP grow th, %	-5.6	4.1	3.6	0.4	0.1	1.6
Total Population, td	83,182.8	83,017.4	82,892.9	82,800.1	82,726.6	82,652.3
CPI, % y/y	0.2	1.2	2.5	2.1	1.6	0.8
GDP per capita at the market rate, EUR	30,000.0	31,500.0	33,000.0	33,600.0	34,200.0	35,200.0
Unemployment rate, %	7.6	7.0	5.8	5.4	5.2	5.0
GDP per capita on PPP basis, EUR	38,072.7	40,080.2	43,156.4	44,079.9	44,697.0	45,888.4
Size of the economy, share in the w orld's GDP	3.8	3.7	3.7	3.6	3.5	3.4
Openness of the economy, % GDP	70.8	79.4	84.8	86.0	85.3	84.8
Domestic savings ratio, % GDP	24.1	24.5	25.0	25.9	25.6	26.5
Gross national savings ratio, % GDP**	22.5	23.7	24.5	24.3	24.5	
Real GDP volatility, %	2.5	2.7	2.8	2.7	2.7	2.7
Control of corruption index**	1.7	1.7	1.7	1.8	1.8	
Rule of law index**	1.6	1.6	1.6	1.6	1.6	
Government effectiveness**	1.6	1.6	1.5	1.6	1.5	
Real labour productivity (2010=100)	96.4	100.0	102.2	101.5	101.0	101.7
Nominal labour unit cost (2010=100)	101.2	100.0	100.6	103.9	106.4	108.3
Real effective exchange rate*	101.9	96.6	95.9	92.8	94.8	95.7
Banking sector						
Banking sector size (assets, %GDP)	323.8	289.3	258.1	256.4	261.8	244.2
Bank loans % of deposits	97.8	96.6	102.3	98.3	99.3	98.8
External vulnerability						
Current account, % GDP	5.8	5.7	6.1	6.8	6.5	7.6
Gross external debt, % GDP	148.2	156.0	157.3	170.3	154.8	158.6
Net external debt, % GDP	-4.0	-1.7	1.3	7.6	0.6	-1.4
International investment position, % GDP	30.0	30.8	28.7	23.5	29.6	36.4

*Based on CPI against 42 trading partners
**No 2014 data available

Fiscal Accounts and debt, % of GDP

	2009	2010	2011	2012	2013	2014	2015f
General government *							
Revenue	44.4	43.1	43.7	44.3	44.5	44.6	44.4
o/w social security contribution	16.9	16.5	16.4	16.5	16.6	16.6	16.6
Expenditure	47.5	47.1	44.6	44.2	44.3	43.9	43.9
o/w interest payments	2.6	2.4	2.5	2.3	2.0	1.8	1.6
o/w social transfers other than in kind	17.4	16.7	15.7	15.6	15.7	15.6	15.5
Primary balance	-0.4	-1.6	1.6	2.4	2.1	2.4	2.1
Overall balance	**-3.1**	**-4.0**	**-0.9**	**0.1**	**0.1**	**0.7**	**0.5**
General government gross debt	72.6	80.5	77.9	79.3	77.1	74.7	71.7
% of general government revenue	163.5	186.8	178.3	179.0	173.4	167.7	161.3
Central Government **							
Revenue	13.2	12.8	13.2	13.3	13.2	13.2	
Expenditure	14.8	16.0	14.2	13.8	13.3	12.8	
o/w interest payment	1.6	1.4	1.5	1.4	1.2	1.0	
Primary balance	0.0	-1.8	0.5	0.8	1.0	1.5	
Overall balance	**-1.5**	**-3.2**	**-1.0**	**-0.5**	**-0.2**	**0.4**	
Central government gross debt	n/a	n/a	49.2	49.9	49.0	47.6	
% of central government revenue	n/a	n/a	371.5	376.3	372.5	360.5	
Memo							
Nominal GDP,EUR bn	*2456.7*	*2576.2*	*2699.1*	*2749.9*	*2809.5*	*2903.8*	*3002.3*

Sources: Ministry of Finance, EC, Eurostat, Central Bank, Scope estimations
* including Central, state and local governments and social security fund
** excluding social security fund

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