Global and European setting

Global economic developments

Global economy more buoyant again in second quarter

Following a slight slowdown in growth over the past few quarters, global economic activity rebounded in the second quarter of 2018. The upswing stabilised in the advanced economies in particular. The United States recorded its strongest growth in real gross domestic product (GDP) in nearly four years. After a setback in the first quarter, the Japanese economy returned to its path of growth, while in the United Kingdom the pace of expansion picked up distinctly. In the euro area, the aggregate economic upturn carried on unchanged at a moderate pace. The high level of growth in China compared to its international peers also remained largely stable. At the same time, the gradual overall economic recovery in Russia continued, while a temporary downturn in Brazil is on the horizon, partially due to one-off effects.

Trade conflicts pose significant downside risk for global growth outlook …

In line with the most recent – and overall favourable – economic data, the staff of the International Monetary Fund (IMF) confirmed its projections for the global economy from the April edition of the World Economic Outlook in July. Despite relatively small downward revisions in the projections for some European economies and Japan, as well as a distinct downward revision for Latin America, buoyant growth in global GDP is to be expected this and next year. However, not least due to a further intensification of trade disputes, the downside risks have increased considerably.

Due to infringement of intellectual property rights, the United States imposed tariffs on certain goods imports from China at the beginning of July. These measures could be expanded in the coming months to cover additional categories of goods. Ongoing studies by the US government into whether imports of motor vehicles and associated parts affect national security could – as has already been the case with aluminium and steel – lead to additional trade-restricting measures. Major trading partners of the United States, including the EU and China, were indeed receptive to finding solutions through negotiation, but responded to these protectionist steps taken by the United States with targeted countermeasures of their own. An escalation of these disputes could weigh considerably on global economic growth.[1]

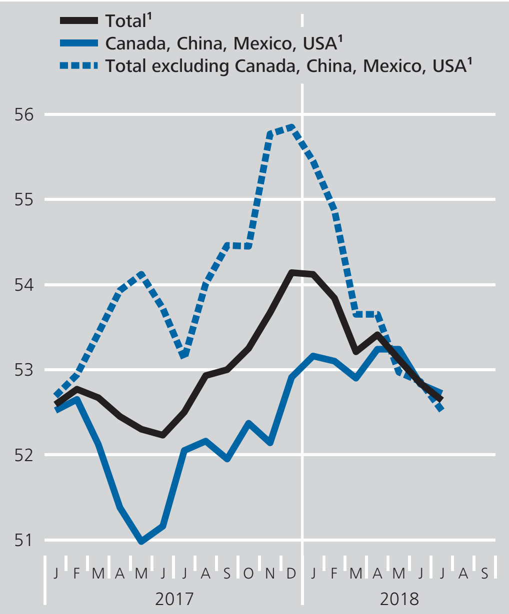
… but not quite enough to dampen sentiment amongst industry

Such a risk scenario, along with the measures already taken, raises the question as to whether protectionist efforts are already having an impact on global economic activity. The deterioration of sentiment – which nevertheless remains positive – amongst enterprises in the manufacturing sector since the start of the year has occasionally been interpreted as an indication of negative confidence effects.[2] However, the suggestion that this is the main reason is contradicted by the fact that purchasing managers' indices in the countries that were likely to have been most severely affected by trade-restrictive measures saw only little change.[3] In the United States, Mexico, and Canada, this index was even higher in July than it had been in December of the previous year; in China, it was somewhat lower. A normalisation of sentiment amongst industry in some European countries, which had previously been exceptionally buoyant, was the key reason for the

1 See Deutsche Bundesbank, The danger posed to the global economy by protectionist tendencies, Monthly Report, July 2017, pp 77-91.
2 A similar argument was most recently presented by the staff of the IMF, amongst others, which highlighted the fact that more negative survey results had been observed particularly in countries with high degrees of openness. See International Monetary Fund (2018), G-20 Surveillance Note prepared by the staff of the International Monetary Fund for the G-20 finance ministers and central bank governors meetings from 21 to 22 July 2018.
3 Alongside the United States, these are Mexico, Canada, and China. The order reflects their ratios of export value, which could be affected by newly introduced or threatened tariffs, to GDP.

Purchasing managers' indices for manufacturing in the G20*

Seasonally adjusted, monthly data



Sources: IHS Markit, JP Morgan, World Bank, Haver Analytics and Bundesbank calculations. * Excluding Argentina, Saudi Arabia and South Africa owing to insufficient data and Turkey owing to idiosyncratic developments completely unrelated to trade policy. **1** Weighted with the value added of the manufacturing sector.

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downward movement in the global indicator. Industrial production also rose in the first half of 2018, especially in the advanced economies – though it was off from the high rate of the previous year – and global trade lost some of its momentum.

Upward movement of crude oil prices stopped for now

Against this backdrop, prices of industrial commodities have fallen markedly across the board since June. Crude oil prices recently saw another slight decline, too. According to figures from Bloomberg, a barrel of Brent crude oil cost, on average, just over US$74 on the spot market in July 2018, after having traded for just under US$77 as late as May. The decision by OPEC and other major oil-producing countries to increase production is likely to have contributed to the slight fall in prices. Furthermore, US production hit record highs, highlighting the vital role that this comparatively price-elastic supply has on developments on the oil market. By contrast, US sanctions on Iran and the continuing decline in production in Venezuela, in particular, are likely to have propped up prices. There were also temporary production stoppages in Libya and Canada. The production stoppage in Canada reduced the supply of North American oil and thereby helped to narrow the price spread between Brent and WTI crude oil, which had been very wide at times. As this report went to press, the spot price for a barrel of Brent crude oil was US$70, representing a year-on-year increase of around 40%. Price reductions, in particular for longer-term delivery dates, and declining base effects point to annual growth rates falling again.

Sharper consumer price inflation in industrial countries

As a consequence of higher crude oil prices, consumer prices for energy in industrial countries rose considerably over the course of the second quarter. At nearly 10%, the year-on-year increase in June was double what it had been in March. Accordingly, headline consumer price inflation grew from 2.0% to 2.3%, the highest rate since March 2012. However, if energy and food are excluded, inflationary pressures remained moderate. As had been the case three months earlier, the core rate stood at 1.6% in June.

Selected emerging market economies

China's rate of growth virtually unchanged

With a year-on-year GDP increase of 6.7%, the rate of growth in China in the second quarter of 2018 was only negligibly lower than at the beginning of the year. Contrary to some fears, there was no significant slowdown. The steep rise in goods imports in the first half of the year as well as purchasing managers' continually favourable assessment of the current situation are consistent with largely stable economic developments. In the second quarter, private consumption emerged as the main driving force of economic growth on the demand side. According to surveys, sentiment among households was very positive throughout the reporting period. The excellent labour market situation and only muted consumer price inflation, amongst other factors, are likely to have contributed to this. The rate of consumer price inflation even fell slightly in the second quarter to 1.8% on the year.

Faster GDP growth in India

In India, year-on-year economic growth increased to 7.7% at the beginning of the year. It seems that this pace could not quite be sustained in the second quarter, which, in any case, is suggested by the indicators currently available. Industrial production lacked momentum in recent months and, according to surveys, consumer confidence remained low. Although food price inflation declined, headline inflation rose. On average for the months from April to June, the consumer price index (CPI) exceeded the previous year's value by 4.8%. In light of these developments, the Reserve Bank of India raised its policy rate in June to 6.25%. This was the first time that it had tightened its monetary policy stance in more than four years.

Probable setback to recovery in Brazil

The overall economic recovery in Brazil made only limited progress in the first quarter of 2018. Compared with the previous year, real GDP grew by 1.2%. Official data for the second quarter are not yet available. However, after an eleven-day lorry drivers' strike crippled major parts of the transport infrastructure in May, a temporary setback may be expected. For that month, the Central Bank of Brazil's activity indicator recorded a slide of 3.3% compared with April, the largest one-month loss since its inception in 2003. Although the situation normalised again in June, a considerable decline was recorded for the quarter as a whole. Especially strong consumer price inflation was recorded in June due to strike-related supply bottlenecks and higher food prices. In the second quarter, consumer prices were up by an average of 3.3% on the year.

Persistently moderate growth in Russia

According to a provisional estimate, year-on-year economic growth in Russia accelerated to 1.8% in the second quarter, representing persistently moderate growth. Private consumption – which was boosted not least by considerable growth in wages, falling unemployment, and increased lending to households – probably continued to be an essential pillar of growth in the second quarter. The FIFA World Cup perhaps also provided a degree of positive growth stimulus in June and July.[4] At the same time, consumer price inflation remained subdued. Annual CPI inflation averaged 2.4% over the April to June period.

World market prices for crude oil, industrial commodities and food and beverages

Monthly averages, log scale

Sources: Bloomberg Finance LP and HWWI. • Latest figures: average of 1 to 10 August 2018, or 1 to 16 August 2018 for crude oil.
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4 The Central Bank of Russia estimates that, for 2018 as a whole, the FIFA World Cup resulted in growth stimulus of 0.1 to 0.2 percentage point. The majority of this is likely to be recorded in the second quarter.

United States

Strong economic growth in second quarter

In the United States, the economic upswing gained momentum in the second quarter. In seasonally adjusted terms, overall real economic output rose by 1.0% compared with the first quarter, in which it had grown by 0.6%. As was the case in the preceding quarters, commercial and industrial investment was expanded significantly, though this must also be viewed in the context of the tax reform that came into effect at the beginning of the year.[5] Extraordinarily brisk foreign business also contributed to the acceleration. In price-adjusted terms, exports recorded their strongest growth in four and a half years. However, this was partially due to a sharp, and likely unsustainable, increase in exports of foodstuffs, feedstuffs and beverages.[6] The strong underlying dynamic is likely to turn out to be more persistent in the case of private consumption expenditure, which saw substantial expansion following a dip in growth at the start of the year. In any case, the underlying framework conditions for private consumption remain favourable: according to current data, households' rate of saving is – at just under 7% – far above the record lows seen from 2005 to 2007.[7] Employment also continued to rise in July, and the rate of unemployment again dropped below 4%. Against the background of high aggregate capacity utilisation, the annual CPI excluding energy and food reached 2.4% in the same month. At 2.9%, the headline rate was higher still. In light of the overall economic developments and price trends, the US Federal Reserve maintained its stance of gradually normalising monetary policy and raised its policy rate by 25 basis points in June.

Japan

Return to growth

The Japanese economy returned to a path of growth in the second quarter. A provisional estimate shows that real GDP grew noticeably by a seasonally adjusted 0.5% from the preceding quarter, in which economic output had declined. This countermovement was triggered by a substantial increase in domestic demand; private consumption in particular picked up considerably, while business investment also grew more strongly than before. Expenditure in private residential investment was reduced once again, however. Imports increased in line with the buoyant domestic economy. By contrast, exports continued to increase only moderately, meaning foreign trade slightly dampened aggregate growth in arithmetical terms. Unemployment reached a new cyclical low at 2.4% in the second quarter. Aggregate wage growth accelerated somewhat given the favourable labour market situation, and the results of the spring wage round also suggest that momentum has picked up slightly. Inflation, however, has remained extremely muted so far. The CPI excluding energy and food in June did not exceed the previous year's level. Against this backdrop, the Japanese central bank maintained the generally accommodative stance of its monetary policy and announced at the end of July that it would keep the interest rate level low for an extended period of time.

United Kingdom

Economic activity strengthening

The cyclical upswing in the United Kingdom has picked up steam again. After adjustment for the usual seasonal variations, real GDP in the second quarter was up by 0.4% from the previous period, in which it had risen by only 0.2%. This stronger increase was primarily due to the distinct upturn in the services sector. This was particularly true for areas which had been

5 See Deutsche Bundesbank, The potential macroeconomic impact of US tax reform, Monthly Report, February 2018, pp 14-16.
6 The sharp upsurge may to some extent reflect Chinese buyers' advance purchases of soybeans, which have been subject to higher import duties since July. However, regional data from the trade statistics suggest that, in the second quarter, agricultural products from the United States sold well in other parts of the world, too.
7 Prior to the most recent comprehensive revision of the national accounts, the data had depicted a steep downward trend in the rate of saving since the beginning of 2016. However, the figure for the first quarter of 2018 was revised upwards by nearly 4 percentage points.

especially affected by the unusually harsh weather conditions at the start of the year according to the British Office for National Statistics. This picture is supported by the fact that construction output recovered from its decline in winter. On the other hand, manufacturing output contracted noticeably. The labour market continued to remain resilient, with the unemployment rate in the quarter ended falling to 4.0%, its lowest level since the winter of 1975. The Harmonised Index of Consumer Prices (HICP) rose in June by 2.4% on the year, as in the previous month. At the beginning of August, the Bank of England raised its policy rate by 25 basis points to 0.75%, also in light of the strengthening economy.

New EU member states

Continued upswing with rising consumer prices

In the new EU member states (EU-6),[8] the economic upswing continued in the second quarter of 2018 as well. Real GDP, after adjustment for seasonal variations, rose sharply compared to the previous quarter in most countries. Vigorous industrial activity contributed to this; in the second quarter industrial production in these countries exceeded the level of the first quarter by 1.8%. On the expenditure side, economic growth has still been primarily borne by persistently robust private consumption, which was buoyed up by the continued improvement in the labour market situation. The unemployment rate decreased by 1.0 percentage point on the year in the second quarter, reaching a new low at 4.1%. Consumer price inflation rose in the second quarter to 2.1% on the year, due mainly to higher energy prices. However, the sustained sharp growth in wages has, to date, barely been reflected in the core components of the HICP. Excluding energy and food, consumer prices were up by only 0.8% in the second quarter. Headline HICP rates ranged from 1.1% in Poland to 2.1% in the Czech Republic and 2.8% in Hungary through to 4.5% in Romania. Against the backdrop of sharply rising prices, the central banks of Romania and the Czech Republic raised their policy rates in May and June, respectively; the Czech central bank raised rates again in August.

Macroeconomic trends in the euro area

Continued moderate upturn

The economic upturn in the euro area continued in the second quarter of 2018 at the same pace as in the preceding quarter. According to Eurostat's flash estimate, real GDP in the second quarter was up after seasonal adjustment by 0.4% on the quarter, and by 2.2% on the year. This firmly established the picture of a slowdown in economic growth compared to the growth rates observed in the previous year. Economic output is no longer likely to have increased much faster than capacity in the first half of 2018. This was mainly due to the reduced momentum in foreign business. In the mean time, there had been expectations of a normalisation after exports had once again risen exceptionally sharply in the second half of 2017 (see box on pages 16 and 17). By contrast, domestic activity proved to be robust in the first half of 2018. Aggregate capacity utilisation remained strong, and sentiment among enterprises and consumers was still confident despite some deterioration, suggesting that the forces fuelling economic activity are still intact.

Private consumption somewhat less buoyant

Private consumption is likely to have lost some momentum in the second quarter. While retail sales went up after price and seasonal adjustment, there was a decline in new motor vehicle registrations. The sharp increase in consumer prices caused largely by oil prices is likely to have had a negative impact on households' propensity to purchase. This noticeably dampened the increase in real disposable income. By contrast, consumption growth benefited from persistently favourable consumer sentiment and the continuing improvements in the labour market.

8 This group comprises the non-euro area countries that have joined the EU since 2004, ie Poland, the Czech Republic, Hungary, Bulgaria, Romania and Croatia.

Recent developments in euro area export activity

In the first quarter of 2018, euro area exports of goods and services as defined in the national accounts declined markedly after seasonal adjustment, following a very strong rise particularly towards the end of the past year. Monthly data from the foreign trade statistics for goods exports to non-euro area countries (extra-euro area exports) show a similar picture. Even though global economic activity has remained quite lively, data for the second quarter do not yet promise any improvement. It seems to make sense to attribute the slump in exports at least in part to the past euro appreciation. After all, the euro has experienced a significant trend appreciation since early 2017.

In order to identify the determinants of export developments in the first half of 2018, an error correction model is estimated.[1] The econometric model assumes a stable long-run relationship between exports,[2] the real effective exchange rate of the euro and foreign demand. Deviations from the long-run equilibrium diminish in subsequent periods ("error correction"). The estimation comprises the period from the first quarter of 2000 to the second quarter of 2018. The euro's real effective exchange rate is measured against the 38 most important trading partners and is based on consumer prices.[3] Foreign demand is approximated using the weighted average of import volumes of the euro area's trading partners.[4] Given the lack of current data, this analysis uses the simplifying assumption that foreign demand in the second quarter of 2018 grew at the same rate as at the beginning of the year. The estimated model can explain around 80% of the variation in extra-euro area exports. The estimated coefficients have the expected sign, and the existence of a long-run relationship between the variables is confirmed. The deviation of exports from their long-run level is reduced for the subsequent period by around one-fifth, according to the estimation results.

On the basis of this estimation, dynamic simulations can be used to calculate the contributions made by the exchange rate and foreign demand to export developments. It turns out that, according to the model, the euro's appreciation distinctly dampened euro area exports in the last few quarters. What the decomposition also shows, though, is that the retarding effects of the appreciation in the past year were offset by particularly strong growth in foreign demand. Although the latter subsided markedly at the beginning of 2018, the positive stimuli generated by foreign demand still outweighed the damp-

1 For more on this, see also M Ca' Zorzi and B Schnatz (2010), Explaining and forecasting euro area exports: Which competitiveness indicator performs best?, in P De Grauwe (ed), Dimensions of competitiveness, MIT Press, pp 121-148.
2 This is based on quarterly, seasonally adjusted nominal exports of goods to non-euro area countries, price-adjusted with the producer price index for exports of goods from the euro area to non-euro area countries, taken from the foreign trade statistics.
3 The results remain largely unchanged if an indicator based on deflators of total sales is used. In order to obtain the most up-to-date data possible for a broad group of countries, the results are shown here for an indicator based on consumer prices, even if a cross-country empirical study of the suitability of various measures of the real exchange rate (see Deutsche Bundesbank, The impact of alternative indicators of price competitiveness on real exports of goods and services, Monthly Report, January 2016, pp 13-29) leans towards using the indicator based on deflators of total sales.
4 Such a time series is calculated as part of the preparation of macroeconomic projections for the euro area by the staff of the European Central Bank (ECB). For more detailed information concerning the methodology, see K Hubrich and T Karlsson (2010), Trade consistency in the context of the Eurosystem projection exercises, ECB Occasional Paper No 108.

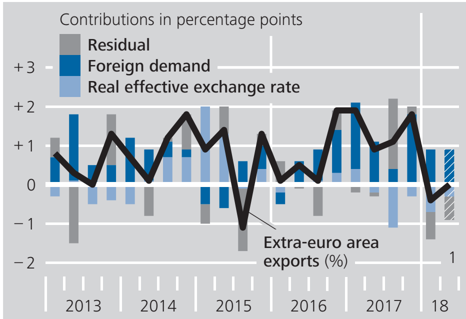
ening effects of the euro's appreciation. It must be noted, moreover, that exports picked up more strongly in the second half of 2017 than predicted by the model. At the beginning of 2018, however, this development reversed itself, with the positive residuals of the second half of 2017 counterbalanced by a considerable negative residual in the first quarter of 2018. In the second quarter, too, part of the poor export performance is likely to have remained unexplained. Although the earlier appreciation of the euro continued to weigh on exports, this retarding effect has subsided. In addition, foreign demand is likely to have once again generated positive stimuli.

Moreover, there also arises the question as to how to frame the slump in exports in the first half of 2018 over a longer-term view. To that end, a hypothetical equilibrium path of exports is calculated from the estimated long-run relationship, taking into account actual exchange rate and foreign demand patterns. In the final quarter of 2017, this path remained well below the actual volume of extra-euro area exports. What this means is that, in the first quarter of 2018, the estimated error correction mechanism had a dampening effect within the model's framework. The unexplained negative residual could also be a sign that export volume adjusted more quickly to the long-run equilibrium value than on average in the quarters underlying the estimation. This development could have continued in the second quarter. All the same, export volume probably still surpassed the estimated equilibrium value.

In the framework of this model simulation, the decline in euro area exports at the beginning of the year is not a worrying slump but only part of a process of normalisation following an exceptionally favourable development. Euro area exports can thus be expected to rebound soon provided the global economic environment remains robust.

Estimated contributions to the change in extra-euro area exports

Quarter-on-quarter change



Sources: ECB, Eurostat and Bundesbank calculations. **1** This analysis uses the simplifying assumption that foreign demand in the second quarter of 2018 grew at the same rate as at the beginning of the year.

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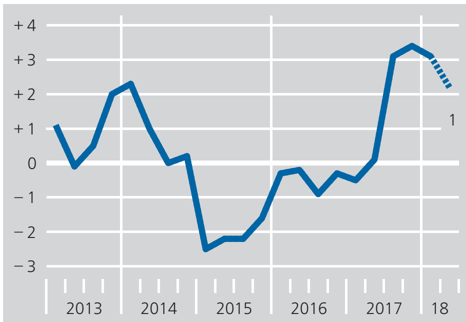
Deviation of export volumes from the estimated long-run equilibrium

%



Sources: ECB, Eurostat and Bundesbank calculations. **1** This analysis uses the simplifying assumption that foreign demand in the second quarter of 2018 grew at the same rate as at the beginning of the year.

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Aggregate output in the euro area*

2010 = 100, price and seasonally adjusted, quarterly data

Source: Eurostat. * Affected by a level shift in Irish GDP from 2015 Q1 onwards.
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Increased investment

The pace of investment activity is likely to have picked up in the second quarter. Following the drop in the previous quarter, price-adjusted spending on machinery and equipment is set to have rebounded. Positive impetus probably also came once again from investment in buildings, as the rise in construction output compared to the previous period suggests.

Muted growth in exports

Spring 2018 saw no more than a subdued countermovement in exports following a decline in the first quarter. Trade between euro area member states rose substantially on the quarter, and business with non-euro area countries also improved. The distinct rise in export prices, however, meant that there was no increase in the volume of exports to countries outside the euro area. Delayed dragging effects from the appreciation of the euro and normalisation after an especially vibrant second half of 2017 were probably major factors in this. Imports likely proved to be somewhat more buoyant than exports, in keeping with the robust domestic economy.

Industrial production virtually unchanged

Following a weak preceding quarter, industrial production moved onto a sideways trajectory, remaining at virtually the same level in the second quarter as in the first after seasonal adjustment. While energy production fell sharply, a distinctly higher volume of consumer goods were manufactured. By contrast, the production of intermediate goods and capital goods remained largely unchanged.

Moderate economic growth in most countries

The picture in most member states has been shaped by the moderately upward-moving underlying cyclical trend, although GDP growth continued to be strong in some, generally smaller, countries. In France, real GDP rose by just 0.2% on the quarter after seasonal adjustment, as it had at the start of the year. Private consumption was down slightly after having increased only marginally in the first quarter. In addition to higher consumer prices, the tax measures that took effect at the beginning of the year were probably also a factor in the weak consumption dynamics. Investment increased visibly, and there was a noticeable build-up of inventories. This is likely to be related to the fact that imports rose much more sharply than exports. Aggregate output in Italy also experienced only muted growth. In the second quarter, seasonally adjusted real GDP was up by 0.2% following 0.3% in the preceding quarter. Despite the rather sharp increase in employment, private consumption rose only moderately. This is at least what is suggested by the weak growth in retail and new motor vehicle registrations. There was probably a small increase in investment in machinery and equipment, while construction investment is likely to have once again been trending sideways. Foreign business is unlikely to have provided much of a growth stimulus. Italy's exports of goods were up only slightly in the second quarter after adjustment for seasonal and price variations. Spain experienced the strongest growth among the major member states, although quarterly GDP growth fell from

0.7% to 0.6% in the second quarter. Economic growth was driven primarily by the sharp expansion of investment, while private consumption lost momentum, and exports even declined markedly. GDP also increased strongly in the Netherlands, and economic growth in Austria, Finland and Portugal was also quite considerable. Belgium reported only moderate growth.

Ongoing improvement in the labour market

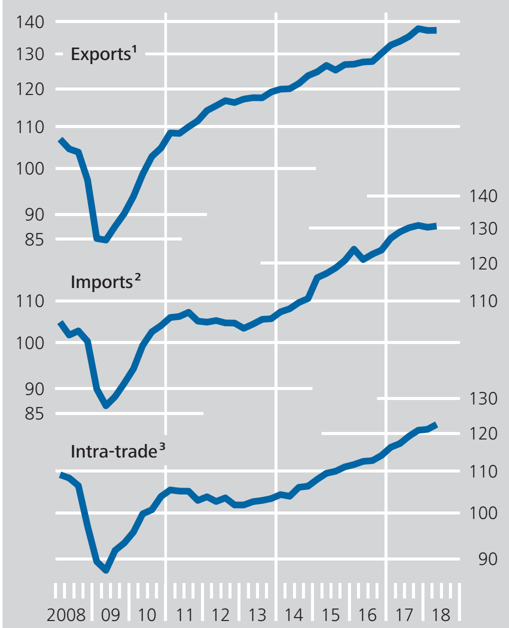
Labour market conditions continued to improve in the second quarter. The number of unemployed people in the second quarter fell by 345,000 compared to the first quarter of 2018, after seasonal adjustment, and by around 1.2 million on the year. The standardised unemployment rate in June fell to 8.3%, after 8.5% in March and 9.0% in June one year earlier. Employment figures for the first quarter show a persistently strong increase in employment, even if that growth is somewhat lower than in the final quarter of 2017. The number of employed persons was up on the year by 2.2 million, or 1.4%, while wage growth accelerated perceptibly. Given an unchanged number of average hours worked, the year-on-year rise in gross hourly earnings accelerated by 0.4 percentage point to 2.0% in the first quarter compared to the final quarter of 2017. Growth in hourly employee compensation rose to 1.9% over the same period.

Consumer prices up distinctly again in spring

Consumer prices were up by a seasonally adjusted 0.6% in the spring of 2018, indicating another considerable increase. As in the final quarter of 2017 and in the first quarter of 2018, energy prices were raised significantly on the back of higher crude oil prices. In addition, food prices went up distinctly, as did prices for services. By contrast, the prices for non-energy industrial goods continued to rise moderately. Annual headline HICP inflation increased markedly from 1.3% to 1.7%. The absence of base effects, particularly in unprocessed food, the price of which had been especially high at the start of 2017 on account of the weather, was also a factor.

Euro area trade in goods

2010 = 100, quarterly data, price and seasonally adjusted, log scale



Sources: Eurostat and Bundesbank calculations. **1** Extra-euro area exports price adjusted using the producer price index for extra-euro area exports. **2** Extra-euro area imports price adjusted using the price index for extra-euro area imports. **3** Intra-euro area exports price adjusted using the producer price index for intra-euro area exports.

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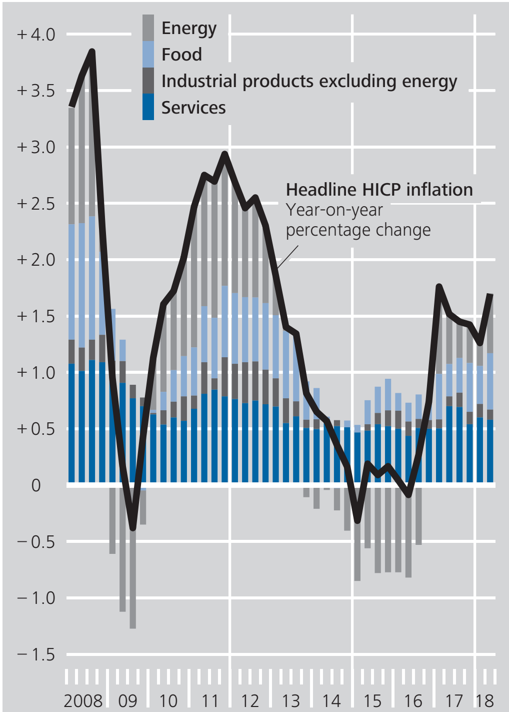
Contributions to the euro area inflation rate (HICP)

Percentage points, quarterly averages



Sources: Eurostat and the ECB.

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Core inflation stable at around 1%

Excluding energy and food, consumer prices increased by 0.9% on the year in the second quarter, which is much the same as in the previous two quarters. Services once again accounted for the largest contribution to core inflation, while that of non-energy industrial goods was more on the low side. This was not only due to the greater weight of services in the HICP basket of goods (44% compared with 26% for non-energy industrial goods) but also to the generally stronger price dynamics.

Further rise in consumer prices in July

In July, consumer prices continued to increase in seasonally adjusted terms. Energy prices were up again significantly, while the prices of other products also rose somewhat. Accordingly, overall annual headline HICP inflation and annual HICP inflation excluding energy and food increased to 2.1% and 1.1% respectively.

Economic activity likely to remain robust

The unabatedly positive sentiment among enterprises and consumers suggests that the economic upturn in the euro area will continue. Though the Purchasing Managers' Index for the whole economy dropped a little in July following a rise in June, it still far exceeded the expansion threshold. The European Commission's indicator of business and consumer sentiment remained virtually unchanged at a relatively high level. On the whole, major driving forces behind the euro area's economy remain intact. These include favourable financing conditions, the improved state of the labour market and the expanding global economy. External risks to economic growth arise primarily from protectionist tendencies, while internal risks arise from the movement away from crucial structural reforms as well as uncertain government setups in some member states.