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# EUROPEAN ECONOMY

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DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

## Economic forecasts
## Spring 2005

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European Commission

# EUROPEAN ECONOMY

Directorate-General for Economic and Financial Affairs

2005 Number 2

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# Spring 2005

## Abbreviations and symbols used

### Member States

| | |
|---|---|
| BE | Belgium |
| CZ | Czech Republic |
| DK | Denmark |
| DE | Germany |
| EE | Estonia |
| EL | Greece |
| ES | Spain |
| FR | France |
| IE | Ireland |
| IT | Italy |
| CY | Cyprus |
| LV | Latvia |
| LT | Lithuania |
| LU | Luxembourg |
| HU | Hungary |
| MT | Malta |
| NL | The Netherlands |
| AT | Austria |
| PL | Poland |
| PT | Portugal |
| SI | Slovenia |
| SK | Slovakia |
| FI | Finland |
| SE | Sweden |
| UK | United Kingdom |

| | |
|---|---|
| EUR-12 | European Union Member States having adopted the single currency (BE, DE, EL, ES, FR, IE, IT, LU, NL, AT, PT, FI) |
| EU-25 | European Union, 25 Member States |
| EU-15 | European Union, 15 Member States before 1 May 2004 (EUR-12 plus DK, SE and UK) |
| AC-10 | European Union, 10 Member States that joined the EU on 1 May 2004 (CZ, EE, CY, LV, LT, HU, MT, PL, SI, SK) |

### Currencies

| | |
|---|---|
| EUR | euro |
| ECU | European currency unit |
| DKK | Danish krone |
| GBP | Pound sterling |
| SEK | Swedish krona |
| CAD | Canadian dollar |
| CHF | Swiss franc |
| JPY | Japanese yen |
| SUR | Russian rouble |
| USD | US dollar |

**Other abbreviations**

| | |
|---|---|
| SCPs | Stability and convergence programmes |
| PEPs | Pre-accession economic programmes |
| NMS | New Member States |
| SGP | Stability and Growth Pact |

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# Overview

***Modest recovery to continue in the euro area and the EU***

Economic activity in the euro area and the EU decelerated in the second half of last year. Nevertheless, supported by the continued buoyancy of global growth and trade, the pace of growth averaged 2% in the euro area and 2.4% in the EU for the year as a whole. As a result of the unexpected deceleration experienced in the second half of last year, due in part to the oil price hike and the strength of the euro, the carryover into this year is lower than projected six months ago. But growth is projected to return to potential during the course of this year - reaching 1.6% in the euro area and 2% in the EU - before accelerating to 2.1% and 2.3%, respectively, in 2006.

The main factors behind the outlook include accommodative macroeconomic policies, low inflation, supportive financial conditions, widening profit margins, progress in structural reforms, and a supportive global environment.

The consolidation of the recovery over the forecast horizon is driven by an acceleration of domestic demand. The pace of investment expenditure, in particular, is expected to pick up and this is accompanied by a more gradual recovery of private consumption. The labour market responds to stronger economic activity. This is supported by wage moderation and the restoration of confidence among consumers and entrepreneurs following the completion of structural reforms. Accordingly, employment growth in the euro area is expected to accelerate from 0.6% in 2004 to 0.7% in 2005 and 0.9% in 2006. For the EU as a whole, the profile is similar, although the rise in employment is projected to be slightly lower in 2006.

***Global trade set to remain vibrant, as world economic activity moderates***

World trade growth is estimated to have peaked at over 10% in 2004. With indications of a slowdown in momentum in the second half of last year, the near-term outlook is for a moderation to around 8% this year and somewhat lower in 2006, as the global growth cycle matures.

Current estimates suggest that the pace of world GDP growth climbed to a vigorous 5% last year, the fastest pace since the seventies. Economic activity is projected to ease to a still-robust 4.2% this year and marginally lower in 2006. The surge in growth has been driven by a number of factors, including supportive macroeconomic policies, historically low real interest rates, housing-market-induced wealth effects, and particularly strong growth in certain emerging economies, such as China, India and, to a lesser extent, Brazil.

The regional distribution of global growth continued to widen last year, with stronger contributions coming from the EU, the candidate countries, Latin America, the Middle East and Africa, while the US and some Asian emerging economies improved their already-strong performance. In the US, helped by monetary and fiscal policy stimuli and solid underlying productivity growth, economic activity realised a growth rate of 4.4% in 2004. Nonetheless, in view of the high current account deficit and the large general government deficit, this pace of economic expansion is viewed as unsustainable, and accordingly the growth rate is expected to fall to 3.6% this year and to around trend at 3% in 2006.

After sliding into technical recession in the middle of last year, the Japanese economy recorded a marginally positive growth rate in the final quarter. However, the weakness is expected to be short-lived as a rebound in domestic demand, especially investment, is set to yield a modest pace of 1.1% this year, before momentum is restored once again next year. Deflation is still present in the economy but is projected to diminish over the forecast horizon. The general government deficit is projected to edge lower to around 6% of GDP in 2006. The economic outlook for Asia (excluding Japan) remains bright, with growth in the vicinity of 7% this year and next. Over the forecast horizon, the pace of China's growth is expected to moderate somewhat to around 8.4%, while India's growth rate continues its upward trend. Among the other emerging regions, economic activity in Latin America is set to diminish but remain robust in 2005-6, while growth should accelerate in Africa. In the candidate countries, the strong performance of last year is expected to be followed by lower, but still robust, growth of around 5% in 2005 and 2006.

***Rising oil prices and historically low bond yields***

The strong growth dynamic at the global level has sustained the demand for primary commodities.

In view of the surge in oil prices to record highs in the first quarter of this year, the assumed profile for oil prices has been revised upwards compared to the autumn forecasts. From an average of USD 47 per barrel (Brent crude) in the first quarter of this year, the price of oil is assumed to rise to USD 52.5 in the second and third quarters before declining gradually to USD 46.5 per barrel at the end of next year. This implies an average of USD 50.9 per barrel for this year and USD 48 per barrel next year. After a rise of 32% last year, this profile implies a further increase of 34% this year, followed by a decline of almost 6% in 2006.

Although the oil price hike is lower in real terms than during previous shocks and most industrialised oil-importing economies have reduced their dependence on oil, last year's sharp rise dented world growth. The persistence of higher oil prices and their increased volatility have adverse implications for the growth outlook over the forecast horizon.

The major stock market indices either remained unchanged or edged upwards during the course of last year. The recent easing of prices has not altered these broad trends. Actual and implied market volatility across most asset classes is historically low. After rising modestly in the first half of last year, long-term government bond yields diminished once again in the second half as fears of an acceleration of inflation and the likelihood of a tightening of monetary policy in some countries receded. Such yields are low by historical standards in both nominal and real terms. Emerging market and corporate bond spreads continued to narrow. Overall, these financial market trends are consistent with a benign view of the prospects for world economic activity.

*The easing of growth in the euro area and the EU towards the end of last year heralded…*

After gathering momentum in the first half of last year, the growth performance in both the euro area and the EU was less inspiring in the second half of the year. In assessing the quarterly data outturn, it is worth noting that the working-day adjustment had a negative impact on the data for the fourth quarter, which may be exaggerated. In Germany, for example, when measured by the non-working-day-adjusted GDP data, the economy grew by 0.4% q-o-q in the fourth quarter of 2004, while the adjusted figure was -0.2%. In any case, for the year as a whole, growth is estimated to have reached potential for the first time in four years, at 2% in the euro area and 2.4% in the EU.

During the course of last year, the main driver of growth in the euro area shifted from the external sector in the first half of the year to internal demand in the second half. The strong growth in imports of goods and services, which emerged in the second quarter and was maintained in the third quarter, diminished in the last quarter. This failed to be matched by a parallel performance of exports in the second half of the year, leading to a negative contribution to growth from the external sector in the third and fourth quarters. On the domestic side, the change in gross fixed capital formation moved into positive territory in the second quarter and sustained a solid pace of growth throughout the rest of the year. The surprisingly healthy growth of private consumption in the first quarter proved to be transitory as the subsequent two quarters revealed no impulse to growth from this source. However, the fourth quarter data showed an encouraging pick-up in consumer expenditure. Overall, the momentum achieved in the first half of the year could not be sustained since the stimulus from internal demand in the second half of the year was not strong enough to compensate for the negative impact from the external sector.

The outcome for the EU reveals a similar picture in terms of the composition of growth, although the relative contribution of domestic

*Table 0.1*

**Main features of the Spring 2005 forecast - EU25**

| (Real annual percentage change unless otherwise stated) | | | | Spring 2005 forecast [1] | | | Difference vs Autumn 2004 (a) | |
|---|---|---|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2005** | **2006** |
| GDP | 1.8 | 1.1 | 1.0 | 2.4 | 2.0 | 2.3 | -0.3 | -0.1 |
| Consumption | 2.0 | 1.4 | 1.5 | 1.8 | 1.9 | 2.0 | -0.1 | -0.2 |
| Total investment | 0.3 | -1.4 | 0.1 | 3.0 | 3.6 | 4.1 | -0.2 | 0.1 |
| Employment | 1.0 | 0.3 | 0.2 | 0.5 | 0.7 | 0.8 | 0.0 | 0.0 |
| Unemployment rate (b) | 8.4 | 8.7 | 8.9 | 9.0 | 9.0 | 8.7 | -0.1 | -0.1 |
| Inflation (c) | 2.5 | 2.1 | 1.9 | 2.1 | 1.9 | 1.7 | -0.2 | -0.2 |
| Government balance (% GDP) (d) | -1.2 | -2.3 | -2.9 | -2.6 | -2.6 | -2.5 | -0.2 | -0.2 |
| Government debt (% GDP) | 62.2 | 61.7 | 63.3 | 63.8 | 64.1 | 64.2 | 0.6 | 0.9 |
| Current account balance (% GDP) | -0.1 | 0.4 | 0.1 | 0.2 | 0.0 | 0.0 | -0.2 | -0.2 |

[1] The Commission services' Spring 2005 Forecasts are based on available data up to March 16, 2005.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2004.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

demand was stronger than that of external demand on average during the year. As in the euro area, the pace of the rebound in the second half of last year did not live up to expectations in the autumn forecast. Nevertheless, the outcome for the year as whole was only marginally less than envisaged, at 2.4% rather than 2.5%.

***……lower-than-expected average growth this year, while momentum builds up during the course of the year***

Following the positive readings at the turn of the year, survey indicators have been sending out mixed signals once again during the first quarter of this year concerning the prospects for the strength and sustainability of the recovery. The Commission's overall economic sentiment indicator for the euro area, which was broadly flat in the second half of last year, dropped below its long-term average in February of this year. After an encouraging rise in January, the composite Purchasing Managers Index (PMI) stalled in February. In general, although the trends are similar, the confidence indicators for the EU tend to exceed those for the euro area.

Last year's downwards trend in euro-area business confidence was interrupted by positive readings from a number of leading indicators, including the PMI for manufacturing, the IFO and the NBB in January. However, somewhat weaker survey data for February have cast a shadow over the outlook and the recent surge in oil prices appears to have taken a toll on business confidence. In the services sector, confidence remains lethargic. Although there was some evidence of a change for the better at the turn of the year, the flat trends in the Commission's confidence indicator and the PMI for services for the euro area have been maintained so far in the first quarter of this year. Nevertheless, the levels of the PMI for both manufacturing and services remain consistent with a continuation of economic growth.

Consumer confidence, which had been on a gradual rising path since the turnaround in 2003 appears to have stabilised since the third quarter of last

*Table 0.2*

**Main features of the Spring 2005 forecast - euro area**

| (Real annual percentage change unless otherwise stated) | | | | Spring 2005 forecast [1] | | | Difference vs Autumn 2004 (a) | |
|---|---|---|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2005** | **2006** |
| GDP | 1.6 | 0.9 | 0.6 | 2.0 | 1.6 | 2.1 | -0.4 | -0.1 |
| Consumption | 1.9 | 0.7 | 1.1 | 1.3 | 1.6 | 1.8 | -0.1 | -0.2 |
| Total investment | -0.1 | -2.4 | -0.5 | 2.1 | 2.8 | 3.7 | -0.4 | 0.1 |
| Employment | 1.4 | 0.5 | 0.2 | 0.6 | 0.7 | 0.9 | -0.2 | 0.0 |
| Unemployment rate (b) | 7.8 | 8.2 | 8.7 | 8.8 | 8.8 | 8.5 | -0.1 | -0.1 |
| Inflation (c) | 2.4 | 2.3 | 2.1 | 2.1 | 1.9 | 1.5 | 0.0 | -0.2 |
| Government balance (% GDP) (d) | -1.7 | -2.4 | -2.8 | -2.7 | -2.6 | -2.7 | -0.1 | -0.2 |
| Government debt (% GDP) | 69.6 | 69.5 | 70.8 | 71.3 | 71.7 | 71.9 | 0.6 | 1.0 |
| Current account balance (% GDP) | 0.5 | 1.2 | 0.6 | 0.6 | 0.6 | 0.6 | -0.2 | -0.2 |

[1] The Commission services' Spring 2005 Forecasts are based on available data up to March 16, 2005.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2004.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

year. However, country-specific indicators suggest that there are considerable differences across Member States in the level of consumer confidence.

The anticipated recovery in household and business spending in the coming months stems in part from the particularly low real interest rates, both short-term and long-term. The latter have contributed to a relaxation of the balance-sheet constraints of households and businesses through a reduction in debt servicing costs. Corporate profit margins have also widened. The real disposable income of households should be sustained by the projected rise in employment and real wages. The completion of structural reforms in some Member States, the decline in inflation and the effect on wealth of buoyant housing markets in several countries should also provide a positive impetus to consumption.

***Slow recovery in the labour market***

The tempered labour market response in the prolonged downturn has been followed by a slow response in the upturn. The rise in the unemployment rate was quite subdued in comparison to previous cycles. The euro-area unemployment rate peaked at 9% in the first quarter of last year, after increasing by one percentage point during the slowdown in the current cycle. This contrasts with a rise of over three percentage points to above 10% in the trough of the early nineties. On the employment side, the picture is also more encouraging insofar as job losses are concerned. No jobs were lost in net terms in the recent downturn, while more than 2.5 million jobs disappeared in the 1992-93 recession.

In line with the usual lagged response of the labour market, around one million jobs are expected to be created this year in the euro area and 1.3 million in the EU. These figures should improve further in 2006 as growth regains momentum. The unemployment rate is expected to remain stable at 9% in the euro area and 8.8% in the EU this year, before diminishing in 2006.

***Inflation is projected to remain below 2% in the euro area over the forecast horizon***

Boosted by such factors as energy price hikes as well as the temporary impact of rises in indirect taxes and administered prices, headline inflation in the euro area remained sticky last year. From an average rate of 2.1% in 2003 and 2004, headline inflation is expected to fall to 1.9% this year, as a result of weak domestic price pressures. A further fall to 1.5% is foreseen for next year.

For the EU as a whole, the projected profile over the forecast horizon is flatter. After an initial fall from 2.1% in 2004 to 1.9% this year, a further decline to 1.7% is projected for next year. The falling inflation rates anticipated for the recently-acceded Member States means that inflation dispersion is falling in the EU, although it still remains higher than in the euro area this year.

***Broadly unchanged aggregate budgetary situation***

Against the background of a slightly widening negative output gap, the general government deficit for the euro area is expected to post a marginal improvement this year to 2.6% of GDP from 2.7% in 2004. This reflects a slightly restrictive fiscal policy stance. For the EU25, the deficit is projected to remain unchanged at 2.6% of GDP this year. On a "no-policy change" basis, this broad trend should be maintained for both the euro area and the EU in 2006.

The four countries in the euro area that are in excessive deficit, namely Germany, Greece, France and the Netherlands, are expected to narrow their deficits significantly in 2005. However, only in the Netherlands would the deficit be reduced to below the 3% of GDP reference value, while the deficit for France is forecast to be *at* the reference value. In 2006, on a "no-policy change" assumption, the deficit is expected to be below 3% of GDP also in Germany, while it is projected to rebound in France and to continue to exceed the reference value in Greece. For Italy and Portugal, where the 2004 deficit was at or just below 3% of GDP, a sharp widening to well above the reference value is forecast in both 2005 and 2006, reflecting a diminished recourse to one-off measures. The projected increase in the Austrian deficit to around 2% of GDP in 2005 reflects the implementation of tax cuts. The remaining euro-area Member States (Belgium, Spain, Ireland, Luxembourg and Finland) are expected to remain broadly in a balanced or surplus position.

Outside the euro area, fiscal consolidation in the six recently-acceded Member States that were found to be in excessive deficit last year is proceeding at an uneven pace. Cyprus and Malta are set to reduce the deficit by more than 2 percentage points of GDP between 2004 and 2006 – to below the 3% of GDP reference value from 2005 in Cyprus and from 2006 in Malta, both in line with the governments' plans. In the other Member States - the Czech Republic, Hungary, Poland and Slovakia - the deficit is still projected to stand at some 4% of GDP in 2006. Deficits of around 2% of GDP are forecast for 2005-2006 in Latvia, Lithuania and Slovenia. The United Kingdom, which recorded a deficit in excess of 3% of GDP in both 2003 and 2004, is projected to gradually reduce its deficit to 2.7% of GDP in 2006. Finally, Denmark, Estonia and Sweden are expected to maintain a surplus over the forecast period, albeit a diminishing one.

The general government gross debt ratio is projected to rise by about half a percentage point in 2005 in both the euro area and the EU25, to almost 72% and just over 64% of GDP, respectively. Debt developments are quite diverse among the high-debt countries. With debt ratios well above 100% of GDP, Greece and Italy are the most indebted countries. In Italy, the debt ratio is foreseen to be half a percentage point higher in 2006 compared to 2004, while Greece should succeed in reducing the ratio by 1.5 percentage points over the same period. Cyprus and Belgium are projected to bring down their debt levels by at least 4 percentage points of GDP, while Austria is set to record a more modest fall. At the other end of the spectrum, the Portuguese debt ratio is foreseen to rise by more than 6 percentage points of GDP, with less significant increases in France, Germany and Malta.

***Upside and downside risks to the forecast***

Although moderating, the momentum of global growth remains strong and trade growth is still vigorous. In addition, there is evidence in some Members States that domestic demand has started to recover, thus reducing the susceptibility of growth dynamics to the anticipated reduction of the external stimulus.

Nevertheless, the outlook is not without its risks. On the external side, the recent surge in oil prices has once again put the spotlight on the potential dampening effects of higher and more volatile oil prices on global growth and trade. The risk of abrupt exchange rate adjustments remains in place in view of the ongoing global imbalances. More specifically, the US current account deficit remains large and it is financed mainly through the accumulation of official holdings of dollar-denominated assets in Asia.

Although financial market developments to date may be interpreted as being consistent with a benign outlook for the world economy, there is still some cause for concern over the sustainability of this outlook. In this context, the possible risks include a more aggressive tightening of interest rates should inflation pressures intensify in some countries, a sharp correction of asset prices and the repricing of credit risk as investors become increasingly sensitive to risk exposure.

On the domestic side, in view of the projected reliance of the growth forecast on domestic demand, a slower return of consumer confidence poses the main downside risk. Survey indicators suggest that consumers in some Member States are still hesitant about committing themselves to purchases of larger consumer durable goods. Should the continued rise in oil prices become more visible in domestic inflation, this would also lead to an adverse effect on consumer confidence. Furthermore, it may take longer for structural reforms implemented in several Member States to feed through to confidence. Finally, the deteriorating competitive positions of some Member States may also pose a downside risk, especially in those countries that rely on external demand as an important source of growth.

The above downside risks are, to some extent, offset by a few upside risks. In view of the fact that the pace of investment has to date been lower than might be expected from favourable financing conditions and positive developments in earnings and profitability, stronger growth in investment cannot be excluded. The effect of the prolonged rise in house prices in a number of EU countries on household wealth could underpin a stronger acceleration in consumer spending in these countries.

The labour market reforms undertaken by Member States represent an upside risk for consumer confidence and accordingly for the release of pent-up consumer demand, which could be financed through a reduction in the savings rate. Such reforms include the recent changes in Germany, as well as the past reforms in other Member States, which have led to greater labour market resilience and a decline in the non-accelerating-inflation rate of unemployment (NAIRU). In addition, the working-day adjustment, already mentioned above, may underestimate the strength of the underlying dynamics in the fourth quarter of last year, thereby leading to a stronger-than-expected carryover of momentum into this year.

Overall, however, the balance of risks is tilted towards the downside.

***The Candidate Countries***

Candidate countries are expected to continue to enjoy relatively strong growth over the forecast horizon. In Romania and Turkey, the pace of economic activity is projected to decelerate slightly in 2005 and 2006, after a particularly strong performance in 2004. Growth is set to accelerate in Croatia, whereas output expansion in Bulgaria is likely to peak this year, reflecting election-related public spending. Rising labour productivity and an expanding and modernised capital stock are the main sources of this continued expansion. Private consumption and, in particular, investment are also important driving forces behind the projected sustained growth over the next two years.

Overall, inflation is forecast to decline in candidate countries. Turkey and Romania, in particular, are set to take a further important step towards price stability, as their inflation rates are expected to fall to around 6½% in 2006. The main factors behind this outlook are a strengthening supply side of these economies, driven by high investment, and overall prudent fiscal and monetary policies, combined with some real appreciation of the currencies of some countries. Only in Croatia are rises in administered prices projected to lead to a slight acceleration of inflation.

It is envisaged that labour markets will benefit from strong output growth, which - despite sustained gains in labour productivity – should lead to employment gains and falling unemployment. In Romania, the ongoing restructuring in industry and agriculture is expected to more than offset job creation in other sectors, leading to minor declines in employment and increasing unemployment.

In Romania and, more particularly, in Bulgaria, general government deficits are set to remain quite moderate. This is supported by a projection of strongly rising revenues against a backdrop of strong economic growth. Existing higher deficits in Croatia and especially in Turkey are expected to narrow further.

In all candidate countries, current account balances are forecast to remain fairly high, driven by strong domestic demand and higher world commodity prices. Rising trade deficits will only be partly offset by growing surpluses in other parts of the current account balance.

# Chapter 1

## The world economy

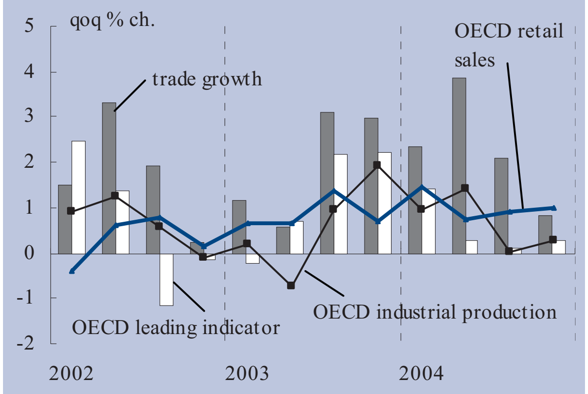
# 1. Global growth and trade to remain robust

The global recovery is expected to continue, but at a somewhat slower pace. After growing briskly by about 5% last year, the fastest pace in decades, the world economy is set to expand by just over 4% in both 2005 and 2006. The deceleration in activity is expected to be accompanied by a somewhat slower expansion of global trade. The large global current account imbalances are projected to continue, while stabilising towards the end of the forecast period. High oil prices, driven by the strong growth in demand and the low level of spare oil production capacity, are likely to have contributed to slower global growth. Financial conditions, with low interest rates and low risk premia on corporate and emerging market debt, remain supportive for growth. While global economic activity is expected to stay robust, important downside risks exist, in particular the risk of disorderly adjustment of the large global current account imbalances. Furthermore, high oil prices remain a source of risk, in view of strong growth in oil demand and continued geopolitical risks.

**World growth remains robust after peaking in early 2004**

Growth in the global economy peaked in the first half of 2004, with particularly high rates recorded in the first quarter in China, Japan and the United States. Subsequently, the pace of growth slowed to more normal levels in the United States, whereas Japan experienced slight decreases in real GDP in the second and third quarters of 2004, according to revised national accounts data.

*Graph 1.1:* **The global cycle**



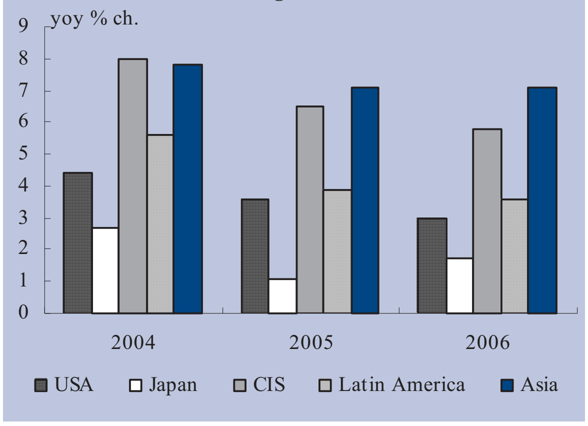

Source: OECD, CPB Netherlands

In China, after very robust growth in 2003 and in the first quarter of 2004, GDP growth decelerated considerably in the second quarter of last year, but picked up again in the last two quarters of the year.

The moderation of the global expansion during the course of 2004 was reflected in the easing of world trade growth. After having grown at a very brisk pace between mid-2003 and mid-2004, the growth of trade decelerated in the third and fourth quarters. Growth in industrial production in the industrialised economies paused in the second half of last year, whereas consumer demand held up more strongly. This is evidenced by growth in retail sales for the OECD as a whole, due to strong US consumer demand.

Despite the easing of the global expansion, which was to be expected following the above-trend pace experienced in the second half of 2003 and beginning of last year, world growth should continue to be robust over the forecast horizon. The rate of change of the OECD leading indicator picked up slightly in the final quarter of 2004 and this trend was maintained in January. Furthermore, purchasing manager indices are also continuing to indicate a solid rate of expansion at the start of this year.

*Graph 1.2:* **Growth projections for major economies and selected regions**



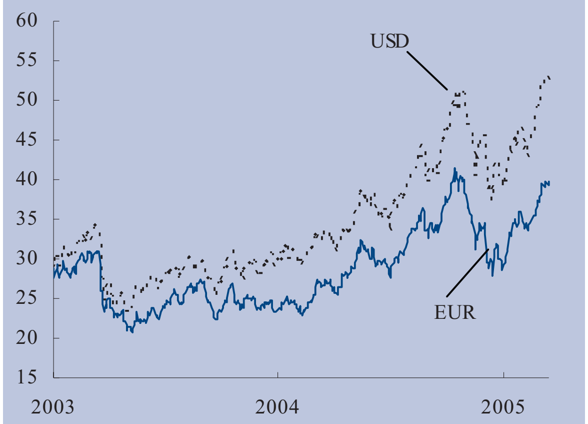

Looking ahead, the balance of world growth is expected to be relatively unchanged, with non-Japan Asia continuing to exhibit very dynamic growth rates and the CIS countries also growing strongly. Among industrialised countries, the US economy - although more bouyant than expected in the autumn forecast - is projected to slow somewhat over the course of this year as growth in private consumption moderates. In

Japan, the recovery is expected to regain traction again, stimulated by world demand and by domestic investment growth, due to high capacity utilisation and an improvement in corporate profitability.

**Oil prices likely to remain high**

Oil prices have continued to be very volatile. After a brief respite from the upward trend towards the end of 2004, oil prices have already overtaken last year's record highs in USD terms. The price of Brent oil was trading at around 55 USD/bl. in the middle of March. Compared to the beginning of last year, oil prices have risen by about 70% in USD and somewhat less in EUR (about 60%).

*Graph 1.3 :* **Oil price (Brent crude, $ and € per bl.)**




Source: Datastream

The renewed surge in prices is caused by the fact that the oil market remains very tight as a result of high demand growth and low spare production capacity. According to the latest figures from the International Energy Agency (IEA), total world oil demand is estimated to have increased by 2.7 million barrels per day (mb/d) in 2004 (3.4%), a historically very rapid expansion. This has pushed oil production close to full capacity, which has made the price of oil more vulnerable to concerns about supply and demand imbalances.

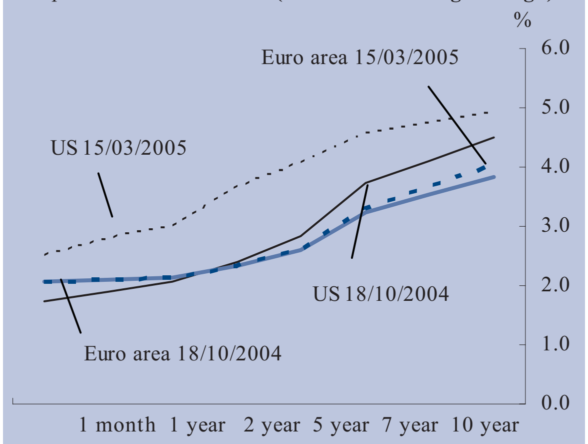
The International Energy Agency recently raised its demand forecast for this year, estimating that global demand will increase by 1.8 mb/d. This is significantly lower than the rise in 2004, but still a sign that oil demand remains strong. Demand in the importing regions of Europe, North America and China was stronger than expected in the fourth quarter of last year. Market participants expect a tight oil market, with futures prices indicating a medium-term price of around USD 45 per barrel. In view of these factors, oil prices are likely to remain high over the forecast period. The price of Brent is assumed to average USD 50.9 per barrel this year, which is 34.4% higher than the 2004 average. Next year, prices are expected to fall back slightly to USD 48 per barrel, a decline of 6% compared to 2005. This corresponds to a quarterly profile of gradually falling prices from the third quarter of this year onwards.

Given the tightness of the oil market, there is a risk that prices could increase even further. Ongoing concerns about the security of supply and political uncertainties in a number of oil-producing countries continue to underpin oil prices, while demand growth has repeatedly proved stronger than expected.

**Financial conditions still supportive to growth**

Despite the apparent soft patch in growth in many countries in the second quarter of 2004, and the continued increases in oil prices, financial market developments have been characterised by stability.

*Graph 1.4:* **Interest rates (one-week moving average)**




Source: Datastream

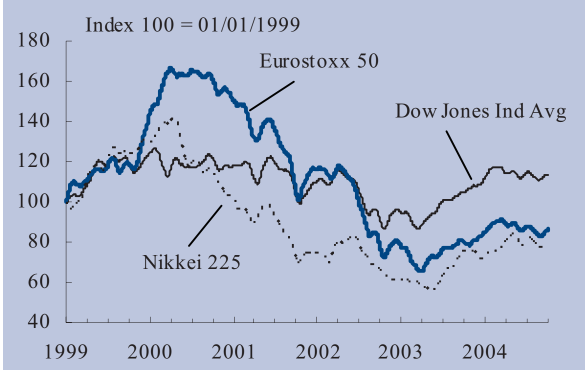
In the US, the Federal Reserve started to raise short-term interest rates in the summer of 2004, in view of the maturing recovery and some concern about the future path of inflation. Nevertheless, the monetary policy stance is still accommodative and the gradual removal of monetary stimulus is expected to continue in 2005.

While short term rates have increased in the US, long term yields stayed surprisingly low into early 2005. Inflation has increased somewhat but remains relatively low, and foreign investors continue to finance the US current account deficit, implying overall low pressure on long yields.

For the euro area, the yield curve is virtually unchanged compared to the autumn forecast, with slightly lower long-term interest rates. Despite somewhat lower inflation, real interest rates remain accommodative to growth. Furthermore, financing conditions facing firms have continued to improve with corporate bond spreads remaining very low (see also section 2.2).

Low risk premia are also benefiting emerging market economies. However, a disorderly adjustment of international imbalances could expose investors to sharp exchange rate movements and sharper-than-expected interest rate increases. Housing markets, which have underpinned consumer demand in a number of countries, may also pose a risk in this respect.

*Graph 1.5:* **Major stock market indices (one-month moving average)**

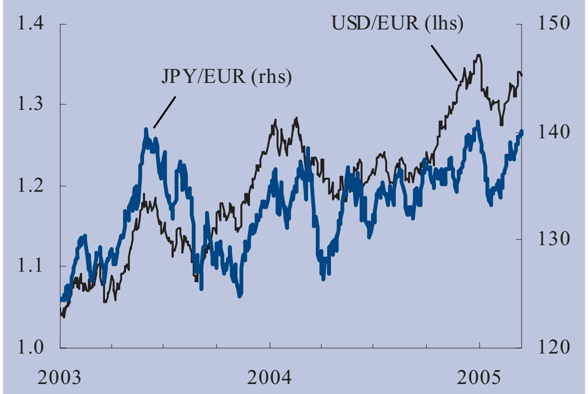



Source: Datastream

Despite high and volatile oil prices and uncertainties concerning the strength of the world economy, major equity market indices have been characterised by relative stability, with major stock market indices roughly unchanged or having gained slightly in the last year, on the basis of strong profit growth.

After a period of general stability in the middle of last year, currency markets were again characterised by greater variability towards the end of last year. From mid-October onwards, the dollar depreciated against major currencies, with the euro reaching a record high of over 1.36 USD in late December 2004. Overall, the trend remains one of dollar weakness against the background of a large US current account deficit. The Japanese yen also depreciated in recent months, reflecting the weaker Japanese economic situation.

*Graph 1.6:* **Exchange rate developments**




Source: Datastream

### Risks remain on the downside

Despite the positive outlook for growth in the world economy, some risks are nevertheless apparent. The moderation of world economic growth in the second half of 2004 could prove to be more pronounced than expected, particularly in view of rising oil prices.

Imbalances in the US economy remain the most important source of risk for the global economy. The current account deficit is expected to remain very large. A more abrupt adjustment of these imbalances would imply significantly lower growth in the US economy and would have consequences for the world economy through financial markets as well as lower trade growth and lower consumer and business confidence. Low risk premia on emerging market and corporate debt and housing prices in certain countries, could represent elements of particular vulnerability, should US long-term interest rates move up sharply.

However, US growth has continued to surprise on the upside, and the projected slowdown in the second half of 2005 might be smaller than expected, due to resilient consumer spending and strong corporate investment, possibly helped by still-low long-term interest rates and strong corporate finances.

# 2. Outlook for major economies and selected regions

The forecast for the ***US*** economy foresees annual GDP growth decelerating to 3.6% and 3.0% in 2005 and 2006, respectively. This represents an upward adjustment compared to the autumn forecast, but is still a slowdown from last year's above-potential growth rate of 4.4%. Growth in consumer spending, which has remained surprisingly strong, should start to decelerate as a result of a gradual rise in short and long-term interest rates and a weaker fiscal stimulus. Investment is expected to continue to rise, although at a somewhat slower pace than the 10% annual rate observed over the past year and a half. As a consequence of the lagged effect of the dollar depreciation in 2002-2004, the growth rates of exports are now projected to outstrip those of imports. This should lead to a stabilisation of the trade and current account deficits as a share of GDP in 2006.

GDP growth in ***Japan*** has been revised downward considerably compared to the autumn forecast, mainly due to revised national accounts data. It now appears that the Japanese economy went through a technical recession in the second and third quarters of 2004, with a slight rebound in the fourth quarter. Despite this weakness, annual growth reached 2.7% in 2004, because of the strong first quarter performance and the carryover from the healthy growth in the second half of 2003. Looking ahead, most indicators point to a rebound in the first quarter of this year. On the back of continued, albeit less vigorous, global growth, sustained investment growth and a slight rebound in private consumption, GDP growth is expected to reach 1.1% and 1.7% in 2005 and 2006, respectively. Given the very slow deceleration in underlying deflation and the lower growth projections, the year-on-year change in the consumer price index may turn positive only towards the end of this year.

Growth in ***the rest of Asia*** also gathered momentum in 2004, reaching 7.8% on the back of a strong global recovery and strengthening domestic demand. Largely due to an expected cooling of export demand, notably in the IT sector, the region is forecast to experience a deceleration in GDP growth to around 7.1% in 2005 and 2006. The macroeconomic impact of the tsunami on the Asia region is expected to be limited and relatively short-lived.

Within the rest of Asia, after growing by 9.5% in 2004, the ***Chinese*** economy is expected to enter a phase of more sustainable growth. Following very robust growth in 2003 and in the first quarter of 2004, and the concerns about overinvestment and overheating in some sectors (such as steel, aluminium, cement, automobiles and real estate), GDP growth decelerated markedly in the second quarter of last year. This was partly the result of administrative measures, in particular restrictions on land use and credit rationing, gradually introduced by the authorities since mid-2003 to rein in investment in the overheating sectors. However, economic activity picked up pace again in the third and fourth quarters of the year, implying a modest acceleration in GDP growth for 2004 as a whole (to 9.5%, from 9.3% in 2003). The source of GDP growth has partially shifted away from investment towards net exports and consumption. A mild slowdown of economic growth is expected in 2005 and 2006, with growth projected to reach about 8.6% this year and 8.4% next year.

In the ***EFTA-countries***, growth has also been fairly strong. In ***Norway***, economic activity continued to expand briskly last year, led by a further surge in private consumption. Real GDP growth is estimated to have reached 3% in 2004 and is expected to accelerate to 3.8% in 2005, before falling back to 2.9% in 2006. The recovery of the ***Swiss*** economy, which began in the second half of 2003, continued in 2004, with GDP growth of 1.7%. Expansionary monetary and fiscal policies have underpinned domestic demand growth. GDP growth is forecast to reach 1.3% and 1.7%, respectively, in 2005 and 2006.

The ***four Candidate Countries*** are expected to benefit from strong domestic demand, driven by robust consumer confidence, declining inflation and strong, largely FDI-financed, investment growth. However, in spite of this, GDP growth is expected to slow down over the forecast period, to around 5% for the group as a whole. The decline in inflationary pressures is in general expected to continue, especially in the two high-inflation countries, Turkey and Romania. With the exception of Romania, the situation of public finances is expected to improve further, with Bulgaria being close to balance, while the deficits in Croatia and Turkey are expected to diminish towards 3% of GDP. The demand-driven growth is accompanied by significant current account deficits, which – with the exception of Turkey – have so far largely been financed by FDI inflows.

Despite persistently high hydrocarbon prices, growth in ***Russia*** decelerated at the end of last year, partly due to lower business confidence resulting from the slow pace of structural reforms and government intervention in the economy. As in previous years, Russia's healthy macroeconomic performance was mainly driven by the external sector, although both domestic consumption and investment continued their gradual recovery. In 2005-2006, growth is likely to decelerate slightly further. The current account surplus should increase and stay above 10% in 2005, although the expected gradual fall in oil prices later this year and in 2006 should lead to a slight reduction of the surplus over time.

Growth was even higher in ***other CIS countries***. For instance, Ukraine's GDP growth was above 12% and that of Belarus exceeded 11%. All these countries benefit from sustained external demand, as well as strong domestic demand fuelled by growth in disposable income. High commodity prices and large investment flows in natural resource sectors also boosted growth. Over the forecast period, overall GDP growth in the CIS countries, excluding Russia, is expected to slow down somewhat to 7.5% and 7.0%, respectively, in 2005 and 2006, (from 10% in 2004).

The economies of ***Latin America*** also grew strongly last year. Growth is estimated to have reached 5.6% as a result of strong global demand, higher commodity prices and a return of foreign investors' confidence. While external demand growth is expected to cool down somewhat, sustained growth of domestic demand is set to lead to annual GDP growth rates for 2005 and 2006 in the range of 3.6-3.9%.

In ***Brazil***, real GDP expanded by a 5.2% in 2004, the fastest rate of growth the country has seen since 1994. The significant upward revision reflects a stronger-than-expected pick-up in investment and exports. Domestic consumption also gathered momentum. As a result of the envisaged slowdown in external demand and ongoing monetary tightening, growth is forecast to decelerate to 3.7% this year and to remain at that level in 2006.

*Table 1.1*

**International environment**

| (Real annual percentage change) | | | | | Spring 2005 forecast | | Difference vs Autumn 2004 | |
|---|---|---|---|---|---|---|---|---|
| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2005 | 2006 |
| | | | | | **Real GDP growth** | | | | |
| USA | | 0.8 | 1.9 | 3.1 | 4.4 | 3.6 | 3.0 | 0.6 | 0.1 |
| Japan | | 0.2 | -0.3 | 1.4 | 2.7 | 1.1 | 1.7 | -1.0 | -0.6 |
| Asia (excl. Japan) | | 5.3 | 6.2 | 7.6 | 7.8 | 7.1 | 7.1 | 0.2 | 0.2 |
| of which | China | 7.5 | 8.3 | 9.3 | 9.5 | 8.6 | 8.4 | 0.4 | 0.2 |
| | ASEAN4 +Korea (a) | 2.9 | 5.3 | 4.6 | 5.3 | 5.0 | 5.3 | -0.2 | -0.1 |
| Candidate Countries | | -4.3 | 7.0 | 5.4 | 7.3 | 5.1 | 5.0 | 0.1 | -0.2 |
| CIS | | 6.3 | 5.2 | 7.7 | 8.0 | 6.5 | 5.8 | -0.5 | 0.0 |
| of which | Russia | 5.1 | 4.7 | 7.3 | 7.1 | 6.0 | 5.3 | -0.6 | 0.2 |
| MENA | | 0.6 | 1.4 | 2.2 | 5.9 | 5.4 | 4.8 | -1.6 | -0.5 |
| Latin America | | 0.4 | -0.2 | 1.7 | 5.6 | 3.9 | 3.6 | 0.2 | -0.1 |
| Africa | | 1.3 | 4.4 | 3.8 | 4.2 | 5.7 | 6.1 | 1.3 | 1.6 |
| World | | 2.3 | 2.8 | 3.7 | 5.0 | 4.2 | 4.1 | 0.0 | -0.1 |
| World excl. EU25 | | 2.4 | 3.2 | 4.5 | 5.7 | 4.8 | 4.6 | 0.0 | 0.0 |
| | | | | | **World trade** | | | | |
| World import growth | | -0.6 | 4.6 | 7.0 | 10.7 | 8.2 | 7.4 | 0.1 | -0.3 |
| World import growth excl. EU25 | | -2.1 | 6.8 | 9.5 | 12.8 | 9.1 | 7.7 | 0.3 | -0.6 |
| Extra EU25 export market growth | | : | : | : | 12.1 | 9.1 | 7.7 | 0.2 | -0.3 |

(a) ASEAN4 : Indonesia, Malaysia, Philippines, Thailand.

# Chapter 2

## The economies of the euro area and the EU

# 1. Growth entered a soft patch in the second half of 2004

### Growth lost momentum in the second half of 2004

After surprising on the upside during the first half of last year, with growth rates at or above potential, the pace of expansion of economic activity in the EU decelerated unexpectedly below potential in the second half of the year. Quarter-on-quarter (q-o-q) growth in the EU slowed from 0.6% in the second quarter to 0.3% in third and fourth quarters of 2004. In the euro area, the slowdown was from 0.5% in the second quarter to 0.2% in the last two quarters of 2004 (table 2.1). This outturn was one tenth of percentage point lower than expected last autumn for the EU and two tenths of a percentage point lower for the euro area. The slowdown was due to a significant drag from net exports. A particularly strong inventory build-up prevented negative growth in the third quarter, while a rebound in private domestic demand offset the negative contributions of inventories and net exports in the fourth quarter.

*Table 2.1*

**Quarter-on-quarter GDP growth in the euro area**

| % change on previous period | | | | |
|---|---|---|---|---|
| **Growth components** | **04Q1** | **04Q2** | **04Q3** | **04Q4** |
| GDP | 0.7 | 0.5 | 0.2 | 0.2 |
| Consumption expenditure of households | 0.8 | 0.0 | 0.1 | 0.5 |
| Government consumption expenditure | 0.2 | 0.4 | 0.4 | 0.2 |
| Gross fixed capital formation | -0.1 | 0.5 | 0.6 | 0.6 |
| Changes in inventories (% of GDP) | 0.0 | 0.1 | 0.8 | 0.7 |
| Export* of goods and services | 1.4 | 2.7 | 1.3 | 0.5 |
| Import* of goods and services | 0.4 | 2.4 | 3.1 | 1.0 |
| **Contributions to GDP growth (% points)** | | | | |
| Consumption expenditure of households | 0.4 | 0.0 | 0.0 | 0.3 |
| Government consumption expenditure | 0.0 | 0.1 | 0.1 | 0.0 |
| Gross fixed capital formation | 0.0 | 0.1 | 0.1 | 0.1 |
| Changes in inventories | -0.1 | 0.1 | 0.7 | -0.1 |
| Net exports | 0.4 | 0.2 | -0.7 | -0.2 |

* Incl. intra-euro area trade

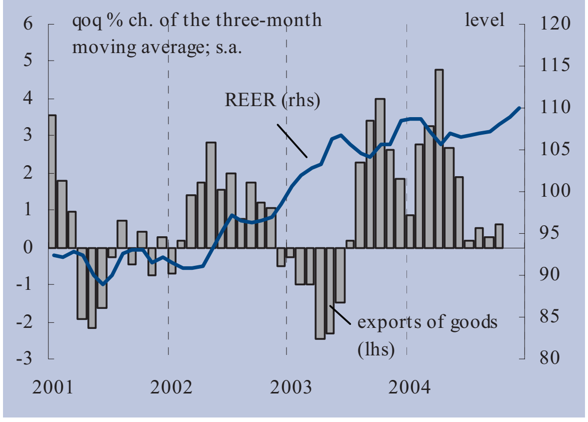
At the country level, the lower-than-anticipated outcome in the final quarter of last year was due, in particular, to unexpected declines in GDP in Germany (-0.2%) and Italy (-0.3%), while growth in France and Spain was robust (both 0.8%). In assessing the outturn for this quarter, it is worth noting that the working-day adjustment had a negative impact on the data, which may be exaggerated. In Germany, for example, when measured by the non-working-day-adjusted GDP data, the economy grew by 0.4% q-o-q in the fourth quarter of 2004.

The composition of growth in the euro area gradually changed from a predominantly external-driven growth in the first quarter of 2004 to a negative impulse from net trade in the last two quarters. Encouragingly, the underlying dynamics of growth in the fourth quarter showed a pick-up in consumption expenditure growth and strong investment growth. Although quarterly data show that growth entered a soft patch in the second part of last year, in terms of annual averages, growth reached 2% in the euro area and 2.4% in the EU. Hence, both regions showed a considerable pick-up compared to the previous year, when growth was 0.6% and 1.0%, respectively.

### Fading net exports

After contributing 0.4 and 0.2 pp, respectively, in the first two quarters of 2004, net exports subtracted 0.7 and 0.2 pp, respectively, from overall euro-area q-o-q GDP growth in the subsequent two quarters. The sizable negative contribution of net exports in the third quarter was due to a deceleration of export growth, from 2.7% in the second quarter to 1.3%, coupled with a rise in import growth, from 2.4% in the second quarter to 3.1%. In the last quarter, the drag from net export was less strong, since both export and import growth declined markedly, to 0.5% and 1.0%, respectively.

*Graph 2.1:* **Exports of goods and real effective exchange rate, euro area**

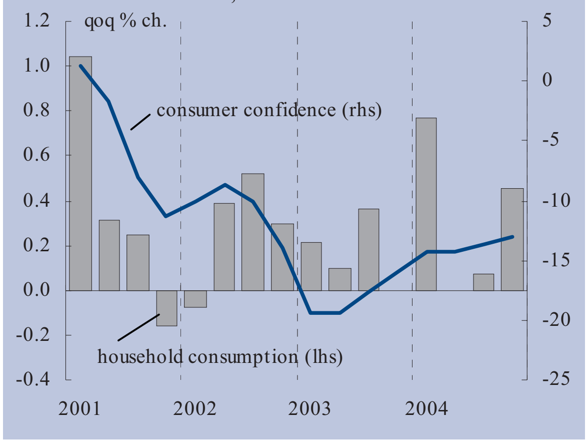



To a large extent, the deceleration of export growth reflected the adverse impact on euro-area foreign demand from the softening of global growth around the middle of 2004. In addition, the appreciation of the euro since 2002 appears to have been gradually and increasingly weighing on external competitiveness. Indeed, in the last quarter of 2004, the euro real effective exchange rate (REER) moved to its highest level in the last six years, which implied a deterioration of euro-area cost competitiveness. However, at the country level, the performance in terms of cost competitiveness has varied greatly, with Germany and the Netherlands seeing an improvement over the four quarters of last year, while Greece, Spain, Italy and Ireland recorded considerable losses.

**Private consumption expenditure still sluggish**

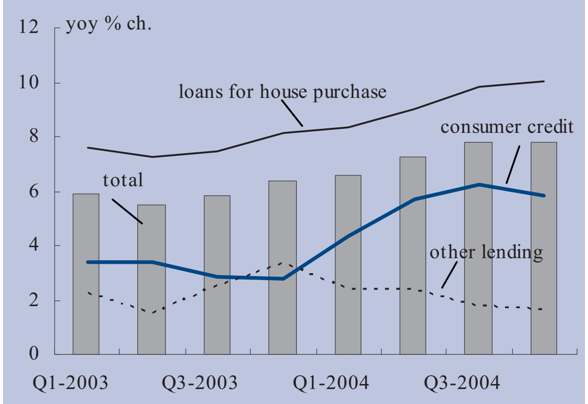
Following a robust 0.8% (q-o-q) growth rate in the first quarter of last year, which was the highest in three years, private consumption growth in the euro area slowed significantly in the middle of the year. It stagnated in the second quarter and grew by a mere 0.1% in the third quarter. However, in the final quarter, private consumption staged a recovery, growing by 0.5%. While the latest figures are encouraging, it still seems unclear whether private consumption is on the verge of re-establishing itself in a sustained manner as a motor of the domestic recovery.

*Graph 2.2:* **Private consumption and consumer confidence, euro area**




The lacklustre performance of private consumption in this recovery primarily reflects stagnating consumer confidence, which in turn has been affected by such factors as the slow deceleration of headline inflation, persisting uncertainties related to developments and reforms in the labour market, as well as the budgetary situation in some Member States. Consumer confidence in the euro area, as measured by the consumer sentiment indicator of the EU Harmonised surveys, was unchanged in December from the previous month, at a level still below its historical average. Moreover, this level was broadly maintained throughout last year. As explained in section 5 of this chapter, headline HICP inflation was slow in decelerating last year, with strong rises in energy prices playing an important role. Most probably, these developments have dented purchasing power, and have had a larger-than-expected effect on real disposable income. The labour market, as discussed in section 4 of the present chapter, while not deteriorating, did not improve significantly either during the course of 2004.

*Graph 2.3:* **Loans to households, euro area**

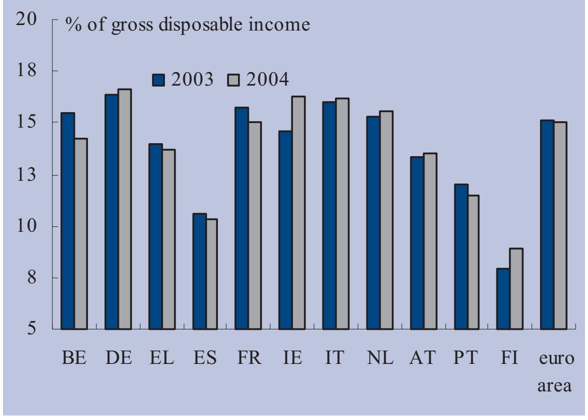



Source: ECB

The observed behaviour of private consumption raises questions about the relatively high level of liquidity and robust credit growth in the euro area economy. Monetary data for the beginning of this year confirmed the persistence of stronger monetary dynamics observed since mid-2004, with M3 growth increasing to 6.6% in the year to January 2005. This strengthening of monetary dynamics was driven, on the counterpart side, mainly by robust credit expansion to the private sector. This can be seen as a response to the historically very low levels of interest rates in the euro area. The annual rate of growth of Monetary and Financial Institutions (MFI) loans to the private sector rose to 7.3% in the year to January 2005. The main contribution to the expansion came from lending to households for house purchase, which grew at an annual rate of 10.1% in January. Such developments would suggest that continued robust credit expansion to households is contributing to strong house price dynamics in several parts of the euro area. Buoyant housing markets can be a source of wealth effects, which provide support to consumption at an opportune time in the cycle. However, set against a combination of ample liquidity and strong credit growth, such developments could also generate concerns about whether the conditions might not be contributing to unsustainable price increases in property markets in some parts of the euro area.

At the same time, the savings rate of households in the euro area is estimated to have remained nearly unchanged last year at just above 15% of gross disposable income. This development, however, conceals different behaviour across Member States. For instance, in Germany, the household savings rate continued to increase in 2004, while it maintained a declining path in France.

*Graph 2.4:* **Household saving rates, euro area and Member States**



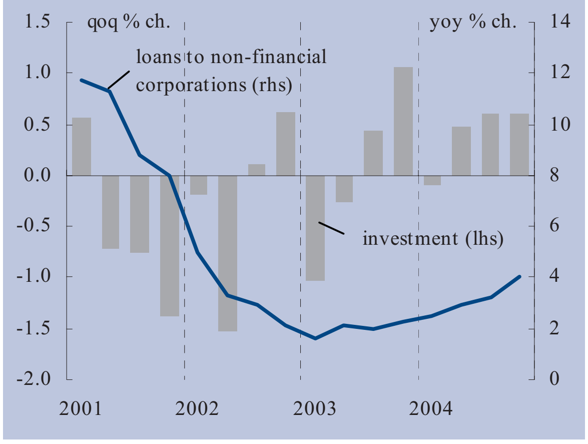

Over the forecast horizon, the savings rate in the euro is projected to decline only slightly, falling to somewhat below 15% in 2006. A relevant concern here is the point at which the structural reforms implemented in several Member States will start to have the expected positive impact on the confidence of economic agents, thereby affecting consumption and savings behaviour in a growth-supportive manner.

### Investment provides encouragement

After contracting at the beginning of last year (-0.1% q-o-q), investment gradually picked-up speed again. Gross fixed capital formation rose by 0.5% in the second quarter and by 0.6% in the last two quarters of the year. This upward movement, in line with some indicators typically correlated with investment, indicate that capital spending might be on a more sustained recovery path, thus providing a brighter spot in an otherwise subdued domestic-demand picture.

Capacity utilisation in the manufacturing sector was up by 0.4% in the fourth quarter of last year compared to the previous quarter and, for the first time in nearly three years, just above its historical average (over the period 1993-2004). New orders for investment goods were also up in December, increasing markedly by 8.8% compared to the previous month, by far the highest monthly growth rate in the year. Moreover, as in the case of households, the annual growth of MFI loans to non-financial corporations increased further in January 2005, to 5.7%, thereby confirming the upward trend observed since early last year.

*Graph 2.5:* **Investment in the euro area**




With interest rates remaining at historically low levels, and productivity and corporate balance sheets having improved, the conditions seem to be in place for continued strength in investment over the forecast horizon. However, the level of confidence and sluggish domestic demand remain potential constraining factors. During 2004, business sentiment indicators provided no clear indications of improving confidence, although towards the end of the year some general upward movements were observed. It seems also plausible that the lack of sustained improvements on the consumption side led to a cautious approach by firms with regard to capital spending and employment decisions, thus reinforcing the mechanics of the current period of subdued economic activity.

*Graph 2.6:* **Business confidence, euro area**


Source: National Bank of Belgium, Ifo Institute Germany

Inventories also picked-up sharply in the third quarter of 2004, surging to 0.8% of GDP, after 0.1% in the previous quarter. The rise in inventories contributed 0.7 pp to GDP growth, offsetting the drag from net exports in the same quarter. Although declining slightly, inventory accumulation remained at a high level in the last quarter of 2004. Consequently, the contribution to GDP growth turned negative in that quarter. Since the change in inventories is treated as a "residual" item in the national accounts, it is difficult to explain the sharp increase in the second half of 2004. On the basis of some evidence at Member State level on the breakdown of imports by type of goods, the rise may partly mask imported capital goods still recorded as inventories. On the other hand, it may also reflect a mini inventory cycle, with firms accumulating unsold goods as a consequence of the unanticipated slowdown in demand.

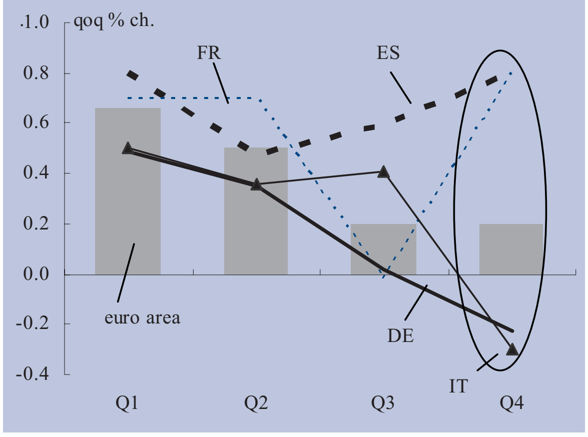
### Domestic demand remained soft

Reflecting the developments described above, q-o-q growth in domestic demand (excluding inventories), in the euro area rose only modestly, from 0.2% in the second quarter to 0.3% in the third quarter and 0.4% in the fourth quarter. The pick-up in investment explained the acceleration in the third quarter, while in the fourth quarter the encouraging recovery in consumption was also a contributory factor. Given the unexpected slowdown in the second half of last year, a key issue at the current juncture is its likely impact on the future trajectory of the economy, and particularly on the point at which the recovery will regain momentum in 2005. This is discussed below in section 3 of the present chapter.

### Growth dispersion across Member States

Divergence in GDP growth within the euro area widened somewhat in the course of last year. This was particularly noticeable between the four largest Member States. In the first quarter of 2004, there was only a 0.3 pp difference between in the growth rates of these four countries. By the last quarter of 2004, the difference had surged to over a full percentage point, with Spain and France registering a robust 0.8% growth and Italy contracting by 0.3%. An important element influencing the widening intra-area growth dispersion among the four largest economies is the behaviour of private consumption. In France and Spain, consumption has been growing at robust pace, while consumer expenditure has been rather weak in Italy and Germany.

*Graph 2.7:* **GDP quarter-on-quarter growth in 2004, euro area and selected countries**




Outside the euro area, most of the newly acceded Member States continued to show a strong growth performance in 2004. This was particularly the case in the Baltic countries, which registered annual average growth rates in the range of 6-8½% last year. Among the largest economies, the highest growth rate is estimated for Poland (5.3%), followed by Czech Republic and Hungary (both 4%). Among the three Member States that have been in the EU for a longer period of time, growth reached 2% in Denmark and 3.1% in the UK, supported by strong domestic demand, while in Sweden growth was 3.5%, boosted also by a substantial expansion of exports.

## *Box 2.1:* Some specificities behind the forecasts

**Exchange rates**

For currencies in ERM II, constant nominal exchange rates are assumed. This means that the central rate of these currencies against the euro will remain constant over the forecast period. The currencies are: the DKK (Danish kroner), the EEK (Estonian kroon), the LTL (Lithuanian litas) and SIT (Slovenian tolar). For the CYP (Cyprus pound), and the HUF (Hungarian forint) constant nominal exchange rates vis-à-vis the euro are also assumed. Constant real exchange rates (that is nominal rates adjusted for changes in GDP deflators) are assumed for the PLN (Polish zloty), the CZK (Czech koruna), the SKK (Slovakian koruna), the SEK (Swedish krona) and the GBP (sterling). Constant real exchange rates are also assumed for non-EU currencies.

For currencies pegged to a basket (the Latvian lat and the Maltese lira), the future rate is deduced from the evolution of the currencies constituting the basket.

The reference period used for the exchange rate constancy assumption is the first quarter of 2005, calculated on the basis of historical values up to 10 March 2005 and the average of the two-week period from 24 February to 10 March 2005 for the remainder of the period. The average USD/EUR rate for the first quarter of 2005 was 1.31 and the JPY/EUR rate 136.9. This leads to implied average USD/EUR rates of 1.31 in 2005 and 1.32 in 2006, and average JPY/EUR rates of 135.4 and 132.3 in 2005 and 2006 respectively.

**Interest rates**

Short-term interest rates are set in order to reflect the price stability objective of monetary policy. Long-term interest rate assumptions are based on developments in short-term rates and an assessment of economic conditions. Attention is paid to international financial linkages, market expectations and budgetary developments.

**Commodity prices**

Commodity prices are forecast taking into account market conditions. In the case of oil prices special attention is paid to futures prices. Prices for Brent oil are, accordingly, projected to be 50.9 USD/bl in 2005 and 48.0 USD/bl in 2006.

Prices of primary commodities, excluding fuels, are assumed to increase by 1.3% in 2005 and to decline by approximately 1% in 2006. In 2005, the prices of all groups, except for agricultural products, are expected to increase compared to 2004.

**Budgetary data**

Data for 2004 are based on government debt and deficit data transmitted by Member States to the European Commission in March 2005. In publishing these data, Eurostat has indicated that, for certain Member States (namely Greece and Italy), it "has to undertake further examination of deficit and debt data before the figures can be validated", while there are “ongoing discussions” with the national statistical authorities of Latvia, Lithuania and Portugal, “which may lead to a subsequent revision of the data” (see Eurostat news release N° 39 of 18 March 2005). For 2005, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2006, the "no-policy change" assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail at the time of the completion of the forecast.

The general government balances reported by Member States to the European Commission may be different from those published in the national accounts, because of an amendment to ESA95. According to Regulation (EC) N° 2558/2001 on the reclassification of settlements under swaps agreements and forward rate agreements, interest flows under swaps have been reclassified from “income property” to “financial account”. However, the Regulation states the need for specific treatment of these flows for data transmitted under the excessive deficit procedure (EDP), allowing for interest expenditure to include swaps, contrary to ESA95 new rules. In the forecasts, it is the EDP definition of the general government balance that is presented.

**Calendar effects on GDP growth and output gaps**

Last year was a leap year. Compared to the average number of working days, there were 2.8 additional working days in 2004. This translates to an estimated impact of 0.24 pp on the GDP growth rate for the euro area in 2004. On the other hand, for 2005, the effect is estimated at a negative 0.13 pp. Annual GDP figures are not adjusted for the number of working days, while quarterly national accounts figures of most countries are. The calculation of potential GDP, from which the output gap is derived, does not involve any adjustment for the number of working days in the leap year, because this is considered to be temporary, which should not affect the cyclically-adjusted balances.

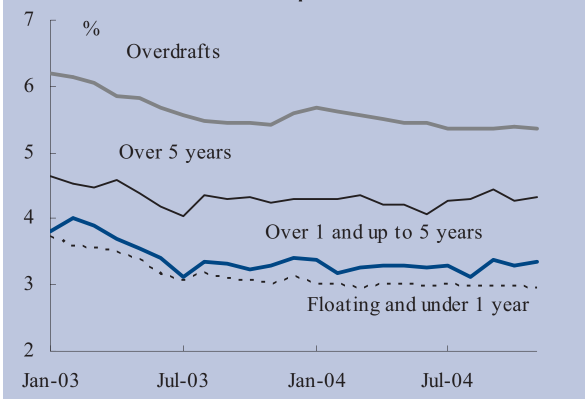
# 2. Financial conditions for firms and households still growth-supportive

This section reports on balance sheets and financing flows in the corporate and household sectors, with a view to their potential implications for investment and consumption spending.

**Non-financial corporations**

The cost of market financing and bank lending has fallen further in recent months. Euro area share prices have risen by about 9% compared to the autumn forecasts (late-September), in line with the main world equity indexes. Euro area short-term and long-term bank lending rates remain low in absolute levels and in real terms, and euro area banks have reported an easing of credit standards in the last two quarters of 2004 (cf. January 2005 ECB Bank Lending Survey). Spreads between euro-denominated corporate bonds and comparable government bonds have narrowed further and are historically low.

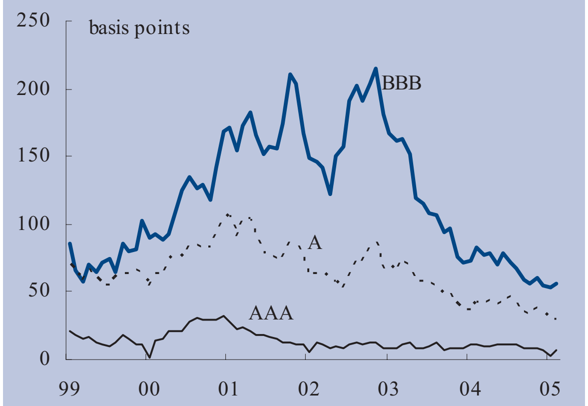
*Graph 2.8:* **Bank lending rates to euro-area non-financial corporations**




Source: ECB    Note: loans over € 1 bn.

The most recent data confirm that, so far, companies have used the availability of cheap funding mainly to restructure their balance sheets and reduce financing costs. The ratio of debt to GDP in the euro area non-financial corporate sector stabilised last year after declining somewhat from the peak in the second half of 2003. The average maturity of corporate liabilities has been lengthened, and the debt/equity ratio has declined substantially from the high in early-2003 (though only to the levels of mid-2002). Balance sheets have also been strengthened by the revaluation of companies' large stock of share holdings, as well as by the accumulation of cash balances. As a result of such restructuring, the interest burden on bank loans to companies has decreased, from €145bn in January 2003 to €131bn in September 2004, according to ECB estimates.

*Graph 2.9:* **Corporate bond spreads over government bonds (monthly averages), euro area**



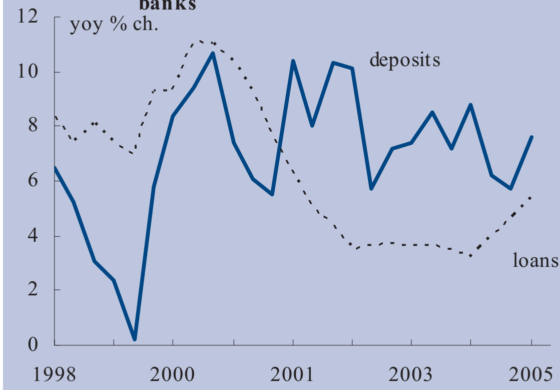

Source: Datastream

A corollary of these developments is that, in spite of the low cost of external funding in 2004, overall financing flows to non-financial corporations have continued to grow at a moderate pace. However, there was a noteworthy, albeit slight, acceleration in the recourse of companies to external financing in the second half of 2004. The acceleration was due mainly to stronger loan growth, whereas issuance of debt securities and shares remained subdued.

The expansion in the cash balances of non-financial corporations, in a context of stronger profitability and low cost of funds, would suggest that credit constraints are not a factor holding back investment in the euro area. This is supported by the reportedly still negative net loan demand by enterprises at the end of last year. The major factors contributing to the decline in net loan demand were weak fixed investment, increased use of non-bank sources of external financing (such as corporate bonds or trade credit) and the enhanced availability of internal finance. Interestingly, however, the January 2005 ECB Bank Lending Survey showed a pick up in demand for loans by SMEs.

All in all, given the favourable financing conditions, improved profitability and corporate restructuring, the continuing sluggishness of investment growth is more likely to be related to uncertainties over the demand outlook, both domestic (a hesitant recovery and an unclear outlook for structural reforms in some Member States) and external factors (appreciation of the euro and high commodity prices).

*Graph 2.10:* **Loans and deposits of euro-area non-financial companies with euro-area banks**




Source: ECB

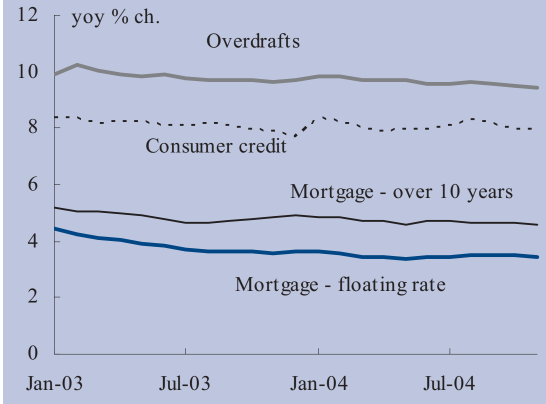
In the UK, where capital investment has continued to grow at a robust rate in 2004, capital gearing levels (debt as a proportion of assets) remain high but there is little evidence that companies, on the aggregate, are seeking further reduction in gearings.

## Households

In the euro area, as mentioned in section 1 of this chapter, household borrowing continued to accelerate in the final part of 2004, in an environment of low interest rates and rising house prices. The growth of loans for house purchase, in particular, reached a 10% annual rate at the end of the year. There was also a marked pick up in the growth rate of consumer credit (from 2.4% at the end of 2003 to above 6% at the end of 2004), facilitated by a progressive easing of credit standards by euro-area banks.

Euro-area household debt now exceeds 55% of GDP. However, low interest rates have kept interest gearing at a low level: according to ECB estimates, the ratio of interest payments to disposable income fell between 2000 and 2003, in spite of the rise in the stock of debt.

*Graph 2.11:* **Bank lending rates to euro-area households**




Source: ECB

In the UK, household debt has increased further (to 140% of disposable income) as a result of continuing strong growth of both secured and unsecured debt. In the housing market, prices appear to have stabilised in recent months, and there are indications of a cautious

*Table 2.2*

**Financing of euro-area non-financial private sector**

(annual rates of growth and key ratios)

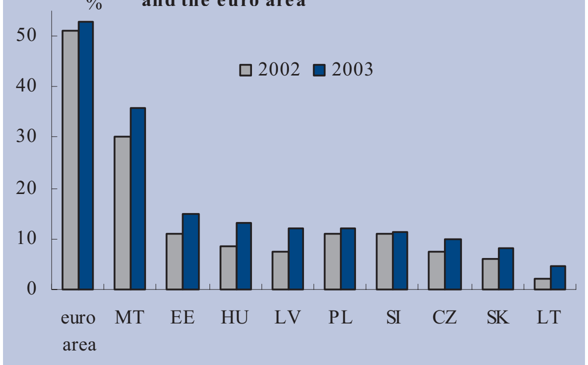
| | Q1-02 | Q2-02 | Q3-02 | Q4-02 | Q1-03 | Q2-03 | Q3-03 | Q4-03 | Q1-04 | Q2-04 | Q3-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-financial corporations** | **4.1** | **3.3** | **2.7** | **2.5** | **3** | **3.4** | **3.7** | **3** | **1.8** | **1.8** | **2 1/4** |
| loans | 5.2 | 5.1 | 3.2 | 3.9 | 4.6 | 4.3 | 4.4 | 3.2 | 1.6 | 2 | 2 3/4 |
| debt securities | 15.6 | 8.9 | 6.8 | 4.1 | 8 | 11.3 | 9.4 | 10 | 4.2 | 4.1 | 3 3/4 |
| quoted shares | 1.7 | 0.9 | 1.2 | 0.7 | 0.4 | 0.8 | 0.9 | 0.8 | 1 | 0.4 | 1/2 |
| debt-to-GDP ratio | 62 | 62 | 62 | 62 | 62 | 63 | 63 | 62 | 62 | 62 | 62 |
| debt-to-equity ratio | 121 | 142 | 189 | 184 | 210 | 184 | 183 | 166 | 160 | 162 | 165 |
| **Households** | **5.7** | **6** | **6.1** | **6.5** | **6.7** | **6.5** | **7.1** | **7.1** | **7.4** | **8** | **8 1/4** |
| short-term | -0.2 | 0.7 | 0.2 | 0.8 | -0.3 | -1.6 | -1.5 | -0.9 | 0.3 | 1.6 | 2 3/4 |
| long-term | 6.2 | 6.5 | 6.7 | 7.1 | 7.3 | 7.2 | 7.9 | 7.8 | 8 | 8.5 | 8 3/4 |
| debt-to-GDP ratio | 50 | 50 | 50 | 51 | 51 | 52 | 53 | 53 | 53 | 54 | 55 |

Source: ECB

attitude on the part of mortgage providers (e.g. a further reduction in loan-to-value ratios on new mortgages).

In spite of the large stock of debt, official reports point to only limited financial stress in the household sector as a whole. For instance, median income gearing, defined as the proportion of disposable income allocated to servicing mortgage debt, is 13%, not far from the long-term average.

*Graph 2.12:* **Household debt-to-GDP ratios in the recently-acceded Member States of the EU and the euro area**



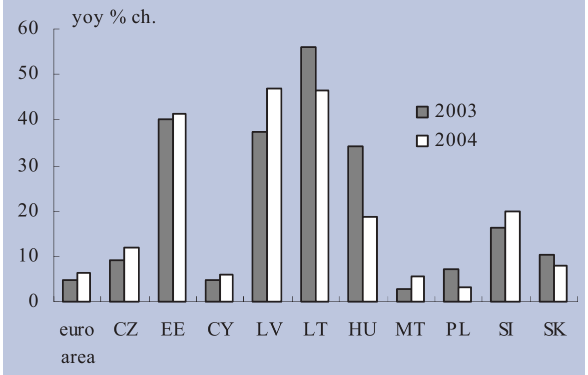

Source: ECB

In most recently-acceded Member States, private sector debt continued to expand rapidly. This trend is likely to continue in the future, as financial structures converge towards the rest of the EU. Most household debt is used for house purchase. In spite of the impressive growth rates, household debt levels in recently-acceded Member States are typically between 5-10% of GDP, well below the rest of the EU (Malta, where household debt is 35% of GDP, is the exception).

A prolonged period of fast credit growth and rising house prices is a potential concern as it may lead to the build up of financial imbalances. However, the impact of such a configuration on private consumption is unclear. Different consumer groups are affected in opposite ways by higher house prices. For instance, home owners gain but future buyers and tenants (if the higher house prices feed to rents) lose out. In general, in most euro-area countries, the structures of housing and mortgage markets are thought to be less conducive to strong wealth effects than in the UK or the US. Even in the latter countries, survey-based studies of the utilisation of withdrawn housing equity suggest that only a minor part has been used for consumption, with the rest being used for financial investment or house improvement.

Overall, the available evidence suggests only limited short-term risks to consumption growth and banking sector stability from moderate movements in house price inflation or interest rates. However, the higher debt accumulated by households in some Member States has increased their vulnerability to abrupt adverse changes in these variables.

*Graph 2.13:* **Bank loans to the non-financial private sector**




2004 figure refers to November.

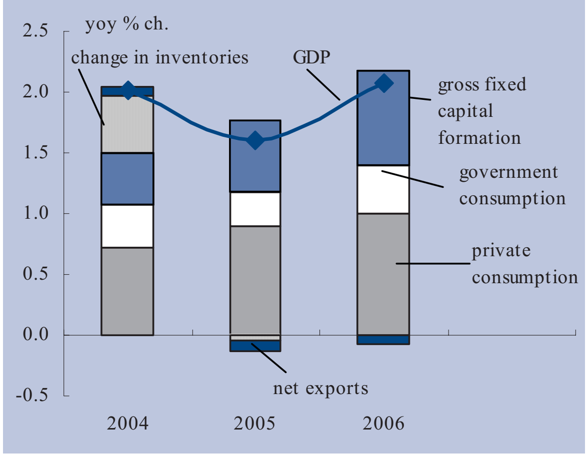
# 3. A return of confidence is key to the growth outlook

**A return to potential growth during the course of this year**

Following the unexpected deceleration experienced in the second half of last year mainly as a result of the oil price hike and the strength of the euro, the carryover into this year is lower. Nonetheless, growth is projected to return to potential during the course of this year - reaching 1.6% in the euro area and 2% in the EU - before accelerating to 2.1% and 2.3%, respectively, in 2006. Insofar as the quarterly profile for euro-area[1] growth is concerned, after an acceleration to 0.5% q-o-q in the first quarter, this pace is projected to prevail for the remaining quarters of this year and to increase to 0.6% q-o-q in the first half of 2006.

In an extension of the pattern that emerged towards the end of last year, growth over the forecast horizon is driven by an acceleration of domestic demand, while the net trade contribution to growth is projected to remain close to zero in both the euro area and in the EU. The pace of investment expenditure, in particular, is expected to pick up in view of the historically low real interest rates, the improvement in corporate balance sheets and the widening of profit margins. This acceleration of investment is to be accompanied by a more gradual recovery of private consumption.

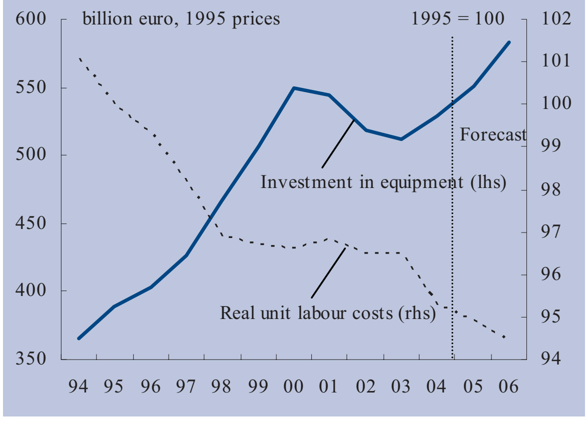
*Graph 2.14:* **Growth contributions, euro area**




At the turn of the year, several survey indicators provided more encouraging signals regarding the economic outlook. However, recent data releases have been somewhat less encouraging where business confidence is concerned, probably as a result of higher oil prices and the strong euro. Consumer confidence, which had been on a gradual rising path since the turnaround in 2003, appears to have stabilised. Country-specific indicators suggest that there are considerable differences across Member States in the level of consumer confidence.

The completion of structural reforms in some Member States has laid the foundation for the restoration of confidence among entrepreneurs and consumers. The performance of the labour market is also expected to play an important role in underpinning consumer confidence. Real compensation per head is projected to grow marginally in the euro area this year and to pick up pace next year. Stronger increases are forecast for the EU as a whole. Similarly, it is envisaged that employment growth will be a supportive factor, reaching 0.7% this year and 0.9% next year in the euro area. Finally, housing market wealth is also expected to boost private consumption in some Member States.

*Graph 2.15:* **Investment in equipment and real unit labour costs, euro area**




At the same time, wage moderation will help to bring real unit labour costs down, boosting corporate profits in the process. Increased profitability should then encourage firms to invest.

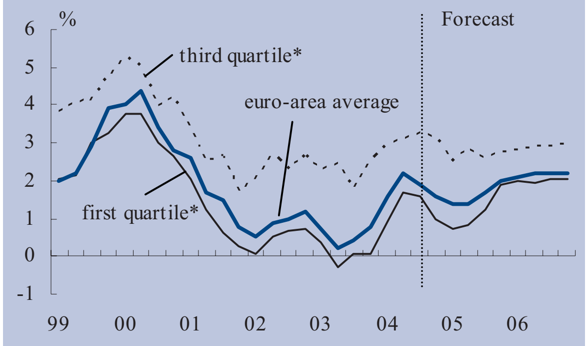
**Only a small downward revision to annual growth in 2006**

Compared to the autumn projections, lower annual growth is foreseen for 2005, as a result of the disappointing performance of the EU economy in the second half of last year, together with a less dynamic

[1] The EU25 profiles are heavily influenced by seasonal factors.

profile foreseen for 2005. The growth forecast for 2006 has only been marginally revised, since a somewhat steeper profile during the first half of 2006 is envisaged. More supportive financial conditions provide a partial explanation for this additional dynamism.

*Graph 2.16:* **Distribution of quarterly GDP growth (y-o-y) across the euro area**




*Third quartile: three Member States have growth above this value
*First quartile: three Member States have growth below this value

**Growth rates of Member States to converge**

While the divergence between Member States' growth rates increased during 2004, a rapid convergence of GDP growth dynamics is projected from the beginning of this year on. The convergence of overall GDP growth will continue to hide differences in growth composition across Member States.

**Risks**

The risks to the outlook for the EU economy are tilted to the downside over the forecast horizon.

On the external side, global imbalances continue to pose a downside risk. In the forecast, the US current account balance deficit is set to widen to 5.9% of GDP in 2005 – before stabilising at 5.8% of GDP in 2006. There is a risk that the unwinding of such imbalances could lead to disorderly movements in exchange rates, which would also impact on confidence and real activity, including world trade. In this respect, an associated global downside risk is the potential for misallocation of capital as a result of the low risk premia on emerging market bonds and other risky assets.

A further risk is linked to the development of

*Table 2.3*

**Composition of growth - EU25**

(Real annual percentage change)

| | 2003 | | | | | | | Spring 2005 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn Euro curr. prices | % GDP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| | | | Real percentage change | | | | | | | |
| Private consumption | 5816.2 | 58.5 | 3.6 | 3.1 | 2.0 | 1.4 | 1.5 | 1.8 | 1.9 | 2.0 |
| Government consumption | 2087.9 | 21.0 | 2.0 | 2.2 | 2.5 | 3.1 | 1.9 | 2.0 | 1.7 | 2.1 |
| Gross fixed capital formation | 1909.0 | 19.2 | 5.2 | 4.8 | 0.3 | -1.4 | 0.1 | 3.0 | 3.6 | 4.1 |
| Change in stocks as % of GDP | 8.9 | 0.1 | 0.4 | 0.4 | -0.1 | -0.3 | 0.0 | 0.4 | 0.3 | 0.3 |
| Exports of goods and services | 3468.5 | 34.9 | 5.2 | 12.1 | 3.3 | 1.8 | 1.2 | 6.2 | 6.0 | 6.1 |
| Final demand | 13290.5 | 133.6 | 3.9 | 5.5 | 1.9 | 1.2 | 1.4 | 3.5 | 3.2 | 3.5 |
| Imports of goods and services | 3342.6 | 33.6 | 7.1 | 11.1 | 2.1 | 1.3 | 2.6 | 6.6 | 6.5 | 6.5 |
| GDP | 9947.9 | 100.0 | 2.9 | 3.6 | 1.8 | 1.1 | 1.0 | 2.4 | 2.0 | 2.3 |
| GNI | 9900.8 | 99.5 | 2.8 | 3.6 | 1.7 | 1.1 | 0.9 | 2.6 | 2.1 | 2.4 |
| p.m. GDP euro area | 7267.5 | 73.1 | 2.8 | 3.5 | 1.6 | 0.9 | 0.6 | 2.0 | 1.6 | 2.1 |
| | | | Contribution to change in GDP | | | | | | | |
| Consumption | | | 2.5 | 2.2 | 1.7 | 1.4 | 1.3 | 1.5 | 1.4 | 1.6 |
| Investment | | | 1.1 | 1.0 | 0.1 | -0.3 | 0.0 | 0.6 | 0.7 | 0.8 |
| Inventories | | | -0.1 | 0.0 | -0.4 | -0.2 | 0.2 | 0.3 | 0.0 | 0.0 |
| Exports | | | 1.7 | 4.1 | 1.2 | 0.7 | 0.5 | 2.4 | 2.4 | 2.5 |
| Final demand | | | 5.2 | 7.3 | 2.5 | 1.6 | 2.0 | 4.8 | 4.5 | 5.0 |
| Imports (minus) | | | -2.3 | -3.7 | -0.8 | -0.5 | -1.0 | -2.5 | -2.5 | -2.7 |
| Net exports | | | -0.6 | 0.4 | 0.5 | 0.2 | -0.5 | 0.0 | -0.1 | -0.1 |

commodity prices, specifically oil prices. Higher-than-expected oil prices could curb the vigour of EU export markets. However, on the positive side, a strong euro can shelter the euro area partially from the increases in oil prices. Moreover, higher oil prices increase the wealth of oil-exporting countries that typically have a close trading relationship with the EU.

For private consumption, lower-than-expected inflation, for example as a result of the favourable base effects, represents an upside risk. Such a development would boost real disposable income of households. On the other hand, consumption could be held down by a slower-than-expected increase in disposable income, in the event of disappointing labour market developments. Moreover, consumer confidence may not pick up quickly, as it can take a while for structural reforms to have a positive effect on consumption. A final downside risk to consumption is overheating in specific housing markets, which carries a potential for adverse corrections in consumer sentiment and spending.

Gross fixed capital formation appears to be the only area of economic activity for which risks are tilted to the upside. As explained in the Section 2, the development of corporate investment has been subdued, when judged by the favourable financing conditions, improved profitability and the progress made in corporate restructuring. A more dynamic profile for investment (than foreseen in the central scenario), as a result of the release of pent-up demand, cannot be excluded. Moreover, the past weakness of investment should be supportive of replacement investment due to deterioration of the capital stock.

The EU has apparently been slow in reaping the productivity-enhancing benefits of information and communication technology (ICT) in a range of ICT-using industries, specifically when compared to the US. While assessments in this field are seriously hampered by measurement issues, a sudden jump in productivity, as a result of past implementation of ICT, could materialise. Such an increase in productivity, which could result from progress on reform of product and labour markets, would boost investment in the EU.

The main downside risk for gross fixed capital formation is a disappointing development of overall demand. Another downside risk could be an unfavourable development in financing conditions involving rising risk premia and real interest rates.

Finally, a further deterioration in competitiveness in some Member States, which would dampen their growth performance, is also a downside risk for the aggregate regional growth performance.

# 4. Modest employment growth

### A more resilient labour market in the downturn

The euro-area labour market proved quite resilient during the economic slowdown in 2001-2003. Although labour market conditions worsened in general, the rise in the annual unemployment rate by almost one percentage point (from 7.8% to 8.7% of the labour force) was more limited than witnessed in earlier slowdowns (e.g. +3 percentage points in the early 1990s). This is partly explained by more pronounced labour hoarding in several Member States. Structural reforms appear to have improved the functioning of the labour market, as manifested by, for example, lower long-term unemployment rates, shorter average duration of unemployment spells and improved matching.

### Limited improvement in the upturn so far

As a result of labour hoarding, employment creation has been relatively limited in the economic upturn since the middle of 2003, as many enterprises had a certain 'reserve' of employees already at their disposal. Employment (measured in terms of job holders) increased by 0.2% in the third quarter of 2004, extending the period of a broadly flat (or low) employment growth to two and a half years. At the sectoral level, net job creation continued to be limited to the services sector, whereas employment in the agriculture and industry sectors declined.

*Table 2.4*

**Sectoral employment growth in the euro area**

**(Quarterly percentage change, seasonally adjusted)**

| | 2002 | 2003 | 03Q4 | 04Q1 | 04Q2 | 04Q3 |
|---|---|---|---|---|---|---|
| Whole economy | 0.6 | 0.2 | 0.0 | 0.1 | 0.2 | 0.2 |
| Agriculture | -2.0 | -2.3 | -0.1 | -0.4 | 0.1 | -0.1 |
| Industry | -1.1 | -1.5 | -0.5 | -0.5 | 0.3 | -0.2 |
| Services | 1.4 | 1.0 | 0.1 | 0.4 | 0.2 | 0.3 |

Employment expectations in the European Commission's business and consumer survey deteriorated somewhat in the euro area towards the end of 2004 and in the beginning of 2005 in both the manufacturing and the services sectors. The PMI indicator (February 2005) revealed more or less unchanged employment expectations in the services sector, and slightly deteriorating expectations in manufacturing industry.

### Unemployment peaked at around 9%

Given the moderate employment creation in 2003-04, the standardised unemployment rate stabilised at around 9% in the euro area last year. The latest available figure (from January 2005) was 8.8%. Differences continue to be sizeable across Member States with the annual unemployment rate last year ranging from around 4½% in Ireland, Luxembourg, the Netherlands and Austria to around 9½% or more in Germany, Greece, Spain and France.

A similar pattern may be observed for the EU as a whole. Despite modest employment growth, which is estimated to have been 0.5% in 2004, the unemployment rate increased marginally to 9% of the labour force. Differences across Member States are even more pronounced when account is taken of some of the recently-acceded Member States. For example, unemployment rates are estimated to have been 18-19% of the labour force in Poland and Slovakia in 2004.

### A modest pick-up in employment

Employment growth is expected to continue its gradual pick-up to 0.7% in 2005 and 0.9% in 2006 in the euro area, despite somewhat lower GDP growth (compared both to the estimated growth recorded in 2004 and to the autumn forecast for 2005). Several factors are important in explaining why the job-content of growth is increasing.

Firstly, the general trend of rising importance of the services sector is expected to continue (at the expense of the agriculture sector and manufacturing industry). With lower labour productivity in the services sector on average, GDP growth tends to become more labour intense. However, it must be noted that sectoral restructuring is partly a statistical phenomenon, given that certain services functions are outsourced from enterprises in (manufacturing) industry.

Secondly, employment growth is higher in some of the euro-area Member States, notably Spain, Ireland and Luxembourg, particularly in the services sector (as well as in the construction sector in the cases of Spain and Ireland).

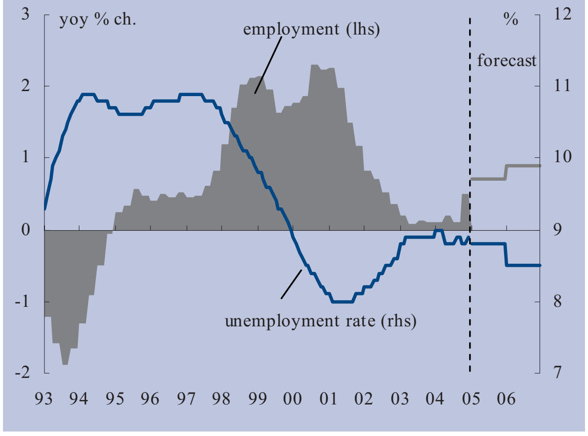
Thirdly, job creation also stems from measures taken to stimulate employment in some Member States, such as the so-called mini-jobs in Germany. The latter measures tend to increase the number of new part-time jobs in particular. The full-time equivalent employment growth is more limited.

In the EU as a whole, employment growth is foreseen to pick-up to 0.7% in 2005 and 0.8% in 2006. The outlook is unchanged compared to the autumn forecast, although GDP growth has been revised downwards somewhat for this year suggesting a similar, more job-rich, growth pattern.

**A limited impact on unemployment**

Although employment will increase by 1 million persons this year, unemployment is set to grow by 0.1 million in the euro area. The unemployment rate is thus expected to remain at or below 9% this year in both the euro area and the EU25. This is explained in part by the traditional growth of the labour force as the labour market situation improves (and latent job-seekers return to the regular labour market to actively seek employment). However, it is also the result of statistical revisions in Greece and the merging of the social benefit and the unemployment schemes in Germany, both of which have inflated the number of registered unemployed.

*Graph 2.17:* **Employment growth and unemployment rate in the euro area**




Employment is anticipated to grow in 2006 by 1.3 million persons in the euro area and by 1.7 million in the EU25, facilitating a decline in unemployment. The unemployment rate is expected to fall to 8.5% in 2006 in the euro area and 8.7% in the EU25. This corresponds to a reduction in number of unemployed persons by 0.4 million and 0.5 million, respectively.

**Falling labour productivity growth**

Labour productivity growth is expected to fall to 0.9% in the euro area in 2005 (down from 1.4% in 2004), as a consequence of the more job-rich growth. Productivity growth is particularly low (at 0.1%) in Germany, partly reflecting the impact of the mini-jobs. A markedly better performance is anticipated for Ireland and Finland, as well as in many of the recently-acceded Member States. In the EU as a whole, labour productivity growth is still likely to be limited to 1.3% this year.

A pick-up in labour productivity growth is expected in 2006 to 1.2% in the euro area and 1.5% in the EU25.

**Wage growth does not always seem to reflect the degree of labour market tightness**

Wages responded only modestly to the slowdown in 2001-2003, partly reflecting the greater resilience shown in the euro-area labour market. Annual wage growth, measured by compensation of employees per head, was broadly unchanged compared to 2000 (at 2½-2¾%), despite the fall in GDP growth.

It was not until 2004 that wage growth eased more markedly (it is estimated to have been 2.1%), albeit with sizeable differences across Member States. For instance, euro-area wage growth ranged from around 0% in Germany to around 6% in Greece and Ireland in 2004.

In general, wage growth seems to reflect local labour market conditions relatively well in most Member States, with higher wage growth observed in Greece, Spain, Ireland and Luxembourg, where employment growth has been above the euro-area average. Similarly, lower wage growth was recorded especially in Germany and, more recently, the Netherlands, where economic activity and employment were markedly weaker. However, in the cases of France, Portugal, and Finland, average wage increases in 2004 were higher than might be expected from the weak demand for labour. This may be explained partly by the continued impact of multi-annual wage agreements (Portugal and Finland) or the harmonisation of minimum wages in France.

Persistent and relatively high wage increases in some Member States, combined with low labour productivity growth, have started to take their toll on competitiveness. Nominal unit labour cost rose by more than 3% in 2004 in Greece, Spain and Ireland and around 2% in Italy and Portugal, with an adverse effect on these countries' export performance. On the other hand, the responsiveness of wage formation in Germany and the Netherlands, as reflected in falling unit labour costs, has contributed to an improved export performance and rising market shares.

The forecast implies a small increase in euro-area wage growth to 2.2% in 2005 and 2.4% in 2006, while the sizeable differences across Member States are maintained.

In view of a higher pace of wage growth in several of the recently-acceded Member States, notably the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Slovenia and Slovakia, average wage growth in the EU as a whole is estimated at 2.8% in 2004. Labour productivity growth is generally also higher than in the euro area, limiting the negative impact on nominal unit labour cost (besides for Latvia and Hungary). This also reflects the catching-up process in several of these countries. Wage growth is anticipated to remain at 2.8% in 2005 before accelerating modestly to 3.1% in 2006 in the EU25.

**The Lisbon targets**

The overall employment rate (defined as the share of employed persons aged 15-64 in the total population of the same age group) stood at 63% in 2003. Even with the more job-rich growth described in this forecast, the employment rate is likely to increase only modestly to 63.6% in 2006, thereby missing the intermediate employment rate target of 67% to be achieved by the end of 2005, as agreed by the European Councils in Lisbon and Stockholm. Differences across Member States remain wide, with the employment rate expected to surpass the threshold level in Denmark, the Netherlands, Austria, Portugal, Sweden and the United Kingdom, while being markedly lower (less than 55%) in several other Member States, notably Greece, Italy, Malta and Poland. Given the current GDP growth and labour market performance, a rise in the average employment rate to 70% by the end of 2010 seems increasingly challenging.

Somewhat better progress has been made as regards the employment rate for women, which stood at 55.1% in 2003, even if it remains below the intermediate target of 57% or the 60% target to be achieved by 2010.

In contrast, the employment rate for older workers, i.e. those aged 55-64, was at 40.2% in 2003, still very far from the target of 50% by 2010.

*Table 2.5*

**Labour market outlook - EU25**

| (Annual percentage change) | | | | Spring 2005 forecast | | | Difference vs Autumn 2004 | |
|---|---|---|---|---|---|---|---|---|
| | 1991-95 | 1996-00 | 2003 | 2004 | 2005 | 2006 | 2005 | 2006 |
| Population in working age (15-64) | : | : | 0.4 | 0.4 | 0.3 | 0.3 | 0.0 | 0.0 |
| Labour force | : | : | : | 0.6 | 0.6 | 0.6 | -0.2 | 0.0 |
| Employment | : | 1.1 | 0.2 | 0.5 | 0.7 | 0.8 | 0.0 | 0.0 |
| Employment (change in million) | : | 9.4 | 0.5 | 1.0 | 1.3 | 1.6 | -0.2 | -0.1 |
| Unemployment (levels in millions) | : | 19.3 | 19.2 | 19.3 | 19.3 | 18.8 | -0.1 | -0.2 |
| Unemployment rate (% of labour force) | : | 9.6 | 8.9 | 9.0 | 9.0 | 8.7 | -0.1 | -0.1 |
| Labour productivity, whole economy | : | 1.6 | 0.8 | 1.8 | 1.3 | 1.5 | -0.3 | -0.1 |
| Employment rate (a) | : | : | 63.0 | 63.1 | 63.4 | 63.7 | 0.1 | 0.0 |
| p.m. Employment euro area | -0.2 | 1.4 | 0.2 | 0.6 | 0.7 | 0.9 | -0.2 | 0.0 |

(a) As a percentage of population of working age. Definition according to structural indicators.

# 5. Inflation below 2% in 2005 and 2006

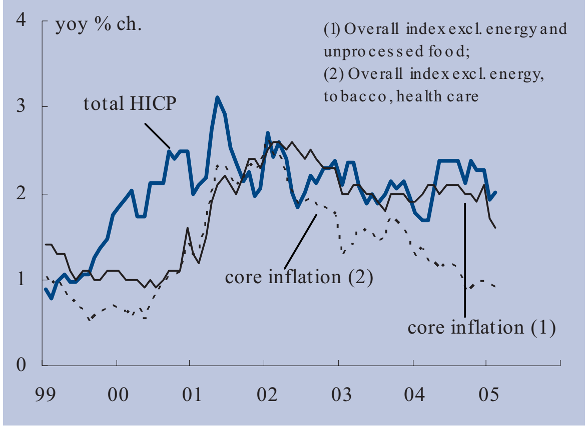
**Specific factors put upward pressure on inflation**

In 2004, the annual rate of headline inflation (HICP) was 2.1% (year-on-year) in the euro area, just above the ECB target ceiling of 2%. HICP inflation averaged 2.1% also in the EU as a whole. Specific factors rather than underlying inflationary trends put upward pressure on headline inflation during the year. One main factor was the sharp increase in a wide range of indirect taxes and administrated prices, which was particularly apparent in tobacco and health-care prices.  Another dominant factor was the rise in oil prices, which translated into higher prices for energy and related fuel products.

**Demand-sensitive inflation was steady**

Overall, tobacco, health care and energy added about 1 pp to euro-area headline inflation in 2004. If these components, representing about 15% of the HICP basket, are excluded, the resulting demand-sensitive measure of core inflation would have been just 1.1% in 2004. By contrast, the core-inflation measure, which excludes the two volatile components of energy and unprocessed food from the HICP basket, averaged 2.1% in 2004 (2% in the EU).

*Graph 2.18:* **Headline and underlying inflation in the euro area**




**Underlying inflation pressures were limited**

Despite rising input prices during most of 2004, particularly for industrial intermediate goods, underlying inflation pressures were limited by the stronger euro and strong competitive pressures, amid a relatively mild recovery in domestic demand in some large EU countries. In addition, wage moderation continued in the euro area and "second-round" inflationary effects stemming from high oil prices were limited.

On the cost side, producer price inflation peaked at 4% in the year to October 2004, reflecting the feed-through from higher oil prices, but subsequently eased in the following two months to average 2.3% over the year. As expected, producer prices excluding energy were more subdued, rising by only 1.9%. This occurred despite the pressure from earlier increases in prices of raw materials, which translated into a 3.5% rate of inflation for intermediate producer prices. Given the weakness of private domestic demand, the annual rate of inflation was much lower in the consumer and capital goods industries, averaging 1.3% and 0.7%, respectively, in 2004. The latest (January) data showed some acceleration in producer price inflation due to higher energy prices.

The cost of labour has been acting as a moderating factor for euro-area inflation. Growth in unit labour cost was 0.1% in the third quarter of 2004 (latest available data), compared to 2.3% one year earlier. While these developments mainly reflect the cyclical pick-up of labour productivity, which accelerated from 0.2% to 1.4% over the same period of time, wage growth also slowed down from 2.5% to 1.5% in this period. Although the sharp decline in compensation per head in the third quarter of 2004 is distorted by the timing of payments in the public sector in Italy, correcting for this factor does not alter the assessment of moderate wage developments.

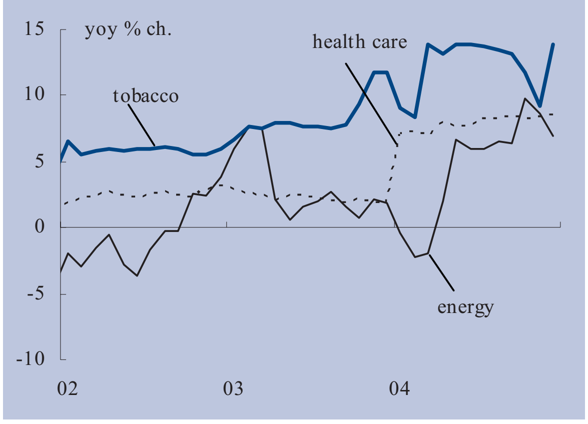
**More moderate impact on inflation from fiscal measures but energy remains a concern**

The contribution of indirect taxes and administrated prices to HICP inflation is expected to return to more normal levels after the substantial increases recorded in 2004. Tobacco-price inflation reached a record high of more than 12% in 2004 in the euro area (10% in the EU), as several EU Member States faced with deteriorating fiscal balances took advantage of this means of raising revenues. Health-care inflation jumped to 7.9% in the euro area (6.7% in the EU), with the largest contribution stemming from health-care reform in Germany, under which the costs are initially paid by households and later reimbursed by the government.

Tobacco and health-care inflation added 0.6 pp to headline inflation in 2004 in the euro area, compared to an average contribution of less than 0.2 pp between 1999 and 2003. If other government-regulated services, e.g. education, social protection and postal services, were included in the basket, this would further increase the impact of indirect taxes and administrated prices on headline inflation. While additional increases cannot be ruled out in view of the current state of government balances, fiscal measures are expected to have a lower impact on inflation compared to last year.

In addition, since the release of the autumn forecast, the euro exchange rate has been stronger than assumed in that forecast. This is likely to translate into stronger disinflationary pressures in the first few months of 2005 than initially envisaged. On the other hand, despite the strength of the euro against the dollar, which partly dilutes the impact of high crude oil prices in euro terms, oil prices increased by 20% in 2004 and by a further 16% in the first quarter of 2005. As a result, energy inflation rose to 4.5% in 2004 (contributing 0.4 pp to headline inflation) and accelerated to around 7% in the first quarter of this year. While oil price developments remain uncertain, it would appear that there is potential for the energy contribution to HICP inflation to increase compared to 2004.

*Graph 2.19:* **Energy, tobacco and health-care inflation in the euro area**



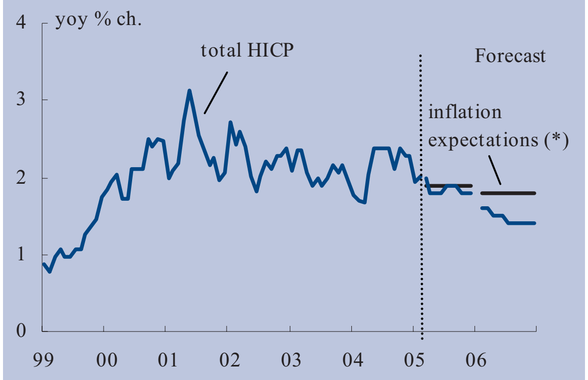

**Both domestic and external price pressures are expected to remain relatively low**

The level of euro-area output is projected to remain below potential in both 2005 and 2006. The resulting negative output gap – estimated at 1.2% in the euro area in both 2005 and 2006 (1% in the EU in 2005 and 0.9% in 2006) - should help to keep underlying inflation under control. At the same time, the unemployment rate is projected to remain unchanged at 8.8% this year in the euro area (9% in the EU) and to improve only moderately in 2006. Employment is set to accelerate from about 0.5% growth in 2004 in both regions to around 0.8% over the forecast horizon. This is unlikely to be a significant source of pressure on wage costs and inflation, given evidence of a lengthening of the working week in exchange for job security in some parts of the euro area.

Wages play a key role in driving inflationary trends as they represent by far the most important part of firms' costs. Moderate wage growth, which has been observed for some time now, is expected to continue over the forecast horizon. Growth of compensation of employee per head has been revised downwards in both the euro area and the EU compared to the autumn forecast and is now projected at 2.2% in 2005 in the euro area (2.8% in the EU) and 2.4% in 2006 (3.1% in the EU). In the context of a maturing economic recovery and cyclical developments in labour productivity, unit labour costs are set to accelerate from 0.7% in the euro area in 2004 (0.9% in the EU) to about 1.2% over the forecast horizon (1.5% in the EU). However, provided wage growth remains moderate, unit labour costs are likely to have a dampening effect on inflation trends.

Finally, inflation is expected to benefit from relatively low import prices during the forecast period, mainly as a result of the lagged effects of the appreciation of the euro and generally lower pressure on non-oil commodity prices stemming from the envisaged deceleration in world GDP growth. From an annual growth rate of almost 15% in 2004, non-oil commodity prices are set to increase by just 1.3% this year and to contract slightly in 2006. Oil prices, on the other hand, are expected to be almost 35% higher in 2005 compared to last year and to decelerate only moderately (-6%) in 2006. All in all, the external price pressure on HICP inflation is forecast to remain broadly unchanged in 2005 compared to last year, both in the euro area and the EU, before easing in 2006. The annual growth rate in import prices for goods was 1.5% in 2004 in the euro area and is projected at 1.7% in 2005 and 0.7% in 2006 (1.5% and 0.8% in EU25 respectively), while the annual rate of change in the GDP deflator is forecast at 1.7% in both 2005 and 2006. The corresponding figure for the EU is 1.9% in both years.

*Graph 2.20:* **Headline inflation and inflation expectations in the euro area**




*Source: Survey of Professional Forecasters (ECB), February 05

Overall, HICP inflation is projected to decline from the current levels to around 1.5% by the end of the forecast horizon in both the euro area and the EU. In annual average terms, HICP inflation is estimated at 1.9% in 2005 for both regions. The forecast for 2006 is 1.5% for the euro area and 1.7% in the EU. The projected low inflation rate in 2006 is due in part to the shift of some health-care components of the HICP basket from the private sector to the public sector in the Netherlands. This translates into an estimated deflation rate of 3% (and a negative contribution of about -0.2 pp to euro-area inflation). Excluding this effect, the projections for inflation are broadly in line with inflation expectations from most surveys. Consensus Economics and Euro-zone Barometer expect inflation in the euro area to be 1.8% in 2005 and 1.7% in 2006. Inflation expectations reported by the ECB's Survey of Professional Forecasters in February 2005 are slightly higher, at 1.9% this year and 1.8% in 2006.

At the Member State level, HICP inflation in 2005 and 2006 is forecast to remain low in Germany at around 1.2%, held down by very subdued wage pressures and low import costs. In France, inflation is expected to fall below 2% this year and to average 1.8% in 2006, helped by the strong euro and competitive pressures on unit labour costs. Inflation in Italy is projected to remain above the euro-area average this year, although falling below 2% in 2006. Services inflation and unit labour costs remain relatively high compared to the rest of the euro area with potential implications for the competitiveness of Italian exports. In Spain, a relatively high projected inflation rate – at 2.9% this year and 2.7% in 2006 – due to strong growth in unit labour costs, should also make exports less competitive in world markets. By contrast, inflation in the Netherlands is forecast at 1.3% in 2005 and -3% in 2006, benefiting from a sharp contraction in unit labour costs and the statistical effect mentioned above.

*Table 2.6*

**Inflation outlook - euro area and EU25**

| (Annual percentage change) | Euro area | | | | Difference vs Autumn 2004 | | EU25 | | | | Difference vs Autumn 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2005 | 2006 | 2003 | 2004 | 2005 | 2006 | 2005 | 2006 |
| Private consumption deflator | 2.0 | 1.9 | 1.9 | 1.7 | 0.0 | 0.0 | 2.0 | 1.9 | 1.9 | 1.8 | -0.1 | 0.0 |
| GDP deflator | 2.0 | 1.9 | 1.7 | 1.7 | -0.1 | 0.0 | 2.3 | 2.0 | 1.9 | 1.9 | -0.1 | 0.0 |
| HICP | 2.1 | 2.1 | 1.9 | 1.5 | 0.0 | -0.2 | 1.9 | 2.1 | 1.9 | 1.7 | -0.2 | -0.2 |
| Compensation per employee | 2.5 | 2.1 | 2.2 | 2.4 | -0.2 | -0.1 | 3.0 | 2.8 | 2.8 | 3.1 | -0.3 | -0.1 |
| Unit labour costs | 2.2 | 0.7 | 1.3 | 1.2 | 0.1 | 0.0 | 2.2 | 0.9 | 1.5 | 1.6 | -0.1 | 0.0 |
| Import prices of goods | -1.6 | 1.5 | 1.7 | 0.7 | 0.2 | 0.2 | -1.3 | 1.4 | 1.5 | 0.8 | 0.1 | 0.1 |

# 6. Broadly unchanged budgetary situation

### No major changes in the aggregate budget deficit

Against the background of a slightly widening negative output gap, the general government deficit in the euro area is expected to post a slight improvement of 0.1 percentage point to 2.6% of GDP in 2005. In cyclically-adjusted terms, an improvement of around ¼ percentage point is forecast, leading to a deficit of 2.1% of GDP. A marginal deterioration is foreseen to occur in 2006 in both nominal and cyclically-adjusted terms. In the EU25, the deficit is set to remain unchanged in 2005 and to improve subsequently by 0.1 percentage point of GDP, reaching 2.5% of GDP in 2006. The envisaged changes in the deficits are mirrored by those in government gross savings.

It should be recalled that these figures, and those that follow, are based on a "no-policy change" assumption. Specifically, they incorporate the measures announced with the budgets for 2005 and subsequently adopted measures up to the cut-off date for the forecasts, but do not include possible further measures for 2005 or measures for 2006 beyond those resulting from decisions already taken.

The projected deficit of the euro area and of the EU25 in 2005 is 0.3-0.4 of a percentage point of GDP higher than envisaged in the national plans as reflected in the most recent updates of the Member States' stability and convergence programmes, which were generally submitted at the end of 2004. This difference is mainly explained by a more favourable growth outlook in the programmes, which foresee a combined real GDP growth of 2.3% in the euro area (against 1.6% in this forecast and 2.0% in last autumn's forecast) and 2.6% in the EU25 (versus 2.0% and 2.3% respectively). The significantly larger gap in 2006 between the deficits projected in the forecasts and those planned in the stability and convergence programmes (about ¾ percentage points of GDP) reflects lower growth assumptions and, more importantly, the no-policy-change assumption underlying the forecasts, while national programmes often incorporate consolidation measures that are not yet specified.

### Euro area: persistent high deficits in five Member States

The slight improvement for the euro area as a whole in 2005 masks diverging developments across countries. Of the six Member States with high deficits in 2004 (at 2.5% of GDP or more), four, namely, Germany, Greece, France and the Netherlands are projected to narrow their deficits significantly, specifically by at least half a percentage point, although this reflects the impact of one-off measures in the case of France and, to a lesser extent, Germany, where there is also a significant cut in the expenditure ratio. In Greece, the large deficit reduction benefits from a post-Olympics fall in public investment. In spite of this improvement, the deficits in these three countries would still be at or above 3% of GDP in 2005. By 2006, based on current policies, only Germany would record a deficit below 3% of GDP, while the deficit would stabilise in Greece and rise in France. By contrast, the Netherlands would see the deficit fall to 2% of GDP in 2005, reflecting decisive corrective action by the government.

The remaining two high-deficit countries, Italy and Portugal, have relied to a significant extent in recent years on one-off operations. Following deficits at or just below 3% of GDP in 2004, in the absence of further measures, the deficits are expected to widen to above 4.5% of GDP by 2006, also reflecting a reduced reliance on one-off measures.

Turning to the six remaining euro-area countries, five, namely Belgium, Spain, Ireland, Luxembourg and Finland are expected to remain broadly in a position of close-to-balance over the forecast horizon. The step increase in the deficit in Austria in 2005, towards almost 2% of GDP, reflects the full implementation of enacted income tax reform.

### Uneven pace of consolidation outside euro area

Outside the euro area, six of the recently-acceded Member States are estimated to have recorded deficits of at least 3% of GDP in 2004. A fall below the 3% of GDP threshold is predicted to occur in Cyprus in 2005 and in Malta in 2006, in line with government plans. These two countries are forecast to reduce their deficit by more than 2 percentage points of GDP between 2004 and 2006. In the remaining four countries (Czech Republic, Hungary, Poland and Slovakia), the deficit would remain close to 4% of GDP by the end of the forecast horizon.

The other high-deficit country outside the euro area, namely the United Kingdom, is projected to gradually reduce its deficit from the expenditure-induced peak at 3.4% of GDP in 2003, to reach, on a no-policy change basis, 2.7% of GDP by 2006.

Latvia, Lithuania and Slovenia are expected to record smaller deficits, of around 2% of GDP in both 2005 and 2006. Finally, Denmark, Estonia and Sweden are the only countries outside the euro area that are expected to maintain a surplus on the general government balance in 2005-2006, although lower as a percentage of GDP than in 2004.

### Debt ratios not yet declining

The moderately upward trend in the euro-area debt ratio since 2003 is expected to continue, bringing government debt to 71¾% of GDP in 2005. In the EU25, where the debt ratio stood at 63.8% of GDP in 2004, an increase of similar magnitude (around half a percentage point) is foreseen. In both cases, this is due to the snowball effect (i.e. the interplay between the average interest rate on the debt stock and nominal growth) slightly outweighing the impact of the small primary surplus on the debt ratio. On a no-policy change basis, the debt ratios in the euro area and EU25 are projected to stabilise in 2006.

Focussing on the nine high-debt countries in the EU (i.e. those with 2004 debt ratios in excess of the 60% of GDP reference value), four are forecast to reduce their debt ratios over the forecast horizon, albeit to varying degrees: Cyprus would succeed in reducing the ratio by some 5 percentage points, Belgium by around 4 pps, Greece, which, at some 110% of GDP, had the highest debt ratio in the EU in 2004, by 1½ pps and Austria by ½ pp. A further increase is foreseen in the remaining five countries, by between ½ pp (Italy) to 6½ percentage points (Portugal), with France, Malta and Germany somewhere in between.

*Table 2.7*

**General government budgetary position - EU25**

| (% of GDP) | | | | Spring 2005 forecast | | | Difference vs Autumn 2004 | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2005 | 2006 |
| Total receipts (1) | 46.0 | 45.4 | 45.6 | 45.3 | 45.2 | 45.1 | 0.1 | 0.2 |
| Total expenditure (2) | 47.3 | 47.7 | 48.5 | 47.9 | 47.8 | 47.6 | 0.3 | 0.4 |
| Actual balance (3) = (1)-(2) | -1.2 | -2.3 | -2.9 | -2.6 | -2.6 | -2.5 | -0.2 | -0.2 |
| Interest expenditure (4) | 3.6 | 3.3 | 3.2 | 3.0 | 3.0 | 3.0 | 0.0 | 0.0 |
| Primary balance (5) = (3)+(4) | 2.4 | 1.0 | 0.3 | 0.4 | 0.4 | 0.4 | -0.2 | -0.3 |
| Change in actual balance : | -2.0 | -1.1 | -0.6 | 0.3 | 0.0 | 0.1 | -0.4 | 0.0 |
| Gross debt | 62.2 | 61.7 | 63.3 | 63.8 | 64.1 | 64.2 | 0.6 | 0.9 |
| p.m. Actual balance euro area | -1.7 | -2.4 | -2.8 | -2.7 | -2.6 | -2.7 | -0.1 | -0.2 |
| p.m. Primary balance euro area | 2.2 | 1.2 | 0.6 | 0.6 | 0.6 | 0.6 | -0.2 | -0.2 |
| p.m. Cycl. adj. prim. balance euro area | 1.6 | 1.0 | 1.0 | 0.9 | 1.1 | 1.0 | -0.1 | -0.1 |

Note : Total expenditure, actual and primary balances include UMTS proceeds, while cyclically adjusted figures exclude UMTS proceeds.

# Chapter 3

## Member States

# 1. Belgium

## Slowing down after a strong 2004

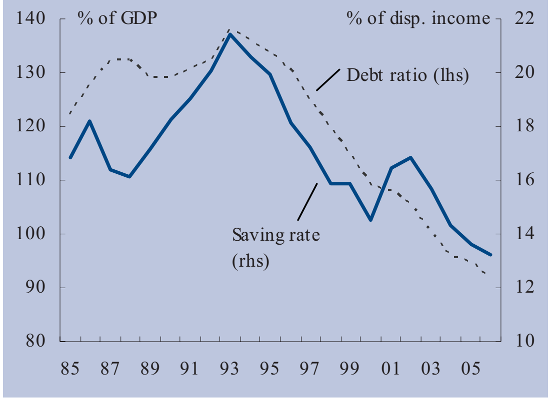
**Strong economic recovery in 2004**

The economic recovery in Belgium which had started in the second half of 2003 continued in 2004. Despite a slowdown in the last quarter, GDP grew by 2.7% on average (compared to 1.3% in 2003).

The recovery was led by domestic demand (which contributed to GDP growth by 2.3 percentage points), compared to a 0.2 percentage point negative contribution from the external balance. Private consumption rose by 2.3% in 2004, supported by strong consumer confidence. Government consumption is estimated to have increased by 3.3% in real terms, partly as a result of high expenditure in health care. After two consecutive years of negative growth, gross capital formation picked up by 1.6%, supported by improved corporate balance sheets, low interest rates and strong domestic and external demand. Both imports and exports rose strongly in 2004, led by robust domestic demand and buoyant external market growth. Cumulated losses in competitiveness due to a strong euro in the last two years partly explain the slightly higher growth in imports.

After a reduction in employment in 2002, followed by a standstill in 2003, employment picked up in 2004 by an estimated 0.7%. However, the effect on the unemployment rate was limited due to an increase in the labour force. The strong growth in economic activity, accompanied by a moderate increase in employment led to increased productivity, as is usual in the first stage of an upswing. Inflation increased in the second half of 2004, mainly as a result of higher oil prices. However, the overall increase in HICP was limited to 1.9% in 2004.

*Graph 3.1:* **Belgium - Household savings rate and public debt ratio**




**Prospects for 2005 and 2006**

The slowdown of economic activity in the fourth quarter of 2004 (accompanied by increasing oil prices and lower growth in other EU countries, particularly Germany), is expected to result in lower economic growth in 2005 (2.2%). However, the underlying fundamentals of domestic demand remain fairly strong.

Consumer confidence was relatively high throughout 2004. Consumption is supported by the ongoing income tax reform and seems to benefit from the government's increased credibility in terms of fiscal consolidation. The evolution of the Belgian household savings rate, which has been on a downward trend since 1993, shows a positive correlation with the debt ratio (see graph 3.1).

Gross capital formation is expected to be quite strong in 2005 and 2006, as suggested by the results of investment surveys and in view of the high profitability and sound financial position of Belgian enterprises. Public investment in particular should increase markedly in 2005 and the first half of 2006 in the run-up to the 2006 local elections. On the other hand, government consumption is expected to decrease as a result of ongoing fiscal consolidation and the expected higher control over health care expenditure.

In view of robust GDP growth and continued wage moderation, further increases in employment in 2005 and 2006 are expected. In line with the expected average wage evolution in the three main neighbouring countries (Germany, France and the Netherlands), the new national wage agreement for 2005–2006 foresees a cumulated indicative 4.5% nominal wage increase over the two years, lower than the previous 5.3% for 2003–2004.

**Public finances: Still some challenges ahead**

In 2004, the government accounts reached a small surplus of 0.1% of GDP. This was the result of higher-than-expected tax income, mainly VAT, direct taxes and the proceeds of the tax amnesty law, which more than outweighed the overrun in health expenditure.

For 2005, a small deficit of 0.2% of GDP can be expected, mainly due to lower economic growth and less income from one-off measures (particularly the discontinuation of the tax amnesty and lower sales from real estate). There is also some uncertainty regarding the impact of measures to control spending in health care. As for 2006, a somewhat more substantial deficit of 0.6% of GDP can be expected in a no-policy-change scenario and in the absence of one-off receipts. Although less than in 2004 (0.7% of GDP), one-off measures still account for some 0.3% of GDP in the 2005 budget, whereas nothing is planned at this stage for 2006. Moreover, the implementation of the 2001 direct tax reform will have its main impact in 2006, with direct tax proceeds being reduced by an additional 0.3% of GDP. So far the government has not yet announced any new measures that could compensate for these income losses in 2006.

The debt ratio, which fell to 95.6% of GDP at the end of 2004, is expected to remain on a downward trend until the end of the forecast period, as a result of primary surpluses and declining interest payments. However, the decrease in interest payments is slowing down and the primary surpluses are expected to remain on a downward trend. In 2005, the debt reduction is expected to slow down as a result of the anticipated assumption of a EUR 7.4 billion debt (2.5% of GDP) from the national railway company SNCB.

*Table 3.1*

**Main features of country forecast - BELGIUM**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 269.5 | 100.0 | 2.1 | 0.7 | 0.9 | 1.3 | 2.7 | 2.2 | 2.3 |
| Private consumption | | 146.8 | 54.5 | 2.0 | 0.6 | 0.3 | 2.2 | 2.3 | 2.0 | 2.1 |
| Public consumption | | 61.3 | 22.8 | 1.4 | 2.8 | 2.3 | 2.7 | 3.3 | 2.0 | 1.9 |
| Gross fixed capital formation | | 51.0 | 18.9 | 2.0 | 0.3 | -3.7 | -0.9 | 1.6 | 4.5 | 5.0 |
| of which : equipment | | 24.3 | 9.0 | 4.6 | 1.3 | -3.0 | -2.0 | 1.5 | 4.5 | 4.5 |
| Change in stocks as % of GDP | | 0.3 | 0.1 | -0.1 | -0.1 | 0.5 | 0.5 | 1.1 | 1.0 | 0.8 |
| Exports (goods and services) | | 219.7 | 81.5 | 4.6 | 1.3 | 1.5 | 1.7 | 6.0 | 5.2 | 5.6 |
| Final demand | | 479.0 | 177.7 | 3.0 | 0.8 | 1.0 | 1.7 | 4.4 | 3.7 | 4.0 |
| Imports (goods and services) | | 209.5 | 77.7 | 4.3 | 1.0 | 1.0 | 2.3 | 6.6 | 5.5 | 5.8 |
| GNI at constant prices (GDP deflator) | | 274.7 | 101.9 | 2.2 | 0.6 | 1.5 | 0.8 | 2.5 | 2.1 | 2.3 |
| Contribution to GDP growth : | Domestic demand | | | 1.8 | 1.0 | -0.1 | 1.6 | 2.3 | 2.4 | 2.6 |
| | Stockbuilding | | | 0.0 | -0.6 | 0.6 | 0.1 | 0.6 | -0.1 | -0.2 |
| | Foreign balance | | | 0.3 | 0.3 | 0.4 | -0.4 | -0.2 | -0.1 | 0.0 |
| Employment | | | | 0.4 | 1.5 | -0.3 | 0.0 | 0.7 | 0.8 | 0.8 |
| Unemployment (a) | | | | 9.0 | 6.7 | 7.3 | 8.0 | 7.8 | 7.7 | 7.5 |
| Compensation of employees/head | | | | 4.4 | 3.7 | 4.2 | 2.0 | 2.5 | 2.2 | 2.2 |
| Unit labour costs | | | | 2.6 | 4.4 | 3.0 | 0.8 | 0.6 | 0.8 | 0.7 |
| Real unit labour costs | | | | -0.5 | 2.6 | 1.1 | -1.1 | -1.7 | -1.0 | -1.4 |
| Savings rate of households (b) | | | | - | - | 16.6 | 15.5 | 14.2 | 13.5 | 13.3 |
| GDP deflator | | | | 3.1 | 1.8 | 1.8 | 1.9 | 2.3 | 1.8 | 2.1 |
| Private consumption deflator | | | | 3.0 | 2.5 | 1.7 | 1.8 | 2.4 | 2.2 | 1.8 |
| Harmonised index of consumer prices | | | | - | 2.4 | 1.6 | 1.5 | 1.9 | 2.0 | 1.8 |
| Trade balance (c) | | | | 0.4 | 2.6 | 3.6 | 3.1 | 2.5 | 2.3 | 2.6 |
| Current account balance (c) | | | | 2.4 | 4.5 | 5.8 | 4.4 | 3.9 | 3.7 | 4.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | 2.3 | 4.3 | 5.2 | 3.7 | 3.4 | 3.3 | 3.6 |
| General government balance (c)(d) | | | | -6.2 | 0.6 | 0.1 | 0.4 | 0.1 | -0.2 | -0.6 |
| General government gross debt (c) | | | | 123.3 | 108.0 | 105.4 | 100.0 | 95.6 | 94.9 | 91.7 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 2. Czech Republic

## Strong export growth fuelled by FDI

### The economy in 2004

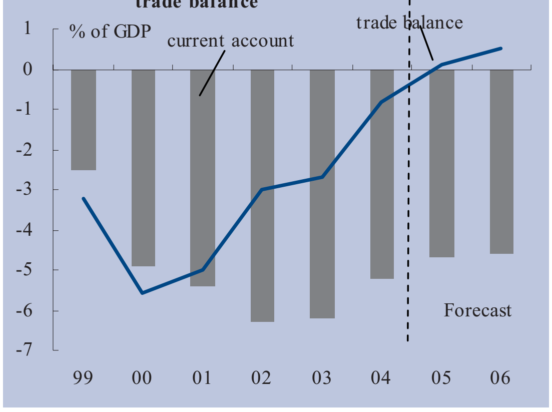
In 2004, real GDP growth was solid, reaching 4%. Economic activity was driven mainly by net exports and investment. Investment grew by 9.1%. Exports of goods and services increased by 20.9%, in spite of a substantial appreciation of the Czech koruna. Imports rose by 18.5% and the trade balance improved considerably. The significant increase in foreign trade volumes was mainly due to the elimination of the remaining trade barriers with the key trading partners after EU accession. Growth of private consumption decelerated to 2.5% against the backdrop of slowing real wage growth and higher taxes. Government consumption fell by 3.2%, which was a considerable change compared with the 4.2% increase in 2003.

Inflation in 2004 was low, as the increase of raw material and oil prices was offset by the strengthening domestic currency. HICP inflation reached 2.6%; about half of the price increase was caused by administrative measures (mainly indirect tax increases). The labour market was slow to react to the pick-up in economic activity. Employment continued to decline (-0.5%) and the rate of unemployment was 8.3%. The 2004 trade deficit of -0.8% of GDP was the lowest since 1993. The improving balance in goods and services more than outweighed the increase in the deficit in the income balance, so that the current account deficit fell to 5.2% of GDP.

### Outlook for 2005-2006

GDP growth is expected to remain at 4% in 2005 and to slightly accelerate to 4.2% in 2006, being still driven mainly by investment, notably foreign direct investment and reinvested profits of established foreign firms. Improving competitiveness of the industrial sector will stimulate exports. Growth of private consumption is projected to somewhat accelerate owing to the slightly higher growth of disposable income. Public consumption is forecast to grow in 2005 and to further accelerate in 2006, mainly in the run-up to the general election.

*Graph 3.2:* **Czech Republic - Current account and trade balance**




On the external side, the trend of increasing deficits in the income balance is expected to continue in 2005 and 2006. This trend is projected to be more than offset by the improving balance of goods and services. The surplus in the service balance should rise, but only slightly, while the negative trade balance is forecast to turn into a small surplus in 2005 (0.1% of GDP) which should further increase in 2006 (0.5% of GDP). Exports should be further boosted by the launch of production at a new car plant. All in all, the current account deficit is projected to decrease to 4.7% of GDP in 2005, remaining broadly stable in 2006. The capital balance is expected to further improve, mainly due to capital inflows from the EU funds.

### Labour market, costs and prices

Despite a relatively strong economic performance which is expected to accelerate, the unemployment rate is projected to remain at about 8.3% in 2005 and in 2006. The trend of falling employment is forecast to slow down. Developments in the labour market are shaped by both ongoing restructuring, reflected in strong productivity gains, mainly in the industrial sector, and by difficulties in finding employment for some segments of the labour force, partly due to insufficient incentives to take up jobs.

At the beginning of 2005, inflation again dropped below the inflation target band and a return is expected only in the second half of the year (the target is CPI inflation of 2-4% y-o-y by the end of December 2005). As the risks of cost push inflation have faded and demand pressures are expected to be very weak, the central bank cut the base rate at the end of January from 2.5% to 2.25%. Average HICP inflation is expected to attain 1.9% in 2005. In 2006, inflation should accelerate, reaching 2.6% on average, broadly in line with the monetary policy target (of 3% y-o-y with a tolerance of +/-1 pp as of 2006).

**Public finances**

Developments in public finances in 2004 were better than expected, partly as a result of stronger growth and partly as a result of the change in the budgetary rules in mid-2004 which made it possible for the first time to roll-over unspent funds into 2005. The general government deficit was 3% of GDP, far below the target foreseen in the last convergence programme (5.2% of GDP). As a consequence, the budgetary outcome in 2005 has become very uncertain, since expenditures in 2005 will be influenced by how the unspent funds rolled over from 2004 (totalling about 1% of GDP) are allocated.

Given a record of expenditure overestimation and revenue underestimation in the Czech budget, the forecast for the 2005 general government deficit is 4.5% of GDP, slightly below the target set in the convergence programme (4.7% of GDP). This projection assumes that half of the funds rolled over from 2004 will be spent in 2005 and it also takes into account one-off military expenditures. If, however, the budget is implemented rigorously and the room for spending, as foreseen in the 2005 budget, is not fully used, like in 2004, the deficit could be lower.

In the absence of specific measures which are necessary to reach the target of 3.8% of GDP in the election year 2006, the projection for that year is based on the no-policy change assumption. Therefore, the expenditure ceilings are not taken into account for 2006, and the deficit is projected to reach 4% of GDP.

Gross public debt is expected to decline in 2005 to 36.4% of GDP, mainly thanks to privatisation proceeds. In 2006, debt is projected to reach 37% of GDP.

*Table 3.2*

**Main features of country forecast - CZECH REPUBLIC**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn CZK Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 2550.8 | 100.0 | 2.2 | 2.6 | 1.5 | 3.7 | 4.0 | 4.0 | 4.2 |
| Private consumption | | 1298.2 | 50.9 | 3.2 | 2.6 | 2.8 | 4.9 | 2.5 | 3.1 | 3.6 |
| Public consumption | | 612.6 | 24.0 | 0.5 | 3.8 | 4.5 | 4.2 | -3.2 | 2.7 | 2.9 |
| Gross fixed capital formation | | 678.0 | 26.6 | 3.7 | 5.4 | 3.4 | 4.8 | 9.1 | 7.9 | 6.9 |
| of which : equipment | | 336.5 | 13.2 | 12.3 | 4.7 | 7.9 | 4.3 | 1.0 | 5.2 | 6.4 |
| Change in stocks as % of GDP | | 18.1 | 0.7 | 0.8 | 1.7 | 1.7 | 1.1 | 1.1 | 1.2 | 0.7 |
| Exports (goods and services) | | 1591.0 | 62.4 | 10.4 | 11.5 | 2.1 | 7.3 | 20.9 | 12.2 | 10.6 |
| Final demand | | 4197.9 | 164.6 | 5.5 | 6.8 | 2.9 | 5.4 | 10.8 | 8.2 | 7.2 |
| Imports (goods and services) | | 1646.6 | 64.6 | 11.5 | 13.0 | 4.9 | 7.9 | 18.5 | 12.3 | 10.1 |
| GNI at constant prices (GDP deflator) | | 2434.2 | 95.4 | 1.8 | 1.4 | 0.2 | 4.0 | 3.5 | 3.4 | 3.8 |
| Contribution to GDP growth : | Domestic demand | | | 2.9 | 3.7 | 3.4 | 4.8 | 2.9 | 4.5 | 4.5 |
| | Stockbuilding | | | 0.3 | 0.3 | 0.1 | -0.5 | 0.1 | -0.4 | -0.7 |
| | Foreign balance | | | -1.0 | -1.4 | -2.0 | -0.5 | 1.1 | -0.1 | 0.4 |
| Employment | | | | - | 0.4 | 1.5 | -0.1 | -0.5 | -0.1 | 0.0 |
| Unemployment (a) | | | | 6.0 | 8.0 | 7.3 | 7.8 | 8.3 | 8.3 | 8.2 |
| Compensation of employees/head | | | | - | 7.6 | 6.2 | 6.7 | 5.5 | 6.5 | 6.4 |
| Unit labour costs | | | | - | 5.2 | 6.3 | 2.8 | 0.9 | 2.3 | 2.1 |
| Real unit labour costs | | | | - | 0.3 | 3.4 | 0.9 | -2.7 | -1.4 | -1.1 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 7.0 | 4.9 | 2.8 | 1.9 | 3.7 | 3.8 | 3.2 |
| Private consumption deflator | | | | 6.5 | 3.5 | 0.7 | 0.2 | 2.7 | 2.1 | 2.5 |
| Harmonised index of consumer prices | | | | - | 4.5 | 1.4 | -0.1 | 2.6 | 1.9 | 2.6 |
| Trade balance (c) | | | | -6.4 | -5.0 | -3.0 | -2.7 | -0.8 | 0.1 | 0.5 |
| Current account balance (c) | | | | -4.4 | -5.4 | -6.3 | -6.2 | -5.2 | -4.7 | -4.6 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -4.4 | -5.3 | -5.8 | -6.3 | -5.0 | -4.5 | -4.3 |
| General government balance (c)(d) | | | | -5.2 | -5.9 | -6.8 | -11.7 | -3.0 | -4.5 | -4.0 |
| General government gross debt (c) | | | | - | 27.2 | 30.7 | 38.3 | 37.4 | 36.4 | 37.0 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 3. Denmark

## Consumer spending booms, net exports burden GDP growth

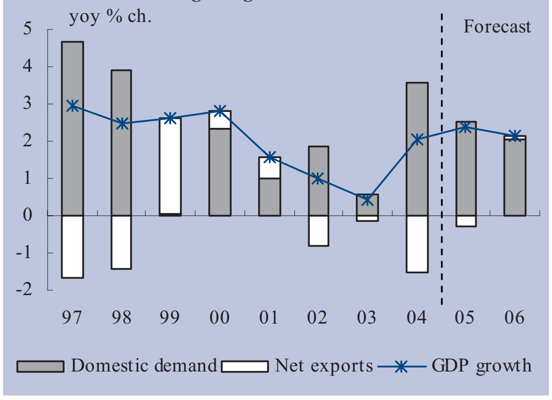
### The economy in 2004

The recovery of economic activity in Denmark was confirmed in 2004. GDP growth was driven by domestic demand, in particular private consumption, which reached its highest growth rate since 1994. Backed by strong consumer confidence, household spending was boosted by the March 2004 fiscal package. This resulted in substantial increases in real disposable incomes due to income tax cuts, as well as the suspension (in 2004 and 2005) of the contributions to a mandatory pension savings scheme. Robust increases in car sales contributed notably to the strength of private consumption. Public consumption grew only modestly, in line with the government's targets. Investment growth accelerated in the second half of the year, in particular for equipment investment. Exports grew moderately, leading to a sizeable loss of market share. The surge in domestic demand entailed a sharp rise in imports resulting in a markedly negative growth contribution from net exports.

### Prospects for 2005 and 2006

The strong growth in domestic demand is expected to continue in 2005, albeit decelerating. Domestic demand continues to drive economic activity and should lead to GDP growth of 2¼%, somewhat higher than in 2004. Also in 2005, private consumption is expected to be boosted by the tax cuts and the continued suspension of the special pension savings, which frees funds for consumption. Against the background of positive industry confidence indicators, investment growth is set to remain robust as foreign demand remains high and capacity utilisation increases. In particular, housing investment will benefit from rising house prices and favourable financing conditions and is set to expand vigorously.

*Graph 3.3:* **Denmark - GDP growth and contributions to change in growth**




While strengthening moderately in 2005, export growth is still set to be lower than that of export markets. A loss of market shares in an upswing is a recurrent phenomenon in Denmark and in part linked to the composition of exports. Moreover, the strength of the krone vis-à-vis the US dollar and relatively high wage increases in recent years have put pressure on competitiveness. Imports are expected to grow strongly in 2005 though less so than in 2004, with the negative growth contribution from net exports decreasing. As a consequence of the relatively strong imports, the current account surplus should weaken.

In 2006, private consumption growth is expected to dampen as the special pension saving scheme is reinstated after its two-year suspension. Though still losing market shares, exports will grow at a fairly robust pace against the background of sustained export market growth. Import growth is expected to decelerate due to lower domestic demand and the contribution to growth from net exports will turn slightly positive. On this basis, GDP growth is expected to be just above 2%, around the level assessed to be sustainable in the medium term.

### Labour market, costs and prices

The labour market started to improve in 2004, but the recovery has so far been hesitant. Employment fell in the fourth quarter, but grew slightly for 2004 as a whole. However, as the labour force also increased, average unemployment was higher than in 2003. In seasonally adjusted terms, unemployment edged down in the last part of 2004 and in the beginning of 2005. In view of the present strength of domestic demand, it is expected that the labour market will turn and unemployment fall at a more sustained pace. The improvement in the labour market is expected to continue through the period, with unemployment reaching 4½% in 2006. Private sector wage growth has been decelerating, particularly as a result of the weak labour market and low inflation, declining to a yearly growth rate of below 3% in early 2005. Over the forecast period, wage growth is expected to rise moderately as the labour market tightens.

Consumer price inflation was markedly subdued in 2004, with average HICP inflation at 0.9%, the lowest rate since the 1950s. The dampened inflation was due to reductions in excise duties and falling import prices as well as to decelerating wage growth. In the forecast period, consumer price inflation is set to increase as the effects of the reduction in excise duties fall out of the yearly comparisons, and import and energy prices are expected to rise in 2005. In 2006, inflation is expected to further edge somewhat higher as capacity pressure in the economy increase.

**Public finances**

Public finances are set to remain sound over the forecast period. The surplus in 2004 was 2¾% of GDP due to an exceptional increase in revenues from mainly corporate and pension fund yield taxes. In 2005 and 2006, a surplus of around 2% of GDP is expected. The general government balance is boosted by lower labour-market-related expenditure and interest payments, as well as to higher revenues from oil-related activities. The growth of real public consumption in 2004 was below the target for that year, as the instruments applied by the government to limit local government spending, including the tax freeze, are becoming more binding. In 2005 and 2006 a yearly growth around the targeted ½% is therefore projected.

*Table 3.3*

**Main features of country forecast - DENMARK**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn DKK Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 1396.6 | 100.0 | 1.9 | 1.6 | 1.0 | 0.4 | 2.0 | 2.3 | 2.1 |
| Private consumption | 659.3 | 47.2 | 1.4 | -0.2 | 0.6 | 0.9 | 4.2 | 3.9 | 2.5 |
| Public consumption | 371.8 | 26.6 | 1.5 | 2.7 | 2.1 | 1.0 | 0.2 | 0.6 | 0.5 |
| Gross fixed capital formation | 280.4 | 20.1 | 3.0 | 4.9 | 4.5 | 0.4 | 4.6 | 4.5 | 3.1 |
| of which : equipment | 113.6 | 8.1 | 4.2 | 7.0 | 6.5 | 1.4 | 6.7 | 5.3 | 3.5 |
| Change in stocks as % of GDP | -1.0 | -0.1 | 0.5 | 0.2 | 0.2 | 0.0 | 0.3 | 0.1 | 0.0 |
| Exports (goods and services) | 594.8 | 42.6 | 5.1 | 4.4 | 4.7 | -1.6 | 3.8 | 4.3 | 5.1 |
| Final demand | 1905.3 | 136.4 | 2.6 | 2.1 | 2.8 | -0.1 | 3.7 | 3.4 | 3.1 |
| Imports (goods and services) | 508.7 | 36.4 | 5.0 | 3.5 | 7.3 | -1.4 | 7.6 | 5.7 | 5.1 |
| GNI at constant prices (GDP deflator) | 1386.1 | 99.3 | 1.9 | 2.3 | 0.9 | 1.2 | 2.3 | 2.4 | 2.2 |
| Contribution to GDP growth : | Domestic demand | | 1.7 | 1.7 | 1.9 | 0.8 | 3.1 | 3.1 | 2.1 |
| | Stockbuilding | | 0.1 | -0.7 | 0.0 | -0.2 | 0.5 | -0.3 | 0.0 |
| | Foreign balance | | 0.2 | 0.6 | -0.8 | -0.1 | -1.5 | -0.5 | 0.1 |
| Employment | | | 0.4 | 0.3 | -0.4 | -0.9 | 0.1 | 0.5 | 0.4 |
| Unemployment (a) | | | 6.8 | 4.3 | 4.6 | 5.6 | 5.4 | 4.9 | 4.6 |
| Compensation of employees/head | | | 5.1 | 4.6 | 3.2 | 3.6 | 3.3 | 3.3 | 3.6 |
| Unit labour costs | | | 3.5 | 3.3 | 1.8 | 2.2 | 1.3 | 1.5 | 1.8 |
| Real unit labour costs | | | -0.6 | 1.2 | 0.2 | 0.1 | -0.4 | -0.2 | 0.1 |
| Savings rate of households (b) | | | - | - | 7.8 | 8.7 | 8.0 | 7.8 | 8.5 |
| GDP deflator | | | 4.1 | 2.1 | 1.6 | 2.2 | 1.6 | 1.7 | 1.8 |
| Private consumption deflator | | | 4.1 | 2.5 | 2.1 | 1.8 | 1.1 | 1.7 | 1.7 |
| Harmonised index of consumer prices | | | - | 2.3 | 2.4 | 2.0 | 0.9 | 1.4 | 1.7 |
| Trade balance (c) | | | 1.7 | 4.7 | 4.4 | 4.6 | 2.6 | 2.1 | 2.1 |
| Current account balance (c) | | | -0.8 | 3.1 | 2.0 | 3.3 | 2.3 | 2.1 | 2.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | -0.8 | 3.0 | 2.1 | 3.3 | 2.3 | 2.0 | 2.1 |
| General government balance (c)(d)(e) | | | -1.4 | 3.2 | 1.7 | 1.2 | 2.8 | 2.1 | 2.2 |
| General government gross debt (c) | | | 67.2 | 47.8 | 47.2 | 44.7 | 42.7 | 40.5 | 38.2 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

# 4. Germany

## Growth to continue despite recent setback

### The situation in 2004

After relatively strong quarterly growth rates of 0.5% and 0.4%, respectively, in the first two quarters, activity remained flat in the second half of the year, even recording a slight decline in the fourth quarter[i]. In spite of this, with a 1.6% increase Germany registered the highest annual GDP growth in four years, helped by a substantial working day effect estimated at ½ pp.

Net exports contributed over one percentage point to overall growth. Germany benefited from lively global demand, even gaining market shares as unchanged nominal wages translated into a competitive advantage despite the appreciation of the euro.

Wage stagnation and weak employment growth, on the other hand, made for a slight decline in final domestic demand, extending to both private consumption and investment. Because of this, and as demonstrated by the sluggishness of the last two quarters, the upswing therefore remains fragile and failed to become self-sustaining.

### Prospects in 2005 and 2006

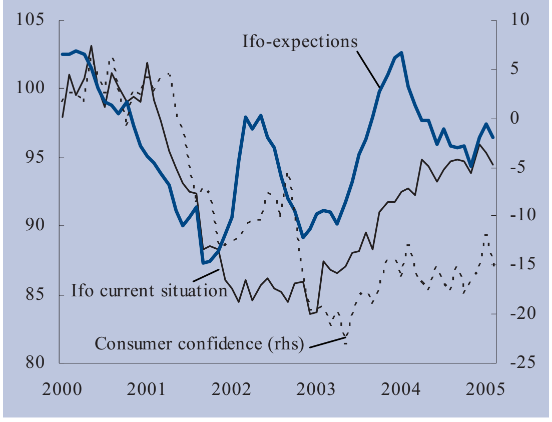
The risk of a slide-back into recession is low, as there are signs that growth will resume already in the first quarter of 2005 with the same strength as a year before. Indicators of consumer and business rose at the beginning of the year, partly related to the successful introduction of the "Hartz"-reforms and the road toll system as well as a reduction in tax rates. Likewise, industrial order volumes both domestically and from abroad indicate a solid increase in demand in the near future. Nevertheless, as the starting level at the beginning of 2005 is low, a high annual growth rate can no longer be achieved in spite of an expected solid increase in economic activity over the course of the year.

Private consumption, which still remains below levels attained four years ago, is starting to pick up again. Growth, however, will be limited by the slow increase in disposable income and employment, although a certain momentum could be achieved via a reduction in the savings rate, which has gone up substantially since the mini-boom in 2000.

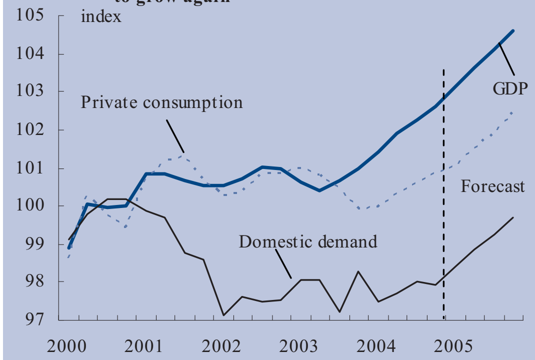
Lower saving could also be a response to an increase in employment, even though this is so far only due to the sharp rise in so-called mini-jobs under the "Hartz"- reforms. While the reform also increased unemployment in the national definition to over 5 million in January, as a statistical revision added some 375 000 people, the ILO-calculated unemployment rate used in this forecast remains largely unaffected and reflects the underlying trend: Unemployment is likely to remain stable until the middle of the year and start falling thereafter.

Falling unit labour costs should boost profits and ultimately lead to a turnaround in investment, which has been falling precipitously over the last few years. By contrast, construction activity will continue to fall, as housing construction remains weak and the poor state of public finances constraints infrastructure projects. The building sector should benefit, however,

*Graph 3.4:* **Germany - Ifo and consumer confidence**




*Graph 3.5:* **Germany - Domestic demand is finally starting to grow again**




Real GDP, domestic demand (inkl. stocks) and private consumption (s.a. 2000 Q2 = 100) from an increase in commercial construction.

Low wage growth should also lead to a continuing strong export performance over the forecast period, despite the strong euro. Germany has gained competitiveness in particular vis-à-vis other euro-zone members with higher inflation rates. Nevertheless, export growth rates should come down from their high 2004 levels as the international demand for investment goods slows down, for which Germany enjoys a comparative advantage. Furthermore, as import volumes should increase at a faster pace in line with domestic demand, the net export contribution to growth should be close to zero.

As nominal wages have hardly increased, inflationary pressures in Germany also remain very low, despite the rise in energy prices. Indeed, a full percentage point of the 2004 CPI inflation was due to administered price increases (health care and tobacco taxes) and a further 0.2 pp due to energy prices, leaving less than half a percent of core inflation and a GDP deflator well below 1%. This situation looks set to remain largely unchanged in the near term.

**Public finances**

The general government deficit edged down to 3.7% of GDP in 2004, from 3.8% in 2003. Government revenues fell by 0.4%. This reflects the sizeable income tax cuts worth 0.7% of GDP that were implemented at the beginning of 2004 as part of the tax relief laws passed in 2000, which were only partly financed by a broadening of the tax base. In addition, lacklustre domestic demand has kept consumption tax revenues low, in particular from oil taxes in the wake of rising oil prices. The increase in the tobacco tax rate in March 2004 did not generate as much revenue as expected by the government. A tax amnesty, aimed at repatriating savings currently deposited undeclared abroad, contributed about €1bn to government revenues, far less than planned. However, the unexpected decline in GDP in the fourth quarter did not translate into correspondingly lower tax revenues, partly as a result from the working-day-adjustment overdoing the decline, but also suggesting that the composition of growth could become more tax-friendly.

General government expenditure fell by 0.5% in nominal terms. The health sector reforms introduced in the beginning of 2004 substantially reduced public spending on health care by €3.7bn (worth almost 0.2% of GDP) compared with 2003, which enabled the statutory health insurance providers to run a surplus in 2004, reducing the accumulated debt. Pension expenditure rose only slightly, reflecting the freeze of individual pension benefits. Lower employment and continued cuts in bonus payments lowered the general government wage bill by 0.9%. However, the ongoing weakening of the labour market led to rising expenditure on transfers such as unemployment and social assistance.

In cyclically-adjusted terms, the deficit remained broadly unchanged in 2004. Thus, with growth close to potential, fiscal policy was not contractionary in Germany in 2004. However, all levels of government continued to face budgetary constraints that would not have permitted any discretionary loosening.

In 2005, the general government deficit is projected to fall to 3.3% of GDP. This central estimate leaves the chance to avoid a fourth consecutive breach of the 3%-of-GDP ceiling. In cyclically-adjusted terms, the deficit is expected to narrow by ½ percentage point in 2005. General government revenue is expected to grow by about 1% despite the implementation of the last stage of the tax relief law from the year 2000, not least as rising profits will lead to higher corporate taxes. In addition, subsidy repayments by several *Landesbanken* and the introduction of the road toll will add to revenues. Slow growth of the gross wage sum weakens the contribution base of the social security system. It is thus assumed that the total social security contribution rate will fall only slightly in 2005, despite the 2004 surplus in the health sector. Pressure on health insurers to lower the contribution rates further instead of continuing running surpluses to reduce their debt may lead to a deficit higher than projected.

Expenditures will grow only by 0.3%. in 2005 Wage agreements in the public sector are moderate and provide budgetary relief also in 2006. The dampening effect of the health sector reforms will abate already in 2005. The implementation of the new social benefit system (Hartz IV-package) is projected to result in expenditure savings after 2005. Subsidies are projected to continue falling, while the share of public investment in GDP is projected to remain constant. After the release of the Commission services' autumn forecast, the federal government announced that the cash settlement office for the former postal civil servants was going to securitise future transfer income from the post office's successor companies, so that the federal government would no longer have to make an annual transfer of 0.25% of GDP to the cash office. It is assumed that this transaction reduces government expenditure compatible with ESA95 accounting rules, a specific Eurostat decision still pending.

The main budgetary risks for 2005 are a continuing stagnation of private consumption translating into tax shortfalls, and the labour market developing more unfavourably than projected. Possible budgetary implications resulting from the "jobs summit" between government and opposition on 17 March 2005 are not considered here.

On unchanged policies, the general government deficit is projected to fall below 3% of GDP in 2006 by a small margin. Growing private consumption is expected to bolster tax revenues, while the forecast assumes no further tax cuts. Tax revenue effects from growth shifting towards domestic demand will be reflected in a reduction of the cyclically-adjusted deficit. Expenditure growth is expected to accelerate moderately. A recovering labour market in combination with the legislated labour market reforms are expected to provide relief for social transfers.

Nonetheless, the expenditure restraint of 2004 and 2005 has been achieved partly by one-off measures that will become a future burden on the budget; moreover, without further structural measures, health care spending may return to pre-2004 high growth rates. Thus, in order to put the public finances onto a sustainable path, further medium-term consolidation measures on the expenditure side are needed.

[i] The substantial statistical adjustment for working days may have exaggerated the growth slowdown in the second half and, particularly, the last quarter of 2004.

*Table 3.4*

**Main features of country forecast - GERMANY**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 2128.2 | 100.0 | 2.1 | 0.8 | 0.1 | -0.1 | 1.6 | 0.8 | 1.6 |
| Private consumption | | 1255.3 | 59.0 | 2.0 | 1.7 | -0.7 | 0.0 | -0.4 | 0.7 | 1.4 |
| Public consumption | | 408.5 | 19.2 | 1.6 | 1.0 | 1.9 | 0.1 | 0.4 | -0.1 | 0.6 |
| Gross fixed capital formation | | 379.8 | 17.8 | 1.7 | -4.2 | -6.4 | -2.2 | -0.9 | 2.0 | 3.5 |
| of which : equipment | | 146.9 | 6.9 | 2.2 | -4.9 | -8.6 | -1.4 | 1.2 | 5.7 | 8.1 |
| Change in stocks as % of GDP | | -7.6 | -0.4 | 0.0 | -1.4 | -1.8 | -0.9 | -0.2 | -0.4 | -0.4 |
| Exports (goods and services) | | 769.3 | 36.1 | 5.7 | 5.7 | 4.1 | 1.8 | 8.6 | 6.4 | 6.5 |
| Final demand | | 2805.3 | 131.8 | 2.7 | 0.9 | -0.3 | 0.9 | 2.7 | 2.3 | 3.1 |
| Imports (goods and services) | | 677.1 | 31.8 | 5.0 | 1.0 | -1.6 | 4.0 | 6.4 | 6.8 | 7.4 |
| GNI at constant prices (GDP deflator) | | 2114.2 | 99.3 | 2.1 | 0.7 | -0.3 | 0.1 | 2.0 | 1.2 | 2.0 |
| Contribution to GDP growth : | Domestic demand | | | 1.8 | 0.2 | -1.4 | -0.4 | -0.3 | 0.8 | 1.6 |
| | Stockbuilding | | | 0.0 | -1.0 | -0.4 | 0.9 | 0.7 | -0.2 | 0.0 |
| | Foreign balance | | | 0.4 | 1.6 | 1.9 | -0.6 | 1.1 | 0.2 | 0.1 |
| Employment | | | | 0.7 | 0.4 | -0.6 | -1.0 | 0.3 | 0.7 | 0.8 |
| Unemployment (a) | | | | 6.9 | 7.4 | 8.2 | 9.0 | 9.5 | 9.7 | 9.3 |
| Compensation of employees/head | | | | 3.3 | 1.7 | 1.5 | 1.6 | 0.1 | 0.5 | 1.4 |
| Unit labour costs | | | | 1.9 | 1.3 | 0.8 | 0.7 | -1.1 | 0.4 | 0.6 |
| Real unit labour costs | | | | -0.5 | 0.0 | -0.7 | -0.4 | -1.8 | -0.2 | -0.1 |
| Savings rate of households (b) | | | | - | - | 16.3 | 16.4 | 16.6 | 16.4 | 16.4 |
| GDP deflator | | | | 2.4 | 1.3 | 1.5 | 1.1 | 0.7 | 0.6 | 0.7 |
| Private consumption deflator | | | | 2.4 | 1.6 | 1.1 | 1.0 | 1.6 | 1.3 | 1.1 |
| Harmonised index of consumer prices | | | | - | 1.9 | 1.3 | 1.0 | 1.8 | 1.3 | 1.1 |
| Trade balance (c) | | | | 3.6 | 4.9 | 6.5 | 6.3 | 7.3 | 7.4 | 7.5 |
| Current account balance (c) | | | | 0.9 | 0.4 | 2.4 | 2.4 | 3.8 | 4.1 | 4.4 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | 0.9 | 0.4 | 2.4 | 2.5 | 3.8 | 4.1 | 4.4 |
| General government balance (c)(d) | | | | -2.2 | -2.8 | -3.7 | -3.8 | -3.7 | -3.3 | -2.8 |
| General government gross debt (c) | | | | 47.0 | 59.4 | 60.9 | 64.2 | 66.0 | 68.0 | 68.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

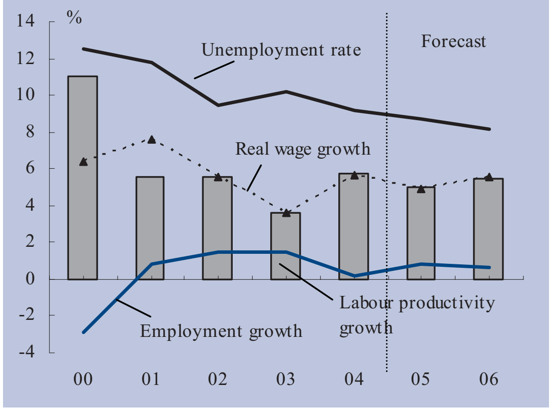
# 5. Estonia

## Growth gains momentum while imbalances are starting to diminish

### The situation in 2004

In 2004, real GDP growth accelerated to 6.2%. The main driver of growth in 2004 was net exports, supported by good results in foreign tourism and buoyant domestic demand. Investment grew by over 8%. Construction did particularly well, on the back of a housing boom, but has abated somewhat since last summer. Credit demand grew by over 30%, mostly in mortgage loans and business investment. The full-year HICP remained below expectations at 3%, since low core inflation largely offset temporary EU-accession-related price hikes. The unemployment rate declined further, to 9.2%, while employment continued to increase, albeit at a very modest rate of just 0.2%. Following EU accession last May, strong demand for Estonian workers in other EU countries has led to shortages of qualified labour, mainly in the health care sector but also in construction, triggering significant wage increases in both sectors. However, for the economy as a whole, higher inflation coupled with considerable wage moderation led to a slowing of real wage growth, which remained comfortably below significant labour productivity gains of around 6%. The fiscal position surprised on the positive side, with a general government surplus of 1.8% of GDP. The external deficit remained high, at around 12% of GDP, but recent trade data corrections finally appear to indicate an improvement of the external account. Overall, the situation in 2004 was strongly marked by various EU accession effects, most of which were temporary and have already started to abate.

*Graph 3.6:* **Estonia - Labour market**




### Prospects for 2005 and 2006

Growth is forecast to remain around 6% throughout the forecast period. One factor that is expected to keep demand for Estonian exports high is the positive growth outlook for Estonia's main trading partners, Sweden and Finland. Trade with third countries is also expected to accelerate. With exports and investment picking up strongly, and the pace of both private and government consumption expected to expand slower than overall GDP, growth should become somewhat more balanced. Investment is expected to remain strong, fuelled also by public infrastructure spending and smooth absorption of EU transfers, co-financing of which is increasingly also provided by the private sector. The methodological changes in recording required upon EU accession have made the external trade data temporarily less reliable. However, even if the levels and growth rates are uncertain, recently revised trade data suggest that the projected correction of the external imbalance may have finally started in 2004. The external deficit is projected to come down to around 10% of GDP by 2006. The trade balance is expected to improve over the forecast period, while the income balance will remain in substantial deficit. The latter largely reflects repatriated profits, often in the form of reinvested earnings, roughly two thirds of which come back onto the capital account as FDI. The capital account surplus is expected to increase, not least thanks to increasing EU transfers which, along with sizeable FDI and portfolio inflows, should help to better balance Estonia's external account.

### Labour market, wages and prices

Strong growth should translate into a renewed pick-up in employment gains from the modest 2004 rate, and a sustained decline in the rate of unemployment. With regard to employment, some whitening of the still widespread grey labour market, in particular in the low-wage sector, can be observed. This can be attributed to a combination of higher income tax thresholds, lower income tax rates, a simple system of tax declaration, and increasingly effective tax collection. Also, regional disparities in the labour market as well as youth unemployment are starting to decline as an active labour market policy starts to bear fruit. A gradual increase of presently low participation rates will be supported by both a rising retirement age and stronger incentives to work. These trends are projected to largely continue over the forecast period. Given the fairly flexible labour market, real wages are expected to increase broadly in line with productivity gains, while 2005 is expected to mark a low for gross wage increases, reflecting the cushioning impact of the income tax cuts on net wages. Consumer price inflation is expected to peak in 2005 at 3.3%, reflecting a number of expected administrative price increases, and to return to below 3% in 2006. Core inflation is fairly low and stable, and the Estonian authorities have expressed their intention to put a brake on further administrative price hikes should inflation develop unfavourably. Oil prices so far have not had a major impact on inflation in Estonia. Nonetheless, they remain a risk factor to the inflation forecast.

**Public finances**

In 2004, Estonia posted a higher-than-projected general government surplus of 1.8% of GDP, which is some 1% above earlier projections. Although the Estonian government is aiming for a target of balanced budgets for both 2005 and 2006, prudent budget assumptions and continuing improvements in tax collection are likely to lead to surpluses – albeit declining – also in these years. For 2005, a strong carry-over effect of delayed VAT tax collection related to EU accession can be expected to provide an additional boost to budgetary revenues. Local government deficits have started to come down, and can be expected to further decline as a result of a new legal framework which will enter into force in 2006.

*Table 3.5*

**Main features of country forecast - ESTONIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EEK Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 125.8 | 100.0 | 5.4 | 6.4 | 7.2 | 5.1 | 6.2 | 6.0 | 6.2 |
| Private consumption | | 71.2 | 56.6 | 6.1 | 6.2 | 10.3 | 5.7 | 5.3 | 5.5 | 5.6 |
| Public consumption | | 23.9 | 19.0 | 2.3 | 1.8 | 5.9 | 5.8 | 5.1 | 5.2 | 4.7 |
| Gross fixed capital formation | | 35.7 | 28.4 | 7.3 | 13.0 | 17.2 | 5.4 | 8.7 | 8.3 | 6.9 |
| of which : equipment | | 17.7 | 14.1 | - | - | - | - | 6.8 | 6.4 | 6.5 |
| Change in stocks as % of GDP | | 3.4 | 2.7 | 1.3 | 2.7 | 3.8 | 3.5 | 4.7 | 1.6 | 1.1 |
| Exports (goods and services) | | 94.3 | 75.0 | 12.4 | -0.2 | 0.9 | 5.7 | 15.3 | 13.4 | 10.5 |
| Final demand | | 228.6 | 181.7 | 8.5 | 3.8 | 7.2 | 5.5 | 10.9 | 8.0 | 7.8 |
| Imports (goods and services) | | 104.4 | 83.0 | 12.4 | 2.1 | 3.7 | 11.0 | 11.9 | 9.8 | 9.1 |
| GNI at constant prices (GDP deflator) | | 117.9 | 93.7 | 4.9 | 5.3 | 7.3 | 3.3 | 3.9 | 4.5 | 6.7 |
| Contribution to GDP growth : | Domestic demand | | | 6.1 | 7.6 | 12.3 | 6.3 | 7.1 | 7.1 | 6.6 |
| | Stockbuilding | | | 0.5 | 0.3 | 1.4 | -0.2 | 1.6 | -2.9 | -0.5 |
| | Foreign balance | | | -1.1 | -2.5 | -3.1 | -6.2 | 0.7 | 1.8 | 0.1 |
| Employment | | | | -3.1 | 0.8 | 1.5 | 0.8 | 0.2 | 0.6 | 0.8 |
| Unemployment (a) | | | | 10.4 | 11.8 | 9.5 | 10.2 | 9.2 | 8.7 | 8.2 |
| Compensation of employees/head | | | | 20.7 | 7.7 | 10.2 | 8.9 | 6.4 | 6.1 | 6.4 |
| Unit labour costs | | | | 11.1 | 2.0 | 4.3 | 4.4 | 0.4 | 0.7 | 1.0 |
| Real unit labour costs | | | | -2.3 | -3.5 | -0.1 | 2.0 | -2.8 | -2.7 | -1.9 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 13.7 | 5.8 | 4.4 | 2.4 | 3.3 | 3.5 | 2.9 |
| Private consumption deflator | | | | 12.4 | 6.1 | 3.4 | 0.8 | 3.0 | 3.2 | 2.7 |
| Harmonised index of consumer prices | | | | - | 5.6 | 3.6 | 1.4 | 3.0 | 3.3 | 2.7 |
| Trade balance (c) | | | | -18.6 | -13.2 | -15.4 | -17.4 | -16.4 | -14.8 | -14.0 |
| Current account balance (c) | | | | -7.1 | -5.6 | -10.2 | -13.2 | -12.9 | -12.1 | -11.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -7.1 | -5.6 | -9.9 | -12.7 | -12.2 | -11.2 | -9.9 |
| General government balance (c)(d) | | | | -0.7 | 0.3 | 1.4 | 3.1 | 1.8 | 0.9 | 0.5 |
| General government gross debt (c) | | | | - | 4.4 | 5.3 | 5.3 | 4.9 | 4.3 | 4.0 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 6. Greece

## Olympics' bonus tapers off

### The situation in 2004

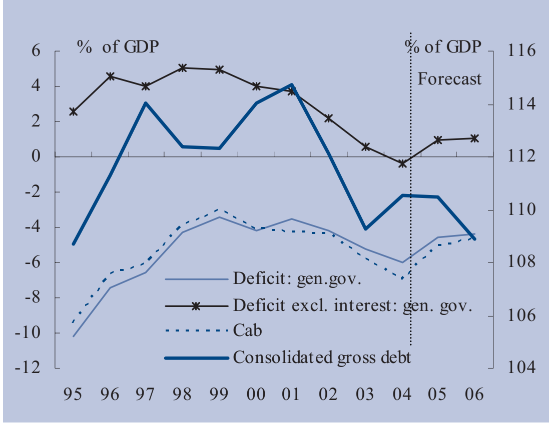
Although slowing from the previous year, economic growth remained robust in 2004 buttressed by healthy domestic demand. By contrast, the external side continued to act as a drag in spite of a marked expansion of export markets, thus confirming that the Greek industry has a competitiveness problem. In the year as a whole, real GDP posted an increase of 4.2%, down from 4.7% in 2003. Following a drop in the summer, annual inflation went up again on the back of higher oil prices and rising unit labour costs. The inflation differential with the euro-area average narrowed somewhat. The assessment of labour market developments is complicated by a major statistical revision carried out in 2004. As the data were not revised backward by the cut-off date of the forecast, the rate of unemployment exhibits a break between 2003 and 2004. It is reported to have increased significantly together with a sharp increase in the labour force ensuing from the regularisation of illegal immigrants.

### Prospects in 2005 and 2006

The planned fiscal withdrawal in 2005 and the petering out of the ‘Olympic bonus’ are expected to shape the economic performance over the forecast horizon. GDP growth is likely to ease from 4.2% in 2004 to slightly below 3% in 2005 before rebounding somewhat in 2006 towards its potential rate. As a result, the output gap is set to narrow but to stay positive over the forecast period.

In 2005, the planned fiscal adjustment outlined in the government budget - mainly lower government investment and consumption expenditure - affects aggregate demand by more than one percentage point. Although private investment is expected to step in, taking advantage *inter alia* of the recently approved business tax reform, total investment growth is set to slow markedly. Private consumption growth is also projected to weaken, reflecting the drop in confidence recorded at the end of 2004 and the onset of 2005. However, the planned income tax relief planned is likely to mitigate the easing.

*Graph 3.7:* **Greece - Net lending & consolidated gross debt**




The negative contribution from the external side is expected to decline over the forecast horizon as manufacturing firms are likely to gain ground on the still expanding export markets. Nevertheless, net exports are likely to continue to act as a drag on real GDP growth.

### Labour market, costs and prices

The healthy pace of economic expansion projected in 2005 and 2006, outpacing the euro-area average, will go along with an increase in employment. However, in view of the projected deceleration of economic growth, the rate of job creation, while staying positive, is expected to drop significantly from 2004, most likely in the services sector. The rate of unemployment is projected to increase in 2005, before edging down again in 2006.

Following a series of generous wage agreements for the 2004-2005 period, especially in the public sector, the leader for other employment categories, wages per head are set to keep rising at a rate of more than 5% in 2005, well above projected productivity growth. The trend is expected to continue in 2006.

Dynamic wage developments coupled with strong domestic demand are projected to fuel inflation, which is projected to increase to 3.1% over the forecast horizon.

### Public finances

Based on the figures reported on 1 March 2005 in the framework of the EU budgetary surveillance, the deficit was 6.1% of GDP in 2004[i] (6.0% of GDP according to ESA95 definition i.e. excluding swap-related flows). The new data also included an upward revision of the 2003 deficit to 5.2% of GDP, from 4.6% of GDP in the September 2004 reporting, producing a base effect into 2004. Net of cyclical factors, the deficit is estimated to have been at around 7% of GDP given the large positive output gap.

In 2005, the deficit ratio is projected to decline to 4.5% of GDP on the back of the fiscal adjustment presented in the government budget. These projections do not take account of the additional fiscal package announced by the Greek government in late March, after the cut-off date for the current forecasts. The improvement is expected to chiefly result from lower investment expenditure, which is set to fall sharply from the high levels brought about by the organisation of the Olympic Games, and from a series of other expenditure curbing measures. In cyclically-adjusted terms the 2005 deficit is estimated to be above 5% of GDP.

Following established practice, the deficit projection for 2006 of 4.4% of GDP is based on unchanged legislation. The marginal improvement compared to 2005 reflects the moderate acceleration of economic growth.

The general government debt reached 110.5% of GDP in 2004, up from 109.3% in 2003 on the back of a primary deficit and sizeable debt increasing below-the-line operations. Due to the slowdown in economic growth and the persistence of debt increasing stock-flow adjustments, the expected improvement of the primary balance in 2005 will suffice to broadly stabilise the debt-to-GDP ratio. A slight decline in the debt ratio is expected in 2006.

[i] Eurostat did not validate the deficit figures for Greece notably because of an inconsistent recording of flows between Greece and the EU budget. Eurostat also noted that healthcare- and Olympics-related expenditure for past years is not yet final. Therefore, the government deficit figures for 2004 and earlier years may have to be revised upwards.

*Table 3.6*

**Main features of country forecast - GREECE**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 153.5 | 100.0 | 1.5 | 4.3 | 3.8 | 4.7 | 4.2 | 2.9 | 3.1 |
| Private consumption | 102.5 | 66.8 | 2.2 | 3.0 | 3.1 | 4.0 | 3.3 | 2.9 | 3.1 |
| Public consumption | 25.2 | 16.4 | 1.9 | -3.2 | 8.3 | -2.3 | 6.5 | 1.9 | 1.3 |
| Gross fixed capital formation | 39.3 | 25.6 | 1.9 | 6.5 | 5.7 | 13.7 | 4.9 | 3.1 | 3.8 |
| of which : equipment | 15.3 | 10.0 | 6.3 | 4.9 | 6.9 | 18.3 | 5.8 | 3.7 | 4.6 |
| Change in stocks as % of GDP | 0.1 | 0.1 | 0.0 | -0.1 | -0.3 | 0.1 | 0.2 | 0.1 | 0.1 |
| Exports (goods and services) | 30.5 | 19.8 | 4.7 | -1.1 | -7.7 | 1.0 | 10.0 | 5.9 | 6.0 |
| Final demand | 197.6 | 128.7 | 2.4 | 1.7 | 2.1 | 4.7 | 5.1 | 3.3 | 3.6 |
| Imports (goods and services) | 44.1 | 28.7 | 6.3 | -5.2 | -2.9 | 4.8 | 8.2 | 4.6 | 4.8 |
| GNI at constant prices (GDP deflator) | 153.4 | 100.0 | 1.3 | 3.4 | 3.7 | 4.6 | 4.3 | 2.9 | 3.1 |
| Contribution to GDP growth : Domestic demand | | | 1.8 | 3.1 | 4.8 | 5.8 | 4.6 | 3.1 | 3.4 |
| Stockbuilding | | | 0.1 | -0.4 | -0.2 | 0.4 | 0.1 | -0.1 | 0.0 |
| Foreign balance | | | -0.6 | 1.7 | -0.9 | -1.3 | -0.5 | -0.2 | -0.2 |
| Employment | | | 0.9 | -0.3 | 0.1 | 1.4 | 2.8 | 0.6 | 0.7 |
| Unemployment (a) | | | 8.0 | 10.8 | 10.3 | 9.7 | 10.3 | 10.5 | 10.3 |
| Compensation of employees/head | | | 14.6 | 5.2 | 9.5 | 4.1 | 5.8 | 5.9 | 6.1 |
| Unit labour costs | | | 13.9 | 0.6 | 5.6 | 0.8 | 4.4 | 3.5 | 3.7 |
| Real unit labour costs | | | -0.4 | -2.8 | 1.6 | -2.6 | 1.0 | 0.3 | 0.3 |
| Savings rate of households (b) | | | - | - | 14.5 | 14.0 | 13.7 | 13.0 | 12.6 |
| GDP deflator | | | 14.4 | 3.5 | 4.0 | 3.5 | 3.4 | 3.3 | 3.3 |
| Private consumption deflator | | | 14.0 | 3.3 | 3.6 | 3.4 | 2.9 | 3.1 | 3.1 |
| Harmonised index of consumer prices | | | - | 3.7 | 3.9 | 3.4 | 3.0 | 3.2 | 3.2 |
| Trade balance (c) | | | -12.1 | -16.2 | -16.5 | -16.7 | -17.7 | -17.5 | -17.1 |
| Current account balance (c) | | | -1.8 | -7.1 | -7.7 | -8.3 | -6.9 | -6.3 | -5.6 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | - | -4.8 | -6.3 | -7.1 | -4.4 | -3.9 | -3.3 |
| General government balance (c)(d)(e) | | | -9.3 | -3.6 | -4.1 | -5.2 | -6.1 | -4.5 | -4.4 |
| General government gross debt (c) | | | 80.0 | 114.8 | 112.2 | 109.3 | 110.5 | 110.5 | 108.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 7. Spain

## Widening external imbalances

### Economic developments in 2004

GDP gained momentum in 2004 and grew by 2.7%, compared with 2.5% in 2003, following an increasingly unbalanced growth pattern, underpinned by dynamic domestic demand, while the external sector continued to weigh on GDP growth.

Economic activity was led by domestic demand, which accelerated markedly. Private consumption speeded up, supported by strong job creation along with easy monetary and financial conditions. These factors also explain the resilience of investment in dwellings, whereas the household saving rate further decreased and net lending turned out negative in 2004. Investment in equipment accelerated during the second half of the year. However, this acceleration seems to have been temporary and the result of equipment renewal after a large increase of profits in 2003, rather than a consequence of improved business expectations justifying new investment projects.

The external sector, especially imports, also exhibited a high level of dynamism. Fuelled by strong domestic demand, import growth accelerated, while exports grew well below world trade. As a result, the trade deficit widened from 5.2% of GDP in 2003 to 6.8% in 2004. The external sector deducted 1.7 pp from GDP growth, compared with 0.8 pp. in the previous year.

The negative contribution of the external sector to growth has its origin in a persistent and widening deficit in goods trade, which results from high import growth, underpinned by dynamic domestic demand, while positive inflation differentials with the euro area and low productivity growth kept exports growth well below imports.

### Prospects for 2005 and 2006

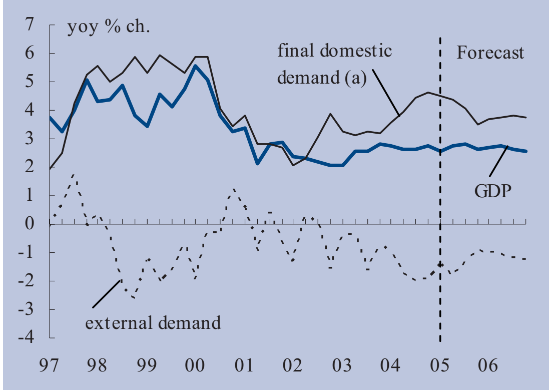
GDP growth in 2005 is projected to remain almost unchanged at 2.7%, on the basis of still buoyant domestic demand which will decelerate only marginally. This will translate into a slight deceleration of imports and therefore a somewhat less unbalanced growth pattern than in 2004.

Domestic demand will be underpinned by still dynamic job creation and easy monetary and financial conditions. The deceleration of domestic demand stems from a slight moderation of private consumption. Households' indebtedness is projected to keep on growing, while high inflationary pressures and the worsening of the terms of trade may also negatively affect consumers' purchasing power. Gross fixed capital formation should remain buoyant, backed by investment in dwellings, which is expected to exhibit strong growth. However, investment in equipment is projected to decelerate since the factors underpinning the 2004 recovery of this item seem to have faded out in 2005.

This strong final demand is expected to keep import growth well above exports. The latter are projected to grow only moderately due to sluggish prospects in the euro area coupled with deteriorating industrial competitiveness. The external sector is projected to negatively contribute to GDP growth by 1.4 pp.

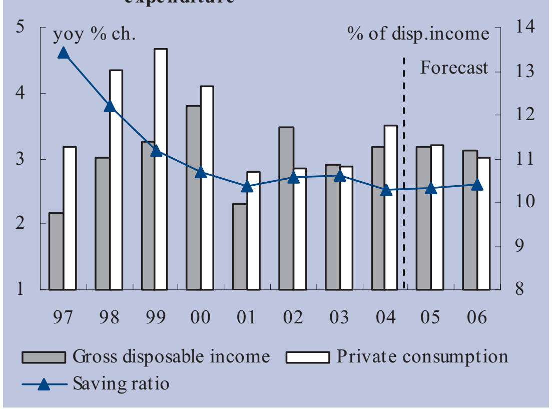
The year 2006 is expected to record a broadly similar growth profile. GDP is projected to grow at 2.7%.

*Graph 3.8:* **Spain - Contributions to GDP growth**




(a) excluding stockbuilding.

*Graph 3.9:* **Spain - Household income, savings and expenditure**



Domestic demand components are expected to further decelerate. The slowdown of private consumption should not be strong and, consequently household indebtedness should continue to widen. The still large gap between production and demand in the housing market should induce a reduction of growth in the construction sector. Investment in equipment will remain subdued, reflecting businesses concerns about the medium term.

The projected deceleration of domestic demand will lead to a moderation of imports, but, persistent competitiveness losses, coupled with expectations of sluggish growth in Spain's main EU trade partners, will still weigh on export growth. Overall, the negative contribution from the external sector, albeit smaller in absolute terms, is expected to lighten only marginally, to 1.1 pp.

The trade deficit is expected to reach 7.7% of GDP in 2005 and to further increase to 8.3% of GDP in 2006. Additionally, the surplus recorded by services, especially tourism, which has traditionally offset the deficit in goods trade, narrowed in 2004 and is projected to stagnate over the forecast period. However, the increasing presence of Spanish firms overseas will increase primary incomes, helping compensate the trade deficit. Overall, the current account deficit could attain 6.2% of GDP in 2006. This current account figures, only slightly compensated by net capital transactions, should result in a net borrowing position of the economy of 4.7% and 5.2% of GDP in 2005 and 2006 compared to 3.9% in 2004.

**Labour market**

Job creation will remain robust. In 2005, full time equivalent employment is expected to grow at 2.1%, whereas in 2006 it should decelerate to 2% in line with somewhat less dynamic economic activity.

Job creation is expected to concentrate on sectors where productivity is low, namely construction and services. In the manufacturing sector, employment is projected to recover only marginally (0.1% in 2005 and 0.2% in 2006), which compares with the job losses recorded over 2002-2004. Strong job creation will take place along with a rising activity rate, which would reach 70% at the end of the forecasting period. The increase of the activity rate is mainly explained by high immigration flows and higher female participation. As a consequence, the unemployment rate would reduce only marginally over the forecast period, remaining still above 10% in 2006.

Productivity is projected to grow over the forecast period by a meagre 0.6% per year, mainly reflecting the existence of rigidities in product markets, especially utilities and services. However, in the manufacturing sector, productivity growth should remain stronger at around 2%, mirroring the higher exposition to competition of this sector, but still below the euro-area average. In contrast, in the non-manufacturing sector, productivity is expected to almost stagnate, growing only by 0.3% in 2005 and 0.4% in 2006.

**Costs and prices**

Following the oil price hike in the second and third quarters of 2004 and negative behaviour of food components, headline inflation reached 3.1%, while core inflation was only slightly lower at 2.8%.

Since the increase in energy prices is expected to affect the first months of the current year, inflation is projected to ease gradually after the second quarter of 2005. On an annual basis, HICP inflation is expected to ease to 2.9% in 2005, and to fall further to 2.7% in 2006. Structural factors such as insufficient competition in certain sectors (utilities and services), coupled with remaining rigidities in the labour market, especially indexation clauses, seem to be behind the still high inflationary pressures. The GDP deflator is projected to grow well above the HICP, mainly due to a high construction deflator and the relative moderation of import prices compared to domestic production.

Following resilient inflation, compensation of employees per head is projected to decelerate only marginally growing at around 3.7% over the forecast period. This may partially reflect the effect of indexation clauses, while social partners seem to be committed to wage moderation. Consequently, unit labour costs are expected to slightly slow down in 2005 and 2006 compared with 2004. Although labour costs in Spain will still grow above the euro-area average, they will continue to grow below GDP deflator, which results in negative real unit labour costs growth over the forecast period.

Coupled with low productivity growth, inflation differentials with the main trading partners will continue being one of the driving forces behind widening external deficits.

**Public finances**

In 2004, the budget deficit was 0.3% of GDP. The inclusion of RENFE (the Spanish railway company) and RTVE (the public broadcasting company) in the general government sector was initially projected to lead to a deficit close to 0.8% of GDP, but the budgetary effects of this reclassification were partially offset by higher-than-expected revenues. Public consumption expenditure contributed to the dynamism of domestic demand, by growing in nominal terms (9.9%) well above nominal GDP (7.2%).

A balanced budget is projected for 2005, while a non-policy-change scenario would result in a small surplus (0.1% of GDP) for 2006. Strong job creation coupled with dynamic consumption should keep revenues growing above nominal GDP. As a result, total revenues are projected to reach 40.4% of GDP in 2005 and 40.5% in 2006, 0.5 percentage points of GDP above the government target. In parallel, led by strong public consumption growth, expenditures are projected at 40.4% of GDP in 2005 and 2006. This is around 0.6 percentage points of GDP higher than the government projection, which might be slightly optimistic.

The debt-to-GDP ratio is expected to continue on a declining path during the forecast period, falling from 48.9% of GDP in 2004 to around 44% of GDP in 2006.

*Table 3.7*

**Main features of country forecast - SPAIN**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 744.8 | 100.0 | 2.8 | 2.8 | 2.2 | 2.5 | 2.7 | 2.7 | 2.7 |
| Private consumption | 430.7 | 57.8 | 2.4 | 2.8 | 2.9 | 2.9 | 3.5 | 3.2 | 3.0 |
| Public consumption | 133.1 | 17.9 | 4.1 | 3.5 | 4.1 | 3.9 | 4.9 | 4.5 | 4.2 |
| Gross fixed capital formation | 190.4 | 25.6 | 4.0 | 3.0 | 1.7 | 3.2 | 4.6 | 5.3 | 4.3 |
| of which : equipment | 45.0 | 6.0 | 4.4 | -1.2 | -5.4 | 1.0 | 5.8 | 6.7 | 5.7 |
| Change in stocks as % of GDP | 2.8 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.6 | 0.5 | 0.6 |
| Exports (goods and services) | 207.0 | 27.8 | 7.7 | 3.6 | 1.2 | 2.6 | 4.5 | 5.1 | 4.9 |
| Final demand | 964.0 | 129.4 | 3.8 | 3.1 | 2.4 | 3.1 | 4.3 | 4.1 | 3.9 |
| Imports (goods and services) | 219.2 | 29.4 | 8.9 | 3.9 | 3.1 | 4.8 | 9.0 | 8.2 | 7.1 |
| GNI at constant prices (GDP deflator) | 735.5 | 98.8 | 2.8 | 2.4 | 2.3 | 2.5 | 2.8 | 2.9 | 2.8 |
| Contribution to GDP growth : Domestic demand | | | 3.0 | 3.0 | 2.8 | 3.2 | 4.1 | 4.1 | 3.7 |
| Stockbuilding | | | 0.0 | -0.1 | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 |
| Foreign balance | | | -0.2 | -0.2 | -0.6 | -0.8 | -1.7 | -1.4 | -1.1 |
| Employment | | | 1.2 | 2.5 | 1.4 | 1.7 | 2.1 | 2.1 | 2.0 |
| Unemployment (a) | | | 15.5 | 10.6 | 11.3 | 11.3 | 10.8 | 10.4 | 10.3 |
| Compensation of employees/head | | | 7.7 | 3.8 | 4.3 | 4.3 | 4.0 | 3.7 | 3.7 |
| Unit labour costs | | | 6.1 | 3.5 | 3.4 | 3.5 | 3.4 | 3.1 | 3.1 |
| Real unit labour costs | | | -0.6 | -0.6 | -1.0 | -0.5 | -0.9 | -0.8 | -0.6 |
| Savings rate of households (b) | | | - | - | 10.6 | 10.6 | 10.3 | 10.3 | 10.4 |
| GDP deflator | | | 6.7 | 4.2 | 4.5 | 4.0 | 4.4 | 3.9 | 3.7 |
| Private consumption deflator | | | 6.7 | 3.3 | 3.4 | 3.1 | 3.0 | 2.9 | 2.7 |
| Harmonised index of consumer prices | | | - | 2.8 | 3.6 | 3.1 | 3.1 | 2.9 | 2.7 |
| Trade balance (c) | | | -4.2 | -5.7 | -5.1 | -5.2 | -6.8 | -7.7 | -8.3 |
| Current account balance (c) | | | -1.4 | -3.1 | -2.7 | -3.3 | -5.0 | -5.7 | -6.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | -1.0 | -2.2 | -1.6 | -2.1 | -3.9 | -4.7 | -5.2 |
| General government balance (c)(d) | | | -4.3 | -0.5 | -0.3 | 0.3 | -0.3 | 0.0 | 0.1 |
| General government gross debt (c) | | | 48.4 | 57.8 | 55.0 | 51.4 | 48.9 | 46.5 | 44.2 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 8. France

## Growth remains robust, fuelled by domestic demand

### The economic situation in 2004

Real GDP in France grew by 2.5% in 2004, its best performance since 2000. Contrary to what was observed in the euro area as a whole, the French economy was supported by domestic demand, especially by private consumption. At the same time, the contribution of the external sector to GDP growth was negative since France could not fully take advantage of the expansion of world trade because its export markets expanded more slowly and its price competitiveness deteriorated.

The strong average growth figure hides a slowdown in the second half of 2004. While in the first half of 2004 real GDP growth reached about 3% in annualised terms, it fell below its potential in the second half of the year. In particular, in the context of a worsening demand outlook linked to the oil price increase and the cumulated euro appreciation, business investment was less buoyant in the second half of the year. Consumer spending, which grew rapidly in the first half of 2004, dipped in the third quarter but rebounded strongly in the fourth quarter. The end of tax exemption (in December 2004) on the withdrawal of balances held by employees in companies' savings schemes might have encouraged households to free up some savings. In the context of the protracted weakness of gross disposable household income, the buoyant private consumption was driven by a large decline in the saving ratio (by 0.7 pp in 2004).

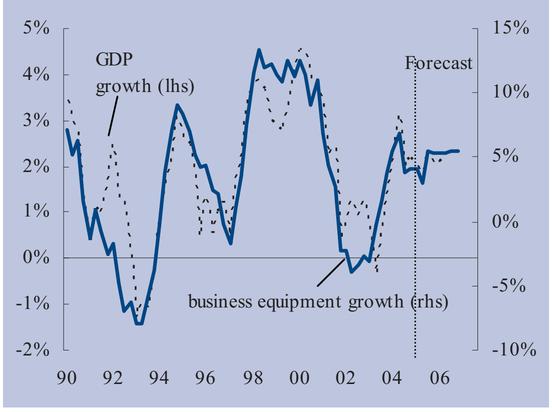
### Prospects for 2005 and 2006

In 2005, real GDP growth is expected to slow down somewhat and in 2006 it is projected to return to its potential. Economic activity should still be driven by domestic demand, while the contribution of net exports to GDP growth should turn neutral by the end of the forecast period.

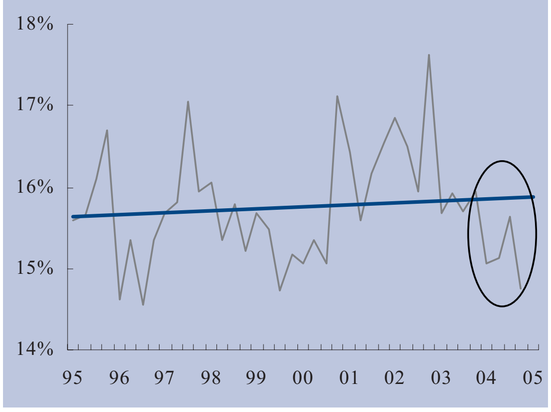
Recent macroeconomic indicators suggest that economic activity is likely to continue to be buoyant in the first quarter of 2005, supported by private consumption, while employment growth may be slow to pick up (unchanged in the fourth quarter of 2004 after a slight increase of 0.1% in the third quarter). Also, consumers should continue to draw on their savings but this may not be sustainable since the savings ratio is already 1 point below its long-term average. Overall private consumption growth is projected to decelerate from 2.3% in 2004 to 2.0% in 2005. In 2006, private consumption is expected to remain the main driving force of growth, based on an expected substantial recovery in employment. It would increase in line with disposable household income, which is foreseen to accelerate gradually thanks to a rise in demand for labour. Over the forecast horizon, the planned reform of the 35-hour working week may boost households' income through an increase in authorised annual overtime and the possibility for employees to convert the allowed extra overtime into additional income. The decline in inflation should also strengthen the purchasing power of households.

Over the next two years, investment in equipment is forecast to remain relatively buoyant. It should still be supported by favourable financing conditions and the implementation of tax cuts on new capital expenditure. But in 2005, the deterioration in demand

*Graph 3.10:* **France - GDP and investment**




*Graph 3.11:* **France - Household savings rate**



expectations, uncertainty about the sustainability of the consumption growth and relatively low capacity utilisation are expected to curb spending on equipment in the near term. In 2006, this tendency would be reversed. Hence, following a deceleration from 5.1% in 2004 to 4.5% in 2005, equipment investment growth would pick up in 2006 (to 5.5%). The increase in residential construction investment is also forecast to moderate from 2.9% in 2004 to about 2% in 2005 and 2006.

After a loss in export market shares in 2004 for the second consecutive year, export volumes are projected to increase more in line with markets' growth. The improvement of price competitiveness and a better cyclical position in those sectors (car transport and aeronautic sectors) in which France is specialised should support export growth. In this context, and although imports are forecast to remain buoyant in response to the robustness of final demand, the negative contribution of net trade to GDP growth will diminish.

**Labour markets, costs and prices**

The need for companies to further improve their financial situation, uncertainties concerning the durability of the recovery and the lag in the employment response to a pick up in activity in 2004 largely explain the current weakness in employment growth. In 2005 and 2006, employment growth is set to strengthen in response to improved corporate profitability and better economic prospects over the forecast horizon. This would allow a decline in the unemployment rate, from 9.6% of the labour force in 2004 to 9.1% in 2006 (ILO definition).

Given the still high unemployment rate, wage increases are expected to be moderate in 2005. Nevertheless, the harmonisation of the different levels of the minimum wage, induced by the reduction in working time to 35 hours implemented between 1998 and 2002, will still support wages in 2005. In both 2005 and 2006 the planned increased flexibility of working time should also sustain wages. A slight cyclical acceleration in real wages is expected to occur in 2006, driven by the improvement of the situation in the labour market.

With productivity growth expected to decelerate from the high rate observed in 2004, unit labour costs should rise over the forecast period. Underlying inflation is therefore projected to pick up gradually, especially in the services sector. However, the government's initiative to induce retailers and consumer goods producers to cut the prices of major branded products, reinforced by the planned revision of the Galland Law on retail pricing, should moderate inflation. In addition, the diminishing effect of past increases in excise duties on tobacco should reduce the inflation rate by 0.4 percentage point in 2005. In 2006, the expected decrease in energy prices should contribute to a decline in HICP inflation.

**Public finances**

The general government deficit declined from 4.2% of GDP in 2003 to 3.7% of GDP in 2004. This decline benefited from an improvement in the macroeconomic situation, which triggered additional fiscal revenues, notably in terms of VAT and income tax, of about 0.7% of GDP compared to initial budget plans. Discretionary tax measures contributed to a deficit reduction by about 0.1% of GDP. The ratio of general government expenditure to GDP declined from 54.7% in 2003 to 54.5% of GDP in 2004. While for the second year in a row State expenditure remained stable in volume as planned, expenditures in social security regimes and local authorities increased by more than initially foreseen by the French authorities. All in all, the cyclically-adjusted deficit improved by 0.4 percentage point of GDP in 2004, as against a targeted 0.8 percentage point of GDP. The general government debt continued to increase, from 63.9% of GDP in 2003 to 65.6% of GDP in 2004, as a result of the deficit and negative stock-flow adjustments.

For 2005, the general government deficit is projected at 3%. The current forecast assumes that expenditure will increase by 2% in real terms (compared to the 1.6% increase foreseen by the national authorities) as health expenditures are projected to increase by 4.0% in 2005 against 3.2% in the budget law for 2005. This is due to an assumed lower impact of the measures introduced by the health reform. The forecast also incorporates one-off payments by the EDF/GDF companies to the general government for a total amount of 0.5% of GDP related to this transfer. This is the same deficit estimate as in the autumn forecast, when 2005 real GDP growth was projected at 2.2% as against 2% currently expected. The negative growth effect on the deficit (0.1 percentage point of GDP) is compensated by some measures on the revenue side.

The macroeconomic and budgetary forecast for 2005 is consistent with an improvement in the cyclically-adjusted balance by 0.8 percentage point of GDP, the largest part of which reflects the impact of the one-off measures. The overall budgetary situation in France remains vulnerable and the 2005 government deficit forecast is subject to upward risks. In particular, beyond the expenditure slippages already incorporated in the current forecast, further slippages cannot be ruled out, notably in the health and local authorities sectors. In addition, this forecast does not include potential further increases in public sector wages (on top of the already granted two index revalorisations of 0.5% each) linked to the negotiations starting end of March 2005. It also does not include possible tax cuts following the announcement by the government on 8 February. These potential effects may to a certain extent be compensated by additional non-fiscal revenues stemming from debt buy-back operations from foreign States.

In 2006, despite real GDP growth being expected to be close to its potential rate, the general government deficit is projected to increase again to 3.4% of GDP (based on the usual no-policy-change assumption). This reflects the fact that the exceptional payments contributing to the deficit reduction in 2005 will vanish in 2006 and that tax cuts are already planned for that year (0.2% of GDP). This projection is based on the assumption that real government expenditures will increase by about 2% in real terms, compared with a projection of 1.2% in the latest update of the stability programme. The risks to the government deficit forecast for 2006 are skewed to the upside.

*Table 3.8*

**Main features of country forecast - FRANCE**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 1557.5 | 100.0 | 2.2 | 2.1 | 1.2 | 0.5 | 2.5 | 2.0 | 2.2 |
| Private consumption | | 864.9 | 55.5 | 1.8 | 2.7 | 1.5 | 1.5 | 2.3 | 2.0 | 2.1 |
| Public consumption | | 378.3 | 24.3 | 2.4 | 2.9 | 4.6 | 2.4 | 2.6 | 2.0 | 2.0 |
| Gross fixed capital formation | | 298.7 | 19.2 | 2.3 | 1.9 | -2.0 | -0.2 | 3.3 | 3.0 | 3.5 |
| of which : equipment | | 107.4 | 6.9 | 5.0 | 2.5 | -3.5 | -0.1 | 5.1 | 4.5 | 5.5 |
| Change in stocks as % of GDP | | -3.7 | -0.2 | 0.2 | 0.4 | 0.2 | 0.0 | 0.9 | 1.1 | 1.0 |
| Exports (goods and services) | | 401.9 | 25.8 | 5.5 | 1.6 | 1.9 | -2.5 | 3.2 | 5.0 | 6.3 |
| Final demand | | 1940.1 | 124.6 | 2.6 | 1.9 | 1.5 | 0.3 | 3.4 | 2.9 | 3.3 |
| Imports (goods and services) | | 382.6 | 24.6 | 4.9 | 1.3 | 2.9 | -0.1 | 7.4 | 6.2 | 6.7 |
| GNI at constant prices (GDP deflator) | | 1560.4 | 100.2 | 2.2 | 2.1 | 0.9 | 0.1 | 2.6 | 2.2 | 2.2 |
| Contribution to GDP growth : | Domestic demand | | | 2.0 | 2.6 | 1.5 | 1.3 | 2.5 | 2.2 | 2.4 |
| | Stockbuilding | | | 0.0 | -0.6 | -0.1 | -0.2 | 0.9 | 0.1 | 0.0 |
| | Foreign balance | | | 0.1 | 0.1 | -0.2 | -0.7 | -1.1 | -0.3 | -0.2 |
| Employment | | | | 0.3 | 1.9 | 0.9 | 0.1 | -0.2 | 0.5 | 0.8 |
| Unemployment (a) | | | | 9.7 | 8.4 | 8.9 | 9.5 | 9.6 | 9.4 | 9.1 |
| Compensation of employees/head | | | | 4.9 | 2.7 | 2.4 | 2.3 | 3.1 | 2.8 | 2.9 |
| Unit labour costs | | | | 3.0 | 2.5 | 2.2 | 1.9 | 0.3 | 1.3 | 1.5 |
| Real unit labour costs | | | | -0.8 | 0.7 | -0.1 | 0.4 | -1.4 | -0.4 | -0.3 |
| Savings rate of households (b) | | | | - | - | 16.6 | 15.7 | 15.0 | 14.7 | 14.7 |
| GDP deflator | | | | 3.8 | 1.8 | 2.3 | 1.5 | 1.8 | 1.7 | 1.7 |
| Private consumption deflator | | | | 4.0 | 1.6 | 1.9 | 2.0 | 1.5 | 2.0 | 1.8 |
| Harmonised index of consumer prices | | | | - | 1.8 | 1.9 | 2.2 | 2.3 | 1.9 | 1.8 |
| Trade balance (c) | | | | -0.7 | 0.2 | 0.5 | 0.2 | -0.7 | -1.3 | -1.5 |
| Current account balance (c) | | | | -0.6 | 1.5 | 1.5 | 0.4 | -0.2 | -0.5 | -0.6 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -0.7 | 1.5 | 1.4 | -0.1 | -0.5 | -0.6 | -0.8 |
| General government balance (c)(d) | | | | -2.9 | -1.5 | -3.2 | -4.2 | -3.7 | -3.0 | -3.4 |
| General government gross debt (c) | | | | 40.8 | 57.0 | 59.0 | 63.9 | 65.6 | 66.2 | 67.1 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 9. Ireland

## Adjusting to sustainable growth levels

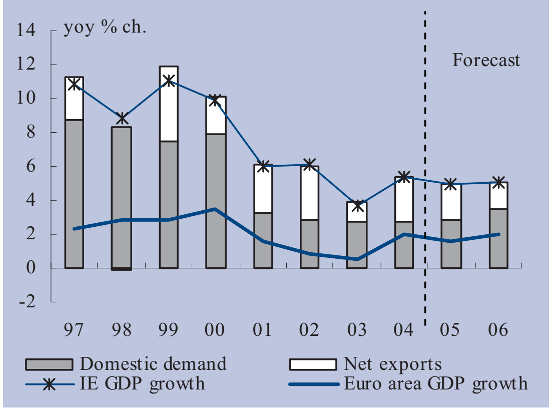
### The economy in 2004

Real GDP is estimated to have grown by 5.4% in 2004, representing a significant pick up on the previous year (3.7%), with most of the apparent acceleration coming from higher net exports. On the domestic side, overall expenditure grew at a similar rate to the previous year. While consumer demand remained relatively muted by past standards (with growth estimated at just below 3% on the year), investment was stronger. In particular, residential building contributed significantly to overall growth, although the activity in this segment moderated somewhat in the third quarter. On the external side, figures for the first three quarters suggest a somewhat weaker than previously expected performance of merchandise exports, though performance of services offset this somewhat. However, imports are estimated to have grown well below expectations, resulting in a significantly stronger contribution from net exports as compared to 2003. Indicators for the fourth quarter of 2004 suggest some easing of sentiment in construction and industry. On the other hand, the latest purchasing manager's indices for services point to increased activity in recent months.

### Prospects for 2005 and 2006

GDP is projected to grow by 4.9% and 5.1% in 2005 and 2006 respectively, in line with estimated medium-term potential. On the domestic side, private consumption is supported into 2005 by healthy employment growth and, in line with recent evidence, also by somewhat stronger consumer confidence. In 2006, private spending will revive somewhat further, benefiting from a modest fall in the savings rate as some Special Savings Incentive Accounts *(SSIAs)* reach maturity. By contrast, the contribution from public consumption should remain modest in view of further spending restraint. Also the growth of fixed investment should moderate over the projection period. Some easing in construction activity is foreseen, mainly as housing output is expected to taper off somewhat after reaching record levels in 2004. However, a pick-up in investment in equipment and non-residential construction over the forecast horizon, supported by acceleration in public capital expenditure and continued inward foreign investment (FDI), is likely to offset this to some extent. On the external side, trends in oil prices, international economic activity and the euro/dollar exchange rate are the key medium-term risks for the Irish economy. Building on the momentum regained in 2004, service exports are expected to sustain more dynamic growth rates over the forecast period. As net profit outflows are projected to remain on their recent upward trend, the projected growth rate of GNI is somewhat lower than that of GDP.

*Graph 3.12:* **Ireland - Contributions to GDP growth**




### Labour market, costs and prices

In 2004 employment is estimated to have grown by a remarkable 3.0%. However, in view of a gradual easing back of construction output and the cap on public sector employment, employment gains will be somewhat weaker in 2005 and 2006. Nevertheless, with a similar rate of expansion projected for the labour force, unemployment is estimated to remain at around 4½% over the forecast period, implying still fairly tight labour market conditions. Data for the first three quarters of 2004 suggest a slight acceleration in per capita compensation, now estimated to have grown just above 5½% in 2004, reflecting the relatively tight labour market conditions. However, some easing of wage growth is projected in view of the moderate pay provisions in the second half of the national agreement "Sustaining Progress" and a lower contribution from benchmarking pay awards to public sector employees (i.e. the alignment of public sector wages with the private sector equivalent). HICP inflation averaged 2.3% in 2004, down from 4.0% in 2003. With downward pressures stemming from a stronger currency and no changes in the main indirect taxes, the annual rate is projected to moderate further in 2005. However, as private spending revives into 2006, HICP inflation is expected to rise gradually, to just below 2½% by the end of 2006. CPI inflation is expected to be slightly above that of the HICP over the forecast period.

**Public finances**

For 2004, the general government surplus was 1.3% of GDP. This favourable outturn is due to higher-than-expected tax receipts and also lower-than-budgeted expenditures, especially on public investment. For 2005 the main measures on the revenue side of the budget include an upward adjustment of the standard tax band for personal income and some relief through changes in stamp duty. The expenditure side includes significant increases in both current and capital spending. The general government position is thus expected to turn into a deficit of 0.6% of GDP. Nevertheless, there are some risks to this projection. In particular, no allowance is made for the as yet unclear implications for public finances of a recent court ruling on nursing home payments. On the other hand, there are also some risks that the general government deficit might turn out lower that projected, including stronger-than-expected receipts from special Revenue Commissioners investigations in 2005 and some under-spending in capital outlays. The deficit is projected at 0.6% of GDP in 2006. Given the non-indexed nature of the tax and social benefit system, the no-policy change assumption is made operational for 2006 by freezing average tax rates and adjusting social transfer payments by the forecast of CPI inflation (with a small top-up). Government debt is projected to stabilise just below 30% of GDP.

*Table 3.9*

**Main features of country forecast - IRELAND**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 134.9 | 100.0 | 5.4 | 6.0 | 6.1 | 3.7 | 5.4 | 4.9 | 5.1 |
| Private consumption | | 60.9 | 45.1 | 3.6 | 5.2 | 2.6 | 2.6 | 2.9 | 3.9 | 4.9 |
| Public consumption | | 21.4 | 15.8 | 2.2 | 11.3 | 8.4 | 2.6 | 2.8 | 2.7 | 2.7 |
| Gross fixed capital formation | | 31.8 | 23.6 | 4.5 | -1.5 | 3.0 | 3.4 | 6.0 | 3.3 | 4.7 |
| of which : equipment | | 7.6 | 5.6 | 5.3 | -10.4 | 1.0 | 0.5 | 7.0 | 3.4 | 7.0 |
| Change in stocks as % of GDP | | 0.5 | 0.4 | 0.6 | 0.3 | 0.1 | 0.5 | 0.3 | 0.3 | 0.3 |
| Exports (goods and services) | | 112.8 | 83.6 | 11.7 | 8.4 | 5.7 | -0.8 | 4.5 | 6.4 | 6.5 |
| Final demand | | 227.3 | 168.6 | 6.8 | 6.3 | 4.7 | 1.0 | 4.0 | 5.2 | 5.6 |
| Imports (goods and services) | | 92.0 | 68.2 | 9.3 | 6.7 | 3.3 | -2.3 | 2.5 | 5.5 | 6.3 |
| GNI at constant prices (GDP deflator) | | 113.0 | 83.8 | 4.5 | 4.0 | 3.6 | 5.0 | 5.2 | 4.6 | 4.6 |
| Contribution to GDP growth : | Domestic demand | | | 3.2 | 3.8 | 3.1 | 2.3 | 3.0 | 2.8 | 3.5 |
| | Stockbuilding | | | 0.2 | -0.6 | -0.2 | 0.4 | -0.2 | 0.0 | 0.0 |
| | Foreign balance | | | 1.9 | 2.8 | 3.1 | 1.2 | 2.6 | 2.1 | 1.5 |
| Employment | | | | 1.7 | 3.0 | 1.8 | 2.0 | 3.0 | 1.8 | 1.5 |
| Unemployment (a) | | | | 12.9 | 3.9 | 4.3 | 4.6 | 4.5 | 4.6 | 4.6 |
| Compensation of employees/head | | | | 7.1 | 7.7 | 5.0 | 4.7 | 5.7 | 5.0 | 4.7 |
| Unit labour costs | | | | 3.4 | 4.6 | 0.6 | 3.0 | 3.3 | 1.9 | 1.2 |
| Real unit labour costs | | | | -1.8 | -1.0 | -3.7 | 1.4 | 0.3 | -0.7 | -1.4 |
| Savings rate of households (b) | | | | - | - | 12.3 | 14.6 | 16.3 | 17.0 | 15.4 |
| GDP deflator | | | | 5.3 | 5.7 | 4.5 | 1.6 | 2.9 | 2.6 | 2.6 |
| Private consumption deflator | | | | 5.0 | 4.1 | 5.6 | 3.8 | 2.4 | 2.2 | 2.5 |
| Harmonised index of consumer prices | | | | - | 4.0 | 4.7 | 4.0 | 2.3 | 2.1 | 2.4 |
| Trade balance (c) | | | | 9.5 | 24.3 | 25.6 | 23.1 | 21.1 | 20.5 | 20.1 |
| Current account balance (c) | | | | -1.5 | -0.7 | -1.3 | -1.4 | -1.3 | -1.1 | -1.4 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -0.6 | 0.0 | -0.9 | -1.1 | -1.1 | -0.9 | -1.2 |
| General government balance (c)(d) | | | | -4.1 | 0.9 | -0.4 | 0.2 | 1.3 | -0.6 | -0.6 |
| General government gross debt (c) | | | | 86.0 | 35.8 | 32.6 | 32.0 | 29.9 | 29.8 | 29.6 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 10. Italy

## Recovery carries on at measured pace

### The situation in 2004

Following two years of near stagnation, reflecting both a cyclical slowdown in the euro-area and structural problems specific to Italy, economic growth accelerated somewhat in 2004 reaching an average rate of 1.2%. In spite of the improvement, the recovery shows at least three weak spots. First, it only gained ground when the global cycle is losing some momentum. Second, the driving forces of economic growth proved unsteady. In particular, the healthy performance of domestic demand in the first quarter of the year was followed by a marked and unexpected frailty later on offset by a temporary revival of exports of goods and services at around mid-year. Third, quarterly GDP growth turned unexpectedly negative in the final quarter of the year.

Head-count employment, which had held up well during the previous years of feeble economic growth, slowed in 2004 reflecting several factors including the traditional lag to economic activity, a cut in employment subsidies and the petering out of the level effect of past labour market reforms. On the back of the strong euro and a temporary drop in oil prices, consumer price inflation eventually embarked on a downward trend towards year-end, closing the gap vis-à-vis the euro-area average. In the year as a whole HICP inflation was 2.3%.

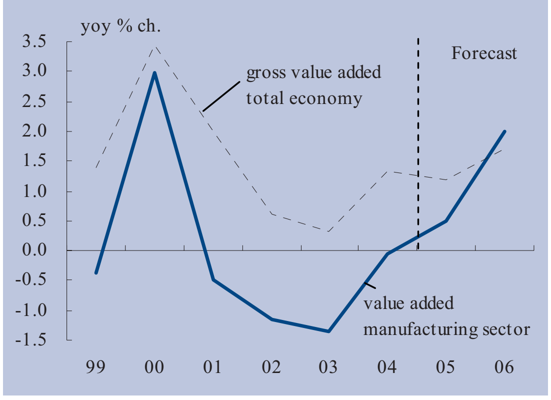
### Prospects in 2005 and 2006

Against the background of a still buoyant yet somewhat cooling international economic environment, the Italian economy is expected to rebound from the negative performance recorded at the end of 2004 and to move along an upward path throughout 2005 and 2006. However, growth is expected to remain moderate, reflecting both the persistence of structural rigidities and temporary factors such as high oil prices. Real GDP growth is forecast to stay at 1.2% in 2005 before edging up to 1.7% the year after. As a result, Italy would continue to lag behind the euro average.

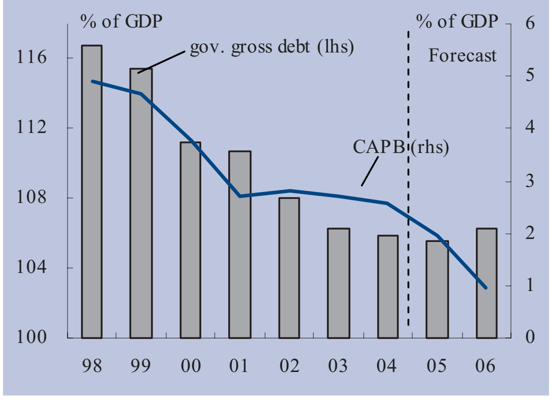
In spite of the volatility exhibited in the recent past, a number of favourable fundamentals suggests that economic growth will mainly be driven by domestic demand. In particular, private consumption is likely to steady and strengthen again in view of ongoing job creation and rising real disposable income. A more robust performance of the largest domestic demand component is likely to be hampered by the uncertainty surrounding the future course of fiscal policy in the light of the current budgetary imbalances in combination with the still very high government debt-to-GDP ratio. Gross fixed capital formation is also expected to contribute to economic growth helped by low real interest rates, rising profit margins and, more generally, the gradually improving growth outlook. A further extension to the end of 2005 of a fiscal incentive for renovating private dwellings is expected to continue supporting investment in construction.

Following the pattern of the past several years, the unfavourable product specialisation towards low-growth goods coupled with a loss of cost competitiveness hinders Italy to fully benefit from the still robust expansion of world trade. Hence, despite a recovery of foreign sales, the external side is projected to continue weighing on overall GDP

*Graph 3.13:* **Italy - Gross value added of the manufacturing sector (constant prices)**




*Graph 3.14:* **Italy - Government gross debt and cyclically-adjusted primary balance (CAPB)**



growth throughout the forecast period.

**Labour market, costs and prices**

The moderate economic recovery is expected to go along with ongoing job creation over the entire forecast horizon also reflecting the positive adjustment effects from the successive steps of labour market reform implemented since the mid-1990s. However, the job content of growth is likely to decline from the exceptionally high level observed over the past several years. The main contribution to overall employment growth will continue to come from services. As a result of the positive performance of the labour market, the rate of unemployment is expected to continue its downward trend.

To the extent that over the past several years fiscal incentives have contributed to resilient employment growth in the South of the country, the cuts implemented in the 2004 budget are likely to affect the convergence process. Hopes are now pinned to the possibility to increase the still low degree of wage differentiation to account for differences in productivity. Discussions about ways of reforming the current system of wage bargaining are still ongoing. Recent wage negotiations have led to an acceleration of country-wide contractual wages, which for the first time in more than four years increased more than inflation. With around half of the wage contracts due to be renegotiated in 2005 these developments represent a challenging point of departure. On the other hand, as the outlook for inflation seems benign over the forecast horizon – both consumers and firms expect a slowdown in the coming months – the upcoming wage agreements are forecast not to permanently fuel wage inflation.

Concerning the response of inflation to wage developments, the projected economic recovery will dampen unit labour costs in 2006. In addition, the closing but still negative output gap will also be conducive to lower inflation. Overall, the annual increase in HICP inflation is forecast to gradually decline below 2 percent over the forecast horizon.

**Public finances**

The first reporting by the Italian authorities of government deficit and debt levels for 2005 included significant upward revisions of the deficit-to-GDP ratio in 2001-2003 in the order of 0.4 of a percentage point on average. The 2004 deficit is reported at 3% of GDP[i], one decimal point of GDP higher than in 2003. With interest expenditure declining by 0.3% of GDP, the drop in the primary surplus was even more severe: it fell at 2% of GDP, the lowest level since 1992. In cyclically adjusted terms, the general government deficit improved by 0.2 of a percentage point of GDP. The primary surplus worsened of one decimal point of GDP. Nevertheless, one-offs continued to improve the 2004 deficit by around 1½ percentage points of GDP, down from around 2% in 2003.

The government debt ratio declined to 105.8% of GDP in 2004 from 106.3% in 2003. Debt increasing below-the-line operations continued to hamper a faster reduction of the debt-to-GDP ratio. The negative impact of these operations more than offset the positive effect from the privatisation of 20% of the formerly state-owned electricity company, ENEL, in October, which raised 0.5% of GDP.

In 2005, in the absence of additional measures, the general government deficit is forecast to increase to 3.6% of GDP[ii]. Although interest expenditures are likely to continue diminishing relative to GDP, the primary surplus is expected to further drop to around 1.3% of GDP. Net of cyclical factors, both the deficit and the primary balance are projected to worsen by around ½ of a percentage point of GDP. However, the impact of temporary measures is expected to decline to ¾ of a percentage point of GDP.

The Commission services forecast is significantly above the official deficit target of 2.7% of GDP for a number of reasons. First, as in its 2004 autumn forecast, the Commission services assume that ANAS, the joint-stock company in charge of the state road network, continues to be part of the general government sector, whereas in the government figures it is classified as a market company. Second, the forecast has a more prudent assessment of some measures included in the 2005 budget. Compared to the original draft underpinning the Commission services 2004 autumn forecast, the 2005 budget approved by Parliament in December includes further expenditures and tax cuts. The planned financing of these additional measures is assessed to fall short of the officially estimated effect. This particularly concerns (i) part of the savings expected from local governments, (ii) the implementation of the revised scheme to increase the tax base of self-employed people (*studi di settore*) and (iii) expenditure cuts introduced on top of the already very ambitious 2% cap on the annual nominal increase foreseen in the original version of the budget. Then, the Commission services scenario assumes an increase in real GDP of 1.2%, as compared to 2.1% in the latest available official projection, and takes into account that the 2004 deficit turned out slightly higher than the targeted 2.9% of GDP. Furthermore, the budgetary position in 2005 could be affected by pending renewals of public wage agreements and receipts from real estate disposals that could be lower than the officially estimated 0.5% of GDP, to which the Commission forecast is aligned.

The forecast for 2006 of a deficit of 4.6% of GDP reflects the expiry of one-off measures, and is based on legislation currently in force. The debt ratio is expected to decline marginally in 2005 and to increase in 2006, to return to the 2003 level. Following indications of the 2004 updated stability programme, privatisation receipts of around 2 percentage points of GDP per year are projected to be entirely offset by debt increasing below-the-line operations. As for the deficit, the debt forecast for 2006 is based on legislation currently in force.

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[i] Eurostat did not validate the deficit figures for Italy notably because of the recording of payments by 'concessionari d'imposta', of a securitisation operation, of transactions with the EU budget, of the classification of government-owned entities, inconsistencies between cash and accrual data and large statistical discrepancies. The clarification of these issues may lead to an upward revision in the deficit figures, notably for 2003 and 2004.

[ii] This forecast is based on the 2004 deficit notified on 1 March 2005. It does not include carry-over effects of potential upward revisions.

*Table 3.10*

**Main features of country forecast - ITALY**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 1300.9 | 100.0 | 1.9 | 1.8 | 0.4 | 0.3 | 1.2 | 1.2 | 1.7 |
| Private consumption | 787.0 | 60.5 | 2.2 | 0.8 | 0.4 | 1.4 | 1.0 | 1.4 | 1.9 |
| Public consumption | 253.0 | 19.5 | 1.6 | 3.9 | 1.9 | 2.3 | 0.6 | 1.0 | 0.5 |
| Gross fixed capital formation | 249.6 | 19.2 | 1.7 | 1.9 | 1.2 | -1.8 | 2.1 | 1.6 | 3.3 |
| of which : equipment | 110.8 | 8.5 | 2.9 | 0.8 | -1.0 | -5.2 | 1.4 | 1.1 | 4.4 |
| Change in stocks as % of GDP | 3.6 | 0.3 | 0.7 | -0.1 | 0.3 | 0.6 | 0.5 | 0.5 | 0.5 |
| Exports (goods and services) | 336.1 | 25.8 | 5.1 | 1.6 | -3.2 | -1.9 | 3.2 | 4.8 | 4.7 |
| Final demand | 1629.3 | 125.2 | 2.5 | 1.5 | 0.2 | 0.5 | 1.5 | 2.1 | 2.6 |
| Imports (goods and services) | 328.4 | 25.2 | 5.1 | 0.5 | -0.5 | 1.3 | 2.5 | 5.5 | 5.7 |
| GNI at constant prices (GDP deflator) | 1290.7 | 99.2 | 1.9 | 1.9 | 0.3 | 0.3 | 1.4 | 1.2 | 1.8 |
| Contribution to GDP growth : Domestic demand | | | 2.0 | 1.5 | 0.8 | 0.9 | 1.1 | 1.3 | 1.9 |
| Stockbuilding | | | -0.1 | -0.1 | 0.4 | 0.3 | -0.1 | 0.0 | 0.1 |
| Foreign balance | | | 0.1 | 0.3 | -0.8 | -0.9 | 0.2 | -0.2 | -0.3 |
| Employment | | | 0.3 | 1.6 | 1.3 | 0.4 | 0.8 | 0.4 | 0.5 |
| Unemployment (a) | | | 9.5 | 9.1 | 8.6 | 8.4 | 8.0 | 7.9 | 7.7 |
| Compensation of employees/head | | | 7.8 | 3.2 | 2.5 | 3.8 | 2.9 | 3.0 | 2.9 |
| Unit labour costs | | | 6.1 | 3.1 | 3.4 | 3.9 | 2.4 | 2.2 | 1.6 |
| Real unit labour costs | | | -1.0 | 0.4 | 0.4 | 1.0 | -0.2 | -0.1 | -0.5 |
| Savings rate of households (b) | | | - | - | 15.9 | 16.0 | 16.2 | 16.0 | 16.1 |
| GDP deflator | | | 7.2 | 2.6 | 3.1 | 2.9 | 2.6 | 2.3 | 2.1 |
| Private consumption deflator | | | 7.1 | 2.8 | 3.1 | 2.5 | 2.2 | 2.0 | 1.9 |
| Harmonised index of consumer prices | | | - | 2.3 | 2.6 | 2.8 | 2.3 | 2.0 | 1.9 |
| Trade balance (c) | | | 0.9 | 1.8 | 1.6 | 1.2 | 1.0 | 1.0 | 1.1 |
| Current account balance (c) | | | -0.1 | 0.3 | -0.3 | -0.8 | -0.4 | -0.5 | -0.4 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | 0.1 | 0.4 | -0.3 | -0.7 | -0.3 | -0.3 | -0.2 |
| General government balance (c)(d) | | | -8.6 | -3.0 | -2.6 | -2.9 | -3.0 | -3.6 | -4.6 |
| General government gross debt (c) | | | 99.0 | 110.7 | 108.0 | 106.3 | 105.8 | 105.6 | 106.3 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 11. Cyprus

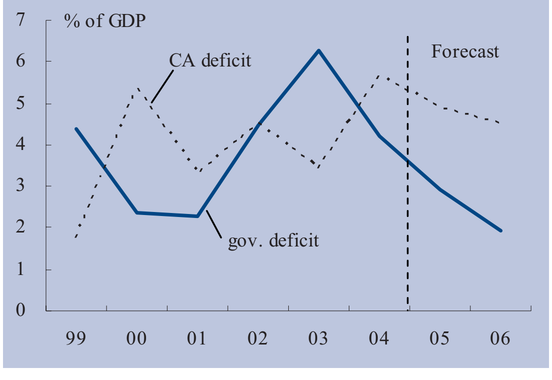
## Strengthening growth with fiscal consolidation well on track

### The economy in 2004

Following a pick-up of economic activity in the 2nd half of 2003, GDP growth strengthened further in 2004, reaching 3.7% for the year. The recovery was driven by domestic demand growth, especially in private consumption and investment in construction and machinery. Government consumption dropped in real terms. Private consumption growth rebounded to 6.1%, in line with the increase in disposable income and was further stimulated, *inter alia*, by restrained demand for consumer durable goods in previous years and certain elements of the tax reform including the lowering of excise duties on cars. After a decline in 2003, investment also picked up strongly with an estimated increase of more than 9%, reflecting improved profitability and more positive investor expectations. Therefore, the interest rate hike on April 30, related to political uncertainties regarding the reunification process as well as the final stage of liberalisation of capital movement restrictions at the date of EU accession, did not seem to have negatively affected private domestic demand. Fiscal consolidation led to a strong decline in government consumption which contributed to a marked reduction in the general government deficit.

Net external demand contributed negatively to growth. After declining in the previous two years, exports of goods and services in 2004 staged a modest recovery. Tourism arrivals increased by 2%, the first positive growth since 2001 but still below historical growth rates. However, imports surged, especially of cars, as a result of the expansion in domestic demand and lower excise duties on cars. Together with rising oil prises, these factors led to a significant widening of the current account deficit to an estimated 5.7% of GDP.

*Graph 3.15:* **Cyprus - Government deficit and current account deficit (CA)**




### Prospects for 2005 and 2006

The outlook for this year and 2006 is for some further strengthening of GDP growth to around 4%. This is mainly domestic-demand led, linked to continued strong private sector investment and consumption growth in an environment of improving investor and consumer confidence. Consumption growth is supported by rises in disposable income as real wages increase in line with productivity development in near-full employment conditions. An increased competitive environment following EU accession and positive investment conditions provided by liberalisation in financial and utilities markets and the positive outlook on further fiscal consolidation are expected to continue to stimulate further investment expansion. At the same time, the growth contribution from external demand is expected to turn positive for both years. Mainly based on the moderately positive EU growth outlook, the forecast projects a continuing modest recovery in export growth in 2005-2006, in tourism and even more in non-tourist services. As one-off demand factors fade out, import growth is expected to slow in 2005 and then pick up with domestic demand growth in 2006. All in all, the forecast projects a concomitant modest decline in the current account deficit to below 5% of GDP for this year and 4.5% of GDP in 2006. However, projected trade developments, especially in tourism and oil prices, remain fraught with uncertainty.

### Labour market, costs and prices

Unemployment rose somewhat to 5% in 2004 but is expected to inch downward as growth picks up further. The (limited) border opening with the Turkish Cypriot (T/C) community has led to an increase of the share of daily commuting T/C workers in total employed labour to about 1%. The contribution of foreign workers on the one hand and wage moderation in the public sector on the other seem to exercise a moderating pressure on wages, which are expected to increase between 1.5 and 2% in real terms in 2005 and 2006, below expected productivity growth. Inflation fell back to 1.9% in 2004 after peaking at 4% in 2003 when it was pushed up by increases in VAT rates and excise duties. Notwithstanding the projected growth rebound from 2004 onward and possible oil price rises, inflationary pressures are expected to remain relatively subdued with inflation projected to slightly increase to 2.3% in 2005 and then move back toward 2% by 2006. Monetary conditions appear stable with a slight restrictive bias, which helps to keep the exchange rate steady vis-à-vis the euro. In the context of moderate inflation pressures and ongoing fiscal consolidation, interest rates were lowered by 25 basis points in February 2005.

### Public finances

The 2004 deficit is estimated to have declined to 4.2% of GDP, down from 6.3% of GDP in 2003. This distinctly better-than-expected positive outcome is attributed to the successful impact of fiscal consolidation measures both on the expenditure and revenue side, despite negative revenue effects linked to delays in the introduction of some measures initially planned for 2004 and which are now to be implemented in 2005. Revenues were also supported by a more domestic-demand based growth composition, leading to extra tax revenues. This outturn for 2004, together with the recent successful negotiations with social partners on a number of key planned consolidation measures and the ongoing implementation of other measures planned for 2005, provide the basis for a further projected deficit decline to just below 3% of GDP in 2005. The projected deficit of 1.9% of GDP for 2006 is marginally above the Cyprus updated convergence programme target, which is mainly linked to the slightly lower forecast GDP growth projection for 2006.

*Table 3.11*

**Main features of country forecast - CYPRUS**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | mio CYP Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 6805.1 | 100.0 | 4.8 | 4.1 | 2.1 | 2.0 | 3.7 | 3.9 | 4.2 |
| Private consumption | | 4310.0 | 63.3 | 7.3 | 3.7 | 1.5 | 1.9 | 6.1 | 3.0 | 4.0 |
| Public consumption | | 1356.5 | 19.9 | 3.0 | 12.6 | 7.5 | 4.8 | -5.7 | 1.7 | 1.5 |
| Gross fixed capital formation | | 1182.6 | 17.4 | 2.1 | 3.2 | 8.1 | -1.5 | 9.4 | 6.0 | 6.0 |
| of which : equipment | | 361.0 | 5.3 | 7.6 | 1.8 | 11.9 | -15.2 | 22.7 | 6.0 | 6.0 |
| Change in stocks as % of GDP | | 36.3 | 0.5 | 0.9 | -0.6 | 0.5 | 0.6 | 2.4 | 1.2 | 0.8 |
| Exports (goods and services) | | 3176.3 | 46.7 | 7.1 | 6.3 | -5.2 | -0.2 | 3.1 | 4.8 | 5.6 |
| Final demand | | 10061.7 | 147.9 | 5.6 | 4.3 | 1.2 | 1.2 | 5.4 | 3.0 | 4.3 |
| Imports (goods and services) | | 3285.7 | 48.3 | 7.1 | 4.7 | -0.5 | -0.4 | 8.5 | 1.5 | 4.4 |
| GNI at constant prices (GDP deflator) | | 6606.9 | 97.1 | 4.2 | 4.5 | 3.4 | 3.4 | 4.3 | 3.4 | 4.1 |
| Contribution to GDP growth : | Domestic demand | | | 5.5 | 4.9 | 3.6 | 1.8 | 4.7 | 3.4 | 4.1 |
| | Stockbuilding | | | -0.6 | -1.7 | 1.1 | 0.1 | 1.9 | -1.1 | -0.3 |
| | Foreign balance | | | 0.0 | 0.8 | -2.6 | 0.1 | -2.8 | 1.6 | 0.5 |
| Employment | | | | - | 2.2 | 1.1 | 1.1 | 1.5 | 1.2 | 1.2 |
| Unemployment (a) | | | | 4.8 | 4.4 | 3.9 | 4.5 | 5.0 | 4.8 | 4.6 |
| Compensation of employees/head | | | | - | 4.3 | 7.1 | 6.1 | 3.8 | 4.5 | 4.0 |
| Unit labour costs | | | | - | 2.5 | 6.0 | 5.2 | 1.5 | 1.9 | 1.0 |
| Real unit labour costs | | | | - | -0.8 | 3.8 | 0.4 | -0.7 | -1.0 | -1.3 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 2.1 | 3.3 | 2.2 | 4.8 | 2.2 | 2.9 | 2.4 |
| Private consumption deflator | | | | 1.5 | 2.0 | 2.5 | 3.6 | 2.5 | 2.5 | 2.3 |
| Harmonised index of consumer prices | | | | - | 2.0 | 2.8 | 4.0 | 1.9 | 2.3 | 2.1 |
| Trade balance (c) | | | | -24.1 | -27.2 | -27.2 | -23.8 | -25.5 | -24.5 | -24.5 |
| Current account balance (c) | | | | -2.7 | -3.3 | -4.5 | -3.0 | -5.7 | -4.9 | -4.5 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | - | - | - | - | -5.6 | -4.8 | -4.4 |
| General government balance (c)(d) | | | | - | -2.3 | -4.5 | -6.3 | -4.2 | -2.9 | -1.9 |
| General government gross debt (c) | | | | - | 61.9 | 65.2 | 69.8 | 71.9 | 69.1 | 66.6 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 12. Latvia

## Vigorous growth and wide current account deficit

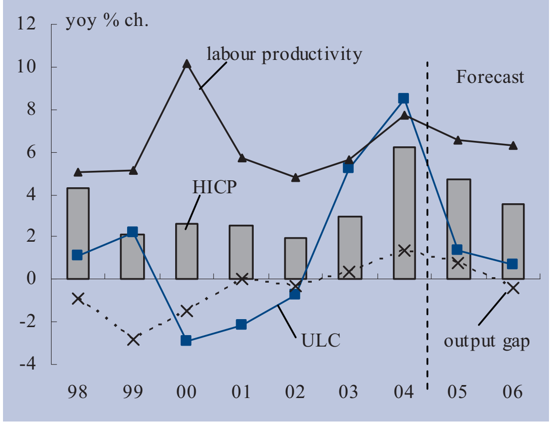
### Recent developments in activity

In 2004, GDP growth is estimated at a remarkably high 8.5% (7.5% in 2003). Gross fixed capital formation and private consumption have been the driving factors for growth. Strong private consumption was supported by increased bank lending and, to a much lesser extent, by employment and real income growth. Gross fixed capital formation was particularly buoyant as a result of favourable credit conditions, the inflow of the EU funds and reinforced macroeconomic stability. The fastest growing sectors were construction and transport and communications. Industrial output grew at a more modest pace. Export values grew by close to 20 percent, however, not sufficient to outpace imports, which grew by around 25 percent. Thus, the already large external deficit widened even further, resulting in a sizeable negative growth contribution. Imports were buoyed by input growth broadly in line with final demand as well as the unexpectedly strong stockbuilding observed just before EU accession.

### Prospects for 2004-2006

Growth prospects for 2005-2006 are strong with an expected expansion of about 7% in both years. Final domestic demand is expected to continue to drive growth, primarily led by investment, with housing construction increasing strongly. Private consumption is also expected to remain strong largely because of better credit access and modest increases in real disposable income. The recovery of the EU economy and positive externalities of Latvia's accession to the EU will keep export growth strong. Nevertheless, import growth is expected to remain robust due to the increase of investment and intermediate goods. Although import growth is projected to slow somewhat in 2005, narrowing the trade deficit, the negative net contribution to GDP growth from trade will remain considerable in both 2005 and 2006.

Graph 3.16: **Latvia - Prices and wages**




Given the net export performance, the current account deficit increased to 12.4% of GDP in 2004. The worsening of the trade balance was only partly compensated by weaker-than-expected surpluses on the services account. In 2005, it is expected that some of the accumulated stocks will substitute part of the imports, so that the current account deficit will decrease, but is expected to remain roughly at the same level afterwards.

### Labour market, costs and prices

High growth has contributed to lowering the unemployment rate, though upward pressure on unemployment from enterprise and rural restructuring is expected to persist. In spite of a strong growth performance, and sizeable employment gains since 2001, the unemployment rate thus remains at just below 10% of the labour force and is forecast to drop only slightly in the medium term. Moderate employment gains of around ½% per year over the forecast period will contribute to the decline, although considerable regional development disparities will hold back a faster improvement in labour market conditions.

Inflation rose sharply in 2004. The pick-up in prices has been reflected in all inflation indices, with that for producer prices outpacing consumer prices since the middle of the year. For 2004 inflation reached 6.2%, up from 2.9% in 2003. The inflation increase in 2004 is largely accounted for by one-off events, such as EU entry-related tax and price adjustments, and a significant depreciation of the lats vis-à-vis the euro at the end of 2003. It was also due to higher regulated prices for gas, heating and rent as well as to a sharp rise in healthcare costs. The main risk to the inflation outlook is that price increases could become persistent if strong demand continues to drive output above potential and feeds into inflation expectations. Taking this into account, inflation is expected to average 5.0% in 2005 and to fall back to 3.6% in 2006.

## Public finances

The general government deficit in 2004 decreased to 0.8% of GDP largely due to better–than-expected tax revenues[i]. For the forecast period good economic prospects, with average annual growth around 7% forecast in 2005-2006, should have a positive impact on tax receipts. Moreover, a broadening of the indirect tax base should outweigh the narrowing of the personal income tax base due to increase in the personal income tax-free threshold and tax rebates for dependents in force since January 2005. The 2005 budget law indicates a shift towards a more expansionary fiscal policy consistent with the frontloading of the implementation of EU-funds-related projects. Given the commitment of expenditures budgeted on support from EU funding, the achievement of the deficit targets is conditional on the receipt of such funds in government revenues. The associated risks of expenditure overruns stem from the strain that project management puts on administrative capacity. All together, the deficit is expected to remain at around 1.5% of GDP in 2005-2006.

[i] There are ongoing discussions with Eurostat on the recording of payments to the EU budget, which may lead to a downward revision in the government deficit for 2004.

*Table 3.12*

**Main features of country forecast - LATVIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | mio LVL Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 6322.5 | 100.0 | 4.3 | 8.0 | 6.4 | 7.5 | 8.5 | 7.2 | 6.9 |
| Private consumption | | 3985.5 | 63.0 | - | 7.3 | 7.4 | 8.6 | 9.9 | 6.6 | 5.3 |
| Public consumption | | 1375.4 | 21.8 | - | 2.8 | 2.2 | 1.9 | 2.7 | 2.5 | 2.5 |
| Gross fixed capital formation | | 1540.1 | 24.4 | - | 11.4 | 13.0 | 10.9 | 19.3 | 16.3 | 14.6 |
| of which : equipment | | - | - | - | - | - | - | - | - | - |
| Change in stocks as % of GDP | | 232.4 | 3.7 | -0.2 | 2.6 | 0.9 | 4.0 | 5.3 | 3.1 | 2.4 |
| Exports (goods and services) | | 2673.2 | 42.3 | - | 7.5 | 5.2 | 5.0 | 5.6 | 9.5 | 9.9 |
| Final demand | | 9806.5 | 155.1 | - | 10.2 | 5.8 | 9.4 | 10.5 | 7.3 | 7.7 |
| Imports (goods and services) | | 3484.0 | 55.1 | - | 14.5 | 4.6 | 13.0 | 14.2 | 7.4 | 9.1 |
| GNI at constant prices (GDP deflator) | | 6310.1 | 99.8 | 4.4 | 8.5 | 6.3 | 6.6 | 7.1 | 8.1 | 7.2 |
| Contribution to GDP growth : | Domestic demand | | | - | 8.0 | 8.3 | 8.7 | 12.2 | 9.7 | 8.6 |
| | Stockbuilding | | | - | 4.0 | -1.7 | 3.4 | 1.8 | -2.0 | -0.5 |
| | Foreign balance | | | - | -4.0 | -0.2 | -4.6 | -5.4 | -0.5 | -1.3 |
| Employment | | | | -2.3 | 2.2 | 1.6 | 1.7 | 1.0 | 0.8 | 0.6 |
| Unemployment (a) | | | | 16.1 | 12.9 | 12.6 | 10.4 | 9.8 | 9.4 | 9.2 |
| Compensation of employees/head | | | | 11.4 | 3.4 | 4.0 | 11.1 | 16.5 | 8.0 | 7.0 |
| Unit labour costs | | | | 4.4 | -2.2 | -0.8 | 5.2 | 8.5 | 1.6 | 0.7 |
| Real unit labour costs | | | | -3.6 | -4.2 | -4.0 | 1.7 | 1.1 | -2.4 | -3.0 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 8.2 | 2.1 | 3.4 | 3.4 | 7.3 | 4.1 | 3.8 |
| Private consumption deflator | | | | - | 2.6 | 2.2 | 2.9 | 6.2 | 5.0 | 3.6 |
| Harmonised index of consumer prices | | | | - | 2.5 | 2.0 | 2.9 | 6.2 | 5.0 | 3.6 |
| Trade balance (c) | | | | -14.1 | -16.2 | -16.0 | -18.0 | -20.2 | -19.8 | -19.3 |
| Current account balance (c) | | | | -5.7 | -7.6 | -6.7 | -8.2 | -12.4 | -10.5 | -10.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -5.6 | -7.1 | -6.5 | -7.5 | -11.1 | -7.9 | -6.9 |
| General government balance (c)(d)(e) | | | | -1.6 | -2.1 | -2.7 | -1.5 | -0.8 | -1.6 | -1.5 |
| General government gross debt (c) | | | | - | 14.9 | 14.1 | 14.4 | 14.4 | 14.0 | 14.3 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding second pillar pension funds (see for more details note 11 on concepts and sources).

# 13. Lithuania

## Robust growth, albeit slowing down

### Recent developments

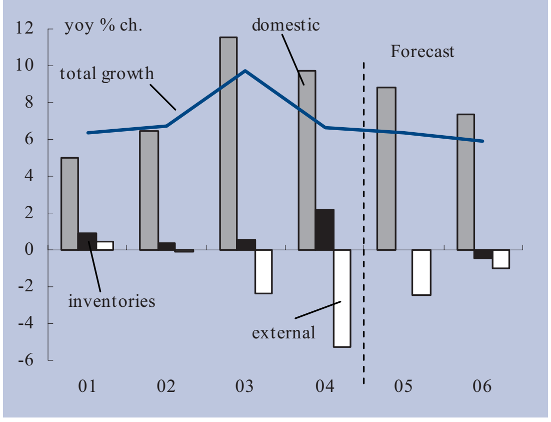
Real output growth remained robust in 2004, although the pace of expansion slackened. After growing at 9.7% in 2003, GDP is estimated to have increased by 6.7% in 2004. As in previous years, domestic demand expanded more rapidly than GDP and continued to be the major driver for growth, fuelled by particularly strong investment and private consumption.

The contribution of net trade to growth deteriorated further in 2004. The main factor was a significant widening of the visible trade balance, induced by a surging demand for consumer and investment goods. Preliminary estimations set the current account deficit at about 8.3% of GDP in 2004. Foreign direct investment is estimated to have increased significantly in 2004 and contributed to finance a significant share of the deficit (above 4% of GDP).

Following a deflationary period of nearly two years, prices started edging up in May 2004. This mostly reflected rising oil, food, transport and health-care prices, some of which were driven by tax alignments due to EU accession. Annual average inflation measured by the HICP index stood at 1.1% in 2004. Inflation accelerated further in the first two months of 2005, reaching 3.3% in February year-on-year, largely driven by increases in energy and transport prices.

Evidence on recent labour market developments has been mixed. On the one hand, the unemployment rate is estimated to have declined further in 2004. On the other hand, employment growth, which had been notably strong in the previous two years, is estimated to have been negative in 2004. Emigration seems to be contributing to the fall in unemployment, while labour shortages in some sectors and the structural nature of unemployment remain as a matter of concern.

*Graph 3.17:* **Lithuania - GDP growth and its contributors**




### Growth prospects

The forecast for real GDP growth in 2005 and 2006 is broadly unchanged, respectively at 6.4% and 5.9%. Gross fixed capital formation is expected to continue as the major driving force, remaining well above GDP growth. Investment is foreseen to be sustained by low interest rates, high credit growth and a higher capacity to absorb EU investment grants. Private consumption is also foreseen to remain robust, although progressively slowing down from the high level of the previous two years, partly due to an anticipated moderation of the present credit growth dynamics. Public consumption growth is estimated to peak in 2005 and slow down significantly in 2006, in line with the government's fiscal consolidation plans.

Following a marked deterioration in 2004, the contribution of net exports to growth is expected to remain negative during 2005-2006, although export growth is expected to accelerate to above 7%. Import growth is foreseen to offset that of exports in 2005, led by robust demand of consumer and investment goods. The current account deficit is expected to widen in 2005 and start a gradual improvement in 2006, when it is foreseen to reach 8.5% of GDP.

### Labour market, costs and prices

Unemployment is expected to continue declining over the forecast horizon, although the private sector's capacity to meet increasing domestic demand through additional hiring is foreseen to weaken somewhat, as skill mismatches are becoming more evident. Employment growth is expected to become positive in 2005-2006. Emigration and labour shortages in some segments of the labour market are likely to put some pressure on wages, while labour productivity growth is expected to remain relatively high, contributing to partly temper the impact of higher wages on unit labour costs.

HICP average inflation is expected to increase further to 2.9% in 2005 and decelerate somewhat in 2006. Inflation is likely to be driven by price increases in the administered and transport sectors and by higher wage inflation. Risks to the inflation projections are on the upside. Cost pressures from commodity prices have been building up in the last months, particularly affecting construction prices, and some pass-through to consumer prices might take place. In addition, labour shortages and the recent pick-up of inflation after two deflationary years could increase inflation expectations. The behaviour of import prices, particularly oil prices, appears to be a major risk.

**Public finances**

The general government deficit is estimated to have increased from 1.9% of GDP in 2003 to 2.5% in 2004[i]. The main factors contributing to the deficit deterioration compared to 2003 relate to increases in public investment, salary increases in the public sector, welfare benefits, and real estate restitutions.

The deficit-to-GDP ratio is expected to decrease marginally in 2005, declining further to 1.9% in 2006. Revenue growth is expected to remain strong over the forecast period. Tax revenues, particularly income and wealth taxes and social contributions, are foreseen to increase significantly on the back of strong growth and higher employment, and also induced by rising wages and corporate profits. A sizeable increase in EU transfers will lead to a rise in non-tax revenues. Government expenditure is expected to rise significantly in 2005, led by increases in capital expenditure, subsidies, salary increases in the education and healthcare sectors and the cost of the pension reform. Strong revenue growth and lower growth of current expenditure are expected to lead to an improvement of the deficit in 2006.

[i] Eurostat's forthcoming decision on the restitution of confiscated property and compensation for lost savings could lead to a downward revision in the government deficit for 2004 and earlier years.

*Table 3.13*

**Main features of country forecast - LITHUANIA**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn LTL Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 56.2 | 100.0 | 4.0 | 6.4 | 6.8 | 9.7 | 6.7 | 6.4 | 5.9 |
| Private consumption | 36.5 | 64.9 | - | 3.6 | 6.1 | 12.4 | 9.4 | 6.7 | 6.5 |
| Public consumption | 10.4 | 18.5 | - | 0.3 | 1.8 | 4.0 | 5.6 | 5.9 | 3.8 |
| Gross fixed capital formation | 12.0 | 21.4 | 9.4 | 13.5 | 11.1 | 14.0 | 12.3 | 14.4 | 9.5 |
| of which : equipment | 4.6 | 8.2 | - | 22.3 | 10.8 | 7.5 | 12.6 | 12.0 | 7.6 |
| Change in stocks as % of GDP | 0.6 | 1.0 | 0.6 | 1.6 | 1.8 | 2.2 | 4.1 | 3.9 | 3.3 |
| Exports (goods and services) | 29.1 | 51.8 | - | 21.2 | 19.5 | 6.9 | 4.8 | 8.7 | 7.8 |
| Final demand | 88.6 | 157.6 | - | 10.2 | 10.7 | 9.9 | 9.0 | 8.2 | 6.7 |
| Imports (goods and services) | 32.4 | 57.6 | - | 17.7 | 17.6 | 10.2 | 12.7 | 10.9 | 7.8 |
| GNI at constant prices (GDP deflator) | 54.7 | 97.3 | - | 6.6 | 7.0 | 8.1 | 6.1 | 6.8 | 6.1 |
| Contribution to GDP growth : Domestic demand | | | - | 5.0 | 6.5 | 11.5 | 9.8 | 8.8 | 7.3 |
| Stockbuilding | | | - | 0.9 | 0.4 | 0.6 | 2.2 | 0.0 | -0.4 |
| Foreign balance | | | - | 0.5 | -0.1 | -2.4 | -5.3 | -2.5 | -1.0 |
| Employment | | | -1.2 | -3.3 | 4.0 | 2.3 | -0.3 | 0.5 | 0.4 |
| Unemployment (a) | | | 13.7 | 16.4 | 13.5 | 12.7 | 10.8 | 10.2 | 9.7 |
| Compensation of employees/head | | | 22.7 | 3.4 | 1.4 | 8.2 | 7.3 | 7.9 | 7.5 |
| Unit labour costs | | | 16.5 | -6.0 | -1.2 | 0.9 | 0.3 | 1.9 | 2.0 |
| Real unit labour costs | | | 2.7 | -5.9 | -1.2 | 1.7 | -2.9 | -1.1 | -1.5 |
| Savings rate of households (b) | | | - | - | -1.1 | -2.7 | -3.7 | -4.0 | -4.3 |
| GDP deflator | | | 13.4 | -0.1 | 0.0 | -0.8 | 3.3 | 3.0 | 3.5 |
| Private consumption deflator | | | - | 2.4 | -0.2 | -2.6 | 0.8 | 2.8 | 2.5 |
| Harmonised index of consumer prices | | | - | 1.3 | 0.4 | -1.1 | 1.1 | 2.9 | 2.6 |
| Trade balance (c) | | | -11.7 | -9.2 | -9.4 | -9.2 | -10.2 | -11.1 | -10.9 |
| Current account balance (c) | | | -9.5 | -4.7 | -5.2 | -6.9 | -8.3 | -8.8 | -8.5 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | -9.6 | -4.7 | -4.8 | -6.5 | -7.6 | -7.7 | -7.4 |
| General government balance (c)(d)(e) | | | -3.0 | -2.0 | -1.5 | -1.9 | -2.5 | -2.4 | -1.9 |
| General government gross debt (c) | | | - | 22.9 | 22.4 | 21.4 | 19.7 | 21.2 | 20.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding second pillar pension funds (see for more details note 11 on concepts and sources).

# 14. Luxembourg

## Still growing faster than its neighbours

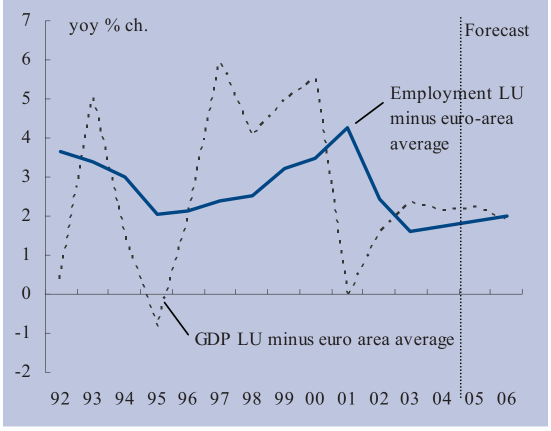
### The situation in 2004

In 2004, GDP continued to grow faster in Luxembourg than in neighbouring countries, which also had been observed during the latest slowdown. According to a preliminary estimate, growth reached 4.2% in 2004.

Activity was especially buoyant in industry with production rising by nearly 6% and the steel sector recording exceptional growth rates, though a slowdown was observed in the second half of the year. Activity in construction slightly declined but only because civil engineering suffered from the slowdown in government investment, while in the rest of the sector it increased by about 3½%. Trade performed well, even if retail trade was somewhat subdued, reflecting rather weak growth in private consumption. Transport, especially air transport, clearly recovered from its slowdown. Finally, in the financial sector, activity grew strongly although profits stagnated because the decline in the interest margin compensated for the good results of financial markets transactions.

Private consumption was rather subdued in recent years since the positive effects of the 2001-2002 tax cuts had faded away. It remained relatively weak in 2004, growing only by 1.8%. Investment, which had fallen, mostly for incidental reasons, by more than 6% in 2003, rose by a similar percentage in 2004. Both exports and imports, which had risen by only a modest 1½–2% in real terms in 2003, recovered in 2004, growing by about 6% in both cases.

*Graph 3.18:* **Luxembourg - Real GDP and employment growth differentials with euro-area average**




Employment growth followed the slowdown in output with a two-year lag, slowing from a peak of 5.7% in 2001 to 1.8% in 2003, and accelerating again to 2.4% in 2004. However, as in previous years, the lion's share of new jobs went to cross-border workers, whose number rose by 4.7%, while national employment only increased by 1.3%. This rise in residents' employment was not sufficient to prevent unemployment from increasing to 4.2% of the active population from 3.8% in 2003.

Consumer price inflation, as measured by the Eurostat harmonised index, significantly accelerated from 2.5% in 2003 to 3.2% in 2004. However, this relatively high inflation rate is in large part due to the rise in oil prices and the increase in taxes on tobacco: the rise in the national CPI, which excludes consumption by non-residents and especially their large purchases of car fuel and tobacco products, was significantly slower, 2.2% in 2004 as against 2.0% in 2003. Moreover, underlying inflation significantly decelerated during the year.

### Prospects for 2005 and 2006

Real GDP growth is expected to slow down slightly in 2005 before re-accelerating in 2006, though it should remain in the region of 4% throughout the forecast period. Private consumption should accelerate together with employment (even if the largest share of jobs created is once again expected to go to non-residents). This should more than compensate for the expected slowdown in wages. Investment should remain dynamic. The rise in exports markets is expected to slightly decelerate over the period. Simultaneously, wage increases will probably slow down somewhat in line with domestic inflation. As a result, export growth should decelerate only modestly and the contribution of net exports to GDP growth should remain widely positive.

Employment growth is forecast to accelerate, reflecting output growth in recent years, and to reach about 3% at the end of the period (which is not exceptionally high by Luxembourg's standards). As in previous years, the bulk of job creation should go to non-residents but the rise in national employment will progressively accelerate too, so that unemployment should peak in 2005 and begin to decrease slightly in 2006.

Inflation is projected to progressively diminish over the period, in line with the expected decrease in oil prices and the absence of significant internal inflationary pressures. The share of oil products being significantly higher in the harmonised index than in the national index, the slowdown in the former should also be more marked.

**Public finances**

After a sharp decline in the general government surplus from a record 6.2% of GDP in 2000 and 2001 to 0.5% in 2003, a 1.1% of GDP deficit was recorded in 2004 (compared to a 1.4% deficit projected by the authorities in their updated stability programme). As expected, tax revenues significantly exceeded projections but, at the same time, investment expenditure was revised upwards in order to take into account some big projects based on a public-private partnership that had not been previously recorded in the government sector. The latter pushed up public spending figures by about half a percentage point of GDP.

Reflecting the relatively strong growth in output and employment, government revenues should remain buoyant, rising by about 6% in both years, compared to 4% in 2003 and 5% in 2004. However, government spending, though decelerating, is still projected to rise by about 7% a year in 2005 and 2006 As a result, the deficit would progressively widen to about 1½% of GDP in 2005 and 2% in 2006. The public debt, which was also revised upwards, for the same reason as government investment, from 5.7% to 7.5% of GDP in 2004, should slightly rise to about 8% in 2006.

*Table 3.14*

**Main features of country forecast - LUXEMBOURG**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | mio Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 23956.0 | 100.0 | 5.2 | 1.5 | 2.5 | 2.9 | 4.2 | 3.8 | 4.0 |
| Private consumption | | 10048.0 | 41.9 | 3.2 | 5.1 | 3.2 | 1.6 | 1.8 | 2.6 | 3.0 |
| Public consumption | | 4361.0 | 18.2 | 4.2 | 6.5 | 3.2 | 5.0 | 3.3 | 2.6 | 3.0 |
| Gross fixed capital formation | | 4738.0 | 19.8 | 4.6 | 10.0 | -1.1 | -6.3 | 6.9 | 7.3 | 6.7 |
| of which : equipment | | 1345.0 | 5.6 | 5.7 | 8.6 | -2.5 | -20.0 | 7.5 | 8.0 | 8.0 |
| Change in stocks as % of GDP | | 321.0 | 1.3 | 1.2 | 1.1 | -0.7 | 1.4 | 1.1 | 0.8 | 0.4 |
| Exports (goods and services) | | 32924.0 | 137.4 | 7.8 | 1.8 | -0.6 | 1.8 | 6.6 | 6.1 | 5.9 |
| Final demand | | 52392.0 | 218.7 | 6.1 | 2.8 | -0.4 | 2.2 | 5.2 | 5.1 | 5.0 |
| Imports (goods and services) | | 28436.0 | 118.7 | 6.9 | 3.7 | -2.6 | 1.6 | 6.1 | 6.1 | 5.8 |
| GNI at constant prices (GDP deflator) | | 21294.0 | 88.9 | 4.3 | 4.4 | 0.7 | -0.5 | 3.8 | 3.5 | 3.7 |
| Contribution to GDP growth : | Domestic demand | | | 3.4 | 5.4 | 1.7 | 0.1 | 2.8 | 3.1 | 3.3 |
| | Stockbuilding | | | 0.4 | -1.7 | -1.9 | 2.2 | -0.3 | -0.3 | -0.4 |
| | Foreign balance | | | 1.4 | -2.0 | 2.5 | 0.5 | 1.6 | 0.9 | 1.1 |
| Employment | | | | 2.6 | 5.7 | 3.0 | 1.8 | 2.4 | 2.6 | 2.9 |
| Unemployment (a) | | | | 2.5 | 2.1 | 2.8 | 3.7 | 4.2 | 4.6 | 4.3 |
| Compensation of employees/head | | | | 4.8 | 3.9 | 3.7 | 2.1 | 3.2 | 3.0 | 2.5 |
| Unit labour costs | | | | 2.2 | 8.1 | 4.2 | 1.0 | 1.4 | 1.8 | 1.4 |
| Real unit labour costs | | | | -1.4 | 6.1 | 3.1 | -1.0 | -1.2 | -1.3 | -1.0 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 3.6 | 1.9 | 1.1 | 2.1 | 2.7 | 3.2 | 2.4 |
| Private consumption deflator | | | | 3.6 | 3.2 | 2.1 | 1.9 | 2.2 | 2.0 | 1.8 |
| Harmonised index of consumer prices | | | | - | 2.4 | 2.1 | 2.5 | 3.2 | 3.1 | 1.9 |
| Trade balance (c) | | | | -11.6 | -12.5 | -10.5 | -10.6 | -10.8 | -10.7 | -10.4 |
| Current account balance (c) | | | | - | - | - | - | - | - | - |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | - | - | - | - | - | - | - |
| General government balance (c)(d) | | | | - | 6.2 | 2.3 | 0.5 | -1.1 | -1.5 | -1.9 |
| General government gross debt (c) | | | | 8.1 | 7.2 | 7.5 | 7.1 | 7.5 | 7.8 | 7.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 15. Hungary

## More balanced growth, further fiscal consolidation needed

### The situation in 2004

GDP continued to grow vigorously in the second half of 2004, resulting in an annual growth rate of 4%. Growth became more balanced: private consumption growth more than halved due to a significant decrease in net disposable income, while investment and exports rose strongly and the contribution of the external sector to GDP growth became positive.

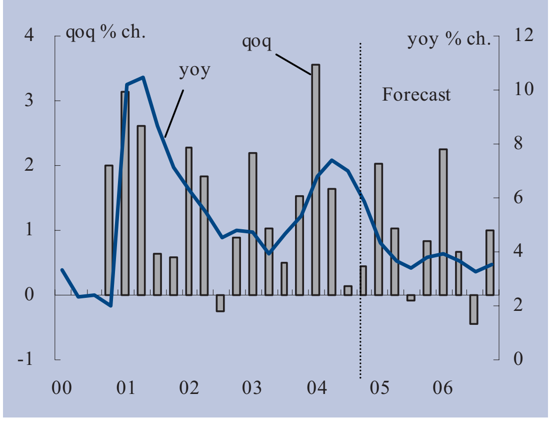
Following three years of strong real wage increases, averaging more than 10% per year, wage growth decelerated in 2004, mainly due to a significant real wage decrease in the public sector. After consumer price inflation rose to around 7% in the first half of 2004, largely owing to tax and price adjustments, it started to fall again in the second half of the year. This was supported by the strong value of the forint, as well as lower food and oil prices. Against the background of an improving inflation outlook, the central bank cut its policy rates by 200 basis points in the course of 2004.

The increase in unemployment accelerated from mid-2004 and reached a yearly average of around 6%. Despite the slowdown of consumption growth, the current account deficit is estimated to have remained close to 9% of GDP in 2004, increasingly financed by non-debt-creating inflows.

### Prospects for 2005 and 2006

GDP growth is projected to remain solid in the forecast period, with export and investment growth decelerating only slowly. Given the moderate increase of real disposable income in 2004 and the expected continuation of this trend until 2006, private consumption is projected to slow down further in 2005 to about 3% and to remain at this level in 2006.

*Graph 3.19:* **Hungary - HICP**




Investment growth is forecast to remain robust but to ease somewhat in 2005 when the tightening of subsidies for housing loans dating back to the end of 2003 is expected to have its full impact on construction. The envisaged sharp decline in public investment in 2005 (by 1.5 percentage point of GDP) is intended to be largely replaced by public-private partnership projects (mainly highway construction).

A further improvement in the trade balance – based on the expectation that import growth will react more strongly to the softening of domestic demand than in 2004[1] – and some fiscal tightening should contribute to a moderate narrowing of the current account deficit to 7% of GDP by 2006.

### Labour market, costs and prices

Employment which dropped by 0.5% in 2004, is expected to grow by 0.5% in 2005 and 0.9% in 2006, leading to a small deceleration in productivity. Nevertheless, the unemployment rate is projected to slightly increase to 6.2% in 2006 (Eurostat definition) because of a stronger rise in the total labour force.

Year-on-year inflation is expected to decelerate sharply in the first half of 2005, also supported by a decline in inflation expectations. Consumer price inflation should fall below an annual average of 4% in 2005 and decline slightly more in 2006. Accordingly, a further reduction in short-term interest rates can be expected in the forecasting period.

### Public finances

The Hungarian authorities decided to avail themselves of the possibility of the temporary reclassification of second pillar pension funds inside the general government as permitted by Eurostat until the March 2007 fiscal notification (decision of 23 September 2004). This forecast therefore uses the official reclassified figures which reduce the general

[1] Due to an accounting modification, re-invested earnings are included both in the income account of the current account and in the FDI account of the capital account since April 2004. The revision increases the deficit by about 3 percentage points.

government deficit by 0.9, 1.1 and 1.2 percentage points of GDP in 2004, 2005 and 2006, respectively.

According to data notified by the Hungarian authorities, the deficit was reduced to 4.5% of GDP in 2004, by 1.7 percentage point of GDP below the 2003 outturn. This largely reflects the methodological change of accounting VAT refunds, increasing the 2003 deficit by 0.7 percentage point of GDP and reducing the 2004 deficit accordingly, which might however be subject to further revision.

Regarding the 2005 deficit, while there are some positive trends in view of lower-than-expected interest rates, the impact of the freezing of carried-over appropriations from 2004 to 2005, and an improved outlook for corporate taxes, there are also increased risks in some areas. Notably VAT revenues and the budgetary impact of the intended public-private-partnership projects are subject to uncertainty. Following the renewed recommendation of the Ecofin Council to Hungary under the Excessive Deficit Procedure on 8 March, the Government has increased from 0.5 to 0.8 percentage point of GDP its "emergency" reserve package against a possible missing of the 2005 target, and identified some limited further revenues. Although this has been largely taken into consideration, risks of possible slippages remain. For 2006 an increase in public investment is expected, which is however not compensated by expenditure-improving effects of the measures contained in the 2005 budget, especially since they were not backed by comprehensive reforms. Hence, the deficit is expected to rise again to 4.1% of GDP in 2006, from 3.9% of GDP in 2005, based on the usual no-policy change assumption.

*Table 3.15*

**Main features of country forecast - HUNGARY**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn HUF Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 18568.2 | 100.0 | 3.6 | 3.8 | 3.5 | 3.0 | 4.0 | 3.9 | 3.8 |
| Private consumption | | 10151.6 | 54.7 | 1.2 | 5.7 | 10.2 | 8.0 | 3.5 | 2.9 | 3.0 |
| Public consumption | | 4490.6 | 24.2 | -0.2 | 6.2 | 5.0 | 5.4 | -1.2 | 0.5 | 2.0 |
| Gross fixed capital formation | | 4141.3 | 22.3 | 6.3 | 5.0 | 8.0 | 3.4 | 8.2 | 6.3 | 6.4 |
| of which : equipment | | 1685.3 | 9.1 | - | - | - | - | 7.9 | 3.0 | 5.4 |
| Change in stocks as % of GDP | | 555.4 | 3.0 | 5.6 | 3.7 | 0.9 | -0.1 | -0.8 | -1.1 | -1.3 |
| Exports (goods and services) | | 11514.0 | 62.0 | 21.7 | 7.8 | 3.7 | 7.6 | 15.7 | 12.5 | 11.1 |
| Final demand | | 30852.9 | 166.2 | 8.7 | 4.4 | 4.7 | 6.4 | 8.8 | 7.6 | 7.3 |
| Imports (goods and services) | | 12284.7 | 66.2 | 18.4 | 5.1 | 6.2 | 10.4 | 14.0 | 11.2 | 10.5 |
| GNI at constant prices (GDP deflator) | | 17619.4 | 94.9 | 3.2 | 3.8 | 3.4 | 3.5 | 4.2 | 4.1 | 4.0 |
| Contribution to GDP growth : | Domestic demand | | | 1.9 | 5.4 | 8.3 | 6.5 | 3.9 | 3.5 | 3.9 |
| | Stockbuilding | | | 1.1 | -3.4 | -2.8 | -1.0 | -0.7 | -0.4 | -0.3 |
| | Foreign balance | | | 0.6 | 2.1 | -2.1 | -2.6 | 0.8 | 0.8 | 0.3 |
| Employment | | | | 0.4 | 0.5 | 0.1 | 1.3 | -0.5 | 0.5 | 0.9 |
| Unemployment (a) | | | | 8.4 | 5.6 | 5.6 | 5.8 | 5.9 | 6.3 | 6.2 |
| Compensation of employees/head | | | | 16.1 | 15.1 | 12.7 | 9.3 | 8.8 | 7.0 | 6.2 |
| Unit labour costs | | | | 12.6 | 11.4 | 8.9 | 7.5 | 4.1 | 3.5 | 3.2 |
| Real unit labour costs | | | | -3.0 | 2.6 | 0.0 | -0.1 | -0.9 | -1.2 | -0.9 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 16.0 | 8.6 | 8.9 | 7.6 | 5.1 | 4.8 | 4.1 |
| Private consumption deflator | | | | 16.7 | 8.2 | 3.7 | 4.6 | 7.6 | 4.8 | 4.3 |
| Harmonised index of consumer prices | | | | - | 9.1 | 5.2 | 4.7 | 6.8 | 3.8 | 3.6 |
| Trade balance (c) | | | | -4.1 | -4.3 | -3.2 | -3.9 | -2.8 | -2.0 | -1.9 |
| Current account balance (c) | | | | -8.0 | -6.2 | -7.1 | -8.4 | -8.9 | -8.7 | -8.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -7.7 | -5.6 | -6.8 | -8.5 | -8.9 | -8.0 | -7.0 |
| General government balance (c)(d)(e) | | | | - | -3.7 | -8.5 | -6.2 | -4.5 | -3.9 | -4.1 |
| General government gross debt (c) | | | | - | 52.2 | 55.5 | 56.9 | 57.6 | 57.8 | 57.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

# 16. Malta

## Public finance consolidation reaffirmed

### Economic developments in 2004

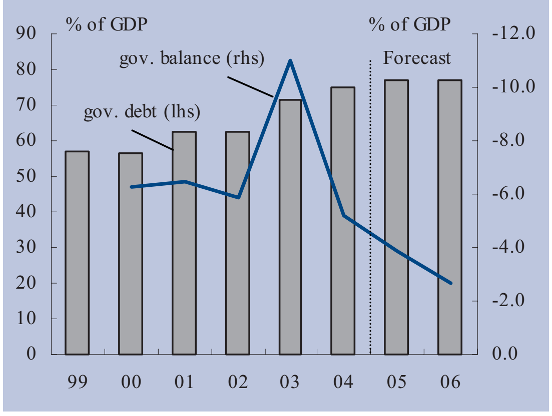
After falling in real terms by 1.8% in 2003, GDP growth turned positive to 1.5% in 2004. Private consumption decelerated to 1% in 2004 (from 2% in 2003), reflecting lower disposable income. This was mainly the result of an increase in taxes when wage growth remained barely changed. On the other hand ongoing fiscal consolidation led public consumption to further slow down to a meagre 0.6%. Gross fixed capital formation growth fell sharply to 5.3% from 34% in 2003, although this is attributable to a base effect caused by a one-off operation registered as a negative investment in 2002.

Exports of goods and services briskly recovered to +2.5% in 2004 from –3.8% in 2003, mirroring stronger world demand for semiconductors and the improvement in the tourist sector. Import growth halved to 3.5% due to an unforeseen deceleration in imports of goods. However, the terms of trade deteriorated notably, worsening the external balance of goods and services to a nominal deficit of 7.7% of GDP (from 5.5% of GDP in 2003). Accordingly, the contribution to GDP growth from domestic demand fell markedly to 1.9 pp (7 pp in the previous year). In contrast, the foreign sector contribution improved, as compared with the previous year, detracting only 1.2 pp to output (-10.2 pp in 2003).

Employment increased by 1.4%, after a fall in the previous year, due to the completion of industrial restructuring.

The HICP inflation stood at 2.7%, significantly below the figure projected in the previous forecast. This is explained by increased competition stemming from import liberalization in a context of flimsy internal demand.

*Graph 3.20:* **Malta - General government finances**




### Prospects for 2005 and 2006

Real GDP is expected to accelerate to 1.7% in 2005. For 2006, GDP growth rate is forecast to attain 1.9%. Supported by a recovery of employment, private consumption is projected to grow by 1% in 2005, barely changed from the previous year, while it should accelerate to 1.5% in 2006. The ongoing fiscal consolidation programme is likely to keep growth of public consumption is rather flat over the forecast period. The gradual completion of some important public investment projects, which should boost gross fixed capital formation to 6.6% in 2005, would lower investment growth to 1.9% in 2006.

Exports are foreseen to gain momentum, pulled up by stronger demand for semiconductors, growing by 3.3% in 2005 and 2006. Conversely, imports are expected to loose some pace, as the completion of the above-mentioned investment project is progressively achieved.

All in all, domestic demand is likely to contribute to 2.1 pp to growth in 2005 (1.5 pp in 2006), while the contribution from the external sector is projected to remain slightly negative, deducting 0.2 pp to growth in 2005. This should reverse in 2006, when the external sector would add 0.5 pp to GDP growth.

The external current account deficit is projected to remain close to 10% of GDP over the forecast period. An across-the-board deterioration in the main sub-accounts of the Balance of Payments already started in 2004, which brought about a decline in reserve assets of 3.7% of GDP. This deterioration stems mainly from a worsening of the trade balance, whose deficit would widen above 16% of GDP. The financial account depends on the offshore-banking operations, which make it highly volatile, and by transfers related to EU funds, which are estimated to increase as projects materialized.

### Labour market, costs and prices

Job creation is projected to accelerate as economic recovery gains momentum and the restructuring process in the manufacturing sector is concluded. Unemployment would smoothly decline throughout the forecast period from 7.3% in 2004 to 7.0% in 2006.

Despite the rise in energy and water prices, HICP inflation is expected to further decline to 2.4% in 2005 and 2.1% in 2006. This decline is mainly due to the phasing out of the impact of the 2004 VAT rise in 2005 and 2006, along with an increase in product competition. Nevertheless, these projections are subject to some degree of uncertainty since developments in the HICP are strongly influenced by price volatility in the tourist sector and by changes in the external trade prices.

**Public finances**

The consolidation measures implemented in the 2004 budget brought the deficit down to 5.2% of GDP, from a recently revised deficit of over 10% of GDP in 2003.

The revenue increasing measures and the expenditure cuts planned in the 2005 budget are expected to reduce the general government deficit to 3.9% of GDP, while the debt-to-GDP ratio would reach 76.4% of GDP in 2005 up from 75% in 2004. For 2006, the deficit is expected to further decrease to 2.8% of GDP, and the debt ratio rise to 77% of GDP. These projections are based on the usual non-policy change scenario for revenues and current expenditure. However, the projection for capital expenditures incorporates the fall associated to the finalization of the Italian Protocol. The debt figures do not take on board the eventual effect of stock-flows adjustments produced by some privatization operations foreseen by the government.

*Table 3.16*

**Main features of country forecast - MALTA**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | mio MTL Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 1796.3 | 100.0 | 4.8 | -1.7 | 2.2 | -1.8 | 1.5 | 1.7 | 1.9 |
| Private consumption | 1129.9 | 62.9 | - | 0.2 | -0.9 | 2.0 | 1.0 | 1.0 | 1.5 |
| Public consumption | 392.9 | 21.9 | - | 0.3 | 3.8 | 3.0 | 0.6 | 0.2 | 0.2 |
| Gross fixed capital formation | 361.9 | 20.1 | - | -16.9 | -19.9 | 34.4 | 5.3 | 6.6 | 1.9 |
| of which : equipment | - | - | - | - | - | - | - | - | - |
| Change in stocks as % of GDP | 9.9 | 0.6 | 0.7 | -0.4 | -0.9 | 0.5 | 1.3 | 1.1 | 1.0 |
| Exports (goods and services) | 1419.6 | 79.0 | - | -3.0 | 4.4 | -3.8 | 2.5 | 3.3 | 3.3 |
| Final demand | 3314.2 | 184.5 | - | -5.2 | -0.1 | 2.5 | 2.5 | 2.4 | 2.3 |
| Imports (goods and services) | 1517.9 | 84.5 | - | -8.6 | -2.4 | 7.1 | 3.5 | 3.2 | 2.6 |
| GNI at constant prices (GDP deflator) | 1810.2 | 100.8 | 3.9 | 2.2 | 1.7 | -1.1 | -0.3 | 1.7 | 2.0 |
| Contribution to GDP growth : Domestic demand | | | - | -3.6 | -3.6 | 7.0 | 1.9 | 2.1 | 1.5 |
| Stockbuilding | | | - | -4.3 | -0.6 | 1.5 | 0.8 | -0.2 | 0.0 |
| Foreign balance | | | - | 6.2 | 6.4 | -10.2 | -1.2 | -0.2 | 0.5 |
| Employment | | | 1.1 | 2.1 | -0.7 | -0.7 | 1.4 | 0.6 | 0.8 |
| Unemployment (a) | | | 6.2 | 7.7 | 7.7 | 8.0 | 7.3 | 7.1 | 7.0 |
| Compensation of employees/head | | | 7.1 | 5.5 | 2.4 | 1.3 | 1.0 | 1.4 | 1.6 |
| Unit labour costs | | | 3.4 | 9.5 | -0.5 | 2.4 | 0.9 | 0.3 | 0.5 |
| Real unit labour costs | | | 1.1 | 6.0 | -1.1 | -2.5 | -0.8 | -2.2 | -0.8 |
| Savings rate of households (b) | | | - | - | - | - | - | - | - |
| GDP deflator | | | 2.2 | 3.3 | 0.6 | 5.0 | 1.7 | 2.6 | 1.2 |
| Private consumption deflator | | | - | 1.6 | 1.6 | 0.7 | 3.4 | 2.1 | 2.2 |
| Harmonised index of consumer prices | | | - | 2.5 | 2.6 | 1.9 | 2.7 | 2.4 | 2.1 |
| Trade balance (c) | | | -20.2 | -15.0 | -8.9 | -14.7 | -16.1 | -17.2 | -17.3 |
| Current account balance (c) | | | -8.5 | -3.1 | 0.3 | -5.8 | -10.1 | -9.9 | -9.3 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | -7.5 | -3.0 | 0.5 | -5.7 | -8.7 | -9.1 | -8.5 |
| General government balance (c)(d) | | | - | -6.4 | -5.9 | -10.5 | -5.2 | -3.9 | -2.8 |
| General government gross debt (c) | | | - | 62.4 | 62.7 | 71.8 | 75.0 | 76.4 | 77.1 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 17. Netherlands

## Cloudy weather, silver linings

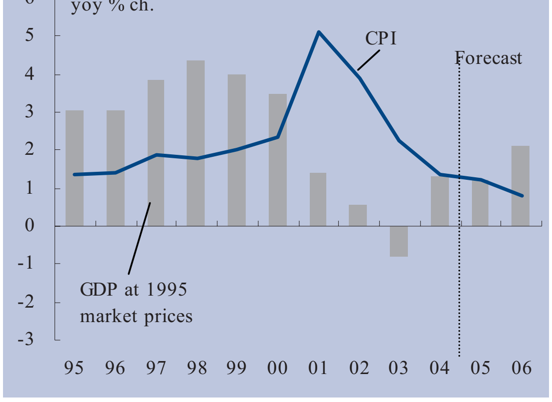
**The situation in 2004**

Following the recession in 2003, when real GDP fell by 0.9%, the Dutch economy recovered in 2004 with real GDP growth reaching 1.3% on average. First estimates of the quarterly national accounts indicate that economic activity contracted slightly in the fourth quarter of 2004, after positive growth in the third quarter. The recovery was driven both by international trade and domestic demand. Investment growth picked up but private consumption remained lacklustre (growing only by 0.5%). Employment fell for the second consecutive year while the unemployment rate, having fallen slightly over the summer, increased again in the last part of 2004, and averaged slightly below 5%. However, the moderate increase in vacancies last year suggests an improvement in employment prospects. HICP inflation fell to 1.4%, from 2.2% in 2003, in response to weak activity and moderate wage costs. Significant price cuts by major retail chains in an attempt to (re)capture a larger share of the market further contributed to lower inflation.

**Private consumption to remain the weak link**

Economic activity is forecast to improve gradually over the projection horizon. However, partly due to negative carry-over effects, real GDP growth in 2005 will still be slightly lower than in 2004, at 1.0%. Exports are expected to grow by 4%. Despite moderate wage growth, Dutch exporters will not experience a marked improvement in external competitiveness, due to the euro's appreciation, the rise in oil prices, and competitive pricing conditions in world markets. The importance of buoyant re-exports masks the further losses in market share for domestically produced export goods and limits the positive impact on overall growth. Domestic demand will not accelerate markedly in 2005. This is mainly because private consumption continues to be weak (despite a stabilisation in employment), due to low confidence and the impact of wage moderation and fiscal tightening on disposable income. Private consumption is projected to remain broadly flat (decreasing by 0.2%), with a foreseen further decline in the consumption of durable goods broadly offset by increases in private health care expenditure. By contrast, investment growth will pick up moderately, to 2.1%. While financing conditions are favourable and corporate balance sheets improved, weak demand and relatively low capacity utilisation implies the absence of a strong investment need. Although earlier rises in oil prices push up consumer price inflation in the beginning of the year, mainly through higher gas and electricity prices, inflation is set to slightly moderate in the course of 2005 as underlying inflation decreases in response to falling wage costs.

*Graph 3.21:* **The Netherlands - GDP growth vs CPI percentage change**




Domestic demand is expected to improve further in 2006, causing real GDP growth to increase to 2.0%. However, the pattern of public and private consumption demand is heavily distorted by the effects of the health care reform effective as of 1 January. The reform entails the abolishment of the distinction between private and public insurance for basic health insurance. The new system introduces a mandatory public insurance for basic health care which will imply a reclassification of part of private health care expenditure as public consumption. The impact of the reform is estimated to reduce the recorded level of private consumption by somewhat less than 2% of GDP, raising measured government consumption by the same amount. Underlying consumption demand will improve somewhat compared to 2005, but remains rather weak, in view of the rather modest improvement in employment and the expected further deceleration in compensation per employee. Export growth will pick up to 5.5%, and investment is expected to accelerate in 2006, but the strength of the recovery in investment is dampened by the slack in domestic demand. Employment growth is projected to increase to slightly above 1% in 2006 in the usual lagged response to an economic upturn, leading to a moderate decrease in the unemployment rate. In view of the expected decline in oil prices, weak import prices, the delayed pass-through of the earlier euro appreciation, and a fall in unit labour costs, consumer price inflation will moderate further, to 0.7% in 2006. HICP inflation will fall to around -3% in 2006, but this large drop is mainly due to the statistical impact of the health care reform on harmonised inflation.

**Deficit fell below 3% of GDP already in 2004**

The economic downturn took a heavy toll on public finances in the downswing, despite substantial consolidation measures, but budgetary prospects are currently improving. According to the most recent data, the deficit fell markedly in 2004, to 2.5% of GDP, compared to 3.2% of GDP in 2003. This improvement reflected fiscal tightening, lower-than-expected expenditures in some areas, and an acceleration in tax receipts towards the end of 2004 due to better macroeconomic conditions. The 2005 budget contains considerable further consolidation measures, including increases in income tax rates, reduced access to unemployment benefits, and the phasing out of subsidies on low-paid labour. The agreement reached in November 2004 between the government and social partners modifying planned reforms in the areas of social security and pensions in return for wage moderation should secure the savings planned for 2005. Fiscal consolidation will help bring down the deficit to 2.0% of GDP in 2005 despite lacklustre economic growth. In line with the cyclical recovery, the general government deficit will fall further in 2006 to 1.6% of GDP. The government debt-to-GDP ratio is still forecast to rise, from 55.7% of GDP in 2004 to 57.9% in 2006. However, the exact impact of the reforms in the areas of pension and health care to be implemented in 2006 is difficult to assess.

*Table 3.17*

**Main features of country forecast - NETHERLANDS**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 454.3 | 100.0 | 2.6 | 1.4 | 0.6 | -0.9 | 1.3 | 1.0 | 2.0 |
| Private consumption | | 224.3 | 49.4 | 2.0 | 1.4 | 1.3 | -0.9 | 0.5 | -0.2 | -2.4 |
| Public consumption | | 115.3 | 25.4 | 2.4 | 4.8 | 3.6 | 1.8 | 0.2 | 1.5 | 7.9 |
| Gross fixed capital formation | | 91.6 | 20.2 | 2.6 | 0.2 | -3.6 | -3.1 | 1.6 | 2.1 | 3.9 |
| of which : equipment | | 28.3 | 6.2 | 4.0 | -1.3 | -3.5 | 1.3 | 4.5 | 3.4 | 5.6 |
| Change in stocks as % of GDP | | 0.1 | 0.0 | 0.3 | 0.0 | -0.1 | 0.0 | 0.0 | 0.1 | 0.2 |
| Exports (goods and services) | | 279.4 | 61.5 | 5.6 | 1.6 | 0.8 | 0.0 | 7.2 | 4.0 | 5.5 |
| Final demand | | 710.8 | 156.5 | 3.4 | 1.7 | 0.7 | -0.3 | 3.4 | 2.2 | 3.4 |
| Imports (goods and services) | | 256.6 | 56.5 | 5.0 | 2.2 | 0.8 | 0.6 | 6.7 | 4.1 | 5.4 |
| GNI at constant prices (GDP deflator) | | 447.7 | 98.6 | 2.5 | 0.3 | -0.1 | -0.9 | 1.9 | 1.3 | 2.3 |
| Contribution to GDP growth : | Domestic demand | | | 2.1 | 1.8 | 0.7 | -0.7 | 0.6 | 0.7 | 1.5 |
| | Stockbuilding | | | -0.1 | -0.1 | -0.2 | 0.2 | -0.1 | 0.1 | 0.0 |
| | Foreign balance | | | 0.5 | -0.3 | 0.1 | -0.4 | 0.7 | 0.2 | 0.4 |
| Employment | | | | 1.1 | 1.3 | -0.1 | -1.0 | -1.6 | 0.3 | 1.3 |
| Unemployment (a) | | | | 6.6 | 2.5 | 2.7 | 3.8 | 4.7 | 5.2 | 5.0 |
| Compensation of employees/head | | | | 2.8 | 5.5 | 6.2 | 3.9 | 2.5 | 0.7 | 0.0 |
| Unit labour costs | | | | 1.4 | 5.4 | 5.4 | 3.8 | -0.5 | 0.0 | -0.6 |
| Real unit labour costs | | | | -0.7 | 0.1 | 2.3 | 0.8 | -1.6 | -0.9 | -1.5 |
| Savings rate of households (b) | | | | - | - | 15.0 | 15.3 | 15.6 | 15.3 | 13.9 |
| GDP deflator | | | | 2.1 | 5.2 | 3.1 | 3.0 | 1.1 | 0.9 | 0.9 |
| Private consumption deflator | | | | 2.4 | 4.6 | 2.7 | 2.3 | 1.3 | 1.4 | 1.2 |
| Harmonised index of consumer prices | | | | - | 5.1 | 3.9 | 2.2 | 1.4 | 1.3 | -3.0 |
| Trade balance (c) | | | | 4.0 | 5.1 | 5.1 | 5.1 | 5.3 | 5.3 | 5.7 |
| Current account balance (c) | | | | 3.9 | 3.8 | 2.8 | 2.7 | 3.2 | 3.3 | 3.9 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | 3.7 | 3.6 | 2.6 | 2.5 | 1.9 | 2.0 | 2.3 |
| General government balance (c)(d) | | | | -3.4 | -0.1 | -1.9 | -3.2 | -2.5 | -2.0 | -1.6 |
| General government gross debt (c) | | | | 69.9 | 52.9 | 52.6 | 54.3 | 55.7 | 57.6 | 57.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 18. Austria

## Moderate recovery to continue

### Developments in 2004

Austria's economy grew by 2% in 2004, accelerating from 0.8% in the previous year. Activity was boosted by world trade, with net exports contributing more than one percentage point to GDP growth. Support came also from a notable increase in investment volumes, both in response to export demand and a fiscal investment premium, which expired by the end of the year and which led to a sizeable amount of investment being carried forward. As the upswing was accompanied by a marked increase in employment, private consumption also picked up.

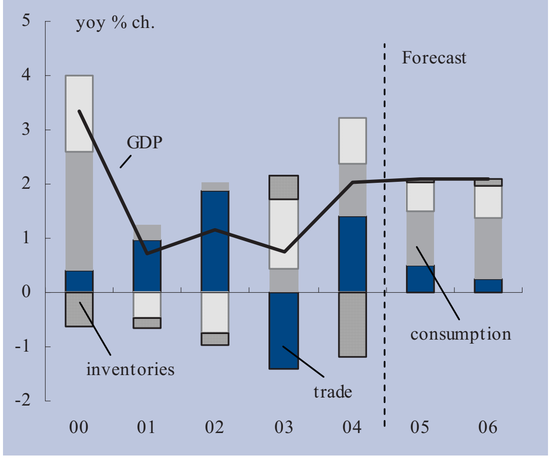
However, following very solid quarterly growth rates between 0.6% and 0.8% in the first three quarters, the recovery has slowed to a quarterly rate of 0.3% in the fourth quarter, in line with the (temporary) weakness in the neighbouring economies, notably Germany and Italy. Especially tourism revenues remained below expectations, but also investment and consumption could not maintain the relatively high growth pace they had earlier in the year.

### Prospects for 2005 and 2006

The economy is expected to continue growing at a solid rate. Domestic consumption should respond positively to a sizeable tax reduction and rising employment. However, consumption growth is likely to lag behind the increase in disposable incomes, leading to an increase in the savings rate.

A dampening factor is an expected dip in investment volumes following immediately after the subsidy phase-out in January. Investment should, however, quickly resume its healthy growth in the light of rising demand and growing profits. The reduction in the corporate tax rate will also make Austria more attractive for foreign investors. Housing construction, having suffered from slack demand for new homes and persistent excess office space, should pick up moderately and will no longer constitute a drag on the economy.

*Graph 3.22:* **Austria - Contributions to GDP growth**




As regards the external side, unit labour costs are expected to grow at a rate below the EU average and export prices relative to its trading partners should continue to fall in 2005. Even so, the importance of the external contribution to growth will weaken substantially due to slackening world demand.

### Labour market, costs, and prices

Employment is expected to grow throughout the forecast period. The increased employment does not, however, translate into an equal reduction in unemployment, owing to the high elasticity of labour supply and sizeable immigration.

Consumer price inflation should stay at a rate close to 2% in 2004 and 2005, driven by rising energy prices and taxes and higher tobacco excise duties. As this effect wears off, consumer price inflation should slow in 2006.

### Public finances

In 2004, the first step of a major tax reform was implemented, with parts of the 2005 instalment being brought forward to 2004. The reform consisted of a lowering of tax rates (personal and corporate income taxes) equivalent to 0.3 % of GDP, the effect on overall revenues being offset by increases in mineral oil and energy taxes. The measures of the 2005 reform brought forward to 2004 comprised higher tax allowances for children, worth about 0.1 % of GDP, which were not financed by expenditure cuts. Being largely export-driven, the composition of growth in 2004 was tax-unfriendly. On the other hand, tax revenues benefited from substantial cross-border petrol shopping from Germany, amounting to more than 0.3% of GDP. All in all, the deficit rose by 0.2 pp compared with 2003 to 1.3% of GDP in 2004.

At 2.0% of GDP, the deficit in 2005 is projected to be ¾% of GDP higher than in 2004. The fact that GDP growth was lower than the official forecast, explains why the deficit is projected to widen slightly more than expected by the national authorities. The dominating factor is the implementation of the second stage of the tax reform 2004/2005. The personal income tax is reduced to four tax brackets, including a zero tax bracket up to an income of €10 000. The corporate tax rate is reduced from 34% to 25%, while tax rules for holdings (domestic and foreign) are also simplified. The agricultural sector is exempted from mineral oil tax. The burden on the budget is estimated to amount to 1% of GDP, although the effects from the new holding taxation are difficult to measure and may pose a budgetary risk. The health care reform is projected to lead to additional revenues of 0.1 % of GDP, mainly due to an increase in the contribution rate of 0.1 pp and an increase in the tobacco tax. Streamlining the health care administration is expected to lead to expenditure savings of approximately the same size.

On the basis of the no-policy-change assumption, the 2006 deficit is expected to fall by ¼ pp to 1.7% of GDP, as the economy is expected to grow above potential and some spending programmes (in particular the subsidy on additional investment) will no longer burden the budget.

The debt ratio[i] is expected to ease down slightly during the forecasting period, while remaining above the 60% of GDP reference value.

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[i] Note that this does not include the recalculation of "financial intermediation services indirectly measured" (FISIM) in GDP.

*Table 3.18*

**Main features of country forecast - AUSTRIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 226.1 | 100.0 | 2.5 | 0.7 | 1.2 | 0.8 | 2.0 | 2.1 | 2.1 |
| Private consumption | | 126.9 | 56.1 | 2.6 | 1.0 | -0.1 | 0.6 | 1.5 | 1.7 | 2.0 |
| Public consumption | | 40.6 | 18.0 | 2.0 | -1.4 | 1.1 | 0.4 | 0.9 | 0.3 | 0.2 |
| Gross fixed capital formation | | 48.6 | 21.5 | 2.2 | -2.1 | -3.4 | 6.2 | 3.7 | 2.4 | 2.7 |
| of which : equipment | | 19.2 | 8.5 | 2.7 | 0.6 | -7.8 | 5.5 | 6.3 | 3.0 | 3.3 |
| Change in stocks as % of GDP | | 1.0 | 0.4 | 0.5 | 0.5 | 0.3 | 0.5 | -0.2 | -0.2 | 0.0 |
| Exports (goods and services) | | 109.1 | 48.2 | 4.8 | 6.8 | 3.8 | 1.4 | 8.9 | 6.1 | 6.4 |
| Final demand | | 326.3 | 144.3 | 3.0 | 1.9 | 0.7 | 1.8 | 3.4 | 3.3 | 3.6 |
| Imports (goods and services) | | 100.1 | 44.3 | 4.2 | 5.0 | -0.2 | 4.8 | 6.6 | 5.7 | 6.6 |
| GNI at constant prices (GDP deflator) | | 222.7 | 98.5 | 2.5 | 0.2 | 2.0 | 0.9 | 2.2 | 2.1 | 2.1 |
| Contribution to GDP growth : | Domestic demand | | | 2.4 | -0.2 | -0.6 | 1.7 | 1.8 | 1.5 | 1.7 |
| | Stockbuilding | | | 0.0 | -0.2 | -0.2 | 0.2 | -1.2 | 0.1 | 0.1 |
| | Foreign balance | | | 0.2 | 1.0 | 1.9 | -1.4 | 1.4 | 0.5 | 0.3 |
| Employment | | | | 0.3 | 0.4 | 0.1 | 0.0 | 1.0 | 0.2 | 0.7 |
| Unemployment (a) | | | | 3.4 | 3.6 | 4.2 | 4.3 | 4.5 | 4.1 | 3.9 |
| Compensation of employees/head | | | | 4.3 | 1.4 | 1.7 | 2.1 | 2.9 | 2.5 | 2.6 |
| Unit labour costs | | | | 2.0 | 1.2 | 0.7 | 1.4 | 1.8 | 0.6 | 1.2 |
| Real unit labour costs | | | | -0.7 | -0.6 | -0.7 | -0.2 | 0.0 | -1.0 | -0.3 |
| Savings rate of households (b) | | | | - | - | 12.3 | 13.3 | 13.5 | 13.6 | 13.6 |
| GDP deflator | | | | 2.7 | 1.7 | 1.3 | 1.6 | 1.9 | 1.6 | 1.5 |
| Private consumption deflator | | | | 2.9 | 1.9 | 1.2 | 1.5 | 2.0 | 2.3 | 1.7 |
| Harmonised index of consumer prices | | | | - | 2.3 | 1.7 | 1.3 | 2.0 | 2.3 | 1.7 |
| Trade balance (c) | | | | -3.5 | -0.5 | 1.8 | 0.8 | 1.8 | 1.8 | 1.6 |
| Current account balance (c) | | | | -0.9 | -0.4 | 2.5 | 1.5 | 2.1 | 2.2 | 2.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -0.9 | -0.7 | 2.3 | 1.4 | 1.9 | 2.1 | 2.0 |
| General government balance (c)(d) | | | | -3.0 | 0.3 | -0.2 | -1.1 | -1.3 | -2.0 | -1.7 |
| General government gross debt (c) | | | | 56.8 | 67.1 | 66.7 | 65.4 | 65.2 | 64.4 | 64.1 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 19. Poland

## Still vigorous growth amidst persistent fiscal uncertainties

### Economic situation in 2004

While still robust, economic activity decelerated markedly in the second half of 2004, with real GDP growth slowing to 4.3% year-on-year from 6.5% in the first half of the year. The slowdown in activity mostly reflected the phase-out of the pre-EU-entry one-off effects that contributed to the impressive performance of the Polish economy in the first half of the year. For 2004 as a whole, real GDP growth reached 5.3% against 3.8% in 2003. As in 2003, growth was mainly driven by exports, which continued to grow strongly despite the appreciation of the zloty since May. However, the growth contribution of the external sector gradually diminished and turned negative in the fourth quarter for the first time since early 2003. Household consumption expanded moderately on the back of weak real income growth and persistently high unemployment, while fixed investment rebounded finally after falling for three consecutive years. Investment growth started to recover timidly towards the end of 2003 and gained momentum in the course of 2004, with an abrupt acceleration to over 7% year-on-year in the fourth quarter. In addition, growth was sustained during most of the year by a strong positive contribution from stockbuilding. While the rapid growth in inventories in the first quarter can be attributed to expectations of price increases after EU accession, the sharp increase in the following two quarters appears unusual in this phase of the economic cycle.

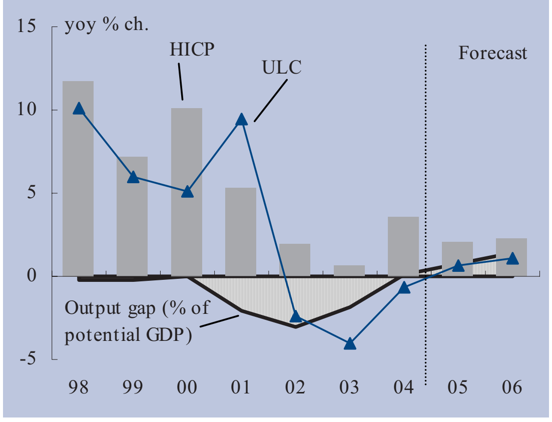
### Prospects in 2005 and 2006

With the withdrawal of fiscal and monetary stimulus, growth is set to decelerate this year. Monetary conditions have become less supportive, as a result of both the real effective appreciation of the zloty and the interest rate hikes of mid-2004, while the long-delayed fiscal adjustment starts this year. Overall, real GDP growth is projected to slow to 4.4% in 2005. As international prospects improve and monetary conditions ease somewhat, economic growth should rise, but only modestly, to 4.5% in 2006. A shift in the growth pattern, with domestic demand taking over from net exports as the main contributor to growth, was already at work in the fourth quarter of 2004. This will continue in the coming quarters, with a drag from net exports expected for both 2005 and 2006.

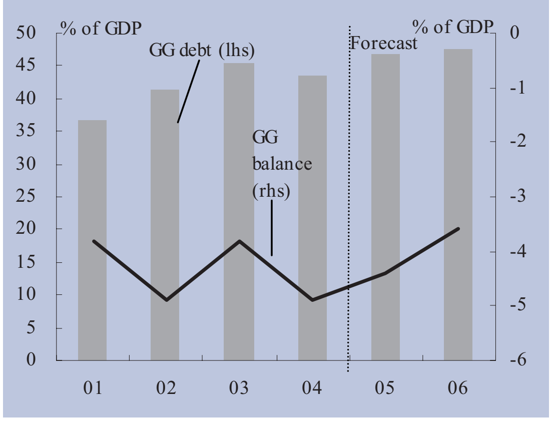
Investment growth should accelerate further in 2005 and 2006, against the backdrop of emerging capacity constraints, strong corporate profitability and accession-related business opportunities. In particular, estimates by the National Bank of Poland point to capacity utilisation rates of above 80% in the first quarter of 2005, against a low of 73% in early 2002. EU funds will provide a further boost to investment activity, which is projected to accelerate to around 10% in volume terms this year and next. Consumer demand is also likely to strengthen over the projection period, helped by the turnaround in the labour market, faster real wage growth and growing consumer confidence.

Export growth, while affected by the appreciation of the zloty, should remain robust this year, supported by

*Graph 3.23 :* **Poland - Prices and wages**




*Graph 3.24:* **Poland - General government finances**



productivity gains by Polish firms. Exports would grow somewhat faster next year against the backdrop of a growth revival in Poland's main trading partners. Poland would continue to gain market shares throughout the forecast period, albeit at a slower pace than in previous years. Given the high import content of Polish exports and the expected recovery in investment activity, import growth is also projected to pick up strongly and would outpace export growth from 2005 onwards.

The risks to the growth outlook are skewed to the downside. Persistent fiscal and political uncertainties remain a major source of concern for the strength of the expected investment recovery. Also, a slower-than-expected improvement in the labour market and more moderate wage growth would hold back private consumption. Finally, the strong zloty and weak growth in the EU could cause exports to grow less rapidly than projected.

**Labour market, costs and prices**

Labour market conditions appear to be improving since the second quarter of 2004. Overall, employment ceased to drop last year, and unemployment decreased by 0.4 percentage points to 18.8% of the labour force, compared to a peak of 19.8% in 2002. As economic activity remains vigorous, employment growth is expected to become increasingly strong over the forecast horizon. This should translate into a drop in the unemployment rate by a little over a full percentage point over 2005-06. However, unemployment will still be relatively high, at 17.6% of the labour force, by the end of the forecast horizon, reflecting the deep-seated structural problems in the labour market. Poland's unemployment has a large structural component, and labour market difficulties are further exacerbated by unfavourable demographic developments and the ongoing restructuring process in heavy industries and agriculture.

HICP inflation increased sharply last year, reaching 3.6% on average, up from 0.7% in 2003. Consumer price inflation overshot the upper limit of the central bank's target band (2.5 ± 1 percent) in June and continued to rise to 4.6% year-on-year in July-August, before declining to 4% year-on-year in December. The surge in headline inflation was mostly due to rising food and oil prices and accession-related increases in indirect taxes. In order to contain second-round effects of higher inflation, the National Bank of Poland raised its key reference rate by a cumulative 125 basis points to 6.5% between June and August. Core inflation picked up significantly in mid-2004 but has stabilised at 2.4% year-on-year since September, pointing to limited price pressures stemming from the demand side to date.

With the fading of the one-off effects of EU accession on prices, together with more favourable developments in food and oil prices, consumer price inflation is set to fall this year despite the emergence of a positive output gap. Also, the strong zloty will contribute to dampening inflationary pressures. As the positive output gap widens and unit labour costs pick up, headline inflation should edge up in the course of 2006 and is projected to average 2.3% against 2.1% in 2005.

Unit labour cost growth is estimated to have fallen by 0.7% last year, owing to a cyclical pick-up in productivity to over 5% combined with modest compensation growth. However, in 2005 and 2006, this is likely to be reversed as productivity and compensation are projected to move in the opposite direction. Although nominal wages are expected to increase in order to at least sustain growth in real earnings, high unemployment should exert a moderating influence.

**External accounts**

Poland's export performance remained strong last year and, although import growth outstripped export growth towards the end of 2004, the current account deficit narrowed further from the already low levels recorded in 2003. The deficit reached 1.5% of GDP, down from 2.2% in 2003. Growing imports in line with strengthening domestic demand will lead to a steady increase in the trade and current account deficits this year and next. However, as in 2004, higher transfers from the EU will have a positive impact on both the current and capital accounts. In total, the current account deficit is projected to widen to 2.4% of GDP this year and 3% in 2006, and will thus remain within sustainable bounds.

**Public finances**

At 4.8% of GDP, the general government deficit in 2004 is estimated to be considerably lower than targeted in the 2004 budget. The downward revision of the deficit results mainly from a better-than-expected performance by the social security sub-sector by 0.7% of GDP. A better-than-expected position of the central government also contributed to the revision of the 2004 deficit.

The general government deficit is expected to decrease to 4.4% of GDP in 2005 and 3.8% in 2006 compared to 3.9% and 3.2% of GDP respectively in the December convergence programme. The upward revision of the deficit projections by 0.3 percentage points in 2005 and 0.7 in 2006 compared to the autumn 2004 forecasts takes into account the state of implementation of the public finance reform package provided in the updated programme. However, based on the no-policy change assumption, the forecast includes only the measures that have been approved by Parliament. Savings on the expenditure side represent approximately 0.6% of GDP in 2005 and 0.5% in 2006. The estimated budgetary impact of the measures affecting the revenue side of the budget (restructuring of the railways and coal mining sector) corresponds to 0.1% of GDP in 2005 and 2006. The downward revision of the growth rates has also contributed to a higher deficit-to-GDP ratio. The forecast still includes the surplus of the second-pillar funded pension funds, which is expected to reach approximately 2% of GDP in 2004 and 1.9% in 2005 and 2006, within the general government sector.

The lower-than-expected gross debt figure in 2004 is due to stronger-than-expected nominal GDP growth, favourable valuation effects following the appreciation of the zloty and higher-than-expected privatisation proceeds. From 43.6% of GDP in 2004, the debt-to-GDP ratio would still increase to 46.8% in 2005 and reach 47.6% in 2006.

*Table 3.19*

**Main features of country forecast - POLAND**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn PLN Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 814.9 | 100.0 | 5.4 | 1.0 | 1.4 | 3.8 | 5.3 | 4.4 | 4.5 |
| Private consumption | 538.1 | 66.0 | 5.3 | 2.0 | 3.4 | 3.0 | 3.2 | 3.8 | 3.9 |
| Public consumption | 143.2 | 17.6 | 2.6 | 0.6 | 0.4 | 0.1 | 1.4 | 1.1 | 1.3 |
| Gross fixed capital formation | 150.0 | 18.4 | 13.4 | -8.8 | -5.8 | -0.5 | 5.6 | 10.0 | 11.0 |
| of which : equipment | - | - | - | -10.4 | -9.6 | - | - | - | - |
| Change in stocks as % of GDP | 3.9 | 0.5 | 1.1 | 0.1 | -0.2 | 0.5 | 0.9 | 0.9 | 0.8 |
| Exports (goods and services) | 280.7 | 34.4 | 13.3 | 3.1 | 4.8 | 14.7 | 11.4 | 10.1 | 10.4 |
| Final demand | 1115.9 | 136.9 | 7.8 | -0.6 | 1.7 | 5.2 | 6.2 | 6.2 | 6.6 |
| Imports (goods and services) | 301.0 | 36.9 | 17.8 | -5.3 | 2.6 | 9.3 | 8.7 | 11.1 | 11.7 |
| GNI at constant prices (GDP deflator) | 800.8 | 98.3 | 5.4 | 1.1 | 1.1 | 3.1 | 5.2 | 4.3 | 4.4 |
| Contribution to GDP growth : Domestic demand | | | 6.4 | -0.8 | 0.9 | 1.8 | 3.3 | 4.5 | 4.9 |
| Stockbuilding | | | 0.3 | -1.2 | -0.2 | 0.7 | 0.9 | 0.0 | -0.1 |
| Foreign balance | | | -1.2 | 2.9 | 0.7 | 1.8 | 1.1 | -0.1 | -0.3 |
| Employment | | | -0.2 | -2.2 | -3.0 | -1.2 | 0.0 | 1.0 | 1.2 |
| Unemployment (a) | | | 12.7 | 18.5 | 19.8 | 19.2 | 18.8 | 18.3 | 17.6 |
| Compensation of employees/head | | | 20.2 | 13.1 | 2.0 | 0.8 | 4.6 | 4.1 | 4.4 |
| Unit labour costs | | | 13.9 | 9.5 | -2.4 | -4.1 | -0.7 | 0.7 | 1.1 |
| Real unit labour costs | | | -0.1 | 5.3 | -3.7 | -4.5 | -3.5 | -1.0 | -0.9 |
| Savings rate of households (b) | | | - | - | 10.3 | 8.1 | 7.7 | 7.2 | 6.6 |
| GDP deflator | | | 14.0 | 4.0 | 1.3 | 0.5 | 2.9 | 1.8 | 2.0 |
| Private consumption deflator | | | 14.4 | 4.7 | 1.6 | 0.7 | 3.3 | 2.1 | 2.3 |
| Harmonised index of consumer prices | | | - | 5.3 | 1.9 | 0.7 | 3.6 | 2.1 | 2.3 |
| Trade balance (c) | | | -5.1 | -4.1 | -3.8 | -2.7 | -2.5 | -3.0 | -3.6 |
| Current account balance (c) | | | -3.0 | -2.9 | -2.6 | -2.2 | -1.5 | -2.4 | -3.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | -3.0 | -2.8 | -2.6 | -2.2 | -1.2 | -1.9 | -2.4 |
| General government balance (c)(d)(e) | | | -2.5 | -3.9 | -3.6 | -4.5 | -4.8 | -4.4 | -3.8 |
| General government gross debt (c) | | | - | 36.7 | 41.2 | 45.4 | 43.6 | 46.8 | 47.6 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

# 20. Portugal

## Gradual recovery and persistent budgetary imbalances

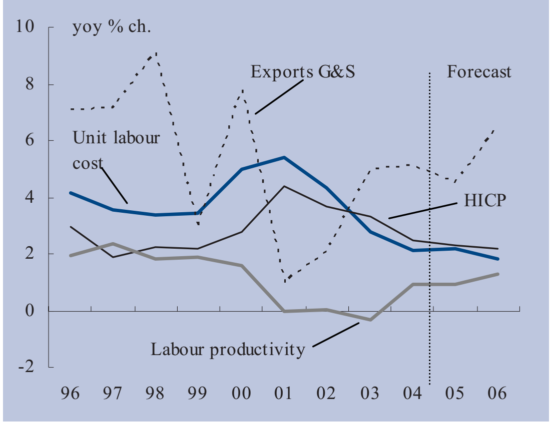
### Developments in 2004

After shrinking by 1.1% in 2003, real GDP gained 1% in 2004, with a clear rebound up to the middle of the year and retrenchments thereafter. The recovery was led by strong internal demand: after receding in the previous year, private consumption was lively and private investment recovered from the losses recorded in 2002 and 2003. Exports were buoyant in particular in the first half of 2004, while imports grew strongly over the whole year. The result was a negative net contribution of the external sector to GDP growth and a sharp deterioration of the trade balance.

### Outlook for 2005 and 2006

Domestic demand, while remaining the principal driver of growth in the coming two years, is projected to slow down somewhat in 2005. The labour market prospects are not expected to improve, and thus the momentum of private consumption observed in 2004 may abate in 2005. Moreover, the uncertainty surrounding fiscal consolidation seems to have been weighing on the economy, in particular on investment. The foreign sector should not exert a major drag on economic growth: firstly, the slowdown in the rise of labour costs and in inflation is expected to help exports competitiveness, although in a context of a somewhat more moderate growth of exports markets; secondly, in 2006, exports will be boosted by specific developments in the car industry; thirdly, the projected cooling of internal demand will result in lower demand for imports. Nevertheless, a negative carry-over from the second half of 2004 will damper average growth in 2005. All in all, real GDP is estimated to grow by 1.1% in 2005 and to accelerate to 1.7% in 2006.

*Graph 3.25:* **Portugal - Costs and competitiveness**




After the sharp increase in 2004, demand for imported goods in 2005 and 2006 is expected to be more in line with domestic demand, preventing a further significant deterioration in the trade balance. At the same time, the services balance surplus is expected to continue rising.

### Labour market, wages and prices

On the back of subdued growth, unemployment rose further in 2004 and may edge up to a rate close to 7% in 2005. However, moderate wage rises and a slower upward drift in unit labour costs should provide some relief.

Inflation slackened markedly at the beginning of 2004, but rebounded towards the end of the year due to higher energy prices. In 2005 and 2006, the lagged effects of low wage growth and the significantly negative output gap should rein back inflationary pressure. The easing on prices of imported basic goods should also help to curb inflation in 2006.

### Public finances

In 2004, the general government deficit stood at 2.9% of GDP[1]. In spite of the strong fiscal revenue growth, hikes on government expenditure held back progress in budgetary consolidation. To keep the deficit below the reference value, the authorities decided to transfer to the government sector pension liabilities for four state-owned enterprises, in exchange of payments worth more than 2.2% of GDP. Without such one-off operations, the general government deficit would have largely exceeded 3% of GDP.

Large public finances imbalances are projected over the forecast horizon. In 2005, the corporate tax rate cut from 30 to 25% will, for the first time, exert its full effects, lowering proceeds by around 0.4% of GDP.

On the expenditure side, public consumption is expected to continue growing in 2005 in real terms, albeit less than GDP. The strong growth in expenditure on social transfers, in excess of nominal

[1] There are ongoing discussions with Eurostat on the consistency between accrual- and cash-based data, which may lead to a revision in the government deficit.

GDP, that has been observed for several years is, on a no-policy change basis, forecast to continue, mainly driven by old-age pension entitlements with the maturing of pension schemes and the lack of improvement on the labour market.

All in all, the government deficit in both 2005 and 2006 is forecast to be well above the 3% of GDP reference value. Last October, the Portuguese authorities stated their commitment to keep the deficit at or below 3% of GDP and, in order to achieve this goal, to introduce one-off revenue-raising measures. One of those measures, namely a transfer of a pension fund to the government sector, worth 0.3% of GDP, was taken on board in the current forecast, which brings the estimated government deficit for 2005 to 4.9% of GDP. It remains to be seen whether the new government which took office on 12 March, will confirm such intention. The 2005 deficit has been revised upwards compared with the Commission services autumn forecast mainly due to a significantly lower economic growth and the withdrawal of a one-off operation with expected proceeds of 0.5% of GDP, as Eurostat considered it as a financial operation with no impact on the deficit.

In 2006, the deficit is projected at 4.7% of GDP on a no-policy change assumption and abstracting from any one-off revenue-raising measure.

Since 2003, public debt has been exceeding 60% of GDP. As a consequence of the high government deficits, low nominal GDP growth, and of one-off debt-increasing stock-flow adjustments, public debt will continue to increase, exceeding 68% of GDP at the end of 2006.

*Table 3.20*

**Main features of country forecast - PORTUGAL**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **bn Euro Curr. prices** | **% GDP** | **81-00** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
| GDP at constant prices | | 130.5 | 100.0 | 3.0 | 1.7 | 0.4 | -1.1 | 1.0 | 1.1 | 1.7 |
| Private consumption | | 80.9 | 62.0 | 3.0 | 1.2 | 1.1 | -0.3 | 2.3 | 1.7 | 1.9 |
| Public consumption | | 27.7 | 21.2 | 4.1 | 3.3 | 2.3 | 0.3 | 1.2 | 0.6 | 0.0 |
| Gross fixed capital formation | | 29.5 | 22.6 | 4.1 | 0.8 | -5.1 | -9.9 | 1.3 | 1.4 | 3.2 |
| of which : equipment | | 9.0 | 6.9 | 4.0 | -3.2 | -10.5 | -6.5 | 6.2 | 5.0 | 5.7 |
| Change in stocks as % of GDP | | 0.8 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.9 | 0.7 | 0.7 |
| Exports (goods and services) | | 39.3 | 30.1 | 6.5 | 1.4 | 2.0 | 5.0 | 5.1 | 4.5 | 6.5 |
| Final demand | | 178.2 | 136.5 | 4.0 | 1.5 | 0.3 | -0.7 | 2.9 | 2.1 | 3.1 |
| Imports (goods and services) | | 47.6 | 36.5 | 7.2 | 1.1 | -0.2 | -0.1 | 7.0 | 4.4 | 6.0 |
| GNI at constant prices (GDP deflator) | | 129.0 | 98.8 | 3.1 | 1.5 | 1.5 | -1.0 | 0.1 | 1.3 | 1.8 |
| Contribution to GDP growth : | Domestic demand | | | 3.6 | 1.6 | -0.3 | -2.7 | 2.1 | 1.6 | 2.0 |
| | Stockbuilding | | | 0.0 | 0.1 | 0.0 | 0.0 | 0.2 | -0.2 | 0.0 |
| | Foreign balance | | | -0.6 | 0.0 | 0.8 | 1.8 | -1.3 | -0.4 | -0.3 |
| Employment | | | | 0.4 | 1.7 | 0.4 | -0.4 | 0.1 | 0.3 | 0.3 |
| Unemployment (a) | | | | 6.4 | 4.0 | 5.0 | 6.3 | 6.7 | 7.0 | 7.0 |
| Compensation of employees/head | | | | 14.0 | 5.3 | 4.4 | 2.6 | 3.0 | 3.1 | 3.3 |
| Unit labour costs | | | | 11.1 | 5.4 | 4.4 | 3.3 | 2.1 | 2.2 | 1.9 |
| Real unit labour costs | | | | -0.2 | 1.1 | 0.0 | 0.5 | -0.3 | 0.0 | -0.4 |
| Savings rate of households (b) | | | | - | - | 11.9 | 12.0 | 11.5 | 11.9 | 12.1 |
| GDP deflator | | | | 11.3 | 4.3 | 4.4 | 2.8 | 2.4 | 2.3 | 2.4 |
| Private consumption deflator | | | | 11.1 | 3.9 | 3.5 | 3.2 | 2.4 | 2.3 | 2.1 |
| Harmonised index of consumer prices | | | | - | 4.4 | 3.7 | 3.3 | 2.5 | 2.3 | 2.1 |
| Trade balance (c) | | | | -11.7 | -11.1 | -9.3 | -7.8 | -9.6 | -9.8 | -9.8 |
| Current account balance (c) | | | | -4.4 | -10.1 | -7.7 | -6.0 | -7.7 | -7.7 | -7.5 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | - | -8.2 | -5.8 | -3.5 | -6.1 | -6.1 | -6.0 |
| General government balance (c)(d) | | | | -5.6 | -4.4 | -2.7 | -2.9 | -2.9 | -4.9 | -4.7 |
| General government gross debt (c) | | | | 56.3 | 55.9 | 58.5 | 60.1 | 61.9 | 66.2 | 68.5 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 21. Slovenia

## Strong growth fuelled by exports

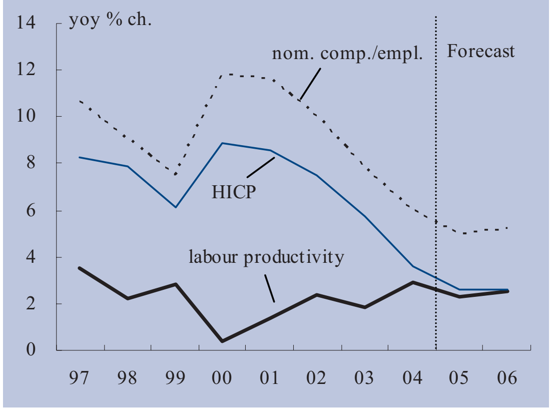
### The economy in 2004

Following subdued activity in 2003, which resulted in real GDP to grow at the slowest pace since 1993, the economy recovered its strength in 2004. As growth accelerated vigorously and in the third quarter of 2004 reached the highest rate over the past four years, output is estimated to have risen by 4.6%. The stimulus came from a favourable international environment. Ignited by a recovery of the EU markets at the end of 2003, exports expanded considerably throughout 2004. After a long period of external trade being a drag on economic performance, the contribution of net exports to GDP growth turned positive in the second half of 2004. Furthermore, household spending and investment expenditure remained buoyant while de-stocking occurred. A marked upward trend in the quarterly dynamics of both domestic and foreign demand confirms the anticipation of a solid economic revival in 2004-2006. The force of the upturn, however, appears strong given the rather slim prospects of further expansion in the rest of the EU.

### Outlook for 2005-2006

This year, the economy is likely to become temporarily affected by relatively slow growth in Slovenia's main trading partners. It is especially domestic consumption that is likely to fuel growth. While wages are expected to remain constrained, the historically low nominal interest rates and the new personal income tax regime relieving the lowest income classes should keep private spending strong. The forecast projects GDP to increase by 3.7%.

*Graph 3.26:* **Slovenia - Price and wage developments**




In 2006, when the negative effects of high oil prices are expected to gradually fade, growth should strengthen, to reach 4.0%. Domestic demand is set to provide the main impetus as household spending and investment stay robust against the background of vigorous construction activity and production capacity adjustments geared to building up the competitiveness of Slovene industry. As a consequence of buoyant private and investment expenditure a sustained rise in imports is expected, which is likely to be offset by solid export growth. The negative external contribution to GDP growth should thus gradually narrow.

Although a recovery in the main trading partners has been fuelling Slovenia's exports, the current account moved further from balance in 2004. Over the next two years, the current account deficit should stay low and contained, at 1% of GDP.

### Labour market, wages and prices

In 2004, the situation on the labour market improved as employment increased and unemployment decreased. This year, when a further gentle pick-up in employment is projected, the unemployment rate is expected to resume its gradual trend decline and be around 6% by 2006.

In 2004, real wage growth has been subdued thanks to the implementation of the restrictive wage agreement across the economy. The forward-looking indexation, taking into account anticipated rather than actual domestic consumer price movements, inflation in the EU and the euro/tolar central parity, has been applied consistently in all sectors, public and private. Furthermore, the wage increases lagged behind productivity growth by more than one percentage point.

Inflation continued to decline rapidly in 2004, only briefly interrupted by the oil price hike and higher excise duties on tobacco in May and November respectively. Consumer price growth dropped from 5.7% in 2003 to 3.6% in 2004. Inflationary pressures have been well contained as the government has remained committed to prudence in regulating administered price increases and indirect tax changes, as well as has applied frequent adjustments of excise duties on oil to temper the impact of world market price fluctuations. Moreover, inflation has been falling against a stable exchange rate, set at the central parity of 239.640 tolars per 1 euro with a standard fluctuation band of +/- 15 percent in the framework of ERM II on 28 June. This halted a long period of continuous depreciation against the euro and the tolar has remained very stable ever since.

With exchange rate stability now credibly anchoring expectations, inflation is projected to further decline based on the continuation of prudent policies, administering regulated prices and indirect taxes, and the reconfirmation of wage moderation beyond 2005 in the negotiations between the social partners due this year.

**Public finances**

The revision of the government accounts, linked to the reclassification of the two extra-budgetary funds into the general government sector, has led to the general government deficit figures being revised upwards (by 0.2-0.5% of GDP) for the period 2000-2003. Within the new methodological framework, the deficit in 2004 is estimated to have decreased slightly, to 1.9% of GDP, mostly as a result of good economic performance and a firm commitment to fiscal discipline in the wake of a revenue shortfall linked to the loss in VAT resources following the change of the tax collection system after EU accession which was, moreover, smaller than expected. This year, the deficit is projected to increase to 2.2% of GDP as the revenue ratio declines further due to the direct tax reform effective from January 2005. The current forward-looking indexation mechanism, containing the rise of public sector wages and certain social transfers, will limit the rise in expenditures. Anticipating the increase in the inflows of EU funds, the deficit is forecast to stabilise at slightly above 2% of GDP.

*Table 3.21*

**Main features of country forecast - SLOVENIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn SIT Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 5741.0 | 100.0 | 4.3 | 2.7 | 3.3 | 2.5 | 4.6 | 3.7 | 4.0 |
| Private consumption | | 3128.0 | 54.5 | 3.9 | 2.3 | 0.3 | 2.7 | 3.5 | 3.5 | 3.3 |
| Public consumption | | 1166.0 | 20.3 | 3.1 | 3.9 | 1.7 | 2.6 | 1.7 | 3.0 | 3.2 |
| Gross fixed capital formation | | 1367.1 | 23.8 | 12.0 | 4.1 | 3.1 | 6.3 | 6.8 | 5.9 | 6.3 |
| of which : equipment | | 597.5 | 10.4 | 13.5 | 6.6 | 2.7 | 7.1 | 6.9 | 5.6 | 6.0 |
| Change in stocks as % of GDP | | 81.7 | 1.4 | 1.2 | -0.6 | 0.5 | 1.6 | 2.1 | 2.0 | 2.0 |
| Exports (goods and services) | | 3245.4 | 56.5 | 6.1 | 6.3 | 6.7 | 3.2 | 12.6 | 8.0 | 7.5 |
| Final demand | | 8988.2 | 156.6 | 5.9 | 2.7 | 4.1 | 4.3 | 7.7 | 5.6 | 5.6 |
| Imports (goods and services) | | 3247.3 | 56.6 | 8.5 | 3.0 | 4.9 | 6.8 | 12.4 | 8.2 | 7.6 |
| GNI at constant prices (GDP deflator) | | 5699.8 | 99.3 | 4.1 | 2.7 | 2.5 | 2.5 | 5.0 | 3.8 | 4.1 |
| Contribution to GDP growth : | Domestic demand | | | 5.6 | 3.2 | 1.4 | 3.7 | 4.2 | 4.2 | 4.3 |
| | Stockbuilding | | | 0.2 | -2.2 | 1.1 | 1.1 | 0.6 | 0.0 | 0.1 |
| | Foreign balance | | | -1.4 | 1.8 | 1.0 | -2.4 | -0.3 | -0.5 | -0.4 |
| Employment | | | | - | 0.5 | -0.4 | -0.3 | 0.2 | 0.1 | 0.2 |
| Unemployment (a) | | | | 7.0 | 5.8 | 6.1 | 6.5 | 6.0 | 5.9 | 5.6 |
| Compensation of employees/head | | | | - | 11.6 | 10.0 | 7.8 | 6.1 | 5.0 | 5.2 |
| Unit labour costs | | | | - | 9.2 | 6.0 | 4.8 | 1.6 | 1.4 | 1.3 |
| Real unit labour costs | | | | - | 0.1 | -1.9 | -0.6 | -1.7 | -1.7 | -1.3 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 10.2 | 9.1 | 8.0 | 5.5 | 3.3 | 3.1 | 2.7 |
| Private consumption deflator | | | | 10.7 | 8.1 | 7.8 | 5.0 | 3.6 | 2.5 | 2.5 |
| Harmonised index of consumer prices | | | | - | 8.6 | 7.5 | 5.7 | 3.6 | 2.6 | 2.6 |
| Trade balance (c) | | | | -4.7 | -3.1 | -1.1 | -2.2 | -3.1 | -3.9 | -3.8 |
| Current account balance (c) | | | | -1.1 | 0.2 | 1.4 | -0.4 | -0.7 | -1.0 | -0.8 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -1.1 | 0.2 | 0.7 | -1.0 | -1.4 | -1.6 | -1.3 |
| General government balance (c)(d) | | | | - | -2.8 | -2.4 | -2.0 | -1.9 | -2.2 | -2.1 |
| General government gross debt (c) | | | | - | 28.1 | 29.5 | 29.4 | 29.4 | 30.2 | 30.4 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 22. Slovakia

## Domestic demand drives growth

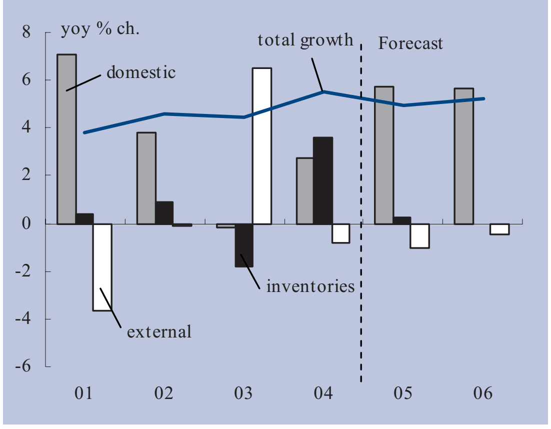
### Economic situation in 2004

In 2004, real GDP growth accelerated significantly to 5½% and its composition turned around completely. Domestic demand became the sole growth engine, while the external contribution entered negative territory. Although export growth remained in the double-digit range, it dropped to approximately half the level of its stellar performance a year earlier and was outpaced by import growth. Higher imports were induced by an expansion of both investment and private consumption, which had both contracted a year before. In particular, private consumption expenditure picked up faster than had been commonly expected and was bolstered by real wage growth and lower income taxes (compensating for restraints on social transfers). Changes in income taxation also caused economic agents to shift some components of employees' compensation from 2003 into 2004.

### Prospects in 2005 and 2006

In 2005 and 2006, the economic expansion is anticipated to remain robust at around 5%. Domestic demand is likely to stay the exclusive driving force behind growth, while the negative external contribution is forecast to peak in 2005. Private consumption growth is expected to accelerate further as disposable income expands (reflecting higher real wages) and as the household savings rate falls (net of the effect of the introduction of a funded pension pillar). Strengthening household credit growth is likely to have a consumption-inducing effect as well. Gross fixed capital formation is predicted to expand sharply as business environment and business confidence are being fostered further and as the already pledged greenfield investments, predominantly in the automobile sector, materialise.

*Graph 3.27:* **Slovakia - GDP growth and its contributors**




However, the latter will also entail an increase in imports of investment goods and this is a major factor behind the expected negative external contribution. In 2006, the first tranches of the newly created export capacity will come on stream but will prospectively not yet suffice for the external contribution to turn positive again.

In 2004, the current account deficit widened to some 3½% of GDP. This resulted mainly from a weakening, but still robust, export performance and strong import growth. Furthermore, the amount of repatriated profits increased significantly. This trend, coupled with a continued high import expansion, are the main factors behind a forecast additional increase in the current account deficit to some 5% of GDP in 2005 and 2006.

### Labour market, costs and prices

After a strong performance in 2003, employment growth was significantly lower in 2004, not least as a result of further labour shedding in the public sector. Employment growth is predicted to revive in 2005 and 2006. Partly as a reflection of unemployment benefit reforms, the unemployment rate fell strongly in 2003. It rose again in 2004 but a further, albeit only gradual, reduction is likely over the rest of the forecast horizon.

In 2004, the average consumer price inflation rate amounted to 7½%, with adjustments in administered prices and indirect taxes contributing about 5¾ percentage points. As these adjustments will play a much lesser role in future, inflation is forecast to drop rapidly to below 4% and 3% in 2005 and 2006 respectively – assuming that potential second-round effects, including due to backward-looking wage-setting, are kept in check.

### Public finances

The implementation of the 2004 budget reflected most of the government's structural reform agenda for the current legislative period, on both the revenue and expenditure side. This included notably the introduction of a flat corporate and individual income tax rate and a uniform VAT rate (both at 19%) at the beginning of 2004. It also encompassed comprehensive reforms in the social sphere. Altogether, the budget deficit turned out significantly better than originally planned, but this is mostly due to spending postponements, including related to co-payments for EU-funds. The overall general government deficit for 2004 is estimated at 3.3% of GDP.

For the years 2005 and 2006, the general government deficit is expected to be slightly below or at 4% of GDP. A rise in both the revenue- and expenditure-to-GDP-ratios in 2005 is due to the assumed increased inflow of transfers from the EU on the revenue side and to the associated spending (including co-financing) and the contributions to the EU budget on the expenditure side.

On the revenue side, after the major shift from direct to indirect taxation associated with the tax reforms in 2004, changes in the tax legislation in 2005 are marginal and it is assumed that policies will not change in 2006. Social contributions in 2005 and 2006 are particularly affected by the redirection of contributions in the amount of 9 percentage points of gross wages to a funded pension pillar. The effect is forecast to be around ½% of GDP in 2005 and around 1% of GDP in 2006 and is excluded from the predicted social contribution revenues.

On the expenditure side, the main reform measure included in the budget 2005 is a second tranche of health care reforms, which is predicted to lead to an upfront increase of the GDP-share of expenditures by health insurance companies in 2005 but a stable share thereafter.

*Table 3.22*

**Main features of country forecast - SLOVAKIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn SKK Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 1201.2 | 100.0 | 4.0 | 3.8 | 4.6 | 4.5 | 5.5 | 4.9 | 5.2 |
| Private consumption | | 678.1 | 56.4 | 4.6 | 4.7 | 5.5 | -0.6 | 3.5 | 4.6 | 4.9 |
| Public consumption | | 239.6 | 19.9 | 3.4 | 4.6 | 4.9 | 2.7 | 1.2 | 4.7 | 4.6 |
| Gross fixed capital formation | | 308.4 | 25.7 | 3.6 | 13.9 | -0.6 | -1.5 | 2.5 | 9.9 | 8.8 |
| of which : equipment | | 183.0 | 15.2 | 8.8 | -2.0 | 1.7 | 0.6 | - | - | - |
| Change in stocks as % of GDP | | -7.0 | -0.6 | 0.1 | 0.7 | 1.6 | -0.3 | 3.2 | 3.3 | 3.1 |
| Exports (goods and services) | | 933.2 | 77.7 | 8.6 | 6.3 | 5.6 | 22.5 | 11.4 | 11.7 | 12.4 |
| Final demand | | 2152.4 | 179.2 | 6.6 | 6.9 | 5.0 | 8.6 | 8.9 | 8.8 | 9.1 |
| Imports (goods and services) | | 951.1 | 79.2 | 10.6 | 11.0 | 5.5 | 13.6 | 12.7 | 12.9 | 12.9 |
| GNI at constant prices (GDP deflator) | | 1196.8 | 99.6 | 4.0 | 4.3 | 4.5 | 4.5 | 4.8 | 4.2 | 5.6 |
| Contribution to GDP growth : | Domestic demand | | | 4.3 | 7.1 | 3.8 | -0.2 | 2.7 | 5.7 | 5.7 |
| | Stockbuilding | | | 1.0 | 0.4 | 0.9 | -1.9 | 3.6 | 0.2 | 0.0 |
| | Foreign balance | | | -1.3 | -3.7 | -0.1 | 6.5 | -0.8 | -1.0 | -0.5 |
| Employment | | | | -0.6 | 0.6 | -0.5 | 1.8 | 0.3 | 0.6 | 0.9 |
| Unemployment (a) | | | | 14.3 | 19.4 | 18.7 | 17.5 | 18.0 | 17.6 | 16.8 |
| Compensation of employees/head | | | | 12.4 | 6.3 | 9.3 | 6.0 | 7.8 | 7.1 | 6.1 |
| Unit labour costs | | | | 7.4 | 3.0 | 3.9 | 3.3 | 2.5 | 2.7 | 1.8 |
| Real unit labour costs | | | | 0.5 | -1.1 | -0.1 | -1.3 | -2.0 | -0.2 | -0.8 |
| Savings rate of households (b) | | | | - | - | 6.7 | 8.3 | 6.5 | 6.7 | 7.3 |
| GDP deflator | | | | 6.8 | 4.2 | 4.0 | 4.7 | 4.6 | 2.9 | 2.6 |
| Private consumption deflator | | | | 7.4 | 6.1 | 3.1 | 7.7 | 6.9 | 3.6 | 2.8 |
| Harmonised index of consumer prices | | | | - | 7.2 | 3.5 | 8.5 | 7.4 | 3.7 | 2.9 |
| Trade balance (c) | | | | -7.3 | -10.6 | -9.0 | -2.3 | -3.5 | -4.8 | -5.1 |
| Current account balance (c) | | | | -5.0 | -7.4 | -7.3 | -0.8 | -3.4 | -5.0 | -4.9 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -4.9 | -7.4 | -6.8 | -0.5 | -3.4 | -4.5 | -4.4 |
| General government balance (c)(d)(e) | | | | -6.3 | -6.0 | -5.7 | -3.7 | -3.3 | -3.8 | -4.0 |
| General government gross debt (c) | | | | - | 48.7 | 43.3 | 42.6 | 43.6 | 44.2 | 44.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding second pillar pension funds (see for more details note 11 on concepts and sources).

# 23. Finland

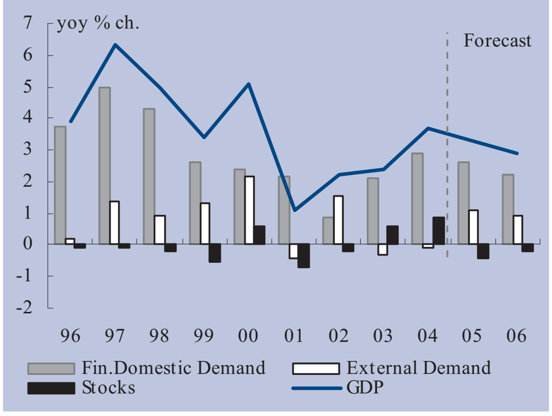
## Despite some easing, activity to remain robust

### The economy in 2004

Economic growth turned out higher than expected, with real GDP accelerating to 3.7% from 2.4% in 2003. Domestic demand provided the main bulk of support, as the contribution from external demand was negative on the year. Also higher inventories contributed to growth. Household consumption, fuelled by solid earnings, direct and indirect tax cuts, and low interest rates, grew by 3.2%. Public consumption expanded by 2.1% from 2003. Total investment reversed its declining trend and advanced for the first time since 2001, up by 4.6%. Residential construction and equipment investment increased strongly, while investment on commercial buildings continued to decline. Even though being boosted by strong demand for metal products, exports in the first half of 2004 were weak reflecting difficulties in the electronics industry. As the year progressed, the telecommunications sector was able to win back market shares and increase exports, while demand for metal products also remained strong. The growth contribution from net exports was negative at 0.1 for the whole year, as exports and imports increased by 3.5% and 4.8%, respectively. The weakening in the terms of trade continued, even though export prices reversed their declining trend and increased modestly, as import prices rose strongly due to higher oil and raw material prices.

In line with strong activity, employment started to improve in the second half of 2004, offsetting earlier declines. However, employment was unchanged from 2003. Nevertheless, the unemployment rate fell as part of unemployed left the labour force. HICP inflation declined from an average of 1.3% in 2003 to 0.1% in 2004, reflecting increased competition and alcohol tax cuts, which took effect in March.

*Graph 3.28:* **Finland - Contributions to GDP growth**




### Prospects for 2005 and 2006

Despite some moderation, the economy is projected to remain firmly on the growth path throughout the forecast period. According to survey indicators, growth of industrial production and exports is expected to moderate slightly in early 2005, while domestic demand should remain solid. Net exports will increasingly contribute to growth, while support from private consumption will recede, but investment is expected to pick up the slack. Hence, activity is set to expand at a steady pace, reaching 3.3% in 2005 and then easing to slightly below 3% in 2006.

In the labour market, the improvement which started in the summer of 2004 is expected to continue. Higher job creation during the forecast period will make inroads into unemployment, which nevertheless remains largely structural in nature. Private consumption is expected to continue to provide the main stimulus to activity, although gains in disposable income will be lower as the temporary factors that supported purchasing power in 2004 fade away. In addition, higher inflation, increases in tax-like charges and moderate pay rises will dampen growth of real disposable income. Public consumption is expected to grow by around 2% annually, despite the efforts of the central government at expenditure control. After peaking in 2004, investment is expected to continue to grow in 2005-2006, despite some slowdown due to less lively housing construction and Finnish companies increasingly invest abroad.

Exports are anticipated to further strengthen on the back of stable international environment, retaining their momentum also in 2006. After winning back market shares in the electronics industry in 2004, the prospects for exports of telecommunication equipment appear promising. Also, the outlook for metal industry exports remains positive, given continued strong demand from Asian countries and Russia. Despite suffering from low sales prices, the paper industry is expected to remain competitive.

### Labour market, costs and prices

After very benign HICP inflation of 0.1% in 2004, due to alcohol tax cuts of 33% on average, inflation is expected to normalise as the effect of the tax cut fades away and reach about 1.1% and 1.4% in 2005 and 2006, respectively. In late 2004, the social partners settled a new centralised two-and-half-year wage agreement that provides for wage rises of 2.5% from March 2005 for 15 months, and another 2.1% from June 2006 for 16 months. Assuming the usual positive wage drift of about 1 percentage point, per-capita wages are expected to increase by about 3.5% in 2005 and 3% in 2006, from 3.5% in 2004. However, higher growth in overall productivity appears likely to curb the rise in unit labour costs.

**Public finances**

The general government surplus is foreseen to be reduced from 2.1% of GDP in 2004 to 1.6% by 2006. Central government finances are expected to slip into deficit, after posting a surplus of 0.4% of GDP in 2004, while the financial position of local government is foreseen to weaken and remain in deficit. On the basis of the government's medium-term spending guidelines of spring 2005 and the budget for 2005, the general government surplus is estimated to stay below 2% of GDP during the forecast period. Central government finances are projected to be in deficit in 2005-2006, since the government has supplemented the collective wage agreement by sizeable income tax cuts of 0.8% of GDP and due to higher overall expenditure. Local government finances will stay in deficit due to higher spending and investment expenditure even though tax receipts should improve. Overall, the general government surplus will rest solely on the surplus in the social security funds.

The government debt ratio is anticipated to fall from 45.1% of GDP in 2004 to 43.7% of GDP by the end of the forecast period.

*Table 3.23*

**Main features of country forecast - FINLAND**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn Euro Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 143.3 | 100.0 | 2.5 | 1.1 | 2.2 | 2.4 | 3.7 | 3.3 | 2.9 |
| Private consumption | | 74.4 | 51.9 | 2.3 | 1.8 | 1.4 | 4.4 | 3.2 | 2.6 | 2.4 |
| Public consumption | | 31.7 | 22.1 | 2.0 | 2.4 | 3.8 | 1.2 | 2.1 | 2.3 | 1.9 |
| Gross fixed capital formation | | 26.3 | 18.4 | 1.0 | 3.9 | -3.1 | -1.5 | 4.6 | 4.3 | 3.3 |
| of which : equipment | | 7.4 | 5.1 | 1.0 | 12.0 | -9.8 | -6.9 | 9.6 | 6.9 | 4.1 |
| Change in stocks as % of GDP | | 1.6 | 1.1 | 0.2 | 0.2 | 0.5 | 0.4 | 1.3 | 0.9 | 0.7 |
| Exports (goods and services) | | 53.2 | 37.1 | 5.9 | -0.8 | 5.1 | 1.4 | 3.5 | 5.2 | 4.9 |
| Final demand | | 187.1 | 130.6 | 2.8 | 0.9 | 2.5 | 2.0 | 3.9 | 3.3 | 3.1 |
| Imports (goods and services) | | 43.8 | 30.6 | 4.6 | 0.2 | 1.9 | 2.7 | 4.8 | 3.5 | 3.8 |
| GNI at constant prices (GDP deflator) | | 141.4 | 98.7 | 2.5 | 1.7 | 2.7 | 1.2 | 4.6 | 3.3 | 2.8 |
| Contribution to GDP growth : | Domestic demand | | | 1.9 | 2.2 | 0.9 | 2.1 | 2.9 | 2.6 | 2.2 |
| | Stockbuilding | | | 0.0 | -0.6 | 0.3 | 0.0 | 0.9 | -0.4 | -0.2 |
| | Foreign balance | | | 0.6 | -0.4 | 1.5 | -0.3 | -0.1 | 1.1 | 0.9 |
| Employment | | | | -0.1 | 1.5 | 0.9 | 0.0 | 0.0 | 0.6 | 0.8 |
| Unemployment (a) | | | | 8.6 | 9.1 | 9.1 | 9.0 | 8.8 | 8.4 | 8.0 |
| Compensation of employees/head | | | | 6.4 | 4.7 | 1.8 | 2.6 | 3.6 | 4.1 | 3.8 |
| Unit labour costs | | | | 3.7 | 5.1 | 0.6 | 0.2 | 0.0 | 1.4 | 1.7 |
| Real unit labour costs | | | | -0.8 | 2.1 | -0.8 | 0.5 | -0.8 | 0.7 | 0.5 |
| Savings rate of households (b) | | | | - | - | 7.4 | 7.9 | 8.9 | 8.6 | 8.5 |
| GDP deflator | | | | 4.6 | 3.0 | 1.3 | -0.2 | 0.8 | 0.7 | 1.2 |
| Private consumption deflator | | | | 4.4 | 3.5 | 3.2 | 0.2 | 0.9 | 1.6 | 1.8 |
| Harmonised index of consumer prices | | | | - | 2.7 | 2.0 | 1.3 | 0.1 | 1.1 | 1.4 |
| Trade balance (c) | | | | 4.7 | 10.4 | 9.6 | 7.9 | 7.2 | 7.2 | 7.3 |
| Current account balance (c) | | | | -0.1 | 6.9 | 7.4 | 4.3 | 4.2 | 4.0 | 4.1 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | 0.1 | 7.0 | 7.4 | 4.3 | 4.3 | 4.0 | 4.2 |
| General government balance (c)(d) | | | | 0.7 | 5.2 | 4.3 | 2.5 | 2.1 | 1.7 | 1.6 |
| General government gross debt (c) | | | | 32.0 | 43.8 | 42.5 | 45.3 | 45.1 | 44.3 | 43.7 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 24. Sweden

## Domestic demand takes the lead

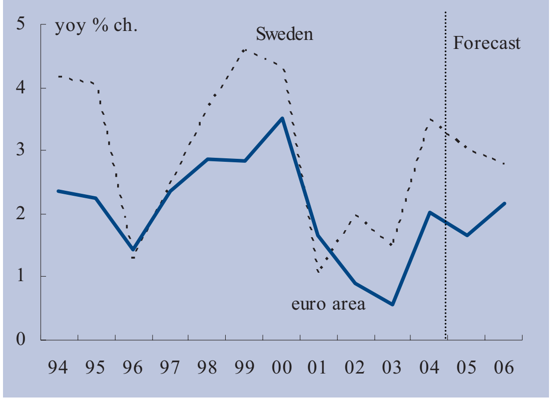
**The situation in 2004**

Swedish economic growth was strong in 2004, with GDP up by 3.5% on the year, compared to 1.5% in 2003. The calendar effect contributed positively but, even adjusting for this, growth was above potential. Exports expanded substantially, outpacing imports, resulting in a considerable growth contribution from net exports. On the domestic side, private consumption advanced steadily and the expansion of investment was encouraging after a sustained period of sluggishness. The relatively poor developments observed in the labour market helped to contain wage demands and inflationary pressures, which have been very low, allowing the Riksbank to cut repo rates by 75 basis points over the year.

**The situation in 2005 and 2006**

Recent indicators are positive, with both consumer and business expectations at high levels. The consumer confidence indicator, and in particular consumers' expectations regarding their own economic situation, give a positive picture. Both the industrial confidence and the purchasing managers indicators show positive expectations. These are expected to support a continuation of healthy growth in 2005. Domestic demand growth should become stronger and external demand growth continue at high levels, albeit at a decelerating pace, while imports should pick up further during 2005, resulting in a continued small but positive contribution from net exports. In 2006, economic growth is expected to decelerate toward potential levels, as the recovery becomes more balanced throughout the economy.

*Graph 3.29:* **Sweden - GDP growth compared to the euro area**




Overall, GDP is expected to grow by 3.0% in 2005 and 2.8% in 2006.

A resumption of employment growth will contribute positively to household disposable income in 2005 and 2006 while the savings rate stabilises at around 11%. Financial wealth has benefited from rising equity prices. Moreover, while households have taken on more debt, house prices have continued to rise steadily against a background of low interest rates, contributing to the maintenance of a relatively strong net wealth position of households. All in all, this should result in an increasing growth in consumption in the years to 2006. Public consumption is expected to continue to be relatively steady over the forecast period.

Turning to investment, the conditions for a continued recovery are in place: a benign demand outlook, favourable financing conditions, a long period of falling total investments in previous years and a high capacity utilisation rate in manufacturing. A strong investment expansion should therefore take place over the forecast period.

Exports are expected to continue to grow relatively strongly up to 2006, in line with world markets, but at a decelerating pace as the appreciation of the krona feeds through. Imports should expand as final demand strengthens further during the forecast period.

**Labour market, costs and prices**

Employment fell in 2004 and the unemployment rate rose. The strong rise in economic activity foreseen from 2004 onwards is expected to result in an improvement in the labour market in 2005 and in particular in 2006. Against this background and supported by an increase in the volume of active labour market measures, the unemployment rate will decrease over the period. Inflation has fallen considerably since electricity and energy price increases in late 2003, notwithstanding the considerable recent rises in oil prices. Wages are expected to rise relatively moderately, reflecting past weakness in the labour market. The wage agreement reached in the spring of 2004, covering a period including 2006, resulted in lower negotiated wage rises in industry compared with the 2001 wage negotiation round. Against this background, inflationary pressures should continue to be subdued. As demand and growth revives further in 2005 and

2006, inflation is expected to rise gradually towards 2% in the course of 2006. With relatively strong growth over this period, and an improvement in the labour market from next year, interest rates may start to rise.

**Public finances**

In 2004, the surplus in public finances was slightly above 1% of GDP. Over the forecast period, Sweden will continue to show budget surpluses while the fiscal stance is broadly neutral. Income tax cuts in 2005 proposed in the Budget Bill, one part of the last step of a phased income tax reform, will reduce the surplus ratio in the government finances somewhat in 2005 as compared to 2004. On current policies, the budget balance is projected to remain at a similar level in 2006, benefiting also from an improvement in the labour market. General government debt, which mainly lies with central government, is projected to rise as central government is expected to remain in deficit over the forecast period. The increase is nevertheless slower than nominal GDP over the forecast period, resulting in a fall in the debt ratio to just below 50% of GDP in 2006.

*Table 3.24*

**Main features of country forecast - SWEDEN**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn SEK Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 2438.4 | 100.0 | 2.1 | 1.0 | 2.0 | 1.5 | 3.5 | 3.0 | 2.8 |
| Private consumption | | 1188.2 | 48.7 | 1.6 | 0.4 | 1.4 | 1.5 | 1.8 | 2.6 | 2.8 |
| Public consumption | | 690.7 | 28.3 | 1.2 | 0.9 | 2.3 | 0.8 | 0.3 | 1.2 | 1.0 |
| Gross fixed capital formation | | 384.6 | 15.8 | 2.1 | -1.0 | -2.6 | -1.5 | 5.1 | 7.0 | 6.2 |
| of which : equipment | | 160.8 | 6.6 | 5.3 | -4.4 | -3.6 | -3.0 | 6.7 | 8.2 | 6.5 |
| Change in stocks as % of GDP | | 10.6 | 0.4 | 0.2 | 0.3 | 0.1 | 0.4 | 0.1 | 0.3 | 0.3 |
| Exports (goods and services) | | 1068.0 | 43.8 | 6.0 | 0.5 | 1.2 | 5.0 | 10.2 | 6.5 | 5.7 |
| Final demand | | 3342.1 | 137.1 | 2.6 | 0.0 | 0.9 | 2.4 | 4.3 | 4.3 | 3.9 |
| Imports (goods and services) | | 903.6 | 37.1 | 4.6 | -2.6 | -1.9 | 4.9 | 6.7 | 7.5 | 6.5 |
| GNI at constant prices (GDP deflator) | | 2438.1 | 100.0 | 2.0 | 0.9 | 2.6 | 1.7 | 4.7 | 3.1 | 2.8 |
| Contribution to GDP growth : | Domestic demand | | | 1.6 | 0.3 | 0.8 | 0.7 | 1.8 | 2.7 | 2.6 |
| | Stockbuilding | | | 0.0 | -0.5 | -0.2 | 0.4 | -0.3 | 0.2 | 0.0 |
| | Foreign balance | | | 0.5 | 1.3 | 1.3 | 0.5 | 2.0 | 0.2 | 0.2 |
| Employment | | | | 0.0 | 1.9 | 0.2 | -0.2 | -0.4 | 0.5 | 1.0 |
| Unemployment (a) | | | | 5.1 | 4.9 | 4.9 | 5.6 | 6.3 | 5.9 | 5.3 |
| Compensation of employees/head | | | | 6.5 | 4.5 | 2.9 | 3.0 | 3.2 | 3.5 | 3.9 |
| Unit labour costs | | | | 4.3 | 5.4 | 1.1 | 1.3 | -0.7 | 0.9 | 2.1 |
| Real unit labour costs | | | | -0.6 | 3.0 | -0.6 | -0.8 | -1.4 | -0.4 | 0.0 |
| Savings rate of households (b) | | | | - | - | 11.9 | 11.5 | 11.1 | 11.1 | 11.0 |
| GDP deflator | | | | 5.0 | 2.3 | 1.7 | 2.1 | 0.8 | 1.3 | 2.0 |
| Private consumption deflator | | | | 5.5 | 2.4 | 1.8 | 2.3 | 1.2 | 0.7 | 1.5 |
| Harmonised index of consumer prices | | | | - | 2.7 | 2.0 | 2.3 | 1.0 | 0.4 | 1.4 |
| Trade balance (c) | | | | 3.6 | 6.9 | 6.7 | 6.3 | 6.9 | 6.7 | 6.6 |
| Current account balance (c) | | | | 0.8 | 4.6 | 5.4 | 5.9 | 7.8 | 7.5 | 7.3 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | 0.0 | 4.5 | 5.3 | 5.9 | 7.8 | 7.5 | 7.3 |
| General government balance (c)(d)(e) | | | | -1.9 | 2.5 | -0.3 | 0.2 | 1.4 | 0.8 | 0.8 |
| General government gross debt (c) | | | | 60.1 | 54.3 | 52.4 | 52.0 | 51.2 | 50.3 | 49.2 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

# 25. United Kingdom

## Wind in the sails

**The economy in 2004**

Overall, UK GDP growth in 2004 has been firm and above trend, at 3.1% for the year as a whole. Strong growth in the first half of the year slowed slightly in the second half, broadly in line with the Commission services' autumn forecast. Fourth quarter output growth is estimated to have been 0.7%, representing a slight pickup up on third quarter growth of 0.5%. Nonetheless, the data appear to suggest that the economy has moderated towards trend.

Domestic demand growth, up 4% over the year, continues to be the key driver for this performance. Private consumption expenditure slowed over the course of the year, most likely as a consequence of a sustained tightening in monetary policy and moderation in house price inflation. Helping to offset this, supportive government consumption picked up in the second half of 2004, as part of the government's continued programme of spending aimed at improving public services. Growth in fixed investment, at 6.0% for 2004 as a whole, also contributed.

Net trade, in contrast, continued to act as a significant drag on growth. The appreciation in the sterling effective exchange rate that had taken place during the second half of 2003 and into March 2004 initially dampened the potential external stimulus, but the subsequent depreciation in the late-summer and autumn helped support export growth, which had begun to pick up in the second quarter. Countered by increasingly firm growth in import volumes, the overall negative contribution to growth was 0.9% over the year.

In 2004, as in 2003, growth was led by the service sectors, particularly business services and finance, with firm support from the construction sector. Manufacturing output growth was less steady – a fall in output was evident in both the first and third quarters, but the sector still recorded growth (of 1.3%) for the year as a whole. Output in this sector, however, remains below its 2001 level.

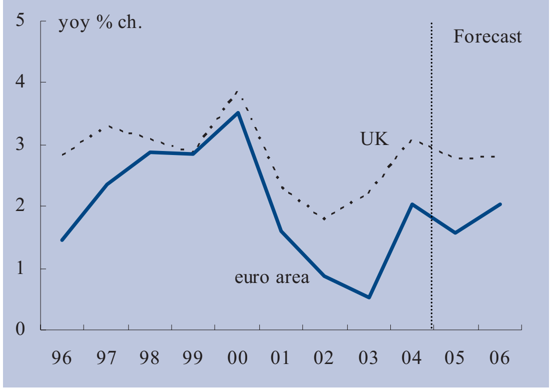
Unemployment has remained close to record-low levels, at 4.7% in the three months to January 2005. In spite of this labour market strength, average earnings grew only slightly faster than the previous year, and do not yet appear to have given rise to any significant inflationary pressure. Indeed, the harmonised index of consumer prices (known in the UK as CPI) remained well below the Bank of England's 2% inflation target throughout the year. Having raised policy interest rates by a cumulative 125 basis points between November 2003 and August 2004 in anticipation of emerging price pressures, the Bank has since left interest rates unchanged.

**Prospects for 2005 and 2006**

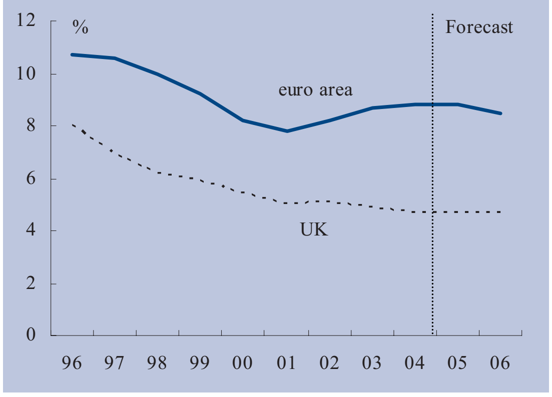
Firm growth is expected to continue throughout the forecast period, moderating slightly to around 2¾% in both 2005 and 2006. Final domestic demand should weaken in 2005 and 2006, particularly as household consumption slows as a consequence of the tightening in monetary policy already undertaken, but this should be partially offset by an improved export performance as global demand remains firm.

The cumulative rise in interest rates to date is expected to lead to moderate household consumption

*Graph 3.30:* **United Kingdom - GDP growth in the United Kingdom and the euro area**




*Graph 3.31:* **United Kingdom - Unemployment in the United Kingdom and the euro area**



growth of around 2¼% in both 2005 and 2006, partly through its impact in cooling the housing market. Since the autumn forecast, annual house price growth has eased; although monthly falls have occasionally been evident, the broad picture appears one of moderation, with little sign of significant price falls immediately apparent. The overall impact on consumption from slower house price growth is not expected to be large, as the labour market remains strong, and household net wealth holdings are healthy; household debt has risen in recent years but does not seem to be a major risk. In addition, most equity released from the housing market appears to have been re-invested in housing improvements or used to purchase financial assets, and not to finance consumption.

However, while the central projection is for private consumption to ease gently, there remains a high degree of uncertainty associated with this forecast. Risks of a significant rapid correction to house prices cannot be ruled out, but are judged to have receded slightly since the autumn forecast. Neither can it be excluded that a resumption of firm house-price growth would help boost consumption going forward.

Growth throughout the forecast period will be supported by planned rises in government current and capital spending. Overall, fixed investment growth is expected to moderate slightly compared to the robust growth of 2004, particularly in construction investment, but the outlook remains positive; equity price rises should, all else equal, help lower the cost of capital, while there is evidence of high rates of capacity utilisation.

Global economic growth should help support UK export performance, with net trade providing an increasingly small drag on growth over the forecast horizon. An improved export performance, already evident in latest quarterly data, suggests that the unexpectedly large loss of export market share in 2004 (shared with many of the UK's international competitors) is unlikely to be repeated, though the increasing importance of China and other emerging markets in world trade means that some further erosion should be expected. Import growth, while slowing gently as consumption slows, should continue to be supported by firm growth in equipment investment.

**Labour market, costs and prices**

The moderate evolution of wage growth combined with good productivity growth suggests that unemployment should remain low and stable at around its current level, near estimates of the NAIRU level, throughout the forecast period. Employment growth seems likely to slow, as employment levels are already relatively high by international standards. The apparent tightness of the labour market should lead to a gentle acceleration of wage growth, particularly if bonus payments reflect improved corporate profitability; however, the need for companies to repair company pension balance sheets, together with strong competitive pressures (including through the potential for outsourcing) may help dampen wage growth relative to previous cycles.

HICP inflation seems likely to continue to rise gently, to its 2% target by the end of the forecast period, as the small negative output gap closes. Producer prices continue to suggest emerging inflationary pressure, while rising import prices should exert upward pressure, particularly in 2005.

**Public finances**

General government finances recorded a deficit of 3.2% of GDP in 2004, significantly higher than was implied by the authorities projections in the March 2004 Budget. Stronger-than-expected growth in current spending contributed, as did disappointing growth in corporate tax revenues.

For financial year 2004/05, the reference period for assessing the UK's public finances, the latest official estimates suggest that the deficit will have fallen to 2.9% of GDP (around 3.0% on an EDP basis).[i] This modest improvement over the first quarter of 2005 appears to result from a marked pickup in corporate tax receipts, offset by continued strength in current spending – the authorities note that this partly reflects the drawdown, by government departments, of previously unspent spending allocations. Some improvement is therefore evident, and the deficit is expected to narrow over the forecast period as revenues pickup relative to nominal income – but the rate of improvement is likely to be tempered slightly in 2005 by a slightly faster pace of growth in planned general government consumption relative to 2004.

Revenues should rise as a result of the strength in GDP growth, particularly if the recent pickup in corporation tax revenues is sustained. There is also potential for some further improvement from the impact of high oil prices, although this is partially offset by higher indexed spending, based on a measure of inflation pushed upwards by higher fuel prices. On the expenditure side, growth in general government current consumption is expected to slow in 2006, and if the public finances are to improve in line with plans, central government departments will need to ensure a successful adjustment to the tighter budgets. In this respect, the accumulated unspent balances from previous years, still available to departments (subject to parliamentary approval), may present a risk to current spending plans. The authorities' ongoing efforts to enhance public sector efficiency are not expected to have any net impact on the public finances, since the government has ear-marked savings to be redirected to priority areas of the public services.

In summary, the projected deficit declines to around 3% of GDP in 2005 and further to around 2¾% in 2006. The ratio of gross debt to GDP, though increasing slightly, is expected to remain close to 40%.

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[i] The UK authorities include, in their estimate for the general government balance, annual receipts of around £1.0 billion from the sale of UMTS licences in 2000. Eurostat, following its own decision (News Release 81/2000 of 14 July 2000), adjusts these to bring the estimate onto an EDP basis, which has the effect of increasing the deficit by 0.1%.

*Table 3.25*

**Main features of country forecast - UNITED KINGDOM**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn GBP Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 1101.0 | 100.0 | 2.5 | 2.3 | 1.8 | 2.2 | 3.1 | 2.8 | 2.8 |
| Private consumption | | 721.8 | 65.6 | 3.1 | 2.9 | 3.3 | 2.3 | 3.1 | 2.2 | 2.3 |
| Public consumption | | 229.8 | 20.9 | 1.1 | 2.6 | 3.8 | 3.5 | 4.6 | 3.4 | 3.2 |
| Gross fixed capital formation | | 179.4 | 16.3 | 3.5 | 2.6 | 2.7 | 2.2 | 6.0 | 5.2 | 4.2 |
| of which : equipment | | 68.5 | 6.2 | 4.5 | -12.6 | -0.2 | -3.4 | 3.5 | 3.9 | 3.4 |
| Change in stocks as % of GDP | | 2.5 | 0.2 | 0.2 | 0.7 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 |
| Exports (goods and services) | | 279.7 | 25.4 | 4.8 | 2.9 | 0.1 | 0.9 | 2.6 | 6.3 | 5.3 |
| Final demand | | 1413.1 | 128.3 | 3.2 | 2.9 | 2.3 | 2.1 | 3.5 | 3.6 | 3.3 |
| Imports (goods and services) | | 311.8 | 28.3 | 5.9 | 4.9 | 4.1 | 1.8 | 5.1 | 6.3 | 4.9 |
| GNI at constant prices (GDP deflator) | | 1121.8 | 101.9 | 2.6 | 3.0 | 2.9 | 2.2 | 3.5 | 2.5 | 2.7 |
| Contribution to GDP growth : | Domestic demand | | | 2.7 | 2.8 | 3.4 | 2.6 | 4.0 | 3.0 | 2.9 |
| | Stockbuilding | | | 0.1 | 0.1 | -0.4 | 0.0 | -0.2 | 0.0 | 0.0 |
| | Foreign balance | | | -0.2 | -0.7 | -1.2 | -0.3 | -0.9 | -0.3 | -0.1 |
| Employment | | | | 0.5 | 0.8 | 0.7 | 0.9 | 0.9 | 0.4 | 0.5 |
| Unemployment (a) | | | | 8.7 | 5.0 | 5.1 | 4.9 | 4.7 | 4.7 | 4.7 |
| Compensation of employees/head | | | | 6.7 | 5.3 | 3.8 | 4.5 | 4.3 | 4.7 | 5.1 |
| Unit labour costs | | | | 4.5 | 3.7 | 2.8 | 3.1 | 2.1 | 2.3 | 2.7 |
| Real unit labour costs | | | | -0.1 | 1.5 | -0.4 | -0.1 | 0.1 | 0.1 | 0.2 |
| Savings rate of households (b) | | | | - | - | 5.3 | 5.7 | 5.8 | 6.3 | 6.7 |
| GDP deflator | | | | 4.7 | 2.2 | 3.2 | 3.2 | 2.0 | 2.2 | 2.5 |
| Private consumption deflator | | | | 4.7 | 2.4 | 1.6 | 1.9 | 1.3 | 1.9 | 2.0 |
| Harmonised index of consumer prices | | | | - | 1.2 | 1.3 | 1.4 | 1.3 | 1.7 | 2.0 |
| Trade balance (c) | | | | -2.1 | -4.1 | -4.5 | -4.3 | -5.0 | -5.3 | -5.2 |
| Current account balance (c) | | | | -1.4 | -2.3 | -1.7 | -1.8 | -1.9 | -2.2 | -2.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -1.4 | -2.1 | -1.6 | -1.6 | -1.7 | -2.1 | -2.1 |
| General government balance (c)(d) | | | | -2.4 | 0.7 | -1.7 | -3.4 | -3.2 | -3.0 | -2.7 |
| General government gross debt (c) | | | | 46.8 | 38.8 | 38.3 | 39.7 | 41.6 | 41.9 | 42.5 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# Chapter 4

## Candidate Countries

# 1. Bulgaria

## Continuing high growth with some deceleration in 2006

### Developments in 2004

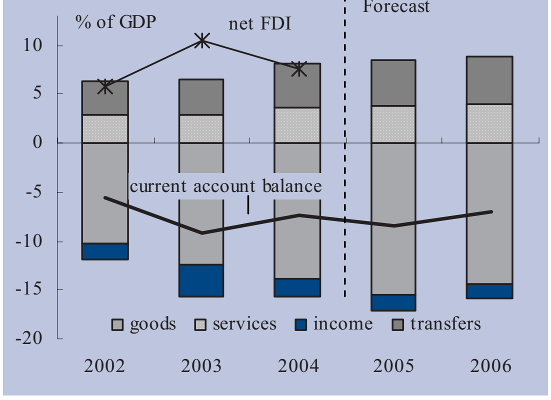
The Bulgarian economy continued its expansion at a rate of 5.7% in the first three quarters of 2004 and most indicators point to a continuation of this trend in the fourth quarter. Growth was based on strong domestic demand fuelled by increases in net income, employment and bank credit. The stock of bank credits kept on rising at a rate of close to 50%, although from a low base and not yet accompanied by a decline of quality of banks' portfolios. While this resulted in high import growth, stronger exports since the summer could not prevent the further deterioration of the trade deficit. On the supply side, a good harvest, a strong increase in industrial production and a good tourism season contributed to high output growth in 2004.

Consumer price inflation was high in the first half of 2004, but came down in the second half to a year-on-year rate of 4% until December which resulted in an average rate of 6.2%. Unemployment decreased further from an annual average of 13.6% in 2003 to 12.0% in 2004 since jobs are being created in the private sector and in government schemes for long-term unemployed. The current account deficit, which had widened in 2003 to 9.3% of GDP, narrowed to 7.4% of GDP in 2004, with all its balances turning out better except for the trade deficit. Net inflows of foreign direct investment were at record highs and matched the current account deficit in both years.

### Prospects for 2005 and 2006

GDP growth is expected to have reached 5.7% for the full year 2004, to accelerate to 6% in 2005 and to moderate to 4½% in 2006. The acceleration in 2005 will be based on strong domestic demand resulting in a highly imbalanced growth composition. In view of national elections in June 2005, growth is stimulated by expansionary fiscal and wage policies and could show some signs of overheating. This is likely to be followed by a smooth downward adjustment in 2006 when public expenditure, wages and bank credits would increase at lower rates. This would rebalance the economy and bring it closer to its medium-term potential growth rate.

*Graph 4.1:* **Bulgaria - Current account balance and net FDI**




The projected growth path will continue to trigger substantial imports given the still weak industrial base of the economy. Private consumption will remain very strong because of high credit growth, higher employment and increases in net income, the latter also arising from cuts in income tax rates and a 25% increase in the minimum wage at the beginning of 2005 which could spill over into other wage brackets. These effects on consumption are likely to moderate in 2006, but strong investment in view of the opportunities expected from EU accession in 2007 should prevent the economy from a more significant slowdown. Net exports have a strongly negative contribution to GDP growth in 2005 until becoming less negative in 2006 as a result of a slower expansion of private consumption.

In spite of only small increases in administered or regulated prices and excise taxes in 2005, consumer price inflation is unlikely to fall below 4% on average because of the upward pressure on prices arising from wage increases beyond what is warranted by productivity growth. These effects should ease in 2006, but increases in excise taxes and administered prices as well as catching-up effects will make it difficult to achieve an average inflation rate of less than 4%.

Continued net employment gains should allow reaching an unemployment rate around 10% in 2006. This assumes that the induced increase in the participation rate is likely to be higher than the decline in the working-age population.

### Public finances

Following a higher than expected revenue performance in 2004, the general government budget achieved a surplus of 1.4% of GDP. The expected deficit in 2005 of -0.5% of GDP is in line with the planned budget deficit which seems achievable given the substantial flexibility built into the budget. The continuation of a primary surplus, debt buy-backs and high GDP growth will further reduce the debt-to-GDP ratio over the forecasting horizon to a more sustainable level.

**External balances**

The deficit of the trade balance is expected to widen further in 2005 as a result of strong domestic demand. It is projected to decrease somewhat in 2006 due to more favourable terms of trade and a gradual improvement in competitiveness arising from the high fixed investment in the past years. As a consequence, the current account deficit is forecast to remain high at 8½% of GDP in 2005 and to drop to 7% of GDP only in 2006. Favourable developments in tourism, debt service obligations and EU transfers will further improve the services, income, and current transfers balances, respectively, and further dissociate the performance of the current account deficit from that of the trade deficit. Sound external financing will depend on whether net foreign direct investment continues to cover the current account deficit through inflows related to both privatisations and greenfield investment.

*Table 4.1*

**Main features of country forecast - BULGARIA**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn BGN Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 34.4 | 100.0 | -0.2 | 4.1 | 4.9 | 4.3 | 5.7 | 6.0 | 4.5 |
| Private consumption | | 23.8 | 69.1 | 0.1 | 5.2 | 3.6 | 6.4 | 4.5 | 7.5 | 4.0 |
| Public consumption | | 6.5 | 19.0 | -4.4 | 1.3 | 4.0 | 7.3 | 6.0 | 8.0 | 4.5 |
| Gross fixed capital formation | | 6.7 | 19.6 | 5.3 | 23.3 | 8.5 | 13.8 | 12.0 | 15.0 | 12.0 |
| of which : equipment | | - | - | - | - | - | - | - | - | - |
| Change in stocks as % of GDP | | 0.7 | 2.1 | 0.3 | 2.0 | 1.1 | 1.8 | 3.0 | 2.9 | 2.8 |
| Exports (goods and services) | | 18.3 | 53.2 | - | 10.0 | 7.0 | 8.0 | 12.9 | 8.6 | 8.5 |
| Final demand | | 56.1 | 163.0 | - | 8.7 | 4.9 | 9.1 | 8.7 | 8.8 | 6.7 |
| Imports (goods and services) | | 21.7 | 63.0 | - | 14.8 | 4.9 | 14.8 | 12.9 | 12.6 | 9.4 |
| GNI at constant prices (GDP deflator) | | 33.4 | 97.0 | -0.3 | 4.4 | 5.6 | 2.7 | 7.4 | 6.4 | 4.8 |
| Contribution to GDP growth : | Domestic demand | | | 0.5 | 8.4 | 5.0 | 8.8 | 6.7 | 9.9 | 6.5 |
| | Stockbuilding | | | 1.2 | -0.2 | -0.8 | 0.8 | 0.4 | 0.1 | 0.0 |
| | Foreign balance | | | - | -5.1 | 0.5 | -7.1 | -1.4 | -4.0 | -2.0 |
| Employment | | | | -1.4 | -0.4 | 0.8 | 3.5 | 3.1 | 2.0 | 1.0 |
| Unemployment (a) | | | | 11.8 | 19.2 | 17.8 | 13.6 | 12.0 | 10.8 | 10.0 |
| Compensation of employees/head | | | | - | 12.3 | 7.1 | 8.4 | 7.5 | 12.0 | 8.0 |
| Unit labour costs | | | | - | 7.5 | 3.0 | 7.6 | 4.8 | 7.8 | 4.4 |
| Real unit labour costs | | | | - | 0.8 | -0.8 | 5.5 | -0.7 | 3.2 | 0.1 |
| Savings rate of households (b) | | | | - | - | - | - | - | - | - |
| GDP deflator | | | | 92.9 | 6.7 | 3.8 | 2.1 | 5.5 | 4.6 | 4.4 |
| Private consumption deflator | | | | 90.2 | 6.0 | 4.0 | 0.5 | 4.5 | 3.5 | 3.0 |
| Index of consumer prices | | | | - | 7.4 | 5.8 | 2.3 | 6.2 | 4.0 | 4.0 |
| Trade balance (c) | | | | -3.1 | -11.7 | -10.2 | -12.5 | -13.9 | -15.5 | -14.5 |
| Current account balance (c) | | | | -1.6 | -6.1 | -4.7 | -9.3 | -7.4 | -8.5 | -7.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | - | - | - | - | - | - | - |
| General government balance (c)(d) | | | | 0.3 | 1.2 | -0.1 | 0.6 | 1.4 | -0.5 | 0.0 |
| General government gross debt (c) | | | | - | 66.2 | 54.0 | 46.3 | 38.5 | 32.5 | 29.8 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 2. Croatia

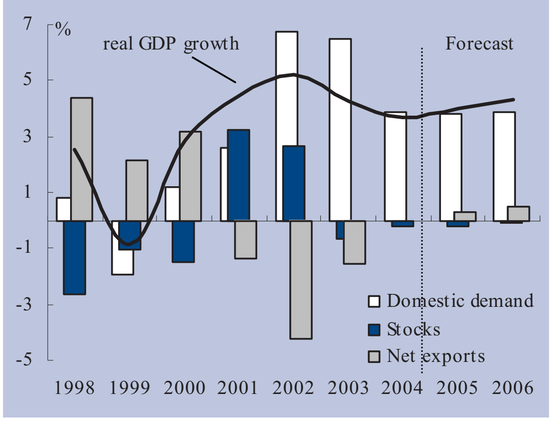
## Good export performance will drive moderate growth acceleration

### Developments in 2004

GDP growth decelerated in the second and third quarter. This reduced the year-on-year growth rate in the first nine months to 3.9%, compared to 4.3% for the full year of 2003. Growth of fixed capital formation reached only 5.5% in the first nine months of 2004 after 16.8% in 2003, reflecting a gradual completion of public infrastructure projects. Private consumption continued to grow at a moderate 4%, slightly down from 4.1% in 2003. Real exports grew 5.2% on the back of a particularly strong growth of merchandise exports (17%). Net exports contributed positively to GDP growth in the third quarter for the first time since 2002. On the supply side, a good performance of the manufacturing sector as well as a strong tourism season boosted gross value added. High-frequency indicators on industry, construction and retail trade performance suggest a continuation of a slightly decelerating growth trend in the fourth quarter of 2004.

Average consumer price inflation increased slightly to 2.1% in 2004 from 1.8% a year before, but end-year inflation went up to 2.7%, due to a significant rise of energy and transport prices in the second half of the year. The unemployment rate, according to labour force survey data, fell from 14.5% in the second half of 2003 to 13.8% in the first half of 2004, due to a strong increase in employment by 3%. The four-quarter current account deficit, which reached 7% of GDP in 2003, narrowed to 6.1% by the end of the third quarter, due to strong export growth and a significant reduction of the income balance deficit. Net inflows of foreign direct investment in the first three quarters of 2004 accounted for 3.1% of GDP compared to 6% in 2003, also reflecting a slower pace of privatisation.

*Graph 4.2:* **Croatia - Contributions to GDP growth**




### Prospects for 2005 and 2006

As a result of moderate private consumption and a significant reduction of public investment growth, real GDP growth is expected to have slowed to 3.7% in 2004. Growth is expected to slightly accelerate to 4.0% in 2005 and 4.3% in 2006, based on the assumption of continued privatisation, restructuring of industry and tourism and a generally positive external environment. Private consumption growth will stay at around 4%, while gross fixed capital formation growth will further decline in 2005, before slightly picking up in 2006, reflecting stronger private investment. Real exports are expected to increase markedly on the back of market share gains in manufacturing and a further expansion of the tourism industry. Real imports are forecast to grow more slowly than exports, but still at accelerating rates, driven by a high import content of exports, a strong domestic currency and falling trade barriers. Over the forecast period, domestic demand will continue to contribute around 3.8-3.9 percentage points to growth while net exports will add 0.3 percentage points in 2005 and 0.5 percentage points in 2006.

Annual average consumer price inflation is forecast to increase to 2.7% in 2005 and 2.8% in 2006, due to further adjustments of administrative prices and wage increases towards the end of the forecast period. This increase is limited due to continued relatively tight monetary conditions, a stable exchange rate and moderate domestic demand. Following an estimated rise of 1.5% in 2004, employment (according to the LFS) is forecast to grow by around 1-1.2%, supporting a gradual reduction of the unemployment rate from an expected 13.9% in 2004 to 13.3% in 2005 and by 12.5% in 2006. Net employment growth will be facilitated by stronger private investment and increased labour mobility.

### Public finances

Following lower than expected revenues in 2004, in particular a lower than budgeted collection of indirect taxes, the general government budget is expected to have reached a consolidated deficit of 5%, instead of the targeted 4.5%. The forecast assumes a reduction of the deficit to 4.4% in 2005 and 3.9% in 2006, in line with the government's strategy to reduce the country's investment-savings gap through a policy of fiscal consolidation. Over the forecast period, fiscal adjustment is expected to take primarily place on the expenditure side. Cost savings are expected to arise from continued downsizing of public administration personnel, the effects of health sector reform, and improved financial discipline of public enterprises. Overall, compared to officially announced policy targets, the forecast assumes a slightly less ambitious fiscal adjustment, on both the revenue and spending side of the budget. Following an increase to 53.8% in 2004, the debt-to-GDP ratio is expected to come down over the forecast horizon to around 52.5%.

**External balances**

Favourable external demand conditions and improved competitiveness as a result of ongoing enterprise restructuring and private investment growth are expected to drive merchandise exports. Furthermore, terms of trade are expected to rise over the forecast horizon. As a result, the deficit of the trade balance is expected to fall further despite a continued relatively strong growth of imports. It is forecast to be reduced by 1.5% of GDP over 2005 and 2006 to around 24% of GDP. A substantial part of the trade deficits will continue to be counterbalanced by significant surpluses in the balances of services and, to a minor extent, net transfers from abroad, while the deficit in the income balance is projected to slightly increase. The current account deficit, which is expected to have markedly improved to 5.3% of GDP, also on the back of a significant increase in net income from abroad, is projected to further decline to 4.7% in 2005 and 4.5% in 2006.

*Table 4.2*

**Main features of country forecast - CROATIA**

| | 2003 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | mio HRK Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 193067.0 | 100.0 | - | 4.4 | 5.2 | 4.3 | 3.7 | 4.0 | 4.3 |
| Private consumption | 113396.0 | 58.7 | - | 4.4 | 7.5 | 4.1 | 4.0 | 4.1 | 4.1 |
| Public consumption | 39789.0 | 20.6 | - | -6.2 | -1.8 | -0.3 | -0.3 | -0.3 | -0.3 |
| Gross fixed capital formation | 53168.0 | 27.5 | - | 7.1 | 12.0 | 16.8 | 5.5 | 5.0 | 5.4 |
| of which : equipment | - | - | - | - | - | - | - | - | - |
| Change in stocks as % of GDP | 5508.0 | 2.9 | - | 1.4 | 3.8 | 3.0 | 2.7 | 2.4 | 2.3 |
| Exports (goods and services) | 90927.0 | 47.1 | - | 8.1 | 1.3 | 10.1 | 6.2 | 8.1 | 9.5 |
| Final demand | 302788.0 | 156.8 | - | 6.3 | 6.5 | 6.7 | 4.2 | 4.8 | 5.4 |
| Imports (goods and services) | 109721.0 | 56.8 | - | 9.8 | 8.8 | 10.9 | 5.1 | 6.1 | 7.2 |
| GNI at constant prices (GDP deflator) | 184866.0 | 95.8 | - | - | - | 2.2 | 4.8 | 2.6 | 2.8 |
| Contribution to GDP growth : | Domestic demand | | - | 2.6 | 6.8 | 6.5 | 3.9 | 3.8 | 3.9 |
| | Stockbuilding | | - | 3.2 | 2.7 | -0.7 | -0.2 | -0.2 | -0.1 |
| | Foreign balance | | - | -1.4 | -4.2 | -1.5 | 0.0 | 0.3 | 0.5 |
| Employment | | | - | 0.5 | 0.8 | 0.1 | 1.5 | 1.0 | 1.2 |
| Unemployment (a) | | | - | - | - | 14.5 | 13.9 | 13.3 | 12.5 |
| Compensation of employees/head | | | - | - | - | 7.9 | 6.2 | 6.7 | 7.4 |
| Unit labour costs | | | - | - | - | 3.5 | 4.0 | 3.7 | 4.2 |
| Real unit labour costs | | | - | - | - | 0.3 | 1.1 | 0.3 | 0.8 |
| Savings rate of households (b) | | | - | - | - | - | - | - | - |
| GDP deflator | | | - | 4.0 | 2.9 | 3.2 | 2.9 | 3.4 | 3.4 |
| Private consumption deflator | | | - | 4.7 | 1.9 | 1.4 | 2.1 | 2.7 | 2.8 |
| Index of consumer prices | | | - | - | - | 1.8 | 2.1 | 2.7 | 2.8 |
| Trade balance (c) | | | - | - | - | -27.4 | -25.6 | -24.8 | -24.1 |
| Current account balance (c) | | | - | - | - | -7.0 | -5.3 | -4.7 | -4.5 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | - | - | - | - | - | - | - |
| General government balance © | | | - | - | - | -6.3 | -5.0 | -4.4 | -3.9 |
| General government gross debt (c) | | | - | - | - | 51.6 | 53.8 | 53.2 | 52.5 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

# 3. Romania

## The fast ride goes on - buoyant demand and widening trade deficit

### Recent economic developments

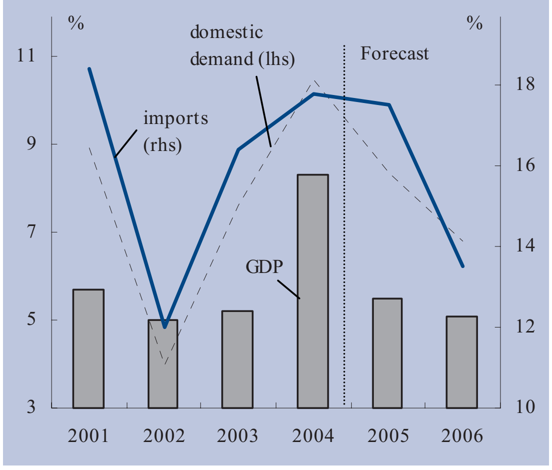
In 2003, real GDP grew by 5.2%. However, growth was increasingly unbalanced and mainly driven by domestic demand. Household consumption rose strongly by 7.2% driven by surging consumer credit and high wage growth. With a real growth of 4.6% government consumption also expanded considerably. Gross fixed capital formation increased rapidly at 9.1%, pointing to the ongoing replacement of Romania's capital stock. This strong domestic demand led to a significant import growth of 16.4%, while export growth decelerated, reaching 11.4%. Consequently, net exports turned strongly negative during 2003, and the trade balance widened significantly to 7.8% of GDP.

For 2004, preliminary figures show that GDP grew by 8.3%. Growth was driven by a further strengthening of household consumption, growing by 10.8% annually, on the back of high real wage gains, and by strong gross fixed capital formation, growing by 10.1%. Although exports accelerated to a double-digit growth rate, they continue to be outpaced by rapid import growth of both consumer and investment goods. As a result, the trade deficit widened further.

### Prospects for 2005 to 2006

The outlook for Romania's economy points to strong growth, a further decline in inflation and a considerable current account deficit, which is mainly caused by high imports of goods and services but mitigated by increasing remittances and EU transfers.

*Graph 4.3:* **Romania - GDP growth and components**




Relative to the Autumn 2004 forecast, the acceleration of domestic demand cause an upward revision of GDP growth for 2004. Growth would gradually moderate over 2005 and 2006 on the back of more subdued domestic demand, although projections for household consumption and gross fixed capital formation have been revised upwards due to considerable cuts in income and corporate profit taxation.

### GDP growth and components

In 2005, private consumption is expected to remain strong due to the effect of tax cuts on disposable income, but is projected to decelerate slightly against 2004 on the back of agreed energy price hikes and the normalisation of own consumption. In 2006, the fiscal reform will be fully phased in and private consumption should return to a more sustainable growth path. Investment growth is expected to remain strong at above 10% annually over the forecast period due to the ongoing modernisation of production facilities, a structural change towards less labour-intensive production and ambitious public investment projects. The cut in profit taxes would further underpin investment. Export growth, increasing inflows of FDI and improved access to financing will also support investment. The negative contribution to GDP growth from net exports will persist, but is expected to diminish in 2006.

### Inflation

Inflation is expected to remain on a downward path. After consumer price inflation reached 11.9% on average in 2004, it is forecast to soften to 8.2% in 2005 and further to 6.5% in 2006. This continued fall is underpinned by a moderation of inflationary expectations in the economy and strong appreciation of the currency. Productivity gains due to industrial restructuring and investments are also expected to contribute to mitigating inflationary pressures. Higher energy prices are expected to increasingly feed through from producer to consumer prices. In combination with the ongoing adjustment of administered energy end-user prices and robust economic activity, this may cause inflation to decline at a slowing pace in 2005-06.

### Labour market

The unemployment rate is expected to remain stable at around 7% against the background of slowly falling employment and declining labour market participation. Growth in private sector employment will continue to mitigate the effect from lay-offs caused by the restructuring of state-owned enterprises, but the relatively low unemployment rate may come to an end as economic restructuring, including in the agricultural sector, deepens. Labour market trends should be interpreted with caution as data are affected by revisions, changing methodology and the existence of a large informal sector.

### Public finances

Against the background of strong revenue growth, the fiscal policy stance was adjusted during 2004 in order to bring the general government deficit down to 1.4% of GDP, compared to the originally budgeted 3.0% of GDP. In 2005, the fiscal stance is affected by the considerable cuts in income and profit taxes, which implies a revenue loss of around 1.5% of GDP. As the reform remains partly underfinanced, the significant revenue shortfall is expected to lead to an increasing general government deficit and debt.

### External balances

Buoyant private consumption and investment activity will continue to drive imports up and result in a persistent trade deficit. The strong appreciation of the currency may also with a lag have a negative impact on the overall trade balance. Increasing remittances and EU transfers will mitigate the impact on the current account deficit over the forecasting period. High FDI inflows, improved access to international financial markets and large international reserves will facilitate the financing of the deficit.

*Table 4.3*

**Main features of country forecast - ROMANIA**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn ROL Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 1903353.8 | 100.0 | 0.1 | 5.7 | 5.0 | 5.2 | 8.3 | 5.5 | 5.1 |
| Private consumption | 1483480.6 | 77.9 | 2.5 | 7.1 | 4.7 | 7.2 | 10.8 | 8.0 | 5.5 |
| Public consumption | 131540.8 | 6.9 | 0.3 | 2.8 | -8.9 | 4.6 | 4.6 | 3.0 | 4.0 |
| Gross fixed capital formation | 422535.1 | 22.2 | 1.4 | 10.1 | 7.3 | 9.1 | 10.1 | 10.5 | 10.5 |
| of which : equipment | - | - | 2.6 | 6.3 | - | - | - | - | - |
| Change in stocks as % of GDP | 14151.4 | 0.7 | 0.6 | 1.4 | 1.6 | 0.5 | 0.7 | 0.9 | 1.2 |
| Exports (goods and services) | 685837.7 | 36.0 | 10.1 | 12.1 | 17.6 | 11.4 | 14.1 | 13.2 | 12.0 |
| Final demand | 2737545.6 | 143.8 | 3.1 | 9.7 | 7.3 | 8.6 | 11.4 | 9.7 | 8.3 |
| Imports (goods and services) | 834191.8 | 43.8 | 13.3 | 18.4 | 12.0 | 16.4 | 17.8 | 17.5 | 13.5 |
| GNI at constant prices (GDP deflator) | 1856541.7 | 97.5 | 0.0 | 5.8 | - | - | - | - | - |
| Contribution to GDP growth : | Domestic demand | | 2.9 | 9.9 | 4.1 | 7.8 | 11.0 | 8.9 | 7.1 |
| | Stockbuilding | | -1.0 | 1.1 | 0.2 | 0.1 | 0.1 | -0.1 | 0.0 |
| | Foreign balance | | -1.7 | -5.2 | 0.6 | -2.7 | -2.8 | -3.3 | -1.9 |
| Employment | | | -2.4 | -0.8 | -2.7 | -0.1 | -0.1 | -0.1 | -0.1 |
| Unemployment (a) | | | 5.5 | 6.6 | 7.5 | 6.8 | 7.1 | 7.0 | 7.1 |
| Compensation of employees/head | | | 73.3 | 44.8 | 23.5 | 25.0 | 22.8 | 16.0 | 12.5 |
| Unit labour costs | | | 68.9 | 35.8 | 14.4 | 18.7 | 13.3 | 9.8 | 6.9 |
| Real unit labour costs | | | 6.3 | -1.1 | -7.3 | -0.8 | -2.5 | -1.9 | -1.8 |
| Savings rate of households (b) | | | - | - | - | - | - | - | - |
| GDP deflator | | | 58.8 | 37.4 | 23.4 | 19.5 | 15.8 | 11.8 | 8.7 |
| Private consumption deflator | | | 57.7 | 35.6 | 21.6 | 18.4 | 15.4 | 10.0 | 8.0 |
| Index of consumer prices | | | - | - | - | 15.3 | 11.9 | 8.2 | 6.5 |
| Trade balance (c) | | | -7.0 | -7.5 | -5.7 | -7.8 | -9.0 | -9.9 | -10.5 |
| Current account balance (c) | | | - | -5.7 | -3.4 | -6.0 | -7.5 | -8.3 | -8.7 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | - | - | - | - | - | - | - |
| General government balance (c)(d) | | | - | -3.5 | -2.0 | -2.0 | -1.4 | -2.4 | -2.6 |
| General government gross debt (c) | | | - | 23.2 | 23.3 | 21.3 | 18.5 | 19.1 | 19.6 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# 4. Turkey

## Strong consumer and business confidence boost economic activity

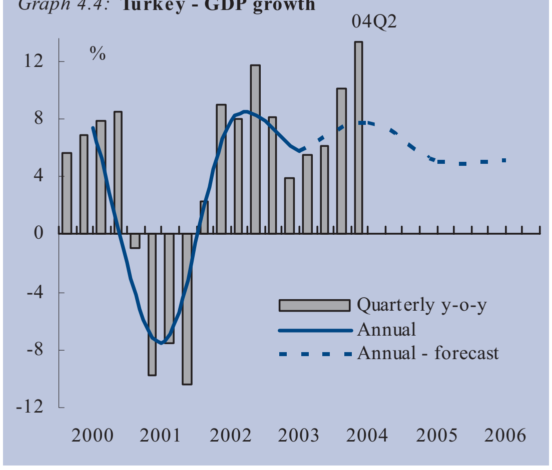
**Developments in 2004**

In the first nine months of 2004, economic activity was very strong in Turkey. Private consumption and investment showed an impressive boom, leading to an output increase by nearly 9%, compared to some 6% in the same period a year ago. The main underlying factors for this strong expansion have been improved political stability - fostering, consumer and business confidence - and a favourable economic environment with declining inflation and interest rates, rapidly expanding consumer credits, tax incentives to scrap old cars and a strong currency, supporting imports of consumer durables and investment goods. Overall, the surge in investment has recently brought capital formation back to its pre-crises level of 1998. GDP growth in the fourth quarter will likely continue to fall slightly, as indicated by several leading production indicators. Annual real GDP growth will thus amount to 7.7% in 2004.

Disinflation has remained stronger than expected, with a decline in 12-months consumer price inflation from some 25% on average in 2003 to around 9% in late 2004. Tight fiscal policies and the strength of the Turkish lira have helped to reduce inflation.

The acceleration in domestic demand has led to widening of external deficits. In 2004, the current account deficit increased to EUR 12.5 billion, nearly the double of the value in the same period in 2003. Strong tourism receipts, traditionally peaking in the third quarter, mitigated the effect of rapidly rising imports less than anticipated.

*Graph 4.4:* **Turkey - GDP growth**




Government finances continued to improve in 2004. The general government deficit (in ESA 95 terms) reached 4% of GDP in 2004. Revenues benefited from strong growth, while expenditures were largely kept in line with budgetary targets. Interest payments on government debt fell dramatically by over 30% compared to 2003.

Since mid-2004, labour markets have started to react to the increasing momentum in GDP growth. The number of employed persons increased by 2% in 2004, while the number of unemployed persons declined only marginally. As a result, the average unemployment rate reached 10.3% in 2004.

**Prospects for 2005 to 2006**

After the strong growth in the first half of the year (almost 12% year-on-year) and a marked deceleration in the third quarter to 4.7% year-on-year, the whole of 2004 will see a very strong average growth of 7.7%. In 2005 and 2006, the Turkish economy is expected to continue its catching-up process, by realising relatively high growth. Thus, output growth at some 5% in 2005 and 2006 appears possible, reaping the benefits of improved political and economic stability. These rates would bring Turkey close to its long-term potential growth rates.

Like in 2004, private consumption and fixed capital formation will be the main sources of growth over the forecast horizon. Indeed, despite potential dampening policies, consumer confidence remains high in the country, indicating that domestic demand may be stronger and more resilient than the government projects. After years of postponed investment, substantial efforts are required to modernise and to deepen the capital stock. Increasing FDI inflows are expected to support the modernisation process. However, in view of the investment need, the bulk of investment will have to come from domestic sources. Overall, investment growth is expected to remain above 10% per year over the forecast horizon.

In 2005, increasing administrated prices and high energy prices are likely to slightly raise inflationary pressures. However, the authorities' end-year target of 8% seems to be within reach. Disinflation is likely to continue over the next two years, based on declining inflationary expectations, moderate wage growth and fiscal discipline. In such a scenario, consumer price inflation could decline to well below 7% by 2006.

After years of labour shedding, the Turkish economy will continue to increase its employment by rates similar to in 2004, by around 2% annually in 2005 and 2006. However, the unemployment rate is likely to remain relatively high, as the projected job creation might just be enough to compensate Turkey's strong growth in labour supply.

**Public finances and current account**

With the presently strong revenue growth, reaching the primary surplus target of 6.5% of GDP (according to GFS accounting) for 2005 appears to be feasible. This would translate in a general government deficit (in ESA 95 terms) of 4%. This deficit is forecast to fall further during the 2005-2006 forecast horizon to about 3% in 2006. Continued fiscal discipline and declining financing costs will be key in this respect. Significant primary surpluses and strong nominal GDP growth will help to reduce the general government gross debt ratio to around 70% of GDP in 2006. However, as a result of the declining impact of nominal GDP growth on the debt ratio, achieving primary surpluses will be increasingly important for maintaining the downward trend in the debt ratio.

The external accounts are likely to register significant deficits. Import growth is expected to slow down in comparison to the boom in 2004 but to still outpace the growth in exports. As a result the trade deficit will remain close to 8% of GDP in 2005-2006. Export growth is expected to remain relatively strong, although the liberalisation of textile trade in 2005 will bring additional competition from low-wage countries for one of Turkey's most important export categories. However, strong growth in service exports, mainly tourism, will help to maintain the current account deficit at sustainable levels, falling from 5.3% of GDP in 2004 to about 4% in 2005-2006.

*Table 4.4*

**Main features of country forecast - TURKEY**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn TRY Curr. prices | % GDP | 95-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 361.0 | 100.0 | 4.5 | -7.5 | 7.9 | 5.8 | 7.7 | 5.0 | 5.1 |
| Private consumption | 206.2 | 57.1 | 4.1 | -9.2 | 1.9 | 6.6 | 9.6 | 6.5 | 6.6 |
| Public consumption | 82.9 | 23.0 | 6.8 | -8.5 | 5.4 | -2.4 | 0.0 | 1.0 | 2.5 |
| Gross fixed capital formation | 55.6 | 15.4 | 5.2 | -31.5 | -1.1 | 10.0 | 36.1 | 13.0 | 10.0 |
| of which : equipment | - | - | 12.9 | -52.9 | 9.1 | 34.4 | 65.0 | 12.5 | 9.5 |
| Change in stocks as % of GDP | 27.4 | 7.6 | 0.6 | -1.3 | 4.3 | 7.5 | 7.0 | 5.7 | 4.4 |
| Exports (goods and services) | 105.7 | 29.3 | 11.7 | 7.4 | 11.1 | 16.0 | 11.6 | 11.4 | 14.0 |
| Final demand | 477.8 | 132.4 | 6.5 | -11.7 | 9.5 | 11.3 | 13.1 | 7.9 | 8.3 |
| Imports (goods and services) | 111.0 | 30.7 | 15.4 | -24.8 | 15.8 | 27.1 | 26.2 | 13.8 | 14.2 |
| GNI at constant prices (GDP deflator) | 352.8 | 97.7 | 4.5 | -9.2 | 8.1 | 7.8 | 9.4 | 6.3 | 5.7 |
| Contribution to GDP growth : Domestic demand | | | 5.1 | -14.8 | 1.9 | 5.9 | 13.6 | 7.7 | 7.0 |
| Stockbuilding | | | 0.8 | -3.3 | 5.9 | 3.0 | 0.0 | -1.0 | -1.0 |
| Foreign balance | | | -1.3 | 9.6 | -0.9 | -3.1 | -6.0 | -1.7 | -0.9 |
| Employment | | | 1.0 | -0.3 | -0.8 | -1.0 | 2.0 | 2.0 | 2.0 |
| Unemployment (a) | | | 7.0 | 8.3 | 10.3 | 10.5 | 10.3 | 10.0 | 9.6 |
| Compensation of employees/head | | | 77.4 | 43.6 | 37.9 | 31.7 | 18.6 | 12.9 | 10.7 |
| Unit labour costs | | | 71.4 | 54.8 | 26.7 | 23.3 | 12.3 | 9.7 | 7.4 |
| Real unit labour costs | | | 0.4 | 0.0 | -12.1 | 5.7 | 1.7 | 1.4 | 0.5 |
| Savings rate of households (b) | | | - | - | - | - | - | - | - |
| GDP deflator | | | 70.7 | 54.8 | 44.1 | 26.8 | 10.0 | 8.9 | 6.0 |
| Private consumption deflator | | | 72.0 | 58.9 | 40.8 | 17.6 | 10.6 | 8.3 | 6.9 |
| Index of consumer prices | | | - | - | - | 25.3 | 10.6 | 8.7 | 6.4 |
| Trade balance (c) | | | -10.3 | -5.8 | -7.8 | -5.8 | -8.1 | -7.5 | -7.8 |
| Current account balance (c) | | | -3.7 | 1.3 | -2.4 | -2.9 | -5.3 | -4.0 | -4.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | - | - | - | - | - | - | - |
| General government balance (c)(d) | | | - | -29.8 | -12.3 | -9.7 | -3.9 | -3.9 | -3.0 |
| General government gross debt (c) | | | - | 105.2 | 94.3 | 87.2 | 80.8 | 75.9 | 71.9 |

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

# Chapter 5

## Other non-EU Countries

# 1. United States of America

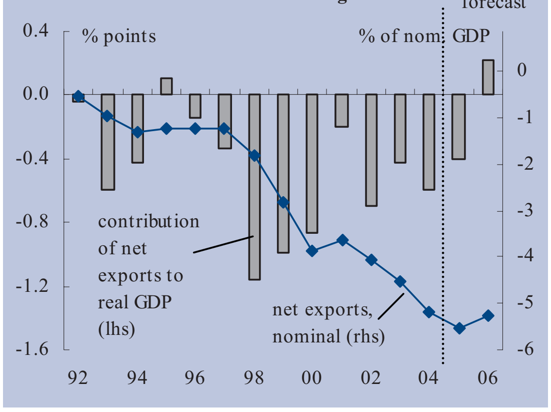
## Resilient growth set to be supported by external demand

**Solid expansion in 2004**

The US economy completed its third year of expansion on a strong note in 2004. Real GDP growth of 4.4%, the highest growth rate in five years, was driven by strong household and business spending. The increase in consumer spending was based on a substantial gain in real disposable income and a further drop in the household saving rate which, in turn, were fuelled by the long-awaited improvement in the labour market and a continuation of the house price boom. Business investment, supported by record-high profits and low interest rates, expanded by close to 10%, as did residential investment, which also benefited from favourable financing conditions. Government spending increased much less than in the first three years of the Bush administration and added only relatively little to overall growth. Once again there was a negative contribution to growth from the foreign trade side, in spite of the fact that the dollar's real effective value declined to its long-term average level in 2004.

Employment growth resumed after two "jobless-recovery" years, although it remained well below the usual increase for the third year of an economic upturn. The unemployment rate drifted lower which, in addition to job gains, was helped by the slowdown in labour force growth and the downward trend in labour force participation. Productivity growth slowed from extraordinarily high rates in the previous years and unit labour costs started to rise again. Inflation edged up against the background of higher energy prices and a continuing downward trend in the dollar's exchange value (5% effective depreciation in 2004). In the fourth quarter of 2004 overall CPI inflation reached 3.4% year-over-year. However, 'core' inflation, measured by the price index for personal consumption expenditure less food and energy, remained contained at 1.6% in Q4 and inflation expectations stayed well anchored.

*Graph 5.1:* **United States - Net exports and their contribution to GDP growth**




The trends in the so-called 'twin deficits' diverged in 2004. While the current account deficit surged to 5.4% of GDP on a national account basis (5.7% on a balance-of-payments basis), the fiscal deficit of general government fell to 4.4% of GDP. The small fiscal improvement was solely due to the sub-federal level; the federal deficit remained at 3.7% of GDP.

**Higher interest rates will curb domestic demand**

The Federal Reserve has removed monetary stimulus since June 2004 by raising short-term interest rates at a measured but steady pace. However, long-term rates have remained surprisingly low into early 2005, which has bolstered the expansion in the winter of 2004/05. Looking forward, it is expected that household spending will stay relatively strong in the first half of 2005, benefiting from still accommodative financial conditions and the related rise in home prices and in spite of the dampening effect of higher energy prices. A slowdown in household spending growth is expected to set in around the middle of the year as the Federal Reserve is poised to continue its campaign of raising the federal funds rate to a 'neutral' level. In this context, long-term rates should rise, also because the risks are perceived to be shifting in the direction of higher inflation as a consequence of lower productivity growth and the weaker dollar. At the same time, the fiscal thrust is disappearing due to the restraint in discretionary federal spending.

Business investment is also likely to slow down from the robust growth seen over the past two years, partly because profit margins will be reduced by the cyclical downturn in productivity growth. Residential investment, in particular, will receive a setback from rising long-term interest rates.

The withdrawal of monetary and, to a lesser extent, fiscal stimulus will partly be offset by the trade effect of the dollar's depreciation in the 2002-04 period. The gain in international competitiveness of US goods and services should now make export volumes grow faster than import volumes (for 2005 only visible in quarterly forecast figures). This would imply that net exports would start to make a positive contribution to output growth in 2006. However, this effect will kick in later than the contractionary effects. Consequently, the quarterly profile of GDP growth is expected to be U-shaped over the forecast period with the low point being reached in the final quarter of 2005.

**Prospects for 2005 and 2006**

The forecast sees output growth at close to 4% at the beginning of 2005, but a deceleration would subsequently lower the annualised growth rate to below 3% in the second half of the year. Helped by an improving trade performance, output growth would then gradually return to an annualised growth rate of 3½ % at the end of 2006. This profile results in annual growth rates of 3.6% in 2005 and 3.0% in 2006. The growth in consumer spending is projected to fall to 2.5% in 2006, resulting in a stabilisation of the household saving rate. The unemployment rate is expected to fall marginally to 5.0% by the end of next year, i.e. not below most estimates of the NAIRU. Inflationary pressures should remain contained over the forecast period as real wage growth per worker is expected to stay roughly in line with productivity growth. Overall CPI inflation is forecast to decline to 2.3% in 2006. The fiscal deficit of general government is projected to fall to 3.8% of GDP in 2006, while the current account deficit would rise to close to 6% of GDP.

The risks to this forecast appear to be symmetrical. On the upside, there is the possibility of faster employment growth, further substantial gains in home prices, and a better-than-expected trade improvement. On the downside, a sharp rise in long-term rates, possibly in connection with a loss of international investors' confidence in the dollar, could result in a large negative wealth effect.

*Table 5.1*

**Main features of country forecast - UNITED STATES**

| | | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn USD Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | | 11004.3 | 100.0 | 3.2 | 0.8 | 1.9 | 3.1 | 4.4 | 3.6 | 3.0 |
| Private consumption | | 7760.9 | 70.5 | 3.5 | 2.5 | 3.1 | 3.3 | 3.8 | 3.5 | 2.5 |
| Public consumption | | 1717.1 | 15.6 | 1.9 | 3.3 | 4.4 | 3.2 | 1.7 | 1.8 | 2.2 |
| Gross fixed capital formation | | 2025.5 | 18.4 | 4.4 | -1.9 | -3.5 | 4.4 | 9.0 | 6.4 | 3.6 |
| of which : equipment | | 962.7 | 8.7 | 7.1 | -4.2 | -4.7 | 6.0 | 13.0 | 10.6 | 6.6 |
| Change in stocks as % of GDP | | -1.2 | 0.0 | 0.4 | -0.3 | 0.1 | 0.0 | 0.4 | 0.5 | 0.4 |
| Exports (goods and services) | | 1046.2 | 9.5 | 6.3 | -5.4 | -2.4 | 1.9 | 8.5 | 6.9 | 9.3 |
| Final demand | | 12548.5 | 114.0 | 3.7 | 0.3 | 2.0 | 3.2 | 5.2 | 4.1 | 3.2 |
| Imports (goods and services) | | 1544.2 | 14.0 | 8.1 | -2.7 | 3.4 | 4.4 | 10.0 | 7.1 | 4.7 |
| GNI at constant prices (GDP deflator) | | 11059.4 | 100.5 | 3.2 | 0.8 | 1.7 | 3.3 | 4.3 | 3.5 | 2.8 |
| Contribution to GDP growth : | Domestic demand | | | 3.4 | 1.8 | 2.1 | 3.6 | 4.6 | 4.0 | 2.8 |
| | Stockbuilding | | | 0.1 | -0.9 | 0.4 | -0.1 | 0.5 | 0.1 | 0.0 |
| | Foreign balance | | | -0.3 | -0.2 | -0.7 | -0.5 | -0.6 | -0.4 | 0.2 |
| Employment (*) | | | | 1.6 | -0.1 | -0.8 | 0.0 | 1.1 | 1.1 | 0.8 |
| Unemployment (a) | | | | 6.3 | 4.8 | 5.8 | 6.0 | 5.5 | 5.2 | 5.0 |
| Compensation of employees/head | | | | 4.6 | 2.4 | 3.2 | 4.0 | 4.3 | 4.8 | 4.6 |
| Unit labour costs | | | | 3.0 | 1.5 | 0.5 | 1.0 | 1.0 | 2.2 | 2.4 |
| Real unit labour costs | | | | -0.2 | -0.8 | -1.1 | -0.9 | -1.1 | -0.1 | 0.2 |
| Savings rate of households (b) | | | | - | - | 2.1 | 1.4 | 1.2 | 0.6 | 1.0 |
| GDP deflator | | | | 3.2 | 2.4 | 1.7 | 1.8 | 2.1 | 2.3 | 2.2 |
| Private consumption deflator | | | | 3.3 | 2.1 | 1.4 | 1.9 | 2.2 | 2.4 | 2.3 |
| General index of consumer prices | | | | - | 2.8 | 1.6 | 2.3 | 2.7 | 2.6 | 2.3 |
| Trade balance (c) | | | | -2.4 | -4.3 | -4.7 | -5.1 | -5.7 | -6.0 | -5.8 |
| Current account balance (c) | | | | -1.7 | -3.7 | -4.4 | -4.7 | -5.4 | -5.9 | -5.8 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | | -1.7 | -3.7 | -4.4 | -4.7 | -5.4 | -6.0 | -5.8 |
| General government balance (c) | | | | -3.5 | -0.4 | -3.8 | -4.6 | -4.4 | -3.9 | -3.8 |
| General government gross debt (c) | | | | - | - | - | - | - | - | - |

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(*) Employment data from the BLS household survey.

# 2. Japan

## Moderate rebound following the technical recession last year

**The economy experienced a technical recession in the middle of 2004**

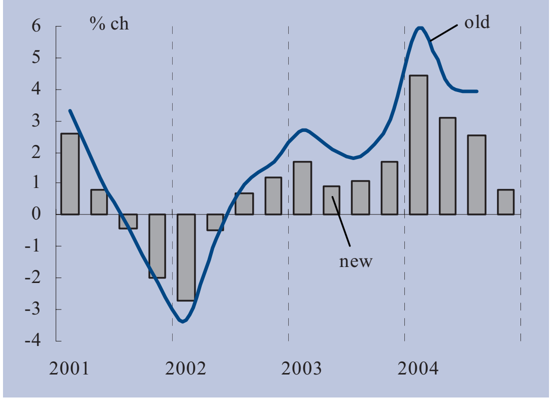
Following annualised growth of around 6% in the first quarter of 2004, output expansion turned negative and declined in the second and the third quarters of the year. Whereas private domestic demand growth continued to be strong in the second quarter, a sharp reduction in public investment together with a correction in inventories brought about the decline in the overall growth rate. In the third quarter, export growth slowed significantly and private consumption fell, with the result that GDP growth remained negative. In the fourth quarter, output expansion recovered to a modest 0.5%, helped by a build-up in inventories.

In spite of these weak quarterly developments, the substantial overhang into 2004 and the strong growth rate in the first quarter resulted in annual growth rate of 2.7%, the largest increase since 1996.

**Growth is expected to recover in the first half of 2005**

There are several reasons for expecting a rebound in growth in the first half of 2005. First, the global outlook appears to be relatively benign and should as such be supportive to Japanese growth. Second, production has been depressed by a major inventory adjustment in the electronics sector, which should come to an end. Third, a number of weather-related factors (in particular the unusually severe and numerous typhoons) had a dampening effect on growth in the second half of 2004.

*Graph 5.2:* **Japan - Quarterly year-on-year growth rates: new vs old method**




Private consumption should rebound as the overall compensation of employees in real terms has started to increase slightly, suggesting that the tendency to replace regular workers by lower paid temporary workers may be coming to an end. Machinery orders have also bounced back and point to a recovery in private investment. The high level of capacity utilisation and the surge in corporate profits throughout last year should also be supportive to capital expenditure growth. As the economy continues to be very dependent on external demand, the evolution of trade will be a key factor for the Japanese outlook.

Although the forecast for Japan is clouded by uncertainty, in particular from the external side, the annualised quarterly growth path is likely to hover around 1 ½%, resulting in an annual average of some 1.1% in 2005 and 1.7% in 2005. The fairly sharp downward revisions compared to the autumn forecast should be seen against the backdrop of the switch to chain-weighted price deflators that shaved off around 1.3 percentage points from the annual growth rate in 2004 and which also had implications looking forward. They also reflect the carry-over effect from the weak economic growth seen in the second half of 2004.

**Core deflation remains persistent**

The year-on-year change in headline CPI turned positive last autumn, but this was largely due to a strong rise in the prices of fresh food. Core CPI, on the other hand, continued to fall, and in January this year the year-on-year fall stood at 0.3%. Price cuts in the telecommunication sector have contributed to the observed persistence of deflation. Given the very slow deceleration in underlying deflation and the lower growth projections, the year-on-year change in core CPI may turn positive only around the turn of the year or even later.

**The labour market is improving**

Total employment has been rising somewhat, but whereas job creation has been strong in the services sector, the manufacturing sector has continued to reduce its workforce. There are initial signs that the tendency to replace regular workers with lower paid workers on temporary contracts, resulting in an overall fall in real wages per person, is gradually coming to an end. Unemployment declined last year by around ½ a percentage point, and stood at 4.4% of the labour force in December.

**Monetary and fiscal policy roughly unchanged**

The Bank of Japan (BOJ) has pledged to maintain the current quantitative easing policy, implying short-term interest rates that are close to zero, until inflation has returned on a solid basis. Given the outlook for deflation, the BOJ is less likely to start raising the short-term interest rates during the forecast period. However, recently, the BOJ has not been able to inject the intended amounts of money into the financial system, suggesting that concerns about financial system stability are receding (which would induce a decline in the demand for precautionary liquidity). This raises the question as to whether the BOJ will lower the current quantitative target within the near future.

As for fiscal policy, the government is maintaining its intention to reduce the primary balance by around 0.5 of a percentage point annually. The aim is to achieve primary balance in the early 2010s, although neither a detailed consolidation path nor more specific measures have been put forward.

*Table 5.2*

**Main features of country forecast - JAPAN**

| | 2003 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn YEN Curr. prices | % GDP | 81-00 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| GDP at constant prices | 497485.1 | 100.0 | 2.7 | 0.2 | -0.3 | 1.4 | 2.7 | 1.1 | 1.7 |
| Private consumption | 282702.1 | 56.8 | 2.6 | 1.1 | 0.5 | 0.2 | 1.5 | 0.7 | 1.2 |
| Public consumption | 87956.8 | 17.7 | 3.4 | 3.0 | 2.6 | 1.2 | 2.7 | 1.7 | 1.2 |
| Gross fixed capital formation | 119107.9 | 23.9 | 2.5 | -1.4 | -5.7 | 0.9 | 1.7 | 0.3 | 1.6 |
| of which : equipment | - | - | 4.6 | 1.6 | -9.0 | - | - | - | - |
| Change in stocks as % of GDP | -257.2 | -0.1 | 0.3 | 0.0 | -0.2 | 0.0 | 0.1 | 0.1 | 0.0 |
| Exports (goods and services) | 58882.4 | 11.8 | 4.5 | -6.0 | 7.3 | 9.1 | 14.3 | 7.8 | 8.0 |
| Final demand | 548392.0 | 110.2 | 2.8 | 0.1 | -0.2 | 1.6 | 3.3 | 1.6 | 2.1 |
| Imports (goods and services) | 50906.9 | 10.2 | 5.1 | -0.7 | 1.3 | 3.8 | 8.9 | 6.9 | 6.0 |
| GNI at constant prices (GDP deflator) | 506009.2 | 101.7 | 2.7 | 0.6 | -0.3 | 1.4 | 2.9 | 1.1 | 1.7 |
| Contribution to GDP growth : Domestic demand | | | 2.6 | 0.7 | -0.7 | 0.6 | 1.7 | 0.8 | 1.3 |
| Stockbuilding | | | 0.0 | 0.1 | -0.2 | 0.2 | 0.2 | -0.1 | 0.0 |
| Foreign balance | | | 0.1 | -0.6 | 0.6 | 0.6 | 0.8 | 0.3 | 0.5 |
| Employment | | | 0.6 | -0.6 | -1.4 | -0.3 | 0.2 | 0.1 | 0.0 |
| Unemployment (a) | | | 2.9 | 5.0 | 5.4 | 5.3 | 4.8 | 4.4 | 4.1 |
| Compensation of employees/head | | | 2.5 | -0.5 | -1.6 | -0.6 | -1.1 | 0.0 | -0.1 |
| Unit labour costs | | | 0.5 | -1.3 | -2.7 | -2.2 | -3.5 | -1.0 | -1.7 |
| Real unit labour costs | | | -0.7 | 0.0 | -1.4 | -0.8 | -2.4 | -0.2 | -1.5 |
| Savings rate of households (b) | | | - | - | 13.7 | 13.9 | 12.8 | 12.8 | 12.5 |
| GDP deflator | | | 1.1 | -1.3 | -1.3 | -1.4 | -1.2 | -0.8 | -0.2 |
| Private consumption deflator | | | 1.3 | -1.0 | -1.2 | -0.7 | -0.5 | -0.4 | -0.1 |
| General index of consumer prices | | | - | -0.6 | -0.9 | -0.3 | 0.0 | -0.1 | 0.2 |
| Trade balance (c) | | | 2.8 | 1.7 | 2.4 | 2.7 | 3.1 | 3.2 | 3.7 |
| Current account balance (c) | | | 2.4 | 2.1 | 2.8 | 3.2 | 3.7 | 3.8 | 4.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | 2.3 | 2.0 | 2.8 | 3.1 | 3.6 | 3.7 | 4.1 |
| General government balance (c) | | | -2.3 | -6.1 | -7.9 | -7.7 | -7.0 | -6.6 | -6.1 |
| General government gross debt (c) | | | 82.3 | 142.3 | 149.5 | 157.5 | 163.2 | 169.5 | 173.4 |

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

# Statistical Annex

# Contents

## Output: GDP and its components



## Prices



## Wages, population and labour market



## Interest and exchange rates

## General Government



## Saving



## Trade and international payments



## World economy

# STATISTICAL ANNEX : SPRING 2005 ECONOMIC FORECASTS

**TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 3.4 | 1.6 | 2.7 | 3.9 | 0.7 | 0.9 | 1.3 | 2.5 | 2.7 | 2.5 | 2.2 | 2.6 | 2.3 |
| **Germany** | 3.2 | 2.0 | 1.8 | 2.9 | 0.8 | 0.1 | -0.1 | 1.9 | 1.6 | 1.5 | 0.8 | 1.7 | 1.6 |
| **Greece** | 4.5 | 1.2 | 3.4 | 4.5 | 4.3 | 3.8 | 4.7 | 3.8 | 4.2 | 3.3 | 2.9 | 3.3 | 3.1 |
| **Spain** | 4.6 | 1.5 | 3.9 | 4.4 | 2.8 | 2.2 | 2.5 | 2.6 | 2.7 | 2.6 | 2.7 | 2.7 | 2.7 |
| **France** | 3.8 | 1.1 | 2.7 | 3.8 | 2.1 | 1.2 | 0.5 | 2.4 | 2.5 | 2.2 | 2.0 | 2.2 | 2.2 |
| **Ireland** | 4.2 | 4.7 | 9.8 | 9.9 | 6.0 | 6.1 | 3.7 | 5.2 | 5.4 | 4.8 | 4.9 | 5.0 | 5.1 |
| **Italy** | 3.9 | 1.3 | 1.9 | 3.0 | 1.8 | 0.4 | 0.3 | 1.3 | 1.2 | 1.8 | 1.2 | 1.8 | 1.7 |
| **Luxembourg** | 3.7 | 4.0 | 7.1 | 9.0 | 1.5 | 2.5 | 2.9 | 4.0 | 4.2 | 3.5 | 3.8 | 3.6 | 4.0 |
| **Netherlands** | 3.4 | 2.1 | 3.7 | 3.5 | 1.4 | 0.6 | -0.9 | 1.4 | 1.3 | 1.7 | 1.0 | 2.4 | 2.0 |
| **Austria** | 3.6 | 2.2 | 2.9 | 3.4 | 0.7 | 1.2 | 0.8 | 1.9 | 2.0 | 2.4 | 2.1 | 2.4 | 2.1 |
| **Portugal** | 4.8 | 1.7 | 3.9 | 3.4 | 1.7 | 0.4 | -1.1 | 1.3 | 1.0 | 2.2 | 1.1 | 2.4 | 1.7 |
| **Finland** | 3.9 | -0.9 | 4.7 | 5.1 | 1.1 | 2.2 | 2.4 | 3.0 | 3.7 | 3.1 | 3.3 | 2.7 | 2.9 |
| **Euro area** | 3.6 | 1.5 | 2.6 | 3.5 | 1.6 | 0.9 | 0.6 | 2.1 | 2.0 | 2.0 | 1.6 | 2.2 | 2.1 |
| **Czech Republic** | : | -1.0 | 1.5 | 3.9 | 2.6 | 1.5 | 3.7 | 3.8 | 4.0 | 3.8 | 4.0 | 4.0 | 4.2 |
| **Denmark** | 2.7 | 2.0 | 2.7 | 2.8 | 1.6 | 1.0 | 0.4 | 2.3 | 2.0 | 2.4 | 2.3 | 2.0 | 2.1 |
| **Estonia** | : | : | 5.5 | 7.8 | 6.4 | 7.2 | 5.1 | 5.9 | 6.2 | 6.0 | 6.0 | 6.2 | 6.2 |
| **Cyprus** | : | 5.3 | 3.8 | 5.0 | 4.1 | 2.1 | 2.0 | 3.5 | 3.7 | 3.9 | 3.9 | 4.2 | 4.2 |
| **Latvia** | : | -11.8 | 5.4 | 6.9 | 8.0 | 6.4 | 7.5 | 7.5 | 8.5 | 6.7 | 7.2 | 6.7 | 6.9 |
| **Lithuania** | : | -10.3 | 4.2 | 3.9 | 6.4 | 6.8 | 9.7 | 7.1 | 6.7 | 6.4 | 6.4 | 5.9 | 5.9 |
| **Hungary** | : | : | 4.0 | 5.2 | 3.8 | 3.5 | 3.0 | 3.9 | 4.0 | 3.7 | 3.9 | 3.8 | 3.8 |
| **Malta** | : | : | 4.5 | 6.4 | -1.7 | 2.2 | -1.8 | 1.0 | 1.5 | 1.5 | 1.7 | 1.8 | 1.9 |
| **Poland** | : | 2.2 | 5.1 | 4.0 | 1.0 | 1.4 | 3.8 | 5.8 | 5.3 | 4.9 | 4.4 | 4.5 | 4.5 |
| **Slovenia** | : | -0.6 | 4.3 | 3.9 | 2.7 | 3.3 | 2.5 | 4.0 | 4.6 | 3.6 | 3.7 | 3.8 | 4.0 |
| **Slovakia** | : | : | 3.7 | 2.0 | 3.8 | 4.6 | 4.5 | 4.9 | 5.5 | 4.5 | 4.9 | 5.2 | 5.2 |
| **Sweden** | 2.9 | 0.8 | 3.2 | 4.3 | 1.0 | 2.0 | 1.5 | 3.7 | 3.5 | 3.1 | 3.0 | 2.9 | 2.8 |
| **United Kingdom** | 2.5 | 1.7 | 3.2 | 3.9 | 2.3 | 1.8 | 2.2 | 3.3 | 3.1 | 2.8 | 2.8 | 2.8 | 2.8 |
| **EU-25** | : | : | 2.8 | 3.6 | 1.8 | 1.1 | 1.0 | 2.5 | 2.4 | 2.3 | 2.0 | 2.4 | 2.3 |
| **EU-15** | 3.4 | 1.5 | 2.7 | 3.6 | 1.7 | 1.1 | 0.9 | 2.3 | 2.3 | 2.2 | 1.9 | 2.3 | 2.2 |
| **USA** | 3.5 | 2.5 | 4.1 | 3.7 | 0.8 | 1.9 | 3.1 | 4.4 | 4.4 | 3.0 | 3.6 | 2.9 | 3.0 |
| **Japan** | 6.1 | 1.5 | 1.3 | 2.4 | 0.2 | -0.3 | 1.4 | 4.2 | 2.7 | 2.1 | 1.1 | 2.3 | 1.7 |

**TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2004-2006)**

| | 2004/1 | 2004/2 | 2004/3 | 2004/4 | 2005/1 | 2005/2 | 2005/3 | 2005/4 | 2006/1 | 2006/2 | 2006/3 | 2006/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 0.7 | 0.8 | 0.7 | 0.4 | 0.4 | 0.5 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.3 |
| **Germany** | 0.5 | 0.4 | 0.0 | -0.2 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| **Greece** | 2.9 | -0.6 | 1.8 | -0.1 | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| **Spain** | 0.8 | 0.5 | 0.6 | 0.8 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 |
| **France** | 0.7 | 0.7 | 0.0 | 0.8 | 0.6 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Ireland** | 0.9 | 0.3 | -0.3 | 3.8 | 0.9 | 0.8 | 0.7 | 1.6 | 1.3 | 1.3 | 1.6 | 0.7 |
| **Italy** | 0.5 | 0.4 | 0.4 | -0.3 | 0.3 | 0.4 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Luxembourg** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Netherlands** | 0.9 | -0.1 | 0.3 | -0.1 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 |
| **Austria** | 0.6 | 0.8 | 0.8 | 0.3 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 |
| **Portugal** | 1.0 | 0.9 | -1.0 | -0.3 | 0.4 | 0.8 | 0.5 | 1.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Finland** | 1.0 | 0.8 | 1.1 | 0.6 | 1.0 | 0.8 | 0.9 | 1.1 | 0.8 | 0.9 | 0.8 | 1.0 |
| **Euro area** | 0.7 | 0.5 | 0.2 | 0.2 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 |
| **Czech Republic** | 1.1 | 1.0 | 1.0 | 1.0 | 0.1 | 0.5 | 0.3 | 0.4 | 0.9 | 1.0 | 0.9 | 0.9 |
| **Denmark** | 1.0 | 0.3 | 0.1 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 |
| **Estonia** | 1.2 | 1.3 | 1.9 | 1.5 | 1.1 | 1.3 | 1.6 | 1.6 | 1.5 | 1.3 | 1.6 | 1.4 |
| **Cyprus** | -0.1 | 1.0 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 | 1.1 |
| **Latvia** | 0.8 | 1.7 | 2.5 | 0.3 | 1.6 | 3.2 | 2.9 | 2.1 | 1.3 | 1.4 | 1.2 | 1.3 |
| **Lithuania** | 0.3 | 2.3 | 1.5 | 2.0 | : | : | : | : | : | : | : | : |
| **Hungary** | 1.0 | 1.0 | 0.9 | 1.0 | 0.9 | 1.1 | 1.0 | 1.1 | 0.5 | 1.2 | 1.2 | 1.0 |
| **Malta** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Poland** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Slovenia** | 1.6 | 1.1 | 1.1 | : | : | : | : | : | : | : | : | : |
| **Slovakia** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Sweden** | 0.8 | 0.8 | 0.7 | 0.3 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 |
| **United Kingdom** | 0.6 | 1.0 | 0.5 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 |
| **EU-25** | 0.8 | 0.6 | 0.3 | 0.3 | 0.3 | 0.7 | 0.6 | 0.6 | 0.4 | 0.8 | 0.7 | 0.6 |
| **EU-15** | 0.7 | 0.6 | 0.3 | 0.3 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| **USA** | 1.1 | 0.8 | 1.0 | 0.9 | 1.0 | 0.9 | 0.7 | 0.6 | 0.7 | 0.8 | 0.8 | 0.9 |
| **Japan** | 1.5 | -0.3 | -0.3 | 0.1 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |

**TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2004-2006)** 18.03.2005

| | 2004/1 | 2004/2 | 2004/3 | 2004/4 | 2005/1 | 2005/2 | 2005/3 | 2005/4 | 2006/1 | 2006/2 | 2006/3 | 2006/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 2.2 | 2.9 | 2.9 | 2.6 | 2.3 | 2.0 | 2.0 | 2.3 | 2.5 | 2.6 | 2.4 | 2.0 |
| **Germany** | 0.9 | 1.4 | 1.2 | 0.6 | 0.7 | 0.7 | 1.0 | 1.6 | 1.7 | 1.8 | 2.0 | 2.1 |
| **Greece** | 4.0 | 3.9 | 3.8 | 4.0 | 1.7 | 3.0 | 1.9 | 2.7 | 2.9 | 3.1 | 3.2 | 3.4 |
| **Spain** | 2.7 | 2.6 | 2.6 | 2.7 | 2.6 | 2.7 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.5 |
| **France** | 2.0 | 3.1 | 2.0 | 2.2 | 2.1 | 1.8 | 2.3 | 2.0 | 2.1 | 2.2 | 2.3 | 2.3 |
| **Ireland** | 6.1 | 4.1 | 6.3 | 4.7 | 4.7 | 5.3 | 6.3 | 4.0 | 4.4 | 5.0 | 5.9 | 4.9 |
| **Italy** | 0.8 | 1.3 | 1.4 | 1.0 | 0.8 | 0.8 | 1.0 | 1.8 | 1.9 | 1.9 | 1.7 | 1.6 |
| **Luxembourg** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Netherlands** | 1.0 | 1.6 | 1.8 | 1.0 | 0.4 | 0.9 | 0.8 | 1.3 | 1.5 | 1.8 | 2.1 | 2.4 |
| **Austria** | 1.4 | 1.9 | 2.5 | 2.4 | 2.4 | 2.2 | 1.9 | 2.2 | 2.2 | 2.2 | 2.1 | 2.1 |
| **Portugal** | 0.7 | 1.8 | 0.9 | 0.6 | 0.0 | -0.1 | 1.5 | 2.8 | 2.6 | 2.0 | 1.6 | 0.8 |
| **Finland** | 3.2 | 3.1 | 3.6 | 3.6 | 3.5 | 3.5 | 3.3 | 3.9 | 3.6 | 3.8 | 3.6 | 3.5 |
| **Euro area** | 1.6 | 2.2 | 1.9 | 1.6 | 1.4 | 1.4 | 1.7 | 2.0 | 2.1 | 2.2 | 2.2 | 2.2 |
| **Czech Republic** | 3.8 | 3.9 | 4.2 | 4.2 | 3.2 | 2.7 | 2.1 | 1.5 | 2.3 | 2.7 | 3.3 | 3.8 |
| **Denmark** | 1.7 | 2.5 | 1.9 | 2.1 | 1.8 | 2.1 | 2.7 | 2.6 | 2.4 | 2.3 | 2.0 | 1.8 |
| **Estonia** | 7.1 | 5.8 | 5.9 | 6.0 | 6.0 | 6.0 | 5.8 | 5.9 | 6.3 | 6.2 | 6.1 | 5.8 |
| **Cyprus** | 3.4 | 4.4 | 4.1 | 3.0 | 4.1 | 4.0 | 3.8 | 3.6 | 3.9 | 4.1 | 4.3 | 4.5 |
| **Latvia** | 8.7 | 7.7 | 9.1 | 8.6 | 6.2 | 7.9 | 8.2 | 10.2 | 9.9 | 7.9 | 6.2 | 5.4 |
| **Lithuania** | 7.1 | 7.3 | 5.8 | 6.7 | 6.3 | 6.3 | 6.6 | 6.5 | 5.9 | 5.7 | 6.0 | 5.8 |
| **Hungary** | 4.0 | 4.1 | 3.9 | 3.9 | 3.8 | 3.9 | 3.9 | 4.0 | 3.7 | 3.8 | 4.0 | 3.9 |
| **Malta** | 2.3 | 0.5 | 1.9 | 2.3 | : | : | : | : | : | : | : | : |
| **Poland** | 6.9 | 6.1 | 4.8 | 3.9 | 3.8 | 4.2 | 4.6 | 5.0 | 4.5 | 4.3 | 4.6 | 4.7 |
| **Slovenia** | 4.1 | 4.9 | 5.0 | 4.3 | 4.2 | 3.7 | 3.4 | 3.9 | 4.0 | 3.7 | 4.1 | 4.3 |
| **Slovakia** | 5.4 | 5.5 | 5.3 | 5.8 | 5.7 | 5.2 | 4.6 | 4.1 | 5.0 | 5.1 | 5.1 | 5.2 |
| **Sweden** | 2.8 | 3.3 | 3.3 | 2.6 | 2.7 | 2.7 | 2.9 | 3.3 | 3.1 | 3.0 | 2.8 | 2.7 |
| **United Kingdom** | 2.8 | 3.5 | 3.1 | 2.9 | 2.8 | 2.5 | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 | 2.7 |
| **EU-25** | 1.9 | 2.6 | 2.2 | 1.9 | 1.6 | 1.7 | 2.0 | 2.3 | 2.3 | 2.4 | 2.5 | 2.4 |
| **EU-15** | 1.8 | 2.4 | 2.1 | 1.9 | 1.7 | 1.6 | 1.9 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 |
| **USA** | 5.0 | 4.8 | 4.0 | 3.9 | 3.7 | 3.9 | 3.5 | 3.2 | 2.9 | 2.8 | 2.9 | 3.2 |
| **Japan** | 4.1 | 3.1 | 2.3 | 1.0 | 0.0 | 0.8 | 1.6 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 |

**TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.1 | 1.3 | 2.5 | 3.6 | 0.4 | 0.4 | 0.8 | *2.3* | 2.4 | *2.3* | 1.9 | *2.4* | 2.1 |
| **Germany** | 2.7 | 1.4 | 1.7 | 2.7 | 0.7 | -0.1 | -0.2 | *1.8* | 1.6 | *1.5* | 0.7 | *1.7* | 1.5 |
| **Greece** | 3.9 | 0.3 | 2.9 | 4.1 | 4.1 | 3.6 | 4.0 | *3.6* | 4.0 | *3.1* | 2.7 | *3.1* | 2.9 |
| **Spain** | 3.7 | 1.3 | 3.5 | 3.6 | 1.9 | 1.5 | 1.8 | *2.0* | 2.1 | *2.0* | 2.1 | *2.1* | 2.0 |
| **France** | 3.0 | 0.6 | 2.3 | 3.3 | 1.6 | 0.7 | 0.0 | *2.1* | 2.2 | *1.8* | 1.7 | *1.9* | 1.9 |
| **Ireland** | 3.4 | 4.1 | 8.6 | 8.5 | 4.4 | 4.3 | 2.0 | *3.5* | 3.7 | *3.4* | 3.4 | *3.6* | 3.5 |
| **Italy** | 3.4 | 1.2 | 1.9 | 3.0 | 1.7 | 0.1 | -0.5 | *0.7* | 0.4 | *1.6* | 0.8 | *1.6* | 1.6 |
| **Luxembourg** | 3.0 | 2.5 | 5.6 | 7.5 | 0.9 | 1.4 | 2.1 | *3.0* | 3.2 | *2.6* | 2.9 | *2.7* | 3.1 |
| **Netherlands** | 2.5 | 1.4 | 3.1 | 2.7 | 0.7 | -0.1 | -1.3 | *1.0* | 1.0 | *1.4* | 0.8 | *2.1* | 1.8 |
| **Austria** | 3.3 | 1.5 | 2.8 | 3.1 | 0.3 | 0.7 | 0.3 | *1.5* | 1.7 | *1.8* | 1.7 | *1.9* | 1.7 |
| **Portugal** | 4.4 | 1.5 | 3.5 | 2.8 | 1.1 | -0.3 | -1.8 | *0.7* | 0.4 | *1.5* | 0.6 | *1.7* | 1.2 |
| **Finland** | 3.5 | -1.4 | 4.4 | 4.9 | 0.8 | 1.9 | 2.2 | *2.8* | 3.4 | *2.9* | 3.1 | *2.6* | 2.7 |
| **Euro area** | 3.0 | 1.2 | 2.3 | 3.2 | 1.2 | 0.4 | 0.1 | *1.7* | 1.7 | *1.8* | 1.3 | *1.9* | 1.8 |
| **Czech Republic** | : | -0.9 | 1.6 | 4.0 | 3.1 | 1.7 | 3.7 | *3.8* | 3.9 | *3.9* | 3.8 | *4.1* | 4.1 |
| **Denmark** | 2.3 | 1.6 | 2.3 | 2.5 | 1.2 | 0.7 | 0.2 | *2.1* | 2.0 | *2.2* | 2.1 | *1.8* | 2.0 |
| **Estonia** | : | : | 6.7 | 8.4 | 6.8 | 7.7 | 5.5 | *6.3* | 6.5 | *6.4* | 6.4 | *6.7* | 6.6 |
| **Cyprus** | : | 2.7 | 2.5 | 4.0 | 2.9 | 0.7 | -0.2 | *2.6* | 1.6 | *3.0* | 2.8 | *3.3* | 3.0 |
| **Latvia** | : | -10.6 | 6.4 | 7.7 | 8.8 | 7.2 | 8.1 | *8.0* | 9.0 | *6.9* | 7.4 | *7.0* | 7.1 |
| **Lithuania** | : | -10.0 | 4.9 | 4.6 | 7.0 | 7.1 | 10.2 | *7.2* | 7.1 | *6.5* | 6.7 | *6.0* | 6.1 |
| **Hungary** | : | : | 4.3 | 5.5 | 4.1 | 3.8 | 3.3 | *4.2* | 4.2 | *3.9* | 4.1 | *4.0* | 4.1 |
| **Malta** | : | : | 3.9 | 5.7 | -2.5 | 1.5 | -2.4 | *0.5* | 1.0 | *1.0* | 1.2 | *1.3* | 1.4 |
| **Poland** | : | 1.9 | 5.3 | 5.0 | 1.0 | 1.4 | 3.9 | *5.9* | 5.4 | *5.0* | 4.5 | *4.7* | 4.6 |
| **Slovenia** | : | -0.5 | 4.3 | 3.6 | 2.5 | 3.2 | 2.5 | *3.9* | 4.6 | *3.6* | 3.6 | *3.8* | 4.0 |
| **Slovakia** | : | : | 3.5 | 1.9 | 3.7 | 4.8 | 4.7 | *4.9* | 5.5 | *4.5* | 4.9 | *5.2* | 5.2 |
| **Sweden** | 2.5 | 0.1 | 3.1 | 4.2 | 0.8 | 1.6 | 1.1 | *3.3* | 3.0 | *2.7* | 2.6 | *2.4* | 2.3 |
| **United Kingdom** | 2.2 | 1.4 | 2.9 | 3.6 | 1.6 | 1.5 | 1.8 | *2.9* | 2.9 | *2.4* | 2.6 | *2.5* | 2.6 |
| **EU-25** | : | : | 2.6 | 3.4 | 1.4 | 0.8 | 0.5 | *2.2* | 2.1 | *2.1* | 1.8 | *2.2* | 2.1 |
| **EU-15** | 2.9 | 1.2 | 2.4 | 3.2 | 1.2 | 0.6 | 0.3 | *2.0* | 1.9 | *1.9* | 1.6 | *2.0* | 2.0 |
| **USA** | 2.4 | 1.2 | 2.9 | 2.6 | -0.3 | 0.9 | 2.0 | *3.4* | 3.4 | *2.0* | 2.6 | *1.9* | 2.0 |
| **Japan** | 5.2 | 1.2 | 1.1 | 2.2 | 0.0 | -0.4 | 1.2 | *4.2* | 2.7 | *2.1* | 1.1 | *2.3* | 1.8 |

**TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 3.3 | 1.4 | 2.6 | 3.8 | 0.4 | 0.5 | 1.7 | 2.2 | 3.0 | 2.7 | 2.4 | 2.9 | 2.4 |
| **Germany** | 3.1 | 1.9 | 1.6 | 1.9 | -0.8 | -1.9 | 0.5 | 0.1 | 0.4 | 1.2 | 0.6 | 1.9 | 1.6 |
| **Greece** | 4.7 | 1.3 | 4.1 | 5.6 | 2.3 | 4.3 | 5.4 | 4.2 | 4.2 | 3.0 | 2.7 | 2.9 | 3.0 |
| **Spain** | 4.9 | 1.0 | 4.3 | 4.6 | 2.9 | 2.8 | 3.2 | 3.5 | 4.2 | 3.4 | 3.9 | 3.4 | 3.6 |
| **France** | 3.8 | 0.7 | 2.6 | 4.1 | 2.0 | 1.4 | 1.1 | 3.4 | 3.5 | 2.4 | 2.3 | 2.4 | 2.4 |
| **Ireland** | 3.6 | 2.6 | 9.0 | 9.1 | 3.8 | 3.4 | 3.3 | 4.0 | 3.4 | 3.7 | 3.5 | 3.8 | 4.5 |
| **Italy** | 3.8 | 0.3 | 2.4 | 2.3 | 1.4 | 1.2 | 1.2 | 1.5 | 1.0 | 1.9 | 1.3 | 1.9 | 2.0 |
| **Luxembourg** | 3.5 | 2.3 | 6.1 | 5.2 | 4.3 | -0.1 | 2.8 | 3.2 | 3.0 | 3.1 | 3.5 | 3.1 | 3.5 |
| **Netherlands** | 3.3 | 1.5 | 3.7 | 2.6 | 1.8 | 0.5 | -0.5 | 0.8 | 0.6 | 1.3 | 0.8 | 2.1 | 1.6 |
| **Austria** | 3.5 | 2.4 | 2.3 | 3.0 | -0.3 | -0.8 | 2.3 | 1.4 | 0.6 | 2.2 | 1.7 | 2.5 | 2.0 |
| **Portugal** | 4.9 | 2.5 | 4.7 | 2.9 | 1.6 | -0.3 | -2.7 | 1.9 | 2.1 | 1.9 | 1.3 | 2.3 | 1.8 |
| **Finland** | 4.1 | -2.5 | 3.7 | 3.2 | 1.7 | 0.7 | 3.0 | 2.7 | 4.2 | 2.2 | 2.4 | 2.2 | 2.2 |
| **Euro area** | 3.6 | 1.1 | 2.6 | 3.1 | 1.0 | 0.4 | 1.2 | 1.9 | 2.0 | 2.1 | 1.8 | 2.3 | 2.2 |
| **Czech Republic** | : | -0.2 | 2.2 | 4.6 | 4.5 | 3.8 | 4.6 | 5.9 | 3.3 | 4.6 | 4.6 | 3.9 | 4.0 |
| **Denmark** | 2.5 | 2.3 | 2.7 | 2.4 | 1.0 | 1.9 | 0.6 | 2.5 | 3.7 | 2.5 | 2.9 | 1.8 | 2.1 |
| **Estonia** | : | : | 6.0 | 9.3 | 8.0 | 9.3 | 9.9 | 6.3 | 7.5 | 4.9 | 3.5 | 4.8 | 5.3 |
| **Cyprus** | : | : | 3.8 | 6.1 | 3.2 | 4.7 | 1.8 | 2.5 | 6.4 | 3.8 | 2.2 | 3.9 | 3.6 |
| **Latvia** | : | : | 6.2 | 3.5 | 11.2 | 6.0 | 11.0 | 9.2 | 12.3 | 7.9 | 6.5 | 7.8 | 7.0 |
| **Lithuania** | : | : | 5.2 | 2.0 | 5.5 | 6.5 | 11.5 | 9.5 | 11.2 | 7.5 | 7.9 | 6.1 | 6.1 |
| **Hungary** | : | : | 4.5 | 4.5 | 1.7 | 5.5 | 5.5 | 4.1 | 3.0 | 3.2 | 3.0 | 3.9 | 3.5 |
| **Malta** | : | : | 3.6 | 10.8 | -7.2 | -4.0 | 8.7 | 0.8 | 2.5 | 0.8 | 1.7 | 0.9 | 1.3 |
| **Poland** | : | 3.9 | 6.5 | 2.6 | -1.8 | 0.7 | 2.1 | 5.1 | 4.3 | 5.0 | 4.6 | 5.4 | 4.9 |
| **Slovenia** | : | 2.7 | 4.8 | 1.4 | 0.9 | 2.3 | 4.8 | 4.7 | 4.6 | 4.3 | 4.0 | 4.4 | 4.2 |
| **Slovakia** | : | : | 4.3 | 0.1 | 7.4 | 4.6 | -2.0 | 4.7 | 6.5 | 4.9 | 6.0 | 4.2 | 5.7 |
| **Sweden** | 2.7 | -0.5 | 2.8 | 3.9 | -0.2 | 0.7 | 1.1 | 1.6 | 1.6 | 3.1 | 3.1 | 3.0 | 2.9 |
| **United Kingdom** | 2.6 | 1.2 | 3.8 | 3.9 | 2.9 | 2.9 | 2.4 | 3.8 | 3.7 | 2.6 | 2.9 | 2.7 | 2.8 |
| **EU-25** | : | : | 2.9 | 3.2 | 1.3 | 1.0 | 1.5 | 2.4 | 2.4 | 2.4 | 2.1 | 2.6 | 2.5 |
| **EU-15** | 3.4 | 1.1 | 2.8 | 3.2 | 1.3 | 0.9 | 1.4 | 2.2 | 2.3 | 2.2 | 2.0 | 2.4 | 2.3 |
| **USA** | 3.4 | 2.5 | 4.7 | 4.4 | 0.9 | 2.5 | 3.3 | 4.8 | 4.9 | 3.0 | 3.8 | 2.9 | 2.6 |
| **Japan** | 6.1 | 1.5 | 1.0 | 1.9 | 0.8 | -1.0 | 0.7 | 3.2 | 1.9 | 1.5 | 0.7 | 1.9 | 1.3 |

**TABLE 6 : Final demand, volume (percentage change on preceding year, 1961-2006)**

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 4.2 | 2.4 | 3.9 | 5.9 | 0.8 | 1.0 | 1.7 | 3.1 | 4.4 | 3.8 | 3.7 | 4.2 | 4.0 |
| **Germany** | 3.6 | 2.4 | 3.1 | 4.6 | 0.9 | -0.3 | 0.9 | 3.1 | 2.7 | 2.9 | 2.3 | 3.1 | 3.1 |
| **Greece** | 5.0 | 1.7 | 5.4 | 7.2 | 1.7 | 2.1 | 4.7 | 5.2 | 5.1 | 3.5 | 3.3 | 3.4 | 3.6 |
| **Spain** | 5.2 | 2.4 | 5.5 | 5.8 | 3.1 | 2.4 | 3.1 | 3.8 | 4.3 | 3.8 | 4.1 | 4.0 | 3.9 |
| **France** | 4.2 | 1.4 | 3.7 | 5.9 | 1.9 | 1.5 | 0.3 | 3.5 | 3.4 | 3.2 | 2.9 | 3.3 | 3.3 |
| **Ireland** | 4.9 | 6.7 | 13.2 | 15.1 | 6.3 | 4.7 | 1.0 | 5.2 | 4.0 | 5.6 | 5.2 | 5.5 | 5.6 |
| **Italy** | 4.3 | 1.6 | 2.8 | 3.9 | 1.5 | 0.2 | 0.5 | 2.1 | 1.5 | 2.7 | 2.1 | 2.7 | 2.6 |
| **Luxembourg** | 4.2 | 4.1 | 10.3 | 12.4 | 2.8 | -0.4 | 2.2 | 5.1 | 5.2 | 5.0 | 5.1 | 4.9 | 5.0 |
| **Netherlands** | 4.1 | 3.1 | 5.1 | 6.0 | 1.7 | 0.7 | -0.3 | 3.3 | 3.4 | 3.4 | 2.2 | 3.8 | 3.4 |
| **Austria** | 4.2 | 2.4 | 3.9 | 5.4 | 1.9 | 0.7 | 1.8 | 2.8 | 3.4 | 3.4 | 3.3 | 3.6 | 3.6 |
| **Portugal** | 5.5 | 2.6 | 5.2 | 4.1 | 1.5 | 0.3 | -0.7 | 3.4 | 2.9 | 3.2 | 2.1 | 3.6 | 3.1 |
| **Finland** | 4.1 | -0.5 | 5.7 | 8.2 | 0.9 | 2.5 | 2.0 | 2.8 | 3.9 | 3.2 | 3.3 | 3.1 | 3.1 |
| **Euro area** | 4.1 | 2.1 | 3.9 | 5.4 | 1.6 | 0.8 | 1.0 | 3.2 | 3.1 | 3.3 | 2.8 | 3.4 | 3.3 |
| **Czech Republic** | : | 1.9 | 4.4 | 8.4 | 6.8 | 2.9 | 5.4 | 9.8 | 10.8 | 7.4 | 8.2 | 5.7 | 7.2 |
| **Denmark** | 3.1 | 2.4 | 4.1 | 5.7 | 2.1 | 2.8 | -0.1 | 3.5 | 3.7 | 3.4 | 3.4 | 2.8 | 3.1 |
| **Estonia** | : | : | 8.9 | 18.1 | 3.8 | 7.2 | 5.5 | 9.2 | 10.9 | 7.9 | 8.0 | 8.4 | 7.8 |
| **Cyprus** | : | : | 4.3 | 7.7 | 4.3 | 1.2 | 1.2 | 3.2 | 5.4 | 4.2 | 3.0 | 4.4 | 4.3 |
| **Latvia** | : | : | 6.7 | 5.6 | 10.2 | 5.8 | 9.4 | 10.0 | 10.5 | 8.1 | 7.3 | 7.7 | 7.7 |
| **Lithuania** | : | : | 5.5 | 4.2 | 10.2 | 10.7 | 9.9 | 9.6 | 9.0 | 8.1 | 8.2 | 7.1 | 6.7 |
| **Hungary** | : | : | 9.0 | 11.2 | 4.4 | 4.7 | 6.4 | 7.8 | 8.8 | 6.2 | 7.6 | 6.0 | 7.3 |
| **Malta** | : | : | 3.5 | 7.6 | -5.2 | -0.1 | 2.5 | 1.3 | 2.5 | 1.7 | 2.4 | 1.9 | 2.3 |
| **Poland** | : | 4.7 | 7.4 | 6.7 | -0.6 | 1.7 | 5.2 | 7.3 | 6.2 | 7.0 | 6.2 | 6.9 | 6.6 |
| **Slovenia** | : | -1.1 | 5.6 | 5.3 | 2.7 | 4.1 | 4.3 | 6.2 | 7.7 | 4.8 | 5.6 | 5.3 | 5.6 |
| **Slovakia** | : | : | 6.3 | 5.5 | 6.9 | 5.0 | 8.6 | 8.8 | 8.9 | 8.6 | 8.8 | 9.5 | 9.1 |
| **Sweden** | 3.1 | 1.1 | 4.5 | 6.2 | 0.0 | 0.9 | 2.4 | 4.3 | 4.3 | 4.5 | 4.3 | 4.2 | 3.9 |
| **United Kingdom** | 2.9 | 2.0 | 4.4 | 5.0 | 2.9 | 2.3 | 2.1 | 3.6 | 3.5 | 3.4 | 3.6 | 3.4 | 3.3 |
| **EU-25** | : | : | 4.1 | 5.5 | 1.9 | 1.2 | 1.4 | 3.9 | 3.5 | 3.9 | 3.2 | 4.0 | 3.5 |
| **EU-15** | 3.8 | 2.0 | 4.0 | 5.4 | 1.8 | 1.1 | 1.2 | 3.3 | 3.3 | 3.3 | 3.0 | 3.4 | 3.3 |
| **USA** | 3.6 | 2.8 | 4.9 | 4.8 | 0.3 | 2.0 | 3.2 | 5.1 | 5.2 | 3.4 | 4.1 | 3.3 | 3.2 |
| **Japan** | 6.3 | 1.7 | 1.4 | 2.8 | 0.1 | -0.2 | 1.6 | 4.6 | 3.3 | 2.5 | 1.6 | 2.8 | 2.1 |

**TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.2 | 1.7 | 2.4 | 3.5 | 0.6 | 0.3 | 2.2 | *2.1* | 2.3 | *2.3* | 2.0 | *2.5* | 2.1 |
| **Germany** | 3.6 | 1.9 | 1.8 | 2.0 | 1.7 | -0.7 | 0.0 | *0.1* | -0.4 | *1.1* | 0.7 | *1.7* | 1.4 |
| **Greece** | 4.8 | 1.9 | 2.6 | 2.0 | 3.0 | 3.1 | 4.0 | *3.5* | 3.3 | *3.2* | 2.9 | *3.0* | 3.1 |
| **Spain** | 4.5 | 1.2 | 3.7 | 4.1 | 2.8 | 2.9 | 2.9 | *3.2* | 3.5 | *2.8* | 3.2 | *2.8* | 3.0 |
| **France** | 3.7 | 0.7 | 2.1 | 2.6 | 2.7 | 1.5 | 1.5 | *2.4* | 2.3 | *1.7* | 2.0 | *2.1* | 2.1 |
| **Ireland** | 3.1 | 3.1 | 7.7 | 9.0 | 5.2 | 2.6 | 2.6 | *3.0* | 2.9 | *3.8* | 3.9 | *4.8* | 4.9 |
| **Italy** | 4.4 | 0.9 | 2.6 | 2.7 | 0.8 | 0.4 | 1.4 | *1.5* | 1.0 | *1.6* | 1.4 | *1.7* | 1.9 |
| **Luxembourg** | 3.8 | 2.5 | 4.4 | 4.6 | 5.1 | 3.2 | 1.6 | *2.2* | 1.8 | *2.6* | 2.6 | *3.0* | 3.0 |
| **Netherlands** | 3.5 | 1.6 | 4.0 | 3.5 | 1.4 | 1.3 | -0.9 | *0.5* | 0.5 | *0.9* | -0.2 | *1.2* | -2.4 |
| **Austria** | 3.7 | 2.1 | 2.2 | 3.9 | 1.0 | -0.1 | 0.6 | *1.2* | 1.5 | *2.1* | 1.7 | *2.4* | 2.0 |
| **Portugal** | 4.0 | 2.3 | 3.9 | 2.9 | 1.2 | 1.1 | -0.3 | *2.1* | 2.3 | *1.8* | 1.7 | *2.0* | 1.9 |
| **Finland** | 3.9 | -1.1 | 3.6 | 3.1 | 1.8 | 1.4 | 4.4 | *3.3* | 3.2 | *2.7* | 2.6 | *2.4* | 2.4 |
| **Euro area** | 3.8 | 1.3 | 2.5 | 2.8 | 1.9 | 0.7 | 1.1 | *1.5* | 1.3 | *1.7* | 1.6 | *2.0* | 1.8 |
| **Czech Republic** | : | -0.4 | 2.7 | 2.9 | 2.6 | 2.8 | 4.9 | *3.9* | 2.5 | *3.7* | 3.1 | *3.8* | 3.6 |
| **Denmark** | 2.1 | 2.3 | 1.5 | -0.7 | -0.2 | 0.6 | 0.9 | *3.2* | 4.2 | *2.9* | 3.9 | *1.9* | 2.5 |
| **Estonia** | : | : | 6.3 | 8.6 | 6.2 | 10.3 | 5.7 | *6.5* | 5.3 | *5.2* | 5.5 | *5.2* | 5.6 |
| **Cyprus** | : | : | 4.2 | 6.5 | 3.7 | 1.5 | 1.9 | *3.2* | 6.1 | *3.4* | 3.0 | *3.5* | 4.0 |
| **Latvia** | : | : | 5.3 | 6.3 | 7.3 | 7.4 | 8.6 | *9.0* | 9.9 | *8.5* | 6.6 | *8.0* | 5.3 |
| **Lithuania** | : | : | 5.4 | 6.1 | 3.6 | 6.1 | 12.4 | *9.1* | 9.4 | *6.5* | 6.7 | *5.9* | 6.5 |
| **Hungary** | : | : | 2.8 | 5.5 | 5.7 | 10.2 | 8.0 | *3.1* | 3.5 | *3.4* | 2.9 | *3.7* | 3.0 |
| **Malta** | : | : | 4.9 | 7.4 | 0.2 | -0.9 | 2.0 | *-0.3* | 1.0 | *0.6* | 1.0 | *1.1* | 1.5 |
| **Poland** | : | 4.4 | 5.6 | 2.8 | 2.0 | 3.4 | 3.0 | *4.0* | 3.2 | *4.2* | 3.8 | *4.4* | 3.9 |
| **Slovenia** | : | 2.1 | 2.9 | 0.4 | 2.3 | 0.3 | 2.7 | *3.5* | 3.5 | *3.3* | 3.5 | *3.3* | 3.3 |
| **Slovakia** | : | : | 4.4 | -0.8 | 4.7 | 5.5 | -0.6 | *3.6* | 3.5 | *4.1* | 4.6 | *4.3* | 4.9 |
| **Sweden** | 2.4 | -0.2 | 3.2 | 5.0 | 0.4 | 1.4 | 1.5 | *2.3* | 1.8 | *3.0* | 2.6 | *3.0* | 2.8 |
| **United Kingdom** | 2.8 | 1.3 | 4.0 | 4.6 | 2.9 | 3.3 | 2.3 | *3.3* | 3.1 | *2.3* | 2.2 | *2.1* | 2.3 |
| **EU-25** | : | : | 2.8 | 3.1 | 2.0 | 1.4 | 1.5 | *2.0* | 1.8 | *2.0* | 1.9 | *2.2* | 2.0 |
| **EU-15** | 3.5 | 1.3 | 2.7 | 3.1 | 2.0 | 1.2 | 1.4 | *1.9* | 1.7 | *1.9* | 1.8 | *2.1* | 1.9 |
| **USA** | 3.7 | 2.6 | 4.4 | 4.7 | 2.5 | 3.1 | 3.3 | *3.5* | 3.8 | *2.3* | 3.5 | *2.6* | 2.5 |
| **Japan** | 5.8 | 2.3 | 0.7 | 0.5 | 1.1 | 0.5 | 0.2 | *3.1* | 1.5 | *2.0* | 0.7 | *2.0* | 1.2 |

**TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.5 | 1.6 | 1.9 | 2.3 | 2.8 | 2.3 | 2.7 | *2.3* | 3.3 | *2.1* | 2.0 | *2.0* | 1.9 |
| **Germany** | 3.2 | 2.2 | 1.2 | 1.1 | 1.0 | 1.9 | 0.1 | *0.0* | 0.4 | *-0.3* | -0.1 | *0.4* | 0.6 |
| **Greece** | 4.6 | 0.5 | 4.4 | 14.8 | -3.2 | 8.3 | -2.3 | *5.9* | 6.5 | *1.5* | 1.9 | *1.0* | 1.3 |
| **Spain** | 4.9 | 3.0 | 3.5 | 5.6 | 3.5 | 4.1 | 3.9 | *4.2* | 4.9 | *4.1* | 4.5 | *4.1* | 4.2 |
| **France** | 3.4 | 2.3 | 1.7 | 2.8 | 2.9 | 4.6 | 2.4 | *2.5* | 2.6 | *1.6* | 2.0 | *2.0* | 2.0 |
| **Ireland** | 3.6 | 2.7 | 5.9 | 8.1 | 11.3 | 8.4 | 2.6 | *2.2* | 2.8 | *2.3* | 2.7 | *2.3* | 2.7 |
| **Italy** | 3.4 | -0.2 | 0.9 | 1.7 | 3.9 | 1.9 | 2.3 | *1.0* | 0.6 | *1.1* | 1.0 | *1.1* | 0.5 |
| **Luxembourg** | 3.6 | 3.6 | 4.4 | 4.8 | 6.5 | 3.2 | 5.0 | *3.6* | 3.3 | *3.5* | 2.6 | *3.5* | 3.0 |
| **Netherlands** | 3.1 | 2.1 | 2.2 | 2.0 | 4.8 | 3.6 | 1.8 | *0.8* | 0.2 | *0.5* | 1.5 | *2.5* | 7.9 |
| **Austria** | 2.7 | 2.8 | 2.0 | 0.2 | -1.4 | 1.1 | 0.4 | *0.3* | 0.9 | *0.5* | 0.3 | *0.5* | 0.2 |
| **Portugal** | 7.6 | 2.7 | 3.9 | 4.1 | 3.3 | 2.3 | 0.3 | *0.6* | 1.2 | *0.5* | 0.6 | *0.4* | 0.0 |
| **Finland** | 4.4 | -0.4 | 1.8 | 0.0 | 2.4 | 3.8 | 1.2 | *1.5* | 2.1 | *1.5* | 2.3 | *1.4* | 1.9 |
| **Euro area** | 3.5 | 1.8 | 1.7 | 2.4 | 2.6 | 3.1 | 1.6 | *1.5* | 1.7 | *1.1* | 1.4 | *1.6* | 2.0 |
| **Czech Republic** | : | -4.1 | 1.5 | 0.2 | 3.8 | 4.5 | 4.2 | *-0.2* | -3.2 | *-0.1* | 2.7 | *0.1* | 2.9 |
| **Denmark** | 3.6 | 2.1 | 2.0 | 0.9 | 2.7 | 2.1 | 1.0 | *0.3* | 0.2 | *0.5* | 0.6 | *0.5* | 0.5 |
| **Estonia** | : | : | 0.2 | 1.1 | 1.8 | 5.9 | 5.8 | *5.1* | 5.1 | *4.8* | 5.2 | *4.6* | 4.7 |
| **Cyprus** | : | : | 6.1 | -5.0 | 12.6 | 7.5 | 4.8 | *-3.2* | -5.7 | *2.3* | 1.7 | *2.7* | 1.5 |
| **Latvia** | : | : | 0.7 | -4.0 | 2.8 | 2.2 | 1.9 | *2.7* | 2.7 | *3.5* | 2.5 | *3.3* | 2.5 |
| **Lithuania** | : | : | 1.9 | 3.9 | 0.3 | 1.8 | 4.0 | *6.8* | 5.6 | *6.7* | 5.9 | *4.1* | 3.8 |
| **Hungary** | : | : | 1.2 | 1.9 | 6.2 | 5.0 | 5.4 | *0.0* | -1.2 | *1.0* | 0.5 | *2.2* | 2.0 |
| **Malta** | : | : | 1.5 | 5.4 | 0.3 | 3.8 | 3.0 | *0.7* | 0.6 | *0.2* | 0.2 | *0.2* | 0.2 |
| **Poland** | : | 4.7 | 2.2 | 1.3 | 0.6 | 0.4 | 0.1 | *1.8* | 1.4 | *1.4* | 1.1 | *1.0* | 1.3 |
| **Slovenia** | : | 1.5 | 3.3 | 2.3 | 3.9 | 1.7 | 2.6 | *1.7* | 1.7 | *2.5* | 3.0 | *2.7* | 3.2 |
| **Slovakia** | : | : | 3.3 | 1.6 | 4.6 | 4.9 | 2.7 | *0.9* | 1.2 | *1.5* | 4.7 | *2.4* | 4.6 |
| **Sweden** | 3.5 | 0.9 | 0.7 | -1.2 | 0.9 | 2.3 | 0.8 | *0.9* | 0.3 | *0.9* | 1.2 | *0.8* | 1.0 |
| **United Kingdom** | 1.8 | 1.1 | 1.6 | 2.3 | 2.6 | 3.8 | 3.5 | *3.8* | 4.6 | *2.2* | 3.4 | *2.8* | 3.2 |
| **EU-25** | : | : | 1.7 | 2.2 | 2.5 | 3.1 | 1.9 | *1.8* | 2.0 | *1.3* | 1.7 | *1.7* | 2.1 |
| **EU-15** | 3.2 | 1.7 | 1.7 | 2.2 | 2.5 | 3.2 | 1.9 | *1.9* | 2.1 | *1.3* | 1.7 | *1.7* | 2.1 |
| **USA** | 2.5 | 0.0 | 1.8 | 1.9 | 3.3 | 4.4 | 3.2 | *1.7* | 1.7 | *2.3* | 1.8 | *2.5* | 2.2 |
| **Japan** | 4.4 | 3.4 | 3.2 | 4.9 | 3.0 | 2.6 | 1.2 | *1.6* | 2.7 | *1.4* | 1.7 | *1.4* | 1.2 |

**TABLE 9 : Total investment, volume (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 3.4 | -0.4 | 4.0 | 4.4 | 0.3 | -3.7 | -0.9 | 1.7 | 1.6 | 4.6 | 4.5 | 4.8 | 5.0 |
| **Germany** | 2.3 | 1.6 | 1.9 | 2.7 | -4.2 | -6.4 | -2.2 | -1.0 | -0.9 | 2.3 | 2.0 | 3.6 | 3.5 |
| **Greece** | 3.5 | -0.2 | 9.0 | 8.0 | 6.5 | 5.7 | 13.7 | 4.9 | 4.9 | 3.6 | 3.1 | 3.5 | 3.8 |
| **Spain** | 6.0 | -0.5 | 6.3 | 5.7 | 3.0 | 1.7 | 3.2 | 3.3 | 4.6 | 3.7 | 5.3 | 4.0 | 4.3 |
| **France** | 4.5 | -1.2 | 4.5 | 7.8 | 1.9 | -2.0 | -0.2 | 3.6 | 3.3 | 3.7 | 3.0 | 3.4 | 3.5 |
| **Ireland** | 5.2 | 2.6 | 14.8 | 7.3 | -1.5 | 3.0 | 3.4 | 8.5 | 6.0 | 4.6 | 3.3 | 2.8 | 4.7 |
| **Italy** | 2.9 | -1.2 | 4.3 | 6.9 | 1.9 | 1.2 | -1.8 | 3.6 | 2.1 | 3.2 | 1.6 | 3.0 | 3.3 |
| **Luxembourg** | 3.3 | 3.2 | 7.7 | -3.5 | 10.0 | -1.1 | -6.3 | 6.3 | 6.9 | 5.2 | 7.3 | 5.0 | 6.7 |
| **Netherlands** | 3.0 | 0.8 | 5.2 | 1.4 | 0.2 | -3.6 | -3.1 | 1.6 | 1.6 | 2.0 | 2.1 | 3.5 | 3.9 |
| **Austria** | 3.8 | 2.2 | 3.2 | 6.5 | -2.1 | -3.4 | 6.2 | 2.9 | 3.7 | 4.0 | 2.4 | 4.3 | 2.7 |
| **Portugal** | 4.6 | 2.2 | 8.2 | 3.8 | 0.8 | -5.1 | -9.9 | 2.4 | 1.3 | 3.3 | 1.4 | 4.8 | 3.2 |
| **Finland** | 3.3 | -9.1 | 7.0 | 4.1 | 3.9 | -3.1 | -1.5 | 2.6 | 4.6 | 2.8 | 4.3 | 3.1 | 3.3 |
| **Euro area** | 3.4 | -0.1 | 4.0 | 5.0 | -0.1 | -2.4 | -0.5 | 2.2 | 2.1 | 3.2 | 2.8 | 3.6 | 3.7 |
| **Czech Republic** | : | 2.1 | 0.8 | 4.9 | 5.4 | 3.4 | 4.8 | 11.7 | 9.1 | 8.8 | 7.9 | 6.8 | 6.9 |
| **Denmark** | 2.7 | 1.8 | 6.6 | 7.1 | 4.9 | 4.5 | 0.4 | 3.2 | 4.6 | 3.5 | 4.5 | 2.6 | 3.1 |
| **Estonia** | : | : | 7.6 | 14.3 | 13.0 | 17.2 | 5.4 | 5.5 | 8.7 | 6.0 | 8.3 | 6.2 | 6.9 |
| **Cyprus** | : | : | 2.6 | 3.8 | 3.2 | 8.1 | -1.5 | 5.3 | 9.4 | 6.4 | 6.0 | 6.6 | 6.0 |
| **Latvia** | : | : | 19.6 | 10.2 | 11.4 | 13.0 | 10.9 | 12.0 | 19.3 | 11.0 | 16.3 | 10.5 | 14.6 |
| **Lithuania** | : | : | 8.3 | -9.0 | 13.5 | 11.1 | 14.0 | 14.2 | 12.3 | 10.0 | 14.4 | 8.9 | 9.5 |
| **Hungary** | : | : | 8.5 | 7.7 | 5.0 | 8.0 | 3.4 | 10.0 | 8.2 | 6.0 | 6.3 | 6.5 | 6.4 |
| **Malta** | : | : | 0.6 | 17.5 | -16.9 | -19.9 | 34.4 | 6.9 | 5.3 | 2.9 | 6.6 | 1.2 | 1.9 |
| **Poland** | : | 5.1 | 12.8 | 2.7 | -8.8 | -5.8 | -0.5 | 6.5 | 5.6 | 10.0 | 10.0 | 12.0 | 11.0 |
| **Slovenia** | : | 2.6 | 11.1 | 0.6 | 4.1 | 3.1 | 6.3 | 6.9 | 6.8 | 5.7 | 5.9 | 5.9 | 6.3 |
| **Slovakia** | : | : | 4.2 | -7.2 | 13.9 | -0.6 | -1.5 | 6.3 | 2.5 | 7.4 | 9.9 | 5.2 | 8.8 |
| **Sweden** | 3.1 | -4.1 | 5.1 | 5.7 | -1.0 | -2.6 | -1.5 | 2.5 | 5.1 | 6.0 | 7.0 | 6.4 | 6.2 |
| **United Kingdom** | 3.3 | -0.3 | 6.0 | 3.6 | 2.6 | 2.7 | 2.2 | 6.7 | 6.0 | 5.1 | 5.2 | 4.5 | 4.2 |
| **EU-25** | : | : | 4.5 | 4.8 | 0.3 | -1.4 | 0.1 | 3.2 | 3.0 | 3.8 | 3.6 | 4.0 | 4.1 |
| **EU-15** | 3.4 | -0.3 | 4.3 | 4.9 | 0.4 | -1.5 | -0.1 | 2.9 | 2.8 | 3.6 | 3.3 | 3.7 | 3.8 |
| **USA** | 3.6 | 4.2 | 8.2 | 6.2 | -1.9 | -3.5 | 4.4 | 9.1 | 9.0 | 5.5 | 6.4 | 4.5 | 3.6 |
| **Japan** | 7.9 | -0.7 | 0.8 | 2.0 | -1.4 | -5.7 | 0.9 | 3.6 | 1.7 | 1.1 | 0.3 | 1.9 | 1.6 |

**TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 1.0 | 1.7 | 1.4 | -0.3 | -1.7 | -3.7 | -0.7 | 0.8 | 1.4 | 4.4 | 4.3 | 4.7 | 5.4 |
| **Germany** | 0.7 | 4.0 | -1.3 | -2.6 | -4.8 | -5.8 | -3.2 | -2.2 | -2.6 | -1.9 | -1.7 | -1.2 | -1.2 |
| **Greece** | 0.2 | -2.8 | 5.4 | 3.6 | 7.0 | 3.7 | 10.9 | 4.0 | 4.0 | 3.0 | 1.5 | 3.0 | 2.6 |
| **Spain** | 3.1 | 0.1 | 4.6 | 6.2 | 5.3 | 5.2 | 4.3 | 4.2 | 4.4 | 3.6 | 4.8 | 3.2 | 3.9 |
| **France** | 1.1 | -2.1 | 1.6 | 7.1 | 1.4 | -1.5 | 0.3 | 3.2 | 2.9 | 2.3 | 2.1 | 2.0 | 2.0 |
| **Ireland** | 2.3 | 3.7 | 13.0 | 6.6 | 4.7 | 5.3 | 5.0 | 10.5 | 5.3 | 2.9 | 3.1 | 0.1 | 3.2 |
| **Italy** | 0.4 | -2.4 | 1.9 | 5.9 | 3.0 | 3.2 | 1.7 | 3.0 | 3.1 | 2.0 | 2.2 | 1.7 | 2.0 |
| **Luxembourg** | 2.3 | 4.4 | 5.9 | 7.9 | 13.4 | 1.1 | 4.2 | 6.6 | 6.6 | 4.8 | 7.0 | 3.9 | 6.0 |
| **Netherlands** | 0.0 | 0.8 | 3.9 | 4.9 | 1.9 | -2.8 | -5.2 | 0.8 | -0.2 | 2.0 | 0.9 | 3.5 | 2.4 |
| **Austria** | 2.3 | 3.5 | 0.7 | 2.1 | -5.0 | -0.8 | 7.0 | 1.6 | 1.1 | 3.9 | 1.8 | 3.2 | 2.2 |
| **Portugal** | : | 3.5 | 6.5 | 4.0 | 3.2 | -2.9 | -12.0 | 0.3 | -1.6 | 1.9 | -1.0 | 3.0 | 1.5 |
| **Finland** | 2.2 | -9.9 | 8.7 | 6.2 | -0.7 | -1.9 | 0.7 | 2.9 | 2.7 | 2.8 | 3.5 | 3.4 | 3.3 |
| **Euro area [1]** | 1.2 | 0.6 | 1.3 | 2.5 | -0.1 | -1.2 | -0.1 | 1.8 | 1.3 | 1.5 | 1.5 | 1.6 | 1.8 |
| **Czech Republic** | : | -0.7 | -6.5 | -5.5 | 6.2 | -0.8 | 4.3 | 13.9 | 21.5 | 9.8 | 12.1 | 7.4 | 7.6 |
| **Denmark** | -1.2 | -0.7 | 3.9 | 6.9 | 3.4 | 1.7 | -0.8 | 3.1 | 3.1 | 2.7 | 3.7 | 2.5 | 2.4 |
| **Estonia** | : | : | : | : | : | : | : | 4.6 | 6.0 | 5.6 | 6.3 | 5.8 | 6.2 |
| **Cyprus** | : | : | -0.7 | -1.2 | 3.8 | 6.1 | 7.5 | 5.4 | 2.6 | 6.4 | 6.0 | 6.7 | 6.0 |
| **Latvia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Lithuania** | : | : | 2.8 | -16.8 | 8.7 | 11.3 | 19.7 | 17.0 | 12.2 | 10.7 | 16.4 | 9.0 | 10.9 |
| **Hungary** | : | : | : | : | : | : | : | : | 8.4 | : | 7.9 | : | 5.7 |
| **Malta** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Poland** | : | : | 10.0 | 1.0 | -8.5 | -2.2 | : | : | : | : | : | : | : |
| **Slovenia** | : | -4.2 | 9.2 | -1.3 | 1.2 | 3.1 | 5.6 | 5.3 | 6.7 | 6.0 | 6.3 | 6.5 | 6.5 |
| **Slovakia** | : | : | -5.4 | -8.7 | 40.5 | -7.9 | -4.5 | 6.3 | : | 7.4 | : | 5.2 | : |
| **Sweden** | 0.3 | -8.3 | -0.2 | 4.3 | 5.9 | 2.4 | -1.3 | 3.3 | 2.9 | 4.6 | 5.5 | 5.5 | 5.6 |
| **United Kingdom** | 1.9 | -1.8 | 2.5 | -0.7 | 17.1 | 4.1 | 10.0 | 7.5 | 7.7 | 4.8 | 6.2 | 4.8 | 4.8 |
| **EU-25** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **EU-15 [1]** | 1.3 | 0.0 | 1.4 | 2.2 | 2.4 | -0.4 | 1.4 | 2.7 | 2.4 | 2.2 | 2.5 | 2.3 | 2.4 |
| **USA** | 1.7 | 1.0 | 4.7 | 3.2 | 0.4 | -2.3 | 3.0 | 6.5 | 4.8 | 2.8 | 1.7 | 2.0 | -0.1 |
| **Japan** | 3.3 | -1.6 | -1.1 | -1.2 | -3.1 | -3.3 | : | : | : | : | : | : | : |

[1] Excluding Portugal up to 1985.

**TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1971-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.8 | -3.2 | 6.7 | 9.6 | 1.3 | -3.0 | -2.0 | *2.3* | 1.5 | *4.6* | 4.5 | *4.6* | 4.5 |
| **Germany** | 2.2 | -2.6 | 6.3 | 10.1 | -4.9 | -8.6 | -1.4 | *-0.1* | 1.2 | *6.6* | 5.7 | *8.2* | 8.1 |
| **Greece** | 3.5 | 4.6 | 15.9 | 14.1 | 4.9 | 6.9 | 18.3 | *4.2* | 5.8 | *4.5* | 3.7 | *4.2* | 4.6 |
| **Spain** | 4.3 | -2.5 | 9.1 | 4.7 | -1.2 | -5.4 | 1.0 | *1.7* | 5.8 | *4.2* | 6.7 | *5.3* | 5.7 |
| **France** | 5.3 | -0.1 | 7.9 | 10.4 | 2.5 | -3.5 | -0.1 | *5.9* | 5.1 | *5.9* | 4.5 | *5.4* | 5.5 |
| **Ireland** | 4.5 | 2.9 | 16.3 | 8.7 | -10.4 | 1.0 | 0.5 | *6.0* | 7.0 | *7.5* | 3.4 | *6.5* | 7.0 |
| **Italy** | 3.9 | -0.1 | 6.5 | 8.3 | 0.8 | -1.0 | -5.2 | *4.6* | 1.4 | *4.5* | 1.1 | *4.6* | 4.4 |
| **Luxembourg** | 4.2 | 2.1 | 9.4 | -13.0 | 8.6 | -2.5 | -20.0 | *6.0* | 7.5 | *6.0* | 8.0 | *6.6* | 8.0 |
| **Netherlands** | 2.9 | 1.3 | 5.5 | -3.5 | -1.3 | -3.5 | 1.3 | *2.7* | 4.5 | *2.5* | 3.4 | *3.7* | 5.6 |
| **Austria** | 3.3 | 0.1 | 6.3 | 12.3 | 0.6 | -7.8 | 5.5 | *4.6* | 6.3 | *4.3* | 3.0 | *5.9* | 3.3 |
| **Portugal** | : | 0.0 | 11.2 | 4.7 | -3.2 | -10.5 | -6.5 | *5.6* | 6.2 | *5.4* | 5.0 | *7.4* | 5.7 |
| **Finland** | 3.7 | -9.8 | 4.4 | -1.0 | 12.0 | -9.8 | -6.9 | *2.6* | 9.6 | *3.6* | 6.9 | *3.0* | 4.1 |
| **Euro area** [1] | 3.8 | -0.9 | 7.2 | 8.3 | -0.9 | -4.8 | -1.1 | *3.0* | 3.3 | *5.3* | 4.2 | *5.9* | 5.9 |
| **Czech Republic** | : | 3.6 | 9.0 | 14.8 | 4.7 | 7.9 | 4.3 | *9.7* | 1.0 | *8.0* | 5.2 | *6.4* | 6.4 |
| **Denmark** | 2.6 | 2.6 | 7.9 | 8.4 | 7.0 | 6.5 | 1.4 | *3.5* | 6.7 | *4.3* | 5.3 | *2.6* | 3.5 |
| **Estonia** | : | : | : | : | : | : | : | *2.0* | 6.8 | *2.0* | 6.4 | *2.0* | 6.5 |
| **Cyprus** | : | : | 9.7 | 11.6 | 1.8 | 11.9 | -15.2 | *5.0* | 22.7 | *6.5* | 6.0 | *6.5* | 6.0 |
| **Latvia** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **Lithuania** | : | : | 18.7 | -0.2 | 22.3 | 10.8 | 7.5 | *11.0* | 12.6 | *8.9* | 12.0 | *8.8* | 7.6 |
| **Hungary** | : | : | : | : | : | : | : | *:* | 7.9 | *:* | 3.0 | *:* | 5.4 |
| **Malta** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **Poland** | : | : | 14.9 | 4.0 | -10.4 | -9.6 | : | *:* | : | *:* | : | *:* | : |
| **Slovenia** | : | 8.0 | 12.3 | 3.0 | 6.6 | 2.7 | 7.1 | *8.1* | 6.9 | *5.5* | 5.6 | *5.3* | 6.0 |
| **Slovakia** | : | : | 10.3 | -6.6 | -2.0 | 1.7 | 0.6 | *6.3* | : | *7.4* | : | *5.2* | : |
| **Sweden** | 4.8 | 0.5 | 8.2 | 5.2 | -4.4 | -3.6 | -3.0 | *1.9* | 6.7 | *7.5* | 8.2 | *7.6* | 6.5 |
| **United Kingdom** | 2.9 | 1.2 | 9.0 | 3.1 | -12.6 | -0.2 | -3.4 | *5.6* | 3.5 | *5.7* | 3.9 | *4.2* | 3.4 |
| **EU-25** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **EU-15** [1] | 3.7 | -0.3 | 7.5 | 7.3 | -2.8 | -3.7 | -1.5 | *3.4* | 3.5 | *5.4* | 4.3 | *5.6* | 5.5 |
| **USA** | 5.3 | 7.7 | 11.7 | 9.0 | -4.2 | -4.7 | 6.0 | *11.6* | 13.0 | *8.0* | 10.6 | *6.7* | 6.6 |
| **Japan** | 5.8 | -0.7 | 3.3 | 7.3 | 1.6 | -9.0 | : | *:* | : | *:* | : | *:* | : |

[1] Excluding Portugal up to 1985.

**TABLE 12 : Public investment (as a percentage of GDP, 1971-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.5 | 1.6 | 1.8 | 1.9 | 1.7 | 1.6 | 1.6 | *1.6* | 1.5 | *1.6* | 1.8 | *1.7* | 2.0 |
| **Germany** | 3.1 | 2.6 | 1.9 | 1.8 | 1.8 | 1.7 | 1.5 | *1.4* | 1.4 | *1.3* | 1.4 | *1.3* | 1.4 |
| **Greece** | 2.8 | 3.2 | 3.5 | 4.1 | 4.0 | 3.6 | 4.0 | *4.1* | 4.1 | *3.2* | 3.3 | *3.1* | 3.1 |
| **Spain** | 2.9 | 4.1 | 3.2 | 3.1 | 3.5 | 3.7 | 3.6 | *3.6* | 3.7 | *3.5* | 3.7 | *3.6* | 3.7 |
| **France** | 3.4 | 3.3 | 3.1 | 3.2 | 3.1 | 3.1 | 3.2 | *3.3* | 3.3 | *3.3* | 3.4 | *3.3* | 3.4 |
| **Ireland** | 3.9 | 2.2 | 2.9 | 3.6 | 4.3 | 4.2 | 3.9 | *3.8* | 3.6 | *3.9* | 3.9 | *3.8* | 3.9 |
| **Italy** | 3.2 | 2.7 | 2.3 | 2.4 | 2.5 | 1.9 | 2.6 | *2.5* | 2.6 | *2.4* | 2.4 | *3.0* | 2.9 |
| **Luxembourg** | : | 4.7 | 4.4 | 3.8 | 4.4 | 5.1 | 4.9 | *4.8* | 5.0 | *4.8* | 5.1 | *4.7* | 5.1 |
| **Netherlands** | 2.9 | 2.2 | 3.0 | 3.1 | 3.3 | 3.6 | 3.6 | *3.5* | 3.6 | *3.4* | 3.5 | *3.4* | 3.4 |
| **Austria** | 4.3 | 3.1 | 2.0 | 1.5 | 1.2 | 1.3 | 1.2 | *1.2* | 1.2 | *1.2* | 1.2 | *1.1* | 1.1 |
| **Portugal** | 3.1 | 3.6 | 4.1 | 3.8 | 4.0 | 3.3 | 3.3 | *2.4* | 3.3 | *3.1* | 3.2 | *2.9* | 3.0 |
| **Finland** | 3.8 | 3.1 | 2.9 | 2.6 | 2.8 | 2.9 | 3.0 | *2.8* | 2.9 | *2.7* | 2.8 | *2.6* | 2.7 |
| **Euro area** | 3.3 | 2.9 | 2.5 | 2.5 | 2.6 | 2.5 | 2.6 | *2.5* | 2.6 | *2.5* | 2.6 | *2.6* | 2.7 |
| **Czech Republic** | : | : | 3.7 | 2.9 | 3.2 | 3.7 | 4.2 | *4.3* | 3.9 | *4.4* | 3.9 | *4.4* | 3.9 |
| **Denmark** | 3.0 | 1.8 | 1.8 | 1.7 | 1.9 | 1.8 | 1.7 | *1.7* | 1.7 | *1.7* | 1.8 | *1.7* | 1.7 |
| **Estonia** | : | : | 4.3 | 3.9 | 4.1 | 4.7 | 3.4 | *3.7* | 3.6 | *4.2* | 4.3 | *4.1* | 4.2 |
| **Cyprus** | : | : | : | 3.0 | 3.0 | 3.0 | 3.4 | *3.5* | 3.9 | *3.7* | 3.6 | *3.7* | 3.5 |
| **Latvia** | : | 2.3 | 1.8 | 1.4 | 1.1 | 1.3 | 1.5 | *2.0* | 1.7 | *3.2* | 2.6 | *3.5* | 3.1 |
| **Lithuania** | : | : | 2.5 | 2.4 | 2.2 | 2.8 | 3.0 | *3.2* | 3.2 | *3.2* | 3.4 | *3.1* | 3.4 |
| **Hungary** | : | : | : | 3.2 | 3.8 | 4.9 | 3.4 | *3.0* | 3.5 | *2.9* | 2.3 | *3.6* | 3.1 |
| **Malta** | : | : | : | 4.1 | 3.7 | 4.5 | 5.3 | *5.7* | 4.4 | *5.3* | 3.9 | *4.9* | 3.7 |
| **Poland** | : | 3.2 | 3.5 | 2.5 | 3.5 | 3.6 | 3.4 | *3.5* | 3.4 | *3.7* | 4.2 | *3.9* | 4.7 |
| **Slovenia** | : | : | : | 3.1 | 3.0 | 2.8 | 2.8 | *2.8* | 2.8 | *2.8* | 2.9 | *2.7* | 2.9 |
| **Slovakia** | : | : | 3.8 | 2.8 | 3.1 | 3.3 | 2.6 | *2.7* | 2.6 | *2.7* | 2.6 | *2.7* | 2.4 |
| **Sweden** | 3.9 | 2.5 | 3.2 | 2.9 | 3.1 | 3.2 | 3.1 | *3.0* | 3.0 | *2.9* | 3.0 | *2.9* | 3.0 |
| **United Kingdom** | 3.0 | 2.0 | 1.4 | 1.3 | 1.4 | 1.4 | 1.7 | *1.8* | 1.8 | *2.0* | 2.0 | *2.1* | 2.1 |
| **EU-25** | : | : | : | 2.3 | 2.4 | 2.4 | 2.5 | *2.4* | 2.4 | *2.4* | 2.5 | *2.5* | 2.6 |
| **EU-15** | 3.2 | 2.7 | 2.3 | 2.3 | 2.4 | 2.3 | 2.4 | *2.4* | 2.4 | *2.4* | 2.5 | *2.5* | 2.5 |
| **USA** | 2.7 | 2.5 | 2.5 | 2.6 | 2.7 | 2.8 | 2.7 | *3.3* | 3.2 | *3.3* | 3.2 | *3.3* | 3.2 |
| **Japan** | 5.3 | 5.9 | 5.6 | 5.1 | 4.9 | 4.7 | 4.2 | *3.3* | 3.7 | *2.8* | 3.3 | *2.5* | 3.1 |

**TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1986-2006) [1]** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1965-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | -0.3 | -0.4 | -0.1 | 1.9 | 0.5 | -0.6 | -1.3 | -0.8 | -0.8 | -0.5 | -0.7 | -0.2 | -0.6 |
| **Germany** | -0.4 | 1.4 | -0.6 | 1.0 | 0.7 | -0.2 | -1.2 | -1.2 | -0.8 | -1.0 | -1.2 | -0.9 | -1.0 |
| **Greece** | 0.3 | -1.6 | -1.9 | -0.6 | 0.2 | 0.5 | 1.3 | 1.6 | 2.4 | 1.7 | 2.2 | 1.9 | 2.2 |
| **Spain** | 0.2 | 0.0 | -0.4 | 1.9 | 1.6 | 0.8 | 0.4 | 0.2 | 0.1 | -0.1 | 0.0 | -0.2 | -0.2 |
| **France** | -0.1 | -0.5 | -0.4 | 2.0 | 1.8 | 1.0 | -0.6 | -0.4 | -0.3 | -0.5 | -0.6 | -0.7 | -0.7 |
| **Ireland** | -0.1 | -2.5 | 1.7 | 5.2 | 3.6 | 2.7 | 0.0 | -0.8 | -0.7 | -1.9 | -1.5 | -2.6 | -2.0 |
| **Italy** | 0.1 | -0.7 | 0.8 | 2.0 | 2.1 | 0.8 | -0.6 | -1.5 | -1.3 | -0.9 | -1.6 | -0.5 | -1.4 |
| **Luxembourg** | : | 1.3 | 0.3 | 5.5 | 1.6 | -0.4 | -1.4 | -1.9 | -1.3 | -3.0 | -1.6 | -4.3 | -2.0 |
| **Netherlands** | -0.5 | -0.7 | 1.2 | 3.3 | 2.1 | 0.5 | -1.9 | -2.2 | -1.9 | -2.1 | -2.5 | -1.6 | -2.4 |
| **Austria** | -0.2 | 0.3 | 0.4 | 2.2 | 0.8 | 0.1 | -1.0 | -1.1 | -0.8 | -0.6 | -0.6 | -0.2 | -0.4 |
| **Portugal** | 0.2 | -0.8 | 0.5 | 2.5 | 1.9 | 0.4 | -2.0 | -2.9 | -2.5 | -2.8 | -2.8 | -2.7 | -2.7 |
| **Finland** | 0.3 | -5.2 | 1.3 | 3.5 | 0.8 | -0.3 | -1.1 | -0.6 | -0.5 | -0.3 | -0.3 | -0.1 | -0.4 |
| **Euro area** | : | -0.1 | -0.1 | 1.7 | 1.3 | 0.2 | -1.1 | -1.2 | -0.9 | -1.1 | -1.2 | -1.0 | -1.2 |
| **Czech Republic** | : | : | : | -2.3 | -1.4 | -2.2 | -1.3 | -0.6 | -0.3 | -0.2 | 0.4 | 0.3 | 1.4 |
| **Denmark** | -0.2 | -2.1 | 0.9 | 1.8 | 1.3 | 0.3 | -1.0 | -0.7 | -0.8 | -0.3 | -0.4 | -0.2 | -0.3 |
| **Estonia** | : | : | -2.9 | -1.2 | -0.1 | 1.0 | 0.0 | -0.7 | -0.2 | -1.3 | -0.5 | -1.7 | -0.5 |
| **Cyprus** | : | : | -0.3 | 1.5 | 1.9 | 0.2 | -0.9 | -1.1 | -1.1 | -0.7 | -0.6 | -0.1 | 0.2 |
| **Latvia** | : | : | -1.4 | -1.5 | 0.1 | -0.3 | 0.4 | 0.7 | 1.3 | -0.2 | 0.5 | -1.1 | -0.7 |
| **Lithuania** | : | : | -3.0 | -4.5 | -2.8 | -1.6 | 1.7 | 2.1 | 2.0 | 1.7 | 1.7 | 0.7 | 0.8 |
| **Hungary** | : | : | -0.6 | 0.4 | 0.2 | -0.2 | -0.8 | -0.6 | -0.7 | -0.7 | -0.6 | -0.6 | -0.5 |
| **Malta** | : | : | 1.1 | 4.7 | 0.1 | 1.7 | -1.6 | -1.8 | -2.0 | -2.0 | -2.2 | -1.9 | -2.2 |
| **Poland** | : | : | -0.7 | 0.0 | -2.0 | -3.1 | -1.9 | -0.4 | 0.1 | 0.4 | 0.8 | 0.7 | 1.5 |
| **Slovenia** | : | : | : | 1.0 | -0.2 | -0.5 | -1.7 | -0.9 | -0.7 | -0.6 | -0.4 | -0.1 | 0.2 |
| **Slovakia** | : | : | -0.5 | -1.8 | -1.8 | -1.7 | -2.2 | 0.7 | -0.6 | 0.6 | 0.3 | 1.2 | 1.3 |
| **Sweden** | -0.6 | -4.1 | -1.9 | 1.0 | -0.5 | -0.9 | -1.6 | 0.0 | -0.3 | 0.3 | 0.0 | 0.2 | 0.1 |
| **United Kingdom** | 0.3 | -1.9 | 0.5 | 1.3 | 0.8 | -0.2 | -0.8 | -0.3 | -0.4 | -0.3 | -0.3 | -0.5 | -0.3 |
| **EU-25** | : | : | : | 1.6 | 1.1 | 0.1 | -1.1 | -1.0 | -0.8 | -0.9 | -1.0 | -0.8 | -0.9 |
| **EU-15** | : | -0.5 | -0.1 | 1.7 | 1.1 | 0.2 | -1.0 | -1.0 | -0.8 | -0.9 | -1.0 | -0.8 | -1.0 |

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.
Output gap for Spain is calculated according to the alternative method using the Hodrick-Prescott filter.

**TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 4.9 | 2.7 | 1.4 | 1.3 | 1.8 | 1.8 | 1.9 | 2.0 | 2.3 | 2.1 | 1.8 | 2.0 | 2.1 |
| **Germany** | 3.9 | 3.3 | 0.6 | -0.3 | 1.3 | 1.5 | 1.1 | 1.0 | 0.7 | 1.0 | 0.6 | 0.9 | 0.7 |
| **Greece** | 12.2 | 13.9 | 5.1 | 3.4 | 3.5 | 4.0 | 3.5 | 3.6 | 3.4 | 3.1 | 3.3 | 3.2 | 3.3 |
| **Spain** | 10.3 | 5.4 | 2.9 | 3.4 | 4.2 | 4.5 | 4.0 | 3.8 | 4.4 | 3.6 | 3.9 | 3.4 | 3.7 |
| **France** | 6.7 | 2.1 | 1.0 | 1.0 | 1.8 | 2.3 | 1.5 | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 |
| **Ireland** | 8.7 | 2.9 | 4.3 | 4.8 | 5.7 | 4.5 | 1.6 | 3.0 | 2.9 | 2.5 | 2.6 | 2.0 | 2.6 |
| **Italy** | 9.9 | 4.9 | 2.8 | 2.2 | 2.6 | 3.1 | 2.9 | 2.9 | 2.6 | 2.3 | 2.3 | 2.1 | 2.1 |
| **Luxembourg** | 4.9 | 3.5 | 2.7 | 4.2 | 1.9 | 1.1 | 2.1 | 2.3 | 2.7 | 2.4 | 3.2 | 2.9 | 2.4 |
| **Netherlands** | 4.9 | 2.3 | 2.1 | 3.9 | 5.2 | 3.1 | 3.0 | 0.9 | 1.1 | 0.8 | 0.9 | 1.0 | 0.9 |
| **Austria** | 4.6 | 3.0 | 0.7 | 1.8 | 1.7 | 1.3 | 1.6 | 1.1 | 1.9 | 1.2 | 1.6 | 1.2 | 1.5 |
| **Portugal** | 11.9 | 7.9 | 3.4 | 3.5 | 4.3 | 4.4 | 2.8 | 1.9 | 2.4 | 2.3 | 2.3 | 2.4 | 2.4 |
| **Finland** | 8.0 | 2.5 | 1.6 | 3.2 | 3.0 | 1.3 | -0.2 | 0.4 | 0.8 | 1.1 | 0.7 | 1.5 | 1.2 |
| **Euro area** | 6.6 | 3.7 | 1.6 | 1.4 | 2.4 | 2.5 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 |
| **Czech Republic** | : | 18.3 | 6.4 | 1.4 | 4.9 | 2.8 | 1.9 | 4.8 | 3.7 | 3.1 | 3.8 | 2.7 | 3.2 |
| **Denmark** | 7.5 | 2.1 | 2.1 | 3.0 | 2.1 | 1.6 | 2.2 | 1.9 | 1.6 | 1.9 | 1.7 | 2.0 | 1.8 |
| **Estonia** | : | : | 10.5 | 5.3 | 5.8 | 4.4 | 2.4 | 3.8 | 3.3 | 3.9 | 3.5 | 3.0 | 2.9 |
| **Cyprus** | : | 3.9 | 2.6 | 3.7 | 3.3 | 2.2 | 4.8 | 3.0 | 2.2 | 2.8 | 2.9 | 2.5 | 2.4 |
| **Latvia** | : | 133.9 | 6.9 | 3.8 | 2.1 | 3.4 | 3.4 | 6.7 | 7.3 | 6.8 | 4.1 | 5.1 | 3.8 |
| **Lithuania** | : | 218.7 | 7.7 | 1.0 | -0.1 | 0.0 | -0.8 | 1.7 | 3.3 | 2.9 | 3.0 | 3.3 | 3.5 |
| **Hungary** | : | : | 14.0 | 9.9 | 8.6 | 8.9 | 7.6 | 6.2 | 5.1 | 4.3 | 4.8 | 3.9 | 4.1 |
| **Malta** | : | : | 1.7 | 0.5 | 3.3 | 0.6 | 5.0 | 3.4 | 1.7 | 2.4 | 2.6 | 2.1 | 1.2 |
| **Poland** | : | 37.6 | 11.3 | 6.7 | 4.0 | 1.3 | 0.5 | 2.8 | 2.9 | 2.9 | 1.8 | 3.3 | 2.0 |
| **Slovenia** | : | 65.5 | 7.8 | 5.6 | 9.1 | 8.0 | 5.5 | 4.1 | 3.3 | 3.4 | 3.1 | 3.1 | 2.7 |
| **Slovakia** | : | : | 6.2 | 8.5 | 4.2 | 4.0 | 4.7 | 4.0 | 4.6 | 2.3 | 2.9 | 1.6 | 2.6 |
| **Sweden** | 7.2 | 3.7 | 1.1 | 1.3 | 2.3 | 1.7 | 2.1 | 1.1 | 0.8 | 2.0 | 1.3 | 1.9 | 2.0 |
| **United Kingdom** | 8.1 | 3.5 | 2.5 | 1.3 | 2.2 | 3.2 | 3.2 | 2.4 | 2.0 | 2.3 | 2.2 | 2.1 | 2.5 |
| **EU-25** | : | : | 2.0 | 1.6 | 2.5 | 2.6 | 2.3 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.9 |
| **EU-15** | 6.9 | 3.6 | 1.7 | 1.4 | 2.4 | 2.6 | 2.3 | 2.0 | 1.9 | 1.9 | 1.8 | 1.8 | 1.9 |
| **USA** | 4.7 | 2.5 | 1.7 | 2.2 | 2.4 | 1.7 | 1.8 | 2.3 | 2.1 | 2.5 | 2.3 | 2.1 | 2.2 |
| **Japan** | 5.2 | 0.9 | -0.7 | -1.5 | -1.3 | -1.3 | -1.4 | -2.6 | -1.2 | -1.6 | -0.8 | -0.6 | -0.2 |

**TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | average | 5-year average | | | | | | estimate of | | forecast of | | forecast of | |
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 4.7 | 2.2 | 1.7 | 2.3 | 2.5 | 1.7 | 1.8 | *2.0* | 2.4 | *1.9* | 2.2 | *1.8* | 1.8 |
| **Germany** | 3.4 | 3.3 | 1.3 | 1.5 | 1.6 | 1.1 | 1.0 | *1.7* | 1.6 | *1.3* | 1.3 | *1.1* | 1.1 |
| **Greece** | 11.5 | 13.8 | 4.8 | 3.3 | 3.3 | 3.6 | 3.4 | *3.1* | 2.9 | *2.9* | 3.1 | *2.8* | 3.1 |
| **Spain** | 10.0 | 5.6 | 2.8 | 3.1 | 3.3 | 3.4 | 3.1 | *3.1* | 3.0 | *2.8* | 2.9 | *2.5* | 2.7 |
| **France** | 6.7 | 2.5 | 1.2 | 1.5 | 1.6 | 1.9 | 2.0 | *1.7* | 1.5 | *1.9* | 2.0 | *1.7* | 1.8 |
| **Ireland** | 8.7 | 2.7 | 3.1 | 3.8 | 4.1 | 5.6 | 3.8 | *2.2* | 2.4 | *2.4* | 2.2 | *2.4* | 2.5 |
| **Italy** | 9.4 | 5.8 | 2.8 | 2.9 | 2.8 | 3.1 | 2.5 | *2.4* | 2.2 | *2.4* | 2.0 | *2.0* | 1.9 |
| **Luxembourg** | 4.6 | 3.2 | 1.6 | 2.6 | 3.2 | 2.1 | 1.9 | *2.3* | 2.2 | *2.1* | 2.0 | *2.0* | 1.8 |
| **Netherlands** | 4.6 | 2.6 | 2.1 | 3.3 | 4.6 | 2.7 | 2.3 | *1.1* | 1.3 | *1.2* | 1.4 | *1.4* | 1.2 |
| **Austria** | 4.4 | 3.1 | 1.4 | 2.5 | 1.9 | 1.2 | 1.5 | *2.0* | 2.0 | *1.8* | 2.3 | *1.5* | 1.7 |
| **Portugal** | 12.2 | 7.5 | 3.0 | 3.3 | 3.9 | 3.5 | 3.2 | *2.3* | 2.4 | *2.4* | 2.3 | *2.3* | 2.1 |
| **Finland** | 7.4 | 3.1 | 2.1 | 3.6 | 3.5 | 3.2 | 0.2 | *0.6* | 0.9 | *1.9* | 1.6 | *2.0* | 1.8 |
| **Euro area** | 6.4 | 4.0 | 1.9 | 2.2 | 2.3 | 2.2 | 2.0 | *2.0* | 1.9 | *1.9* | 1.9 | *1.7* | 1.7 |
| **Czech Republic** | : | 18.3 | 6.0 | 3.0 | 3.5 | 0.7 | 0.2 | *2.2* | 2.7 | *2.0* | 2.1 | *1.9* | 2.5 |
| **Denmark** | 7.4 | 2.3 | 2.1 | 2.6 | 2.5 | 2.1 | 1.8 | *1.4* | 1.1 | *1.7* | 1.7 | *1.7* | 1.7 |
| **Estonia** | : | : | 10.0 | 2.6 | 6.1 | 3.4 | 0.8 | *3.3* | 3.0 | *3.4* | 3.2 | *2.7* | 2.7 |
| **Cyprus** | : | : | 2.4 | 4.9 | 2.0 | 2.5 | 3.6 | *2.4* | 2.5 | *2.4* | 2.5 | *2.1* | 2.3 |
| **Latvia** | : | : | 6.9 | 3.5 | 2.6 | 2.2 | 2.9 | *6.7* | 6.2 | *4.8* | 5.0 | *3.5* | 3.6 |
| **Lithuania** | : | : | 6.0 | -1.5 | 2.4 | -0.2 | -2.6 | *1.0* | 0.8 | *2.8* | 2.8 | *2.7* | 2.5 |
| **Hungary** | : | : | 14.7 | 9.1 | 8.2 | 3.7 | 4.6 | *7.0* | 7.6 | *4.8* | 4.8 | *4.3* | 4.3 |
| **Malta** | : | : | 3.8 | 9.2 | 1.6 | 1.6 | 0.7 | *3.4* | 3.4 | *2.4* | 2.1 | *2.2* | 2.2 |
| **Poland** | : | 41.1 | 12.0 | 9.0 | 4.7 | 1.6 | 0.7 | *3.4* | 3.3 | *3.3* | 2.1 | *3.0* | 2.3 |
| **Slovenia** | : | 64.9 | 8.3 | 8.3 | 8.1 | 7.8 | 5.0 | *3.8* | 3.6 | *3.3* | 2.5 | *2.9* | 2.5 |
| **Slovakia** | : | : | 7.1 | 10.0 | 6.1 | 3.1 | 7.7 | *6.9* | 6.9 | *3.3* | 3.6 | *2.8* | 2.8 |
| **Sweden** | 7.2 | 4.8 | 1.3 | 1.1 | 2.4 | 1.8 | 2.3 | *1.5* | 1.2 | *1.8* | 0.7 | *1.9* | 1.5 |
| **United Kingdom** | 7.7 | 4.3 | 2.3 | 1.1 | 2.4 | 1.6 | 1.9 | *1.7* | 1.3 | *2.0* | 1.9 | *2.1* | 2.0 |
| **EU-25** | : | : | 2.2 | 2.2 | 2.5 | 2.1 | 2.0 | *2.0* | 1.9 | *2.0* | 1.9 | *1.8* | 1.8 |
| **EU-15** | 6.6 | 4.1 | 1.9 | 2.0 | 2.3 | 2.1 | 2.0 | *1.9* | 1.8 | *1.9* | 1.9 | *1.8* | 1.8 |
| **USA** | 4.6 | 2.6 | 1.8 | 2.5 | 2.1 | 1.4 | 1.9 | *2.4* | 2.2 | *2.7* | 2.4 | *2.0* | 2.3 |
| **Japan** | 5.5 | 1.1 | -0.1 | -0.8 | -1.0 | -1.2 | -0.7 | *-1.3* | -0.5 | *-0.9* | -0.4 | *-0.8* | -0.1 |

**TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2006)**

| | long-term | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | average | 5-year average | | | | | | estimate of | | forecast of | | forecast of | |
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 5.1 | 2.4 | 1.6 | 2.7 | 2.4 | 1.6 | 1.5 | *2.0* | 1.9 | *1.9* | 2.0 | *1.8* | 1.8 |
| **Germany** | 3.5 | 3.1 | 1.1 | 1.4 | 1.9 | 1.3 | 1.0 | *1.7* | 1.8 | *1.3* | 1.3 | *1.1* | 1.1 |
| **Greece** | 11.6 | 13.9 | 4.6 | 2.9 | 3.7 | 3.9 | 3.4 | *3.0* | 3.0 | *2.9* | 3.2 | *2.9* | 3.2 |
| **Spain** | 10.1 | 5.2 | 2.6 | 3.5 | 2.8 | 3.6 | 3.1 | *3.1* | 3.1 | *2.9* | 2.9 | *2.5* | 2.7 |
| **France** | 6.7 | 2.2 | 1.3 | 1.8 | 1.8 | 1.9 | 2.2 | *2.3* | 2.3 | *2.0* | 1.9 | *1.8* | 1.8 |
| **Ireland** | 8.6 | 2.5 | 2.6 | 5.3 | 4.0 | 4.7 | 4.0 | *2.3* | 2.3 | *2.4* | 2.1 | *2.4* | 2.4 |
| **Italy** | 9.1 | 5.0 | 2.4 | 2.6 | 2.3 | 2.6 | 2.8 | *2.3* | 2.3 | *2.3* | 2.0 | *2.0* | 1.9 |
| **Luxembourg** | 4.6 | 2.8 | 1.7 | 3.8 | 2.4 | 2.1 | 2.5 | *3.0* | 3.2 | *2.3* | 3.1 | *1.6* | 1.9 |
| **Netherlands** | 4.7 | 2.9 | 1.9 | 2.3 | 5.1 | 3.9 | 2.2 | *1.2* | 1.4 | *1.3* | 1.3 | *1.4* | -3.0 |
| **Austria** | 4.5 | 3.2 | 1.2 | 2.0 | 2.3 | 1.7 | 1.3 | *2.1* | 2.0 | *1.8* | 2.3 | *1.4* | 1.7 |
| **Portugal** | 13.2 | 7.1 | 2.4 | 2.8 | 4.4 | 3.7 | 3.3 | *2.4* | 2.5 | *2.4* | 2.3 | *2.3* | 2.1 |
| **Finland** | 7.6 | 2.3 | 1.6 | 3.0 | 2.7 | 2.0 | 1.3 | *0.2* | 0.1 | *1.5* | 1.1 | *1.7* | 1.4 |
| **Euro area** | 6.8 | 3.5 | 1.7 | 2.1 | 2.4 | 2.3 | 2.1 | *2.1* | 2.1 | *1.9* | 1.9 | *1.7* | 1.5 |
| **Czech Republic** | : | : | 6.5 | 3.9 | 4.5 | 1.4 | -0.1 | *2.8* | 2.6 | *3.1* | 1.9 | *2.9* | 2.6 |
| **Denmark** | 7.2 | 2.0 | 2.0 | 2.7 | 2.3 | 2.4 | 2.0 | *1.1* | 0.9 | *1.9* | 1.4 | *1.6* | 1.7 |
| **Estonia** | : | : | 8.8 | 3.9 | 5.6 | 3.6 | 1.4 | *3.4* | 3.0 | *3.5* | 3.3 | *2.8* | 2.7 |
| **Cyprus** | : | : | : | 4.9 | 2.0 | 2.8 | 4.0 | *2.4* | 1.9 | *2.4* | 2.3 | *2.1* | 2.1 |
| **Latvia** | : | : | : | 2.6 | 2.5 | 2.0 | 2.9 | *6.8* | 6.2 | *4.7* | 5.0 | *3.5* | 3.6 |
| **Lithuania** | : | : | 7.7 | 0.9 | 1.3 | 0.4 | -1.1 | *1.2* | 1.1 | *2.9* | 2.9 | *2.8* | 2.6 |
| **Hungary** | : | : | 15.1 | 10.0 | 9.1 | 5.2 | 4.7 | *6.9* | 6.8 | *4.6* | 3.8 | *4.2* | 3.6 |
| **Malta** | : | : | : | 3.0 | 2.5 | 2.6 | 1.9 | *3.7* | 2.7 | *3.1* | 2.4 | *2.6* | 2.1 |
| **Poland** | : | : | : | 10.1 | 5.3 | 1.9 | 0.7 | *3.5* | 3.6 | *3.3* | 2.1 | *3.0* | 2.3 |
| **Slovenia** | : | : | 8.2 | 8.9 | 8.6 | 7.5 | 5.7 | *3.9* | 3.6 | *3.4* | 2.6 | *3.0* | 2.6 |
| **Slovakia** | : | : | 8.2 | 12.2 | 7.2 | 3.5 | 8.5 | *7.7* | 7.4 | *3.9* | 3.7 | *3.0* | 2.9 |
| **Sweden** | 6.9 | 4.2 | 1.1 | 1.3 | 2.7 | 2.0 | 2.3 | *1.1* | 1.0 | *1.5* | 0.4 | *1.9* | 1.4 |
| **United Kingdom** | 8.0 | 3.4 | 1.6 | 0.8 | 1.2 | 1.3 | 1.4 | *1.4* | 1.3 | *1.9* | 1.7 | *2.0* | 2.0 |
| **EU-25** | : | : | 2.4 | 2.4 | 2.5 | 2.1 | 1.9 | *2.2* | 2.1 | *2.1* | 1.9 | *1.9* | 1.7 |
| **EU-15** | 7.1 | 3.7 | 1.7 | 1.9 | 2.2 | 2.1 | 2.0 | *2.0* | 2.0 | *1.9* | 1.8 | *1.8* | 1.6 |
| **USA** | 5.1 | 3.1 | 2.5 | 3.4 | 2.8 | 1.6 | 2.3 | *2.6* | 2.7 | *2.8* | 2.6 | *2.3* | 2.3 |
| **Japan** | 5.6 | 1.4 | 0.3 | -0.7 | -0.6 | -0.9 | -0.3 | *-0.2* | 0.0 | *0.2* | -0.1 | *0.3* | 0.2 |

**TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 200 18.03.2005**

| | 2004/1 | 2004/2 | 2004/3 | 2004/4 | 2005/1 | 2005/2 | 2005/3 | 2005/4 | 2006/1 | 2006/2 | 2006/3 | 2006/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 1.2 | 2.0 | 2.0 | 2.3 | 2.7 | 1.8 | 2.1 | 1.4 | 1.7 | 1.7 | 1.5 | 1.6 |
| **Germany** | 1.0 | 1.9 | 2.0 | 2.1 | 1.6 | 1.3 | 1.2 | 1.2 | 1.3 | 1.1 | 1.0 | 1.0 |
| **Greece** | 3.5 | 3.2 | 3.4 | 3.2 | 2.9 | 3.1 | 3.0 | 3.2 | 3.2 | 3.2 | 3.2 | 3.3 |
| **Spain** | 2.2 | 3.2 | 3.3 | 3.5 | 3.3 | 2.9 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.6 |
| **France** | 2.0 | 2.6 | 2.5 | 2.3 | 1.7 | 1.7 | 2.1 | 2.1 | 2.1 | 1.8 | 1.7 | 1.6 |
| **Ireland** | 2.1 | 2.1 | 2.5 | 2.6 | 2.2 | 1.8 | 2.1 | 2.2 | 2.4 | 2.1 | 2.4 | 2.5 |
| **Italy** | 2.3 | 2.3 | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| **Luxembourg** | 2.2 | 3.2 | 3.4 | 3.7 | 3.0 | 3.1 | 3.0 | 2.8 | 2.5 | 2.0 | 1.6 | 1.3 |
| **Netherlands** | 1.4 | 1.6 | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 | 1.1 | -3.1 | -3.1 | -3.0 | -2.9 |
| **Austria** | 1.4 | 2.0 | 2.0 | 2.4 | 2.2 | 2.1 | 2.6 | 2.3 | 2.1 | 2.0 | 1.5 | 1.2 |
| **Portugal** | 2.2 | 2.5 | 2.5 | 2.5 | 2.7 | 2.6 | 2.2 | 2.1 | 2.1 | 2.2 | 2.3 | 2.1 |
| **Finland** | 0.2 | -0.2 | 0.2 | 0.3 | 0.7 | 1.1 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.5 |
| **Euro area** | 1.7 | 2.3 | 2.3 | 2.3 | 2.0 | 1.8 | 1.9 | 1.8 | 1.6 | 1.5 | 1.4 | 1.4 |
| **Czech Republic** | 2.0 | 2.5 | 3.0 | 2.7 | 1.6 | 1.7 | 1.8 | 1.8 | 2.7 | 2.6 | 2.6 | 2.7 |
| **Denmark** | 0.7 | 0.8 | 1.0 | 1.2 | 1.1 | 1.4 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 |
| **Estonia** | 0.6 | 3.2 | 3.9 | 4.3 | 4.9 | 3.2 | 2.8 | 2.4 | 2.1 | 2.6 | 2.7 | 3.4 |
| **Cyprus** | 1.0 | 1.2 | 2.5 | 2.8 | 2.5 | 2.2 | 2.3 | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 |
| **Latvia** | 4.3 | 5.8 | 7.4 | 7.2 | 6.5 | 4.7 | 4.2 | 4.6 | 4.2 | 3.7 | 3.4 | 3.2 |
| **Lithuania** | -1.1 | 0.5 | 2.3 | 3.0 | 3.1 | 3.0 | 2.8 | 2.8 | 2.7 | 2.6 | 2.6 | 2.7 |
| **Hungary** | 6.8 | 7.4 | 7.0 | 5.9 | 4.3 | 3.7 | 3.4 | 3.8 | 4.0 | 3.7 | 3.3 | 3.5 |
| **Malta** | : | : | : | : | : | : | : | : | : | : | : | : |
| **Poland** | 1.8 | 3.4 | 4.7 | 4.5 | 3.5 | 2.1 | 1.3 | 1.5 | 2.6 | 2.7 | 2.8 | 1.9 |
| **Slovenia** | 3.7 | 3.8 | 3.6 | 3.5 | 2.7 | 2.6 | 2.1 | 3.1 | 2.5 | 2.8 | 2.9 | 2.4 |
| **Slovakia** | 8.2 | 8.0 | 7.2 | 6.0 | 3.1 | 3.5 | 3.8 | 3.9 | 3.0 | 2.9 | 2.9 | 2.9 |
| **Sweden** | 0.6 | 1.2 | 1.2 | 1.1 | 0.8 | 0.2 | 0.3 | 0.4 | 0.9 | 1.4 | 1.6 | 1.8 |
| **United Kingdom** | 1.3 | 1.4 | 1.2 | 1.4 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 | 2.0 | 2.0 | 2.1 |
| **EU-25** | 1.7 | 2.1 | 2.1 | 2.2 | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 |
| **EU-15** | 1.7 | 2.1 | 2.1 | 2.2 | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 |
| **USA** | 1.8 | 2.8 | 2.7 | 3.4 | 2.9 | 2.5 | 2.7 | 2.4 | 2.5 | 2.3 | 2.3 | 2.2 |
| **Japan** | -0.1 | -0.3 | -0.1 | 0.4 | -0.1 | 0.1 | -0.1 | -0.2 | 0.3 | 0.2 | 0.3 | 0.1 |

**TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 4.1 | 0.5 | 3.1 | 10.0 | 1.7 | -1.7 | -1.5 | 0.9 | 2.3 | 1.3 | 1.5 | 1.6 | 1.6 |
| **Germany** | 2.7 | 0.8 | 0.7 | 3.2 | 1.3 | -0.6 | -1.1 | 0.6 | -0.2 | 1.3 | 0.5 | 0.6 | 0.6 |
| **Greece** | 10.0 | 8.7 | 5.0 | 13.4 | 0.5 | 2.0 | 0.3 | 0.2 | 3.2 | 0.4 | 1.8 | 1.0 | 1.3 |
| **Spain** | : | 3.1 | 2.3 | 8.4 | 2.1 | 0.0 | -0.4 | 0.1 | -1.1 | 0.4 | 0.9 | 0.6 | 0.8 |
| **France** | 5.0 | -1.5 | 0.5 | 2.2 | -0.3 | -2.7 | -0.6 | 0.9 | 1.1 | 0.7 | 0.5 | 0.5 | 0.3 |
| **Ireland** | 7.4 | 1.1 | 2.3 | 5.8 | 3.8 | -1.9 | -8.5 | -0.7 | -1.4 | 0.6 | 0.4 | -0.1 | 0.8 |
| **Italy** | 7.5 | 5.5 | 1.6 | 7.6 | 3.2 | 1.4 | 0.5 | 3.4 | 4.1 | 2.2 | 2.3 | 1.1 | 1.6 |
| **Luxembourg** | : | -0.4 | -0.1 | 4.7 | -0.9 | 0.2 | 0.0 | 1.5 | 3.6 | 1.0 | 1.5 | 1.2 | 1.5 |
| **Netherlands** | 2.8 | -0.8 | 1.8 | 9.2 | 1.1 | -1.7 | -0.2 | 0.8 | 0.6 | 1.4 | 1.6 | 0.2 | 0.3 |
| **Austria** | : | -0.1 | 0.8 | 2.0 | 0.3 | -0.1 | -0.5 | 0.5 | 0.7 | 1.1 | 0.6 | 0.5 | 0.7 |
| **Portugal** | : | 1.4 | : | : | : | : | : | -0.7 | 0.4 | -0.2 | 0.6 | -0.1 | 0.0 |
| **Finland** | : | 3.7 | -1.4 | 2.7 | -3.1 | -5.2 | -3.7 | 0.2 | 0.9 | 0.2 | 0.4 | -0.3 | 0.2 |
| **Euro area** | 4.4 | 1.0 | 1.3 | 5.3 | 1.2 | -1.0 | -1.0 | 0.9 | 0.9 | 1.2 | 1.0 | 0.6 | 0.7 |
| **Czech Republic** | : | : | 3.0 | 3.1 | -1.0 | -6.8 | -0.4 | 2.8 | 2.2 | 1.3 | -1.1 | 1.5 | 1.5 |
| **Denmark** | : | 1.2 | 1.1 | 6.1 | 0.1 | -1.2 | 0.3 | 2.4 | 1.6 | 1.5 | 2.0 | 0.3 | 0.3 |
| **Estonia** | : | : | 5.8 | 8.5 | 10.2 | -4.3 | 2.8 | 3.0 | 2.9 | 3.3 | 3.1 | 3.2 | 2.6 |
| **Cyprus** | : | : | 2.8 | 8.0 | 3.5 | -4.0 | -0.8 | 1.5 | 1.5 | 0.5 | 1.8 | 0.5 | 2.5 |
| **Latvia** | : | : | 0.5 | -1.2 | 2.6 | 2.8 | 7.9 | 5.0 | 15.0 | 4.5 | 8.5 | 4.5 | 2.5 |
| **Lithuania** | : | : | 3.0 | 12.0 | -3.1 | -6.3 | -0.9 | 2.5 | 6.9 | 2.9 | 2.3 | 1.1 | 1.1 |
| **Hungary** | : | : | 11.8 | 9.8 | 2.2 | -5.0 | 0.1 | -0.1 | -1.7 | -0.3 | -0.1 | 0.8 | -0.2 |
| **Malta** | : | : | 6.0 | 26.7 | -14.2 | 3.1 | -3.0 | 3.5 | -6.1 | 2.9 | 0.8 | 2.1 | 1.6 |
| **Poland** | : | : | 7.1 | -2.4 | 1.3 | 4.8 | 5.8 | 4.5 | 10.5 | 0.3 | -10.0 | 3.0 | 2.3 |
| **Slovenia** | : | 57.1 | 6.3 | 10.9 | 8.0 | 3.7 | 1.9 | 2.9 | 2.4 | 1.2 | 1.0 | 0.4 | 0.9 |
| **Slovakia** | : | : | 4.6 | 12.0 | 5.3 | 1.0 | -4.0 | -1.9 | -1.9 | 0.0 | -1.9 | 0.2 | 0.4 |
| **Sweden** | : | 3.2 | -1.6 | 2.0 | 2.3 | -2.3 | -2.7 | 0.5 | -0.2 | 1.1 | 0.3 | 0.0 | 0.1 |
| **United Kingdom** | 6.7 | 2.9 | -2.2 | 0.8 | -1.5 | -0.2 | 1.3 | -0.2 | -0.5 | 1.6 | 3.6 | -0.7 | 1.7 |
| **EU-25** | : | : | 1.2 | 4.8 | 1.0 | -1.0 | -0.7 | 0.9 | 0.9 | 1.2 | 0.9 | 0.6 | 0.9 |
| **EU-15** | 4.7 | 1.3 | 0.8 | 4.7 | 1.0 | -1.0 | -0.8 | 0.8 | 0.7 | 1.2 | 1.3 | 0.5 | 0.8 |
| **USA** | 3.9 | 0.2 | -1.8 | 1.1 | -0.7 | -0.6 | 2.0 | 3.8 | 3.8 | 3.1 | 3.4 | 2.3 | 2.2 |
| **Japan** | : | : | : | : | : | : | : | -3.3 | -1.6 | -0.9 | -1.2 | -0.7 | -0.8 |

**TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 4.3 | -0.7 | 3.9 | 12.6 | 1.6 | -2.8 | -1.7 | *1.1* | 2.9 | *1.4* | 1.5 | *1.6* | 1.0 |
| **Germany** | 2.2 | -0.1 | 1.3 | 8.5 | 0.7 | -2.3 | -3.1 | *0.3* | 0.0 | *1.6* | 1.2 | *0.9* | 0.8 |
| **Greece** | 10.6 | 8.5 | 4.7 | 10.4 | 2.0 | 0.9 | 1.3 | *1.5* | 1.9 | *0.7* | 1.7 | *0.1* | 0.4 |
| **Spain** | : | 2.3 | 2.7 | 10.4 | -0.2 | -1.9 | -0.3 | *1.7* | 2.9 | *1.5* | 1.5 | *0.6* | 1.1 |
| **France** | 5.6 | -1.7 | 1.0 | 5.9 | -1.4 | -4.9 | -0.6 | *-0.7* | -0.4 | *1.6* | 2.0 | *0.1* | 0.5 |
| **Ireland** | 7.2 | 2.4 | 2.5 | 8.5 | 3.0 | -4.0 | -8.7 | *0.2* | -0.1 | *0.7* | 1.1 | *-0.5* | 0.4 |
| **Italy** | 7.8 | 4.9 | 2.1 | 16.4 | 2.4 | -0.2 | -0.4 | *3.1* | 5.1 | *1.4* | 2.5 | *0.1* | 0.2 |
| **Luxembourg** | : | 0.4 | 0.9 | 6.0 | 0.7 | -0.3 | -0.7 | *2.4* | 4.2 | *1.2* | 1.0 | *1.0* | 1.0 |
| **Netherlands** | 2.8 | -1.2 | 2.2 | 9.5 | -0.2 | -1.7 | -1.1 | *1.5* | 1.4 | *1.6* | 2.1 | *0.1* | 0.2 |
| **Austria** | : | 0.1 | 1.2 | 2.7 | -0.4 | -2.3 | -1.6 | *0.8* | 1.8 | *1.7* | 1.4 | *0.7* | 1.3 |
| **Portugal** | : | 0.3 | : | : | : | : | : | *2.0* | 2.4 | *0.2* | 0.8 | *-0.3* | -0.1 |
| **Finland** | : | 3.7 | -0.1 | 6.4 | -3.7 | .7 | -0.1 | *3.1* | 2.5 | *2.0* | 2.5 | *1.0* | 1.1 |
| **Euro area** | 4.7 | 0.6 | 1.9 | 9.4 | 0.4 | .5 | -1.6 | *0.9* | 1.5 | *1.5* | 1.7 | *0.5* | 0.7 |
| **Czech Republic** | : | : | 2.7 | 6.2 | -2.6 | .6 | -0.2 | *1.5* | 1.6 | *1.1* | -3.0 | *1.6* | 1.1 |
| **Denmark** | : | 0.5 | -0.8 | 3.8 | -1.3 | .0 | -1.8 | *1.9* | 1.5 | *1.7* | 2.1 | *0.1* | 0.4 |
| **Estonia** | : | : | 5.9 | 6.4 | 4.0 | .1 | -1.5 | *2.6* | 2.6 | *3.6* | 2.7 | *3.2* | 2.2 |
| **Cyprus** | : | : | 2.7 | 6.0 | 0.5 | .6 | -1.8 | *4.8* | 4.0 | *0.8* | 3.1 | *-0.4* | 2.0 |
| **Latvia** | : | : | 4.3 | 6.8 | 1.5 | .0 | 6.9 | *5.0* | 10.0 | *4.5* | 8.0 | *4.0* | 2.0 |
| **Lithuania** | : | : | -0.1 | 4.3 | -3.0 | .7 | -3.4 | *2.2* | 0.3 | *2.9* | 1.6 | *0.6* | 0.8 |
| **Hungary** | : | : | 12.7 | 12.9 | 2.5 | .4 | 0.2 | *1.1* | -1.1 | *0.9* | -0.3 | *0.8* | 0.2 |
| **Malta** | : | : | 5.5 | 18.2 | -4.2 | .5 | -5.7 | *5.0* | -3.0 | *2.9* | 2.9 | *2.1* | 2.1 |
| **Poland** | : | : | 8.6 | 0.0 | 1.3 | .2 | 6.9 | *5.1* | 10.6 | *0.5* | -9.3 | *1.3* | 1.8 |
| **Slovenia** | : | 55.0 | 6.2 | 14.7 | 5.8 | .7 | 1.5 | *3.3* | 3.9 | *1.5* | 1.9 | *0.6* | 0.7 |
| **Slovakia** | : | : | 5.3 | 11.6 | 8.2 | .2 | -3.2 | *-0.6* | -1.8 | *0.2* | -1.4 | *0.5* | 0.1 |
| **Sweden** | : | 3.5 | 0.0 | 4.9 | 3.5 | .5 | -2.8 | *1.1* | 0.8 | *1.2* | 0.3 | *0.1* | -0.7 |
| **United Kingdom** | 6.8 | 3.4 | -2.6 | 3.5 | -0.9 | .9 | -0.7 | *-1.1* | -0.6 | *1.5* | 3.5 | *1.3* | 1.6 |
| **EU-25** | : | : | 1.6 | 8.2 | 0.3 | .3 | -1.3 | *0.8* | 1.4 | *1.4* | 1.5 | *0.7* | 0.8 |
| **EU-15** | 5.0 | 1.0 | 1.2 | 8.3 | 0.2 | .4 | -1.6 | *0.7* | 1.2 | *1.5* | 1.9 | *0.6* | 0.7 |
| **USA** | 5.3 | 0.1 | -1.6 | 4.8 | -3.0 | .8 | 2.9 | *5.4* | 5.0 | *3.6* | 3.8 | *0.7* | 2.6 |
| **Japan** | : | : | : | : | : | : | : | *4.5* | 2.2 | *2.9* | 0.0 | *-3.8* | -2.5 |

**TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | -0.2 | 1.2 | -0.8 | -2.3 | 0.1 | 1.2 | 0.2 | *-0.2* | -0.6 | *-0.1* | 0.0 | *0.0* | 0.6 |
| **Germany** | 0.5 | 1.0 | -0.6 | -4.9 | 0.7 | 1.7 | 2.1 | *0.3* | -0.1 | *-0.3* | -0.7 | *-0.3* | -0.2 |
| **Greece** | -0.5 | 0.2 | 0.3 | 2.7 | -1.4 | 1.1 | -1.0 | *-1.3* | 1.3 | *-0.3* | 0.2 | *0.9* | 0.9 |
| **Spain** | : | 0.8 | -0.4 | -1.7 | 2.2 | 2.0 | -0.1 | *-1.5* | -3.9 | *-1.1* | -0.6 | *0.1* | -0.3 |
| **France** | -0.5 | 0.2 | -0.5 | -3.4 | 1.1 | 2.4 | -0.1 | *1.6* | 1.4 | *-0.8* | -1.4 | *0.3* | -0.2 |
| **Ireland** | 0.1 | -1.2 | -0.2 | -2.4 | 0.8 | 2.2 | 0.3 | *-0.9* | -1.3 | *-0.1* | -0.7 | *0.4* | 0.5 |
| **Italy** | -0.3 | 0.5 | -0.5 | -7.5 | 0.8 | 1.6 | 0.9 | *0.2* | -0.9 | *0.8* | -0.2 | *1.0* | 1.4 |
| **Luxembourg** | : | -0.8 | -1.1 | -1.2 | -1.6 | 0.5 | 0.7 | *-0.8* | -0.5 | *-0.2* | 0.5 | *0.2* | 0.5 |
| **Netherlands** | -0.1 | 0.5 | -0.4 | -0.3 | 1.2 | 0.0 | 0.9 | *-0.7* | -0.8 | *-0.2* | -0.5 | *0.1* | 0.1 |
| **Austria** | : | -0.1 | -0.4 | -0.7 | 0.7 | 2.3 | 1.1 | *-0.3* | -1.1 | *-0.6* | -0.8 | *-0.2* | -0.6 |
| **Portugal** | : | 1.2 | : | : | : | : | : | *-2.7* | -2.0 | *-0.5* | -0.2 | *0.2* | 0.2 |
| **Finland** | : | -0.1 | -1.3 | -3.5 | 0.5 | -2.5 | -3.6 | *-2.8* | -1.5 | *-1.7* | -2.1 | *-1.2* | -1.0 |
| **Euro area** | -0.2 | 0.5 | -0.6 | -3.8 | 0.9 | 1.5 | 0.6 | *0.0* | -0.6 | *-0.3* | -0.7 | *0.1* | 0.1 |
| **Czech Republic** | : | : | 0.2 | -2.8 | 1.6 | 2.0 | -0.2 | *1.3* | 0.6 | *0.2* | 2.0 | *-0.1* | 0.4 |
| **Denmark** | : | 0.7 | 1.9 | 2.2 | 1.4 | -0.1 | 2.1 | *0.6* | 0.0 | *-0.2* | -0.2 | *0.1* | -0.1 |
| **Estonia** | : | : | 0.0 | 1.9 | 6.0 | -4.4 | 4.4 | *0.3* | 0.3 | *-0.3* | 0.4 | *0.0* | 0.4 |
| **Cyprus** | : | : | 0.1 | 1.9 | 3.0 | -3.4 | 1.0 | *-3.1* | -2.4 | *-0.3* | -1.3 | *0.9* | 0.5 |
| **Latvia** | : | : | -3.7 | -7.5 | 1.1 | -3.0 | 1.0 | *0.0* | 4.5 | *0.0* | 0.5 | *0.5* | 0.5 |
| **Lithuania** | : | : | 3.1 | 7.4 | 0.0 | -1.6 | 2.6 | *0.3* | 6.6 | *0.0* | 0.7 | *0.5* | 0.3 |
| **Hungary** | : | : | -0.8 | -2.7 | -0.3 | 0.4 | -0.1 | *-1.1* | -0.6 | *-1.1* | 0.1 | *0.0* | -0.3 |
| **Malta** | : | : | 0.5 | 7.2 | -10.4 | 0.6 | 2.9 | *-1.4* | -3.2 | *0.0* | -2.0 | *0.0* | -0.5 |
| **Poland** | : | : | -1.3 | -2.5 | 0.0 | -0.4 | -1.1 | *-0.6* | -0.1 | *-0.2* | -0.8 | *1.7* | 0.5 |
| **Slovenia** | : | 1.4 | 0.1 | -3.3 | 2.1 | 2.0 | 0.5 | *-0.4* | -1.4 | *-0.3* | -0.9 | *-0.2* | 0.2 |
| **Slovakia** | : | : | -0.6 | 0.4 | -2.7 | 1.3 | -0.8 | *-1.3* | -0.1 | *-0.2* | -0.5 | *-0.2* | 0.2 |
| **Sweden** | : | -0.2 | -1.6 | -2.7 | -1.2 | -1.8 | 0.1 | *-0.6* | -1.0 | *-0.1* | 0.0 | *-0.1* | 0.8 |
| **United Kingdom** | -0.1 | -0.4 | 0.5 | -2.6 | -0.5 | 2.8 | 2.0 | *0.8* | 0.1 | *0.1* | 0.1 | *-2.0* | 0.1 |
| **EU-25** | : | : | -0.4 | -3.2 | 0.7 | 1.4 | 0.6 | *0.1* | -0.5 | *-0.2* | -0.5 | *-0.1* | 0.1 |
| **EU-15** | -0.3 | 0.3 | -0.4 | -3.3 | 0.7 | 1.5 | 0.7 | *0.1* | -0.5 | *-0.2* | -0.6 | *-0.2* | 0.1 |
| **USA** | -1.3 | 0.2 | -0.1 | -3.4 | 2.4 | 1.1 | -0.9 | *-1.5* | -1.2 | *-0.5* | -0.3 | *1.5* | -0.4 |
| **Japan** | : | : | : | : | : | : | : | *-7.5* | -3.7 | *-3.7* | -1.2 | *3.2* | 1.7 |

**TABLE 21 : Compensation of employees per head (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 8.4 | 4.8 | 2.2 | 2.1 | 3.7 | 4.2 | 2.0 | *2.7* | 2.5 | *2.5* | 2.2 | *2.8* | 2.2 |
| **Germany** | 6.7 | 5.4 | 1.3 | 2.1 | 1.7 | 1.5 | 1.6 | *0.0* | 0.1 | *0.9* | 0.5 | *1.4* | 1.4 |
| **Greece** | 15.7 | 12.1 | 7.7 | 5.8 | 5.2 | 9.5 | 4.1 | *6.5* | 5.8 | *5.5* | 5.9 | *5.3* | 6.1 |
| **Spain** | 14.9 | 7.2 | 3.1 | 3.5 | 3.8 | 4.3 | 4.3 | *3.7* | 4.0 | *4.0* | 3.7 | *3.6* | 3.7 |
| **France** | 10.2 | 3.0 | 2.1 | 1.8 | 2.7 | 2.4 | 2.3 | *3.3* | 3.1 | *2.9* | 2.8 | *2.9* | 2.9 |
| **Ireland** | 12.4 | 4.6 | 5.4 | 8.6 | 7.7 | 5.0 | 4.7 | *5.4* | 5.7 | *4.9* | 5.0 | *4.7* | 4.7 |
| **Italy** | 13.6 | 5.3 | 2.8 | 3.1 | 3.2 | 2.5 | 3.8 | *3.4* | 2.9 | *3.3* | 3.0 | *2.8* | 2.9 |
| **Luxembourg** | 7.7 | 4.6 | 2.9 | 4.7 | 3.9 | 3.7 | 2.1 | *3.3* | 3.2 | *3.2* | 3.0 | *3.2* | 2.5 |
| **Netherlands** | 7.9 | 3.5 | 3.0 | 4.7 | 5.5 | 6.2 | 3.9 | *2.4* | 2.5 | *0.7* | 0.7 | *1.0* | 0.0 |
| **Austria** | 8.0 | 4.9 | 1.6 | 1.8 | 1.4 | 1.7 | 2.1 | *2.5* | 2.9 | *2.5* | 2.5 | *2.6* | 2.6 |
| **Portugal** | 17.0 | 12.3 | 5.9 | 6.7 | 5.3 | 4.4 | 2.6 | *3.1* | 3.0 | *3.6* | 3.1 | *3.8* | 3.3 |
| **Finland** | 11.5 | 3.2 | 2.9 | 3.7 | 4.7 | 1.8 | 2.6 | *4.1* | 3.6 | *3.7* | 4.1 | *3.6* | 3.8 |
| **Euro area** | 9.8 | 5.0 | 2.1 | 2.7 | 2.8 | 2.7 | 2.5 | *2.2* | 2.1 | *2.4* | 2.2 | *2.5* | 2.4 |
| **Czech Republic** | : | : | 10.2 | 5.7 | 7.6 | 6.2 | 6.7 | *6.4* | 5.5 | *7.9* | 6.5 | *6.6* | 6.4 |
| **Denmark** | 9.8 | 3.0 | 3.7 | 4.2 | 4.6 | 3.2 | 3.6 | *3.3* | 3.3 | *3.3* | 3.3 | *3.5* | 3.6 |
| **Estonia** | : | : | 16.8 | 10.0 | 7.7 | 10.2 | 8.9 | *8.6* | 6.4 | *8.5* | 6.1 | *7.9* | 6.4 |
| **Cyprus** | : | : | 4.8 | 4.7 | 4.3 | 7.1 | 6.1 | *4.0* | 3.8 | *4.5* | 4.5 | *4.5* | 4.0 |
| **Latvia** | : | : | 11.9 | 6.9 | 3.4 | 4.0 | 11.1 | *14.0* | 16.5 | *10.0* | 8.0 | *7.0* | 7.0 |
| **Lithuania** | : | : | 15.3 | 0.0 | 3.4 | 1.4 | 8.2 | *7.8* | 7.3 | *8.1* | 7.9 | *7.5* | 7.5 |
| **Hungary** | : | : | 15.1 | 15.6 | 15.1 | 12.7 | 9.3 | *8.8* | 8.8 | *7.0* | 7.0 | *6.2* | 6.2 |
| **Malta** | : | 8.3 | 6.8 | 12.9 | 5.5 | 2.4 | 1.3 | *0.6* | 1.0 | *2.4* | 1.4 | *2.4* | 1.6 |
| **Poland** | : | : | 17.6 | 11.0 | 13.1 | 2.0 | 0.8 | *4.7* | 4.6 | *5.3* | 4.1 | *5.4* | 4.4 |
| **Slovenia** | : | : | 10.3 | 11.8 | 11.6 | 10.0 | 7.8 | *6.0* | 6.1 | *5.4* | 5.0 | *5.3* | 5.2 |
| **Slovakia** | : | : | 10.9 | 11.9 | 6.3 | 9.3 | 6.0 | *9.9* | 7.8 | *6.7* | 7.1 | *6.5* | 6.1 |
| **Sweden** | 9.4 | 4.7 | 4.7 | 7.5 | 4.5 | 2.9 | 3.0 | *3.4* | 3.2 | *3.7* | 3.5 | *3.9* | 3.9 |
| **United Kingdom** | 10.4 | 5.0 | 4.8 | 5.9 | 5.3 | 3.8 | 4.5 | *5.2* | 4.3 | *5.3* | 4.7 | *5.2* | 5.1 |
| **EU-25** | : | : | 3.3 | 4.1 | 4.0 | 3.2 | 3.0 | *3.0* | 2.8 | *3.1* | 2.8 | *3.2* | 3.1 |
| **EU-15** | 9.8 | 4.9 | 2.7 | 3.4 | 3.4 | 3.0 | 3.0 | *2.8* | 2.6 | *3.0* | 2.7 | *3.0* | 3.0 |
| **USA** | 6.2 | 3.5 | 4.2 | 5.7 | 2.4 | 3.2 | 4.0 | *4.2* | 4.3 | *4.9* | 4.8 | *4.7* | 4.6 |
| **Japan** | 10.1 | 2.0 | 0.2 | 0.2 | -0.5 | -1.6 | -0.6 | *-1.2* | -1.1 | *-0.6* | 0.0 | *0.0* | -0.1 |

**TABLE 22 : Real compensation of employees per head [1] (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 3.6 | 2.5 | 0.5 | -0.3 | 1.2 | 2.4 | 0.3 | *0.7* | 0.1 | *0.6* | 0.0 | *1.0* | 0.4 |
| **Germany** | 3.2 | 2.0 | 0.0 | 0.6 | 0.0 | 0.3 | 0.5 | *-1.7* | -1.5 | *-0.4* | -0.8 | *0.3* | 0.3 |
| **Greece** | 3.7 | -1.5 | 2.8 | 2.4 | 1.8 | 5.7 | 0.7 | *3.3* | 2.8 | *2.5* | 2.7 | *2.4* | 2.9 |
| **Spain** | 4.5 | 1.5 | 0.4 | 0.3 | 0.5 | 0.9 | 1.1 | *0.6* | 1.0 | *1.2* | 0.8 | *1.0* | 1.0 |
| **France** | 3.2 | 0.4 | 0.9 | 0.3 | 1.0 | 0.5 | 0.3 | *1.6* | 1.6 | *0.9* | 0.8 | *1.2* | 1.0 |
| **Ireland** | 3.5 | 1.9 | 2.2 | 4.7 | 3.4 | -0.6 | 0.9 | *3.1* | 3.2 | *2.4* | 2.7 | *2.2* | 2.1 |
| **Italy** | 3.8 | -0.5 | 0.1 | 0.2 | 0.4 | -0.5 | 1.2 | *1.0* | 0.6 | *0.9* | 0.9 | *0.8* | 1.0 |
| **Luxembourg** | 3.0 | 1.3 | 1.3 | 2.1 | 0.7 | 1.5 | 0.2 | *1.0* | 0.9 | *1.1* | 0.9 | *1.2* | 0.7 |
| **Netherlands** | 3.2 | 0.9 | 0.9 | 1.4 | 0.8 | 3.4 | 1.5 | *1.3* | 1.2 | *-0.5* | -0.7 | *-0.3* | -1.2 |
| **Austria** | 3.4 | 1.8 | 0.2 | -0.7 | -0.4 | 0.6 | 0.6 | *0.5* | 0.9 | *0.7* | 0.2 | *1.1* | 0.9 |
| **Portugal** | 4.2 | 4.5 | 2.9 | 3.3 | 1.4 | 0.9 | -0.6 | *0.8* | 0.6 | *1.3* | 0.8 | *1.5* | 1.2 |
| **Finland** | 3.8 | 0.1 | 0.8 | 0.1 | 1.1 | -1.3 | 2.4 | *3.5* | 2.7 | *1.8* | 2.5 | *1.6* | 2.0 |
| **Euro area** | 3.2 | 0.9 | 0.3 | 0.4 | 0.5 | 0.5 | 0.6 | *0.2* | 0.2 | *0.4* | 0.2 | *0.7* | 0.7 |
| **Czech Republic** | : | : | : | : | : | : | : | *4.1* | 2.7 | *5.8* | 4.3 | *4.6* | 3.8 |
| **Denmark** | 2.3 | 0.6 | 1.5 | 1.6 | 2.1 | 1.0 | 1.8 | *1.8* | 2.1 | *1.5* | 1.6 | *1.7* | 1.8 |
| **Estonia** | : | : | : | : | : | : | : | *5.1* | 3.3 | *4.9* | 2.8 | *5.0* | 3.6 |
| **Cyprus** | : | : | : | : | : | : | : | *1.5* | 1.3 | *2.0* | 2.0 | *2.4* | 1.7 |
| **Latvia** | : | : | : | : | : | : | : | *6.8* | 9.7 | *5.0* | 2.9 | *3.4* | 3.3 |
| **Lithuania** | : | : | : | : | : | : | : | *6.7* | 6.5 | *5.2* | 5.0 | *4.7* | 4.9 |
| **Hungary** | : | : | : | : | : | : | : | *1.7* | 1.1 | *2.1* | 2.1 | *1.8* | 1.8 |
| **Malta** | : | : | : | : | : | : | : | *-2.7* | -2.3 | *0.0* | -0.7 | *0.2* | -0.6 |
| **Poland** | : | : | 5.0 | 1.8 | 8.1 | 0.3 | 0.1 | *1.3* | 1.3 | *2.0* | 2.0 | *2.3* | 2.1 |
| **Slovenia** | : | : | : | : | : | : | : | *2.1* | 2.4 | *2.0* | 2.4 | *2.3* | 2.6 |
| **Slovakia** | : | : | : | : | : | : | : | *2.8* | 0.8 | *3.3* | 3.4 | *3.6* | 3.2 |
| **Sweden** | 2.0 | -0.1 | 3.4 | 6.3 | 2.1 | 1.1 | 0.7 | *1.9* | 2.0 | *1.9* | 2.8 | *2.0* | 2.4 |
| **United Kingdom** | 2.6 | 0.7 | 2.5 | 4.7 | 2.8 | 2.2 | 2.5 | *3.5* | 2.9 | *3.2* | 2.8 | *3.0* | 3.0 |
| **EU-25** | : | : | : | : | : | : | : | *1.0* | 0.9 | *1.1* | 0.9 | *1.3* | 1.2 |
| **EU-15** | 3.0 | 0.8 | 0.7 | 1.4 | 1.0 | 0.9 | 1.0 | *0.9* | 0.8 | *1.0* | 0.8 | *1.2* | 1.2 |
| **USA** | 1.5 | 0.8 | 2.4 | 3.1 | 0.3 | 1.7 | 2.1 | *1.7* | 2.1 | *2.2* | 2.3 | *2.6* | 2.2 |
| **Japan** | 4.3 | 0.9 | 0.2 | 1.0 | 0.5 | -0.4 | 0.2 | *0.1* | -0.6 | *0.3* | 0.4 | *0.8* | 0.0 |

[1] Deflated by the price deflator of private consumption.

**TABLE 23 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 3.1 | 1.6 | 1.5 | 1.9 | -0.7 | 1.2 | 1.2 | 2.1 | 1.9 | 1.7 | 1.4 | 1.7 | 1.5 |
| **Germany** | 2.7 | 2.1 | 1.1 | 1.1 | 0.4 | 0.7 | 0.9 | 1.8 | 1.2 | 0.7 | 0.1 | 0.9 | 0.8 |
| **Greece** | 4.2 | 0.7 | 2.5 | 4.2 | 4.6 | 3.7 | 3.2 | 2.0 | 1.3 | 2.3 | 2.3 | 2.2 | 2.3 |
| **Spain** | 4.2 | 1.9 | 0.7 | 0.7 | 0.3 | 0.9 | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 | 0.8 | 0.7 |
| **France** | 3.3 | 1.5 | 1.5 | 1.0 | 0.2 | 0.2 | 0.4 | 2.7 | 2.8 | 1.6 | 1.5 | 1.5 | 1.4 |
| **Ireland** | 3.9 | 2.9 | 3.8 | 5.0 | 2.9 | 4.3 | 1.6 | 2.7 | 2.4 | 3.0 | 3.1 | 3.4 | 3.5 |
| **Italy** | 3.5 | 2.1 | 1.1 | 1.3 | 0.1 | -0.9 | -0.2 | 0.5 | 0.4 | 1.1 | 0.8 | 1.2 | 1.2 |
| **Luxembourg** | 2.5 | 1.1 | 2.8 | 3.2 | -3.9 | -0.5 | 1.1 | 1.9 | 1.7 | 1.1 | 1.2 | 0.9 | 1.1 |
| **Netherlands** | 2.7 | 1.3 | 1.2 | 1.6 | 0.1 | 0.7 | 0.1 | 3.2 | 3.0 | 1.1 | 0.7 | 1.2 | 0.7 |
| **Austria** | 3.5 | 2.0 | 2.0 | 2.0 | 0.3 | 1.1 | 0.7 | 1.4 | 1.0 | 1.7 | 1.8 | 1.6 | 1.4 |
| **Portugal** | 4.7 | 2.3 | 1.9 | 1.6 | 0.0 | 0.0 | -0.7 | 0.9 | 0.9 | 1.1 | 0.8 | 1.2 | 1.3 |
| **Finland** | 3.5 | 2.9 | 2.4 | 2.8 | -0.4 | 1.3 | 2.4 | 3.5 | 3.7 | 2.6 | 2.6 | 2.0 | 2.1 |
| **Euro area** | 3.2 | 1.7 | 1.1 | 1.3 | 0.2 | 0.4 | 0.4 | 1.6 | 1.4 | 1.1 | 0.9 | 1.2 | 1.2 |
| **Czech Republic** | : | : | 2.9 | 4.4 | 2.2 | 0.0 | 3.9 | 4.7 | 4.5 | 3.9 | 4.1 | 3.9 | 4.2 |
| **Denmark** | 2.1 | 2.0 | 1.6 | 2.5 | 1.3 | 1.4 | 1.4 | 1.9 | 2.0 | 1.8 | 1.8 | 1.6 | 1.7 |
| **Estonia** | : | : | 8.2 | 11.0 | 5.6 | 5.6 | 4.3 | 5.6 | 6.0 | 5.6 | 5.3 | 5.8 | 5.4 |
| **Cyprus** | : | : | 2.4 | 2.8 | 1.8 | 1.0 | 0.9 | 2.4 | 2.2 | 2.5 | 2.6 | 2.8 | 2.9 |
| **Latvia** | : | -5.0 | 5.9 | 10.1 | 5.7 | 4.8 | 5.6 | 6.7 | 7.4 | 6.1 | 6.3 | 6.1 | 6.3 |
| **Lithuania** | : | -8.2 | 5.4 | 8.3 | 10.0 | 2.7 | 7.2 | 5.5 | 7.0 | 5.3 | 5.9 | 5.0 | 5.4 |
| **Hungary** | : | : | 3.1 | 4.2 | 3.3 | 3.4 | 1.7 | 3.4 | 4.5 | 3.1 | 3.3 | 3.2 | 2.9 |
| **Malta** | : | : | 3.8 | 4.0 | -3.7 | 2.9 | -1.1 | 0.4 | 0.1 | 1.2 | 1.1 | 1.0 | 1.1 |
| **Poland** | : | : | 5.5 | 5.6 | 3.3 | 4.5 | 5.1 | 6.0 | 5.3 | 4.1 | 3.3 | 3.3 | 3.3 |
| **Slovenia** | : | : | 3.9 | 0.7 | 2.2 | 3.7 | 2.8 | 3.8 | 4.4 | 3.1 | 3.6 | 3.4 | 3.9 |
| **Slovakia** | : | : | 4.5 | 3.9 | 3.2 | 5.2 | 2.6 | 5.0 | 5.2 | 3.9 | 4.3 | 4.2 | 4.2 |
| **Sweden** | 2.2 | 3.0 | 2.5 | 1.9 | -0.8 | 1.8 | 1.6 | 4.3 | 3.9 | 2.8 | 2.6 | 1.9 | 1.8 |
| **United Kingdom** | 2.1 | 2.4 | 1.9 | 2.7 | 1.5 | 1.0 | 1.3 | 2.6 | 2.1 | 2.4 | 2.3 | 2.4 | 2.3 |
| **EU-25** | : | : | 1.6 | 2.1 | 0.8 | 0.8 | 0.8 | 2.1 | 1.8 | 1.6 | 1.3 | 1.6 | 1.5 |
| **EU-15** | 2.9 | 1.9 | 1.3 | 1.6 | 0.5 | 0.5 | 0.6 | 1.9 | 1.6 | 1.4 | 1.2 | 1.5 | 1.4 |
| **USA** | 1.6 | 1.4 | 2.0 | 1.4 | 0.8 | 2.7 | 3.1 | 3.3 | 3.3 | 2.1 | 2.5 | 2.1 | 2.1 |
| **Japan** | 5.1 | 0.8 | 1.3 | 2.5 | 0.8 | 1.1 | 1.7 | 3.2 | 2.5 | 1.8 | 1.0 | 2.1 | 1.7 |

**TABLE 24 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 5.1 | 3.1 | 0.7 | 0.1 | 4.4 | 3.0 | 0.8 | 0.6 | 0.6 | 0.7 | 0.8 | 1.0 | 0.7 |
| **Germany** | 3.9 | 3.3 | 0.2 | 1.0 | 1.3 | 0.8 | 0.7 | -1.7 | -1.1 | 0.2 | 0.4 | 0.4 | 0.6 |
| **Greece** | 11.0 | 11.3 | 5.1 | 1.6 | 0.6 | 5.6 | 0.8 | 4.4 | 4.4 | 3.2 | 3.5 | 3.0 | 3.7 |
| **Spain** | 10.2 | 5.2 | 2.4 | 2.8 | 3.5 | 3.4 | 3.5 | 3.1 | 3.4 | 3.4 | 3.1 | 2.7 | 3.1 |
| **France** | 6.6 | 1.4 | 0.6 | 0.9 | 2.5 | 2.2 | 1.9 | 0.6 | 0.3 | 1.3 | 1.3 | 1.4 | 1.5 |
| **Ireland** | 8.2 | 1.6 | 1.5 | 3.4 | 4.6 | 0.6 | 3.0 | 2.6 | 3.3 | 1.8 | 1.9 | 1.3 | 1.2 |
| **Italy** | 9.8 | 3.1 | 1.7 | 1.8 | 3.1 | 3.4 | 3.9 | 2.9 | 2.4 | 2.2 | 2.2 | 1.6 | 1.6 |
| **Luxembourg** | 5.1 | 3.4 | 0.1 | 1.5 | 8.1 | 4.2 | 1.0 | 1.3 | 1.4 | 2.1 | 1.8 | 2.3 | 1.4 |
| **Netherlands** | 5.1 | 2.2 | 1.9 | 3.1 | 5.4 | 5.4 | 3.8 | -0.8 | -0.5 | -0.4 | 0.0 | -0.1 | -0.6 |
| **Austria** | 4.3 | 2.8 | -0.4 | -0.1 | 1.2 | 0.7 | 1.4 | 1.1 | 1.8 | 0.8 | 0.6 | 1.0 | 1.2 |
| **Portugal** | 11.8 | 9.8 | 3.9 | 5.0 | 5.4 | 4.4 | 3.3 | 2.2 | 2.1 | 2.5 | 2.2 | 2.6 | 1.9 |
| **Finland** | 7.8 | 0.3 | 0.5 | 0.9 | 5.1 | 0.6 | 0.2 | 0.6 | 0.0 | 1.1 | 1.4 | 1.5 | 1.7 |
| **Euro area** | 6.4 | 3.2 | 1.0 | 1.3 | 2.6 | 2.3 | 2.2 | 0.6 | 0.7 | 1.2 | 1.3 | 1.2 | 1.2 |
| **Czech Republic** | : | : | 7.1 | 1.3 | 5.2 | 6.3 | 2.8 | 1.7 | 0.9 | 3.9 | 2.3 | 2.6 | 2.1 |
| **Denmark** | 7.6 | 0.9 | 2.0 | 1.6 | 3.3 | 1.8 | 2.2 | 1.4 | 1.3 | 1.5 | 1.5 | 1.8 | 1.8 |
| **Estonia** | : | : | 7.9 | -0.9 | 2.0 | 4.3 | 4.4 | 2.9 | 0.4 | 2.7 | 0.7 | 2.0 | 1.0 |
| **Cyprus** | : | : | 2.3 | 1.9 | 2.5 | 6.0 | 5.2 | 1.6 | 1.5 | 2.0 | 1.9 | 1.7 | 1.0 |
| **Latvia** | : | : | 5.6 | -2.9 | -2.2 | -0.8 | 5.2 | 6.9 | 8.5 | 3.7 | 1.6 | 0.8 | 0.7 |
| **Lithuania** | : | : | 9.5 | -7.6 | -6.0 | -1.2 | 0.9 | 2.2 | 0.3 | 2.6 | 1.9 | 2.4 | 2.0 |
| **Hungary** | : | : | 11.6 | 10.9 | 11.4 | 8.9 | 7.5 | 5.2 | 4.1 | 3.7 | 3.5 | 2.9 | 3.2 |
| **Malta** | : | : | 2.9 | 8.5 | 9.5 | -0.5 | 2.4 | 0.2 | 0.9 | 1.2 | 0.3 | 1.4 | 0.5 |
| **Poland** | : | : | 11.5 | 5.1 | 9.5 | -2.4 | -4.1 | -1.3 | -0.7 | 1.1 | 0.7 | 2.0 | 1.1 |
| **Slovenia** | : | : | 6.2 | 11.1 | 9.2 | 6.0 | 4.8 | 2.2 | 1.6 | 2.2 | 1.4 | 1.8 | 1.3 |
| **Slovakia** | : | : | 6.1 | 7.7 | 3.0 | 3.9 | 3.3 | 4.7 | 2.5 | 2.7 | 2.7 | 2.2 | 1.8 |
| **Sweden** | 7.1 | 1.7 | 2.2 | 5.5 | 5.4 | 1.1 | 1.3 | -0.9 | -0.7 | 0.9 | 0.9 | 2.0 | 2.1 |
| **United Kingdom** | 8.2 | 2.5 | 2.8 | 3.1 | 3.7 | 2.8 | 3.1 | 2.6 | 2.1 | 2.8 | 2.3 | 2.7 | 2.7 |
| **EU-25** | : | : | 1.6 | 2.0 | 3.1 | 2.3 | 2.2 | 0.9 | 0.9 | 1.6 | 1.5 | 1.6 | 1.6 |
| **EU-15** | 6.7 | 3.0 | 1.4 | 1.8 | 2.9 | 2.4 | 2.4 | 1.0 | 0.9 | 1.5 | 1.5 | 1.6 | 1.6 |
| **USA** | 4.6 | 2.0 | 2.2 | 4.2 | 1.5 | 0.5 | 1.0 | 0.8 | 1.0 | 2.8 | 2.2 | 2.5 | 2.4 |
| **Japan** | 4.8 | 1.2 | -1.1 | -2.2 | -1.3 | -2.7 | -2.2 | -4.3 | -3.5 | -2.4 | -1.0 | -2.0 | -1.7 |

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

**TABLE 25 : Real unit labour costs [1] (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 0.3 | 0.4 | -0.7 | -1.1 | 2.6 | 1.1 | -1.1 | *-1.4* | -1.7 | *-1.3* | -1.0 | *-0.9* | -1.4 |
| **Germany** | 0.0 | -0.1 | -0.4 | 1.2 | 0.0 | -0.7 | -0.4 | *-2.7* | -1.8 | *-0.8* | -0.2 | *-0.5* | -0.1 |
| **Greece** | -1.1 | -2.3 | 0.0 | -1.8 | -2.8 | 1.6 | -2.6 | *0.8* | 1.0 | *0.0* | 0.3 | *-0.2* | 0.3 |
| **Spain** | -0.1 | -0.2 | -0.4 | -0.6 | -0.6 | -1.0 | -0.5 | *-0.7* | -0.9 | *-0.2* | -0.8 | *-0.7* | -0.6 |
| **France** | -0.1 | -0.7 | -0.4 | -0.1 | 0.7 | -0.1 | 0.4 | *-1.2* | -1.4 | *-0.5* | -0.4 | *-0.3* | -0.3 |
| **Ireland** | -0.4 | -1.2 | -2.6 | -1.4 | -1.0 | -3.7 | 1.4 | *-0.4* | 0.3 | *-0.7* | -0.7 | *-0.7* | -1.4 |
| **Italy** | -0.1 | -1.7 | -1.1 | -0.4 | 0.4 | 0.4 | 1.0 | *0.1* | -0.2 | *-0.1* | -0.1 | *-0.5* | -0.5 |
| **Luxembourg** | 0.2 | -0.1 | -2.5 | -2.5 | 6.1 | 3.1 | -1.0 | *-0.9* | -1.2 | *-0.3* | -1.3 | *-0.6* | -1.0 |
| **Netherlands** | 0.2 | 0.0 | -0.2 | -0.8 | 0.1 | 2.3 | 0.8 | *-1.6* | -1.6 | *-1.2* | -0.9 | *-1.1* | -1.5 |
| **Austria** | -0.3 | -0.1 | -1.1 | -1.9 | -0.6 | -0.7 | -0.2 | *0.0* | 0.0 | *-0.4* | -1.0 | *-0.2* | -0.3 |
| **Portugal** | -0.1 | 1.8 | 0.5 | 1.5 | 1.1 | 0.0 | 0.5 | *0.2* | -0.3 | *0.2* | 0.0 | *0.1* | -0.4 |
| **Finland** | -0.2 | -2.1 | -1.1 | -2.2 | 2.1 | -0.8 | 0.5 | *0.2* | -0.8 | *0.0* | 0.7 | *0.1* | 0.5 |
| **Euro area** | -0.2 | -0.5 | -0.6 | -0.1 | 0.2 | -0.1 | 0.1 | *-1.3* | -1.2 | *-0.6* | -0.5 | *-0.5* | -0.5 |
| **Czech Republic** | : | : | 0.7 | -0.1 | 0.3 | 3.4 | 0.9 | *-3.0* | -2.7 | *0.8* | -1.4 | *-0.1* | -1.1 |
| **Denmark** | 0.0 | -1.2 | 0.0 | -1.3 | 1.2 | 0.2 | 0.1 | *-0.4* | -0.4 | *-0.5* | -0.2 | *-0.2* | 0.1 |
| **Estonia** | : | : | -2.3 | -5.9 | -3.5 | -0.1 | 2.0 | *-0.9* | -2.8 | *-1.2* | -2.7 | *-1.0* | -1.9 |
| **Cyprus** | : | : | -0.3 | -1.7 | -0.8 | 3.8 | 0.4 | *-1.4* | -0.7 | *-0.8* | -1.0 | *-0.8* | -1.3 |
| **Latvia** | : | : | -1.2 | -6.5 | -4.2 | -4.0 | 1.7 | *0.1* | 1.1 | *-2.8* | -2.4 | *-4.0* | -3.0 |
| **Lithuania** | : | : | 1.6 | -8.6 | -5.9 | -1.2 | 1.7 | *0.5* | -2.9 | *-0.3* | -1.1 | *-0.8* | -1.5 |
| **Hungary** | : | : | -2.1 | 0.9 | 2.6 | 0.0 | -0.1 | *-0.9* | -0.9 | *-0.5* | -1.2 | *-1.0* | -0.9 |
| **Malta** | : | : | 1.2 | 7.9 | 6.0 | -1.1 | -2.5 | *-3.1* | -0.8 | *-1.1* | -2.2 | *-0.7* | -0.8 |
| **Poland** | : | : | 0.1 | -1.5 | 5.3 | -3.7 | -4.5 | *-4.0* | -3.5 | *-1.7* | -1.0 | *-1.2* | -0.9 |
| **Slovenia** | : | : | -1.4 | 5.1 | 0.1 | -1.9 | -0.6 | *-1.9* | -1.7 | *-1.2* | -1.7 | *-1.2* | -1.3 |
| **Slovakia** | : | : | -0.1 | -0.7 | -1.1 | -0.1 | -1.3 | *0.7* | -2.0 | *0.4* | -0.2 | *0.6* | -0.8 |
| **Sweden** | -0.1 | -1.9 | 1.0 | 4.1 | 3.0 | -0.6 | -0.8 | *-1.9* | -1.4 | *-1.0* | -0.4 | *0.1* | 0.0 |
| **United Kingdom** | 0.1 | -1.0 | 0.3 | 1.7 | 1.5 | -0.4 | -0.1 | *0.2* | 0.1 | *0.5* | 0.1 | *0.6* | 0.2 |
| **EU-25** | : | : | -0.4 | 0.3 | 0.6 | -0.3 | -0.1 | *-1.1* | -1.1 | *-0.4* | -0.4 | *-0.3* | -0.3 |
| **EU-15** | -0.2 | -0.6 | -0.4 | 0.3 | 0.6 | -0.2 | 0.1 | *-1.0* | -0.9 | *-0.4* | -0.3 | *-0.3* | -0.3 |
| **USA** | -0.1 | -0.4 | 0.5 | 2.0 | -0.8 | -1.1 | -0.9 | *-1.4* | -1.1 | *0.2* | -0.1 | *0.3* | 0.2 |
| **Japan** | -0.4 | 0.3 | -0.4 | -0.7 | 0.0 | -1.4 | -0.8 | *-1.7* | -2.4 | *-0.8* | -0.2 | *-1.4* | -1.5 |

[1] Nominal unit labour costs divided by GDP price deflator.

**TABLE 26 : Total population (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.5 | 0.4 | *0.2* | 0.3 | *0.2* | 0.3 | *0.2* | 0.2 |
| **Germany** | 0.4 | 0.7 | 0.1 | 0.1 | 0.2 | 0.2 | 0.0 | *0.0* | 0.0 | *0.1* | 0.0 | *0.0* | 0.1 |
| **Greece** | 0.7 | 0.9 | 0.5 | 0.3 | 0.2 | 0.1 | 0.6 | *0.2* | 0.2 | *0.2* | 0.2 | *0.2* | 0.2 |
| **Spain** | 0.8 | 0.2 | 0.4 | 0.8 | 0.8 | 0.7 | 0.6 | *0.6* | 0.6 | *0.5* | 0.6 | *0.5* | 0.6 |
| **France** | 0.7 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | *0.3* | 0.3 | *0.3* | 0.3 | *0.3* | 0.3 |
| **Ireland** | 0.7 | 0.5 | 1.1 | 1.3 | 1.5 | 1.7 | 1.6 | *1.6* | 1.6 | *1.4* | 1.5 | *1.3* | 1.5 |
| **Italy** | 0.4 | 0.0 | 0.0 | 0.0 | 0.1 | 0.3 | 0.8 | *0.6* | 0.8 | *0.2* | 0.4 | *0.1* | 0.1 |
| **Luxembourg** | 0.7 | 1.4 | 1.4 | 1.4 | 0.7 | 1.1 | 0.9 | *0.9* | 0.9 | *0.9* | 0.9 | *0.9* | 0.9 |
| **Netherlands** | 0.9 | 0.7 | 0.6 | 0.7 | 0.8 | 0.6 | 0.5 | *0.4* | 0.3 | *0.3* | 0.2 | *0.3* | 0.2 |
| **Austria** | 0.3 | 0.7 | 0.2 | 0.2 | 0.4 | 0.5 | 0.4 | *0.4* | 0.3 | *0.5* | 0.4 | *0.5* | 0.4 |
| **Portugal** | 0.4 | 0.2 | 0.4 | 0.5 | 0.7 | 0.7 | 0.7 | *0.6* | 0.6 | *0.6* | 0.5 | *0.6* | 0.5 |
| **Finland** | 0.4 | 0.5 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | *0.2* | 0.3 | *0.2* | 0.2 | *0.2* | 0.2 |
| **Euro area** | 0.6 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | *0.4* | 0.4 | *0.3* | 0.3 | *0.3* | 0.3 |
| **Czech Republic** | 0.2 | -0.1 | -0.1 | -0.1 | -0.5 | -0.2 | 0.0 | *-0.1* | 0.1 | *-0.1* | 0.2 | *-0.1* | 0.1 |
| **Denmark** | 0.4 | 0.3 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | *0.1* | 0.0 | *0.2* | 0.2 | *0.1* | 0.1 |
| **Estonia** | 0.8 | -1.6 | -1.1 | -0.5 | -0.4 | -0.4 | -0.4 | *-0.4* | -0.4 | *-0.4* | -0.4 | *-0.4* | -0.4 |
| **Cyprus** | : | 2.5 | 1.2 | 1.0 | 1.1 | 1.4 | 2.1 | *0.8* | 2.1 | *0.8* | 1.1 | *0.8* | 1.1 |
| **Latvia** | 0.8 | -1.4 | -0.9 | -0.7 | -0.8 | -0.7 | -0.6 | *-0.5* | -0.4 | *-0.2* | -0.2 | *-0.2* | -0.2 |
| **Lithuania** | 1.0 | -0.4 | -0.7 | -0.7 | -0.5 | -0.3 | -0.4 | *-0.1* | -0.4 | *-0.1* | -0.3 | *0.0* | -0.2 |
| **Hungary** | 0.1 | -0.1 | -0.2 | -0.3 | -0.2 | -0.3 | -0.3 | *-0.3* | -0.2 | *-0.2* | -0.2 | *-0.2* | -0.2 |
| **Malta** | 0.3 | 1.0 | 0.6 | 0.6 | 0.8 | 0.7 | 0.6 | *0.5* | 0.5 | *0.5* | 0.5 | *0.5* | 0.5 |
| **Poland** | 0.9 | 0.2 | -0.2 | -1.0 | 0.0 | 0.0 | -0.1 | *-0.1* | -0.1 | *-0.1* | -0.1 | *-0.1* | -0.1 |
| **Slovenia** | 0.8 | -0.1 | 0.0 | 0.3 | 0.1 | 0.2 | 0.1 | *0.0* | 0.0 | *0.0* | 0.0 | *0.0* | 0.0 |
| **Slovakia** | 0.9 | 0.3 | 0.1 | 0.1 | 0.0 | -0.2 | -0.2 | *0.0* | 0.0 | *0.0* | 0.0 | *0.0* | 0.0 |
| **Sweden** | 0.5 | 0.6 | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | *0.4* | 0.4 | *0.5* | 0.5 | *0.5* | 0.5 |
| **United Kingdom** | 0.3 | 0.2 | 0.2 | 0.3 | 0.7 | 0.3 | 0.4 | *0.4* | 0.2 | *0.4* | 0.2 | *0.4* | 0.1 |
| **EU-25** | : | : | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | *0.3* | 0.3 | *0.2* | 0.2 | *0.2* | 0.2 |
| **EU-15** | 0.5 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | *0.4* | 0.3 | *0.3* | 0.3 | *0.3* | 0.2 |
| **USA** | 1.1 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | *1.0* | 1.0 | *1.0* | 1.0 | *1.0* | 1.0 |
| **Japan** | 0.9 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | *0.0* | 0.0 | *0.0* | 0.0 | *0.0* | 0.0 |

**TABLE 27 : Total employment (percentage change on preceding year,** 18.03.2005

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 0.3 | 0.0 | 1.3 | 1.9 | 1.5 | -0.3 | 0.0 | *0.4* | 0.7 | *0.7* | 0.8 | *0.8* | 0.8 |
| **Germany** | 0.5 | 0.0 | 0.7 | 1.8 | 0.4 | -0.6 | -1.0 | *0.1* | 0.3 | *0.8* | 0.7 | *0.7* | 0.8 |
| **Greece** | 0.3 | 0.6 | 1.0 | 0.3 | -0.3 | 0.1 | 1.4 | *1.8* | 2.8 | *1.0* | 0.6 | *1.0* | 0.7 |
| **Spain** | 0.3 | -0.4 | 3.2 | 3.7 | 2.5 | 1.4 | 1.7 | *1.9* | 2.1 | *1.9* | 2.1 | *1.8* | 2.0 |
| **France** | 0.4 | -0.4 | 1.2 | 2.8 | 1.9 | 0.9 | 0.1 | *-0.3* | -0.2 | *0.6* | 0.5 | *0.7* | 0.8 |
| **Ireland** | 0.2 | 1.7 | 5.7 | 4.6 | 3.0 | 1.8 | 2.0 | *2.4* | 3.0 | *1.7* | 1.8 | *1.5* | 1.5 |
| **Italy** | 0.4 | -0.8 | 0.8 | 1.7 | 1.6 | 1.3 | 0.4 | *0.8* | 0.8 | *0.7* | 0.4 | *0.6* | 0.5 |
| **Luxembourg** | 1.2 | 2.8 | 4.2 | 5.7 | 5.7 | 3.0 | 1.8 | *2.0* | 2.4 | *2.4* | 2.6 | *2.7* | 2.9 |
| **Netherlands** | 0.7 | 0.8 | 2.6 | 1.8 | 1.3 | -0.1 | -1.0 | *-1.7* | -1.6 | *0.5* | 0.3 | *1.2* | 1.3 |
| **Austria** | 0.1 | 0.1 | 0.9 | 1.3 | 0.4 | 0.1 | 0.0 | *0.5* | 1.0 | *0.7* | 0.2 | *0.8* | 0.7 |
| **Portugal** | 0.1 | -0.6 | 1.9 | 1.7 | 1.7 | 0.4 | -0.4 | *0.4* | 0.1 | *1.0* | 0.3 | *1.2* | 0.3 |
| **Finland** | 0.4 | -3.7 | 2.3 | 2.3 | 1.5 | 0.9 | 0.0 | *-0.4* | 0.0 | *0.4* | 0.6 | *0.7* | 0.8 |
| **Euro area** | 0.4 | -0.2 | 1.4 | 2.2 | 1.4 | 0.5 | 0.2 | *0.5* | 0.6 | *0.9* | 0.7 | *0.9* | 0.9 |
| **Czech Republic** | : | : | -1.4 | -0.5 | 0.4 | 1.5 | -0.1 | *-0.9* | -0.5 | *-0.1* | -0.1 | *0.1* | 0.0 |
| **Denmark** | 0.6 | -0.1 | 1.1 | 0.3 | 0.3 | -0.4 | -0.9 | *0.4* | 0.1 | *0.6* | 0.5 | *0.3* | 0.4 |
| **Estonia** | : | -5.3 | -2.4 | -2.9 | 0.8 | 1.5 | 0.8 | *0.3* | 0.2 | *0.3* | 0.6 | *0.4* | 0.8 |
| **Cyprus** | : | : | 1.3 | 2.2 | 2.2 | 1.1 | 1.1 | *1.1* | 1.5 | *1.3* | 1.2 | *1.3* | 1.2 |
| **Latvia** | : | -7.2 | -0.5 | -2.9 | 2.2 | 1.6 | 1.7 | *0.8* | 1.0 | *0.6* | 0.8 | *0.6* | 0.6 |
| **Lithuania** | : | -2.4 | -1.1 | -4.0 | -3.3 | 4.0 | 2.3 | *1.6* | -0.3 | *1.1* | 0.5 | *0.9* | 0.4 |
| **Hungary** | : | : | 0.9 | 1.0 | 0.5 | 0.1 | 1.3 | *0.5* | -0.5 | *0.5* | 0.5 | *0.6* | 0.9 |
| **Malta** | : | 1.5 | 0.8 | 2.3 | 2.1 | -0.7 | -0.7 | *0.6* | 1.4 | *0.3* | 0.6 | *0.8* | 0.8 |
| **Poland** | : | : | -0.4 | -1.6 | -2.2 | -3.0 | -1.2 | *-0.2* | 0.0 | *0.7* | 1.0 | *1.2* | 1.2 |
| **Slovenia** | : | : | 0.4 | 3.2 | 0.5 | -0.4 | -0.3 | *0.2* | 0.2 | *0.4* | 0.1 | *0.4* | 0.2 |
| **Slovakia** | : | : | -0.8 | -1.8 | 0.6 | -0.5 | 1.8 | *-0.1* | 0.3 | *0.6* | 0.6 | *0.9* | 0.9 |
| **Sweden** | 0.7 | -2.1 | 0.8 | 2.4 | 1.9 | 0.2 | -0.2 | *-0.5* | -0.4 | *0.4* | 0.5 | *1.0* | 1.0 |
| **United Kingdom** | 0.4 | -0.8 | 1.2 | 1.1 | 0.8 | 0.7 | 0.9 | *0.7* | 0.9 | *0.5* | 0.4 | *0.5* | 0.5 |
| **EU-25** | : | : | 1.1 | 1.5 | 1.0 | 0.3 | 0.2 | *0.4* | 0.5 | *0.7* | 0.7 | *0.8* | 0.8 |
| **EU-15** | 0.4 | -0.3 | 1.4 | 2.0 | 1.3 | 0.5 | 0.3 | *0.5* | 0.6 | *0.8* | 0.7 | *0.8* | 0.8 |
| **USA** | 1.9 | 1.0 | 2.1 | 2.2 | -0.1 | -0.8 | 0.0 | *1.0* | 1.1 | *0.9* | 1.1 | *0.8* | 0.8 |
| **Japan** | 1.0 | 0.8 | 0.0 | -0.1 | -0.6 | -1.4 | -0.3 | *0.9* | 0.2 | *0.3* | 0.1 | *0.2* | 0.0 |

**TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1964-2006)** [1]

| | long-term average 1964-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 5.7 | 8.3 | 8.7 | 6.9 | 6.7 | 7.3 | 8.0 | *8.2* | 7.8 | *8.1* | 7.7 | *7.9* | 7.5 |
| **Germany** | 3.2 | 7.2 | 8.3 | 7.2 | 7.4 | 8.2 | 9.0 | *9.7* | 9.5 | *10.0* | 9.7 | *9.6* | 9.3 |
| **Greece** | 4.5 | 8.3 | 10.7 | 11.3 | 10.8 | 10.3 | 9.7 | *8.5* | 10.3 | *9.0* | 10.5 | *9.0* | 10.3 |
| **Spain** | 6.8 | 17.1 | 14.9 | 11.3 | 10.6 | 11.3 | 11.3 | *11.1* | 10.8 | *10.8* | 10.4 | *10.6* | 10.3 |
| **France** | 5.3 | 10.6 | 10.8 | 9.1 | 8.4 | 8.9 | 9.5 | *9.6* | 9.6 | *9.5* | 9.4 | *9.3* | 9.1 |
| **Ireland** | 9.7 | 14.5 | 7.8 | 4.3 | 3.9 | 4.3 | 4.6 | *4.4* | 4.5 | *4.4* | 4.6 | *4.3* | 4.6 |
| **Italy** | 6.7 | 9.8 | 11.0 | 10.1 | 9.1 | 8.6 | 8.4 | *8.3* | 8.0 | *8.1* | 7.9 | *8.0* | 7.7 |
| **Luxembourg** | 1.1 | 2.5 | 2.6 | 2.3 | 2.1 | 2.8 | 3.7 | *4.3* | 4.2 | *4.6* | 4.6 | *4.4* | 4.3 |
| **Netherlands** | 4.9 | 6.1 | 4.2 | 2.9 | 2.5 | 2.7 | 3.8 | *4.6* | 4.7 | *5.0* | 5.2 | *4.4* | 5.0 |
| **Austria** | 2.1 | 3.7 | 4.2 | 3.7 | 3.6 | 4.2 | 4.3 | *4.2* | 4.5 | *3.9* | 4.1 | *3.4* | 3.9 |
| **Portugal** | 5.2 | 5.7 | 5.6 | 4.1 | 4.0 | 5.0 | 6.3 | *6.3* | 6.7 | *6.2* | 7.0 | *6.1* | 7.0 |
| **Finland** | 3.9 | 13.3 | 11.7 | 9.8 | 9.1 | 9.1 | 9.0 | *8.8* | 8.8 | *8.6* | 8.4 | *8.3* | 8.0 |
| **Euro area** | 5.1 | 9.5 | 9.7 | 8.2 | 7.8 | 8.2 | 8.7 | *8.9* | 8.8 | *8.9* | 8.8 | *8.6* | 8.5 |
| **Czech Republic** | : | : | 6.4 | 8.7 | 8.0 | 7.3 | 7.8 | *8.3* | 8.3 | *8.2* | 8.3 | *8.0* | 8.2 |
| **Denmark** | 4.1 | 8.1 | 5.1 | 4.4 | 4.3 | 4.6 | 5.6 | *5.8* | 5.4 | *5.3* | 4.9 | *4.9* | 4.6 |
| **Estonia** | : | 5.8 | 10.5 | 12.5 | 11.8 | 9.5 | 10.2 | *9.7* | 9.2 | *9.4* | 8.7 | *9.1* | 8.2 |
| **Cyprus** | : | : | 5.0 | 5.2 | 4.4 | 3.9 | 4.5 | *4.2* | 5.0 | *4.0* | 4.8 | *3.7* | 4.6 |
| **Latvia** | : | 9.8 | 15.6 | 13.7 | 12.9 | 12.6 | 10.4 | *9.9* | 9.8 | *9.7* | 9.4 | *9.4* | 9.2 |
| **Lithuania** | : | 9.1 | 13.9 | 16.4 | 16.4 | 13.5 | 12.7 | *11.4* | 10.8 | *10.6* | 10.2 | *9.9* | 9.7 |
| **Hungary** | : | : | 8.0 | 6.3 | 5.6 | 5.6 | 5.8 | *5.8* | 5.9 | *5.9* | 6.3 | *6.0* | 6.2 |
| **Malta** | : | 5.1 | 6.5 | 6.8 | 7.7 | 7.7 | 8.0 | *8.6* | 7.3 | *8.5* | 7.1 | *8.4* | 7.0 |
| **Poland** | : | : | 12.6 | 16.4 | 18.5 | 19.8 | 19.2 | *19.0* | 18.8 | *18.7* | 18.3 | *18.1* | 17.6 |
| **Slovenia** | : | : | 7.0 | 6.6 | 5.8 | 6.1 | 6.5 | *6.3* | 6.0 | *6.1* | 5.9 | *5.8* | 5.6 |
| **Slovakia** | : | : | 14.5 | 18.7 | 19.4 | 18.7 | 17.5 | *18.4* | 18.0 | *17.9* | 17.6 | *17.2* | 16.8 |
| **Sweden** | 2.2 | 7.2 | 8.0 | 5.6 | 4.9 | 4.9 | 5.6 | *6.3* | 6.3 | *5.8* | 5.9 | *5.0* | 5.3 |
| **United Kingdom** | 5.4 | 9.2 | 6.5 | 5.4 | 5.0 | 5.1 | 4.9 | *4.9* | 4.7 | *4.9* | 4.7 | *4.9* | 4.7 |
| **EU-25** | : | : | 9.6 | 8.6 | 8.4 | 8.7 | 8.9 | *9.1* | 9.0 | *9.1* | 9.0 | *8.8* | 8.7 |
| **EU-15** | 5.1 | 9.3 | 9.1 | 7.6 | 7.2 | 7.6 | 7.9 | *8.1* | 8.0 | *8.1* | 8.0 | *7.9* | 7.8 |
| **USA** | 6.1 | 6.5 | 4.6 | 4.0 | 4.8 | 5.8 | 6.0 | *5.5* | 5.5 | *5.5* | 5.2 | *5.4* | 5.0 |
| **Japan** | 1.9 | 2.6 | 4.1 | 4.7 | 5.0 | 5.4 | 5.3 | *4.8* | 4.8 | *4.7* | 4.4 | *4.6* | 4.1 |

[1] Series following Eurostat definition, based on the labour force survey.

**TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1970-2006)** 18.03.2005

| | long-term average 1970-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of *X-2004* | 2004 estimate of III-2005 | 2005 forecast of *X-2004* | 2005 forecast of III-2005 | 2006 forecast of *X-2004* | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 44.45 | 40.50 | 40.23 | 40.34 | 40.34 | : | : | *:* | : | *:* | : | *:* | : |
| **Germany** | 2.64 | 1.96 | 1.95 | 1.96 | 1.96 | : | : | *:* | : | *:* | : | *:* | : |
| **Greece** | 80.44 | 266.37 | 321.61 | 336.63 | 340.75 | : | : | *:* | : | *:* | : | *:* | : |
| **Spain** | 102.29 | 146.41 | 165.32 | 166.39 | 166.39 | : | : | *:* | : | *:* | : | *:* | : |
| **France** | 6.17 | 6.71 | 6.57 | 6.56 | 6.56 | : | : | *:* | : | *:* | : | *:* | : |
| **Ireland** | 0.64 | 0.79 | 0.78 | 0.79 | 0.79 | : | : | *:* | : | *:* | : | *:* | : |
| **Italy** | 1137.90 | 1803.04 | 1940.89 | 1936.27 | 1936.27 | : | : | *:* | : | *:* | : | *:* | : |
| **Luxembourg** | 44.45 | 40.50 | 40.23 | 40.34 | 40.34 | : | : | *:* | : | *:* | : | *:* | : |
| **Netherlands** | 2.83 | 2.20 | 2.20 | 2.20 | 2.20 | : | : | *:* | : | *:* | : | *:* | : |
| **Austria** | 18.83 | 13.80 | 13.73 | 13.76 | 13.76 | : | : | *:* | : | *:* | : | *:* | : |
| **Portugal** | 84.58 | 186.94 | 199.40 | 200.48 | 200.48 | : | : | *:* | : | *:* | : | *:* | : |
| **Finland** | 4.77 | 5.88 | 5.92 | 5.95 | 5.95 | : | : | *:* | : | *:* | : | *:* | : |
| **Euro area** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **Czech Republic** | : | 34.89 | 35.78 | 35.60 | 34.07 | 30.80 | 31.85 | *31.99* | 31.89 | *31.82* | 30.19 | *32.19* | 30.67 |
| **Denmark** | 7.65 | 7.64 | 7.45 | 7.45 | 7.45 | 7.43 | 7.43 | *7.44* | 7.44 | *7.46* | 7.46 | *7.46* | 7.46 |
| **Estonia** | : | : | 15.61 | 15.65 | 15.65 | 15.65 | 15.65 | *15.65* | 15.65 | *15.65* | 15.65 | *15.65* | 15.65 |
| **Cyprus** | 0.48 | 0.58 | 0.58 | 0.57 | 0.58 | 0.58 | 0.58 | *0.58* | 0.58 | *0.58* | 0.58 | *0.58* | 0.58 |
| **Latvia** | : | : | 0.64 | 0.56 | 0.56 | 0.58 | 0.64 | *0.66* | 0.67 | *0.67* | 0.69 | *0.67* | 0.69 |
| **Lithuania** | : | : | 4.41 | 3.70 | 3.58 | 3.46 | 3.45 | *3.45* | 3.45 | *3.45* | 3.45 | *3.45* | 3.45 |
| **Hungary** | : | 142.43 | 231.76 | 260.04 | 256.59 | 242.96 | 253.62 | *251.80* | 251.66 | *246.40* | 244.11 | *246.40* | 244.11 |
| **Malta** | 0.43 | 0.43 | 0.43 | 0.40 | 0.40 | 0.41 | 0.43 | *0.43* | 0.43 | *0.43* | 0.43 | *0.43* | 0.43 |
| **Poland** | : | 2.60 | 3.86 | 4.01 | 3.67 | 3.86 | 4.40 | *4.55* | 4.53 | *4.38* | 4.02 | *4.44* | 4.08 |
| **Slovenia** | : | 116.46 | 187.96 | 206.61 | 217.98 | 225.98 | 233.85 | *239.10* | 239.09 | *239.60* | 239.74 | *239.60* | 239.74 |
| **Slovakia** | : | : | 40.66 | 42.60 | 43.30 | 42.69 | 41.49 | *40.17* | 40.02 | *40.22* | 38.29 | *40.22* | 38.66 |
| **Sweden** | 6.05 | 8.53 | 8.67 | 8.45 | 9.26 | 9.16 | 9.12 | *9.13* | 9.12 | *9.05* | 9.06 | *9.05* | 9.06 |
| **United Kingdom** | 0.59 | 0.76 | 0.69 | 0.61 | 0.62 | 0.63 | 0.69 | *0.68* | 0.68 | *0.69* | 0.69 | *0.69* | 0.70 |
| **EU-25** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **EU-15** | : | : | : | : | : | : | : | *:* | : | *:* | : | *:* | : |
| **USA** | 1.11 | 1.24 | 1.10 | 0.92 | 0.90 | 0.95 | 1.13 | *1.23* | 1.24 | *1.24* | 1.31 | *1.24* | 1.32 |
| **Japan** | 262.44 | 141.04 | 128.47 | 99.47 | 108.68 | 118.06 | 130.97 | *134.30* | 134.44 | *133.90* | 135.40 | *130.10* | 132.32 |

**TABLE 30 : Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1970-2006)**

| | long-term average 1970-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of *X-2004* | 2004 estimate of III-2005 | 2005 forecast of *X-2004* | 2005 forecast of III-2005 | 2006 forecast of *X-2004* | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | : | : | -1.6 | -3.3 | 1.2 | 1.2 | 4.5 | *1.0* | 1.1 | *0.3* | 0.6 | *:* | 0.1 |
| **Germany** | : | : | -1.5 | -4.4 | 1.3 | 1.7 | 5.9 | *1.8* | 1.7 | *0.3* | 0.5 | *:* | 0.2 |
| **Greece** | : | : | 0.3 | -5.2 | 3.1 | 2.5 | 5.0 | *1.4* | 1.4 | *0.6* | 0.3 | *:* | 0.5 |
| **Spain** | : | : | -1.1 | -3.1 | 1.4 | 1.4 | 4.4 | *1.2* | 1.1 | *0.3* | 0.6 | *:* | 0.2 |
| **France** | : | : | -1.1 | -4.1 | 1.3 | 1.7 | 5.3 | *1.5* | 1.4 | *0.3* | 0.7 | *:* | 0.1 |
| **Ireland** | : | : | -1.5 | -5.6 | 1.0 | 2.0 | 7.3 | *1.7* | 2.3 | *0.5* | 1.6 | *:* | 0.1 |
| **Italy** | : | : | 1.9 | -3.8 | 1.7 | 2.1 | 5.7 | *1.8* | 1.7 | *0.4* | 0.6 | *:* | 0.2 |
| **Luxembourg** | : | : | -1.6 | -3.3 | 1.2 | 1.2 | 4.5 | *1.0* | 1.1 | *0.3* | 0.6 | *:* | 0.1 |
| **Netherlands** | : | : | -1.5 | -2.9 | 1.1 | 1.1 | 3.9 | *0.8* | 0.9 | *0.3* | 0.5 | *:* | 0.1 |
| **Austria** | : | : | -0.4 | -2.3 | 0.8 | 1.0 | 3.7 | *1.1* | 1.0 | *0.2* | 0.1 | *:* | 0.2 |
| **Portugal** | : | : | -1.1 | -2.7 | 0.7 | 0.9 | 3.5 | *0.8* | 0.8 | *0.3* | 0.6 | *:* | 0.1 |
| **Finland** | : | : | -1.8 | -4.3 | 2.0 | 1.6 | 5.4 | *1.6* | 1.6 | *0.2* | 0.6 | *:* | 0.1 |
| **Euro area** | : | : | -1.3 | -7.9 | 2.9 | 3.2 | 10.8 | *2.8* | 2.9 | *0.6* | 0.9 | *:* | 0.4 |
| **Czech Republic** | : | : | 0.4 | 1.7 | 5.2 | 11.6 | -0.3 | *0.3* | 0.4 | *0.6* | 5.3 | *:* | -1.4 |
| **Denmark** | : | : | -1.3 | -4.4 | 1.7 | 1.4 | 4.7 | *1.2* | 1.4 | *-0.2* | 0.2 | *:* | 0.0 |
| **Estonia** | : | : | -0.8 | -3.5 | 1.7 | 0.6 | 3.2 | *0.9* | 0.9 | *0.0* | 0.2 | *:* | 0.1 |
| **Cyprus** | : | : | 6.8 | -2.7 | 2.2 | 1.9 | 4.2 | *1.4* | 0.9 | *1.6* | 0.3 | *:* | 0.2 |
| **Latvia** | : | : | 4.2 | 7.5 | 1.0 | -3.0 | -5.9 | *-2.6* | -2.7 | *-1.2* | -2.9 | *:* | 0.6 |
| **Lithuania** | : | : | 8.7 | 12.2 | 4.6 | 5.1 | 5.0 | *1.1* | 1.1 | *0.3* | 0.1 | *:* | 0.2 |
| **Hungary** | : | : | -7.8 | -4.7 | 2.4 | 6.9 | -1.2 | *1.6* | 1.8 | *2.5* | 3.2 | *:* | 0.3 |
| **Malta** | : | : | -0.1 | -1.8 | 0.7 | 1.1 | 3.1 | *2.0* | 2.1 | *-0.1* | 0.6 | *:* | -0.2 |
| **Poland** | : | : | -4.2 | 3.3 | 10.3 | -4.3 | -10.1 | *-2.9* | -2.2 | *4.2* | 12.9 | *:* | -1.3 |
| **Slovenia** | : | : | -4.9 | -7.3 | -4.3 | -2.7 | -0.6 | *-1.5* | -1.4 | *-0.1* | -0.5 | *:* | 0.2 |
| **Slovakia** | : | : | -0.7 | 1.9 | -1.6 | 1.5 | 5.8 | *4.0* | 4.6 | *-0.2* | 4.0 | *:* | -0.7 |
| **Sweden** | : | : | 1.1 | -0.1 | -7.7 | 2.4 | 6.2 | *1.8* | 2.0 | *1.1* | 1.6 | *:* | 0.0 |
| **United Kingdom** | : | : | 5.4 | 3.1 | -1.0 | 0.9 | -3.9 | *4.7* | 4.5 | *-1.7* | -1.1 | *:* | -0.4 |
| **EU-25** | : | : | 1.2 | -8.6 | 3.8 | 5.8 | 12.6 | *5.9* | 6.1 | *0.8* | 2.4 | *:* | 0.2 |
| **EU-15** | : | : | 1.0 | -7.6 | 2.1 | 4.1 | 11.2 | *4.9* | 5.0 | *0.1* | 0.5 | *:* | 0.3 |
| **USA** | : | : | 5.2 | 4.8 | 5.5 | -0.9 | -9.0 | *-5.6* | -6.8 | *-1.0* | -4.5 | *:* | -0.3 |
| **Japan** | : | : | 0.7 | 12.0 | -9.1 | -5.1 | -0.3 | *1.6* | 1.6 | *0.8* | 1.8 | *:* | 2.7 |

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

**TABLE 31 : Relative unit labour costs, to rest of a group [1] of industrialised countries (nat. curr.) (percentage change on preceding year, 19** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1963-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | : | : | -1.3 | -2.1 | 1.2 | 0.8 | -1.3 | *0.0* | 0.2 | *-0.8* | -0.7 | *:* | -0.7 |
| **Germany** | : | : | -2.9 | -1.8 | -2.6 | -1.5 | -1.8 | *-2.9* | -1.9 | *-1.8* | -1.4 | *:* | -1.0 |
| **Greece** | : | : | -0.7 | -2.3 | -5.1 | 2.4 | -2.2 | *2.8* | 3.2 | *0.8* | 1.2 | *:* | 1.8 |
| **Spain** | : | : | 0.0 | 0.3 | -0.2 | 1.0 | 1.1 | *2.1* | 2.7 | *1.7* | 1.4 | *:* | 1.5 |
| **France** | : | : | -1.8 | -1.8 | -1.0 | 0.0 | -0.5 | *-0.3* | -0.3 | *-0.6* | -0.4 | *:* | 0.0 |
| **Ireland** | : | : | -0.5 | 1.0 | 1.7 | -1.1 | 0.9 | *1.9* | 2.9 | *0.0* | 0.2 | *:* | -0.4 |
| **Italy** | : | : | -1.4 | -1.0 | -0.7 | 1.3 | 1.6 | *2.1* | 1.9 | *0.3* | 0.4 | *:* | 0.0 |
| **Luxembourg** | : | : | -1.3 | -2.1 | 1.2 | 0.8 | -1.3 | *0.0* | 0.2 | *-0.8* | -0.7 | *:* | -0.7 |
| **Netherlands** | : | : | -0.1 | 0.9 | 2.2 | 3.5 | 1.8 | *-1.4* | -1.0 | *-2.0* | -1.5 | *:* | -2.1 |
| **Austria** | : | : | -3.1 | -2.7 | -2.2 | -1.5 | -1.0 | *0.5* | 1.6 | *-0.9* | -1.0 | *:* | -0.2 |
| **Portugal** | : | : | 2.0 | 2.8 | 2.2 | 2.1 | 1.0 | *1.2* | 1.1 | *0.7* | 0.5 | *:* | 0.2 |
| **Finland** | : | : | -2.2 | -1.7 | 1.6 | -1.2 | -1.7 | *0.0* | -0.1 | *-0.5* | 0.0 | *:* | 0.2 |
| **Euro area** | : | : | -4.2 | -2.7 | -1.9 | 0.1 | -0.7 | *-1.2* | -0.1 | *-1.7* | -1.2 | *:* | -1.0 |
| **Czech Republic** | : | : | 4.3 | -1.4 | 1.9 | 4.3 | 0.8 | *1.3* | 0.5 | *2.5* | 1.0 | *:* | 0.9 |
| **Denmark** | : | : | -0.1 | -0.7 | 0.1 | 0.1 | 0.4 | *1.1* | 1.1 | *0.1* | 0.1 | *:* | 0.4 |
| **Estonia** | : | : | 4.2 | -2.9 | -1.5 | 2.8 | 2.5 | *2.1* | -0.3 | *1.2* | -0.7 | *:* | -0.5 |
| **Cyprus** | : | : | -7.7 | -1.2 | -1.7 | 3.3 | 2.9 | *0.1* | 0.5 | *-0.1* | 0.1 | *:* | -0.7 |
| **Latvia** | : | : | 1.6 | -4.9 | -5.1 | -2.5 | 3.3 | *6.2* | 7.8 | *2.1* | 0.1 | *:* | -0.9 |
| **Lithuania** | : | : | 4.5 | -9.8 | -9.5 | -3.1 | -1.6 | *1.0* | 2.6 | *0.8* | 0.1 | *:* | 0.6 |
| **Hungary** | : | : | 8.2 | 8.2 | 8.5 | 6.6 | 4.8 | *4.7* | 4.5 | *2.2* | 2.1 | *:* | 1.8 |
| **Malta** | : | : | 0.9 | 6.4 | 7.1 | -1.9 | 0.9 | *-0.2* | -0.8 | *-0.3* | -1.1 | *:* | -0.8 |
| **Poland** | : | : | 8.7 | 2.9 | 6.2 | -4.6 | -6.2 | *-1.7* | -1.2 | *-0.3* | -0.7 | *:* | -0.3 |
| **Slovenia** | : | : | 3.2 | 8.4 | 5.3 | 3.7 | 2.5 | *1.4* | 0.6 | *0.6* | -0.2 | *:* | -0.1 |
| **Slovakia** | : | : | 2.0 | 5.1 | -0.7 | 1.6 | 1.2 | *4.1* | 4.2 | *1.2* | 1.3 | *:* | 0.5 |
| **Sweden** | : | : | -0.4 | 2.9 | 2.0 | -0.7 | -0.6 | *-1.5* | -1.2 | *-0.6* | -0.6 | *:* | 0.6 |
| **United Kingdom** | : | : | 0.6 | 0.6 | 0.6 | 1.0 | 1.2 | *2.2* | 1.3 | *1.3* | 0.8 | *:* | 1.3 |
| **EU-25** | : | : | -5.0 | -2.5 | -1.6 | 0.5 | -0.8 | *-0.5* | 0.6 | *-1.6* | -1.3 | *:* | -0.5 |
| **EU-15** | : | : | -4.8 | -2.6 | -2.0 | 0.2 | -0.5 | *-0.7* | 0.2 | *-1.5* | -1.1 | *:* | -0.5 |
| **USA** | : | : | -0.3 | 2.6 | -1.0 | -1.5 | -1.2 | *0.6* | 0.8 | *1.9* | 0.8 | *:* | 1.4 |
| **Japan** | : | : | -3.4 | -5.2 | -3.8 | -3.9 | -3.9 | *-5.2* | -4.2 | *-4.5* | -2.8 | *:* | -3.5 |

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

**TABLE 32 : Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (usd) (% change on preceding year, 1963-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1963-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | : | : | -2.9 | -5.3 | 2.4 | 2.1 | 3.1 | *0.9* | 1.3 | *-0.5* | 0.0 | *:* | -0.6 |
| **Germany** | : | : | -4.4 | -6.1 | -1.3 | 0.2 | 4.0 | *-1.2* | -0.2 | *-1.5* | -0.9 | *:* | -0.9 |
| **Greece** | : | : | -0.4 | -7.3 | -2.2 | 4.9 | 2.7 | *4.2* | 4.6 | *1.4* | 1.6 | *:* | 2.2 |
| **Spain** | : | : | -1.1 | -2.8 | 1.2 | 2.5 | 5.5 | *3.3* | 3.8 | *2.0* | 2.0 | *:* | 1.7 |
| **France** | : | : | -2.9 | -5.8 | 0.3 | 1.8 | 4.8 | *1.2* | 1.1 | *-0.2* | 0.3 | *:* | 0.1 |
| **Ireland** | : | : | -2.0 | -4.6 | 2.7 | 0.9 | 8.2 | *3.6* | 5.2 | *0.6* | 1.9 | *:* | -0.3 |
| **Italy** | : | : | 0.4 | -4.8 | 1.0 | 3.4 | 7.4 | *3.9* | 3.6 | *0.7* | 1.0 | *:* | 0.2 |
| **Luxembourg** | : | : | -2.9 | -5.3 | 2.4 | 2.1 | 3.1 | *0.9* | 1.3 | *-0.5* | 0.0 | *:* | -0.6 |
| **Netherlands** | : | : | -1.7 | -2.0 | 3.4 | 4.6 | 5.8 | *-0.6* | -0.1 | *-1.7* | -1.0 | *:* | -2.0 |
| **Austria** | : | : | -3.4 | -5.0 | -1.4 | -0.6 | 2.7 | *1.6* | 2.7 | *-0.7* | -0.9 | *:* | 0.0 |
| **Portugal** | : | : | 0.9 | 0.0 | 2.9 | 3.0 | 4.6 | *2.1* | 2.0 | *1.0* | 1.1 | *:* | 0.3 |
| **Finland** | : | : | -4.0 | -6.0 | 3.6 | 0.4 | 3.6 | *1.7* | 1.5 | *-0.3* | 0.5 | *:* | 0.3 |
| **Euro area** | : | : | -5.5 | -10.3 | 0.9 | 3.3 | 10.0 | *1.6* | 2.7 | *-1.1* | -0.3 | *:* | -0.6 |
| **Czech Republic** | : | : | 4.7 | 0.3 | 7.2 | 16.4 | 0.5 | *1.6* | 0.9 | *3.1* | 6.4 | *:* | -0.5 |
| **Denmark** | : | : | -1.4 | -5.1 | 1.8 | 1.4 | 5.1 | *2.3* | 2.4 | *-0.1* | 0.4 | *:* | 0.4 |
| **Estonia** | : | : | 3.4 | -6.3 | 0.2 | 3.5 | 5.8 | *3.0* | 0.6 | *1.3* | -0.5 | *:* | -0.4 |
| **Cyprus** | : | : | -1.4 | -3.9 | 0.5 | 5.3 | 7.3 | *1.5* | 1.4 | *1.5* | 0.4 | *:* | -0.5 |
| **Latvia** | : | : | 5.9 | 2.2 | -4.2 | -5.4 | -2.9 | *3.4* | 4.9 | *0.9* | -2.8 | *:* | -0.4 |
| **Lithuania** | : | : | 13.6 | 1.2 | -5.3 | 1.8 | 3.3 | *2.0* | 3.7 | *1.0* | 0.2 | *:* | 0.7 |
| **Hungary** | : | : | -0.2 | 3.1 | 11.2 | 13.9 | 3.5 | *6.4* | 6.4 | *4.7* | 5.3 | *:* | 2.1 |
| **Malta** | : | : | 0.9 | 4.4 | 7.9 | -0.8 | 4.0 | *1.7* | 1.3 | *-0.4* | -0.5 | *:* | -1.0 |
| **Poland** | : | : | 4.1 | 6.2 | 17.2 | -8.6 | -15.6 | *-4.6* | -3.4 | *3.9* | 12.1 | *:* | -1.6 |
| **Slovenia** | : | : | -1.9 | 0.5 | 0.8 | 0.9 | 1.9 | *-0.1* | -0.8 | *0.5* | -0.7 | *:* | 0.1 |
| **Slovakia** | : | : | 1.3 | 7.2 | -2.3 | 3.1 | 7.0 | *8.3* | 9.0 | *0.9* | 5.3 | *:* | -0.2 |
| **Sweden** | : | : | 0.7 | 2.8 | -5.9 | 1.7 | 5.6 | *0.3* | 0.8 | *0.5* | 1.0 | *:* | 0.6 |
| **United Kingdom** | : | : | 6.0 | 3.7 | -0.4 | 2.0 | -2.8 | *7.0* | 5.8 | *-0.5* | -0.3 | *:* | 0.9 |
| **EU-25** | : | : | -3.9 | -10.9 | 2.1 | 6.3 | 11.6 | *5.3* | 6.8 | *-0.8* | 1.1 | *:* | -0.3 |
| **EU-15** | : | : | -3.9 | -10.0 | 0.1 | 4.4 | 10.6 | *4.1* | 5.2 | *-1.4* | -0.6 | *:* | -0.2 |
| **USA** | : | : | 4.9 | 7.5 | 4.5 | -2.4 | -10.1 | *-5.0* | -6.1 | *0.9* | -3.8 | *:* | 1.1 |
| **Japan** | : | : | -2.7 | 6.1 | -12.6 | -8.9 | -4.2 | *-3.7* | -2.7 | *-3.7* | -1.1 | *:* | -1.0 |

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

**TABLE 33 : Short term interest rates (1961-2004)** 18.03.2005

| | long-term average | 5-year average | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| **Belgium** | 7.9 | 7.4 | 3.5 | 4.7 | 3.2 | 3.4 | 3.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Germany** | 6.2 | 7.1 | 3.5 | 4.5 | 3.3 | 3.3 | 3.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Greece** | : | 22.1 | 11.7 | 16.4 | 13.8 | 12.8 | 14.0 | 10.1 | 7.7 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Spain** | : | 11.1 | 4.9 | 9.4 | 7.5 | 5.4 | 4.3 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **France** | 8.3 | 8.2 | 3.7 | 6.6 | 3.9 | 3.5 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Ireland** | : | 8.8 | 4.9 | 6.3 | 5.4 | 6.1 | 5.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Italy** | 10.0 | 11.0 | 5.5 | 10.3 | 8.7 | 6.8 | 4.9 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Luxembourg** | 7.9 | 7.4 | 3.5 | 4.7 | 3.2 | 3.4 | 3.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Netherlands** | 5.9 | 7.0 | 3.4 | 4.4 | 3.0 | 3.3 | 3.4 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Austria** | : | 7.0 | 3.6 | 4.5 | 3.3 | 3.5 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Portugal** | : | 13.6 | 5.0 | 9.8 | 7.4 | 5.7 | 4.3 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Finland** | : | 9.0 | 3.6 | 5.8 | 3.6 | 3.2 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Euro area** | 8.0 | 9.1 | 4.3 | 7.0 | 5.2 | 4.5 | 4.2 | 3.1 | 4.5 | 4.3 | 3.3 | 2.3 | 2.1 |
| **Czech Republic** | : | : | 10.9 | 11.0 | 12.0 | 16.0 | 14.3 | 6.9 | 5.4 | 5.2 | 3.5 | 2.3 | 2.4 |
| **Denmark** | 9.7 | 9.0 | 4.1 | 6.2 | 4.0 | 3.7 | 4.3 | 3.4 | 5.0 | 4.7 | 3.5 | 2.4 | 2.2 |
| **Estonia** | : | : | 8.8 | : | 8.1 | 8.6 | 13.9 | 7.8 | 5.7 | 5.3 | 3.9 | 2.9 | 2.5 |
| **Cyprus** | : | : | : | : | : | : | : | 6.3 | 6.4 | 5.9 | 4.4 | 3.9 | 4.7 |
| **Latvia** | : | : | : | : | : | 6.0 | 8.4 | 8.4 | 5.4 | 6.9 | 4.4 | 3.8 | 4.2 |
| **Lithuania** | : | : | : | : | : | : | : | 13.9 | 8.6 | 5.9 | 3.7 | 2.8 | 2.7 |
| **Hungary** | : | : | 17.8 | 31.3 | 24.3 | 20.4 | 17.9 | 15.1 | 11.4 | 10.9 | 9.2 | 8.5 | 11.3 |
| **Malta** | : | : | 5.1 | 4.8 | 5.0 | 5.1 | 5.4 | 5.2 | 4.9 | 4.9 | 4.0 | 3.3 | 2.9 |
| **Poland** | : | : | 19.8 | 27.6 | 21.4 | 23.7 | 20.4 | 14.7 | 18.8 | 16.1 | 9.0 | 5.7 | 6.2 |
| **Slovenia** | : | : | : | : | : | : | 10.3 | 8.6 | 10.9 | 10.9 | 8.0 | 6.8 | 4.7 |
| **Slovakia** | : | : | 15.8 | 8.4 | 11.9 | 21.8 | 21.1 | 15.7 | 8.6 | 7.8 | 7.8 | 6.2 | 4.7 |
| **Sweden** | : | 10.1 | 4.4 | 8.8 | 6.0 | 4.4 | 4.4 | 3.3 | 4.1 | 4.1 | 4.3 | 3.2 | 2.3 |
| **United Kingdom** | 9.7 | 7.9 | 6.4 | 6.8 | 6.1 | 6.9 | 7.4 | 5.6 | 6.2 | 5.0 | 4.1 | 3.7 | 4.6 |
| **EU-25** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **EU-15** | 8.4 | 8.9 | 4.6 | 7.0 | 5.4 | 4.9 | 4.7 | 3.5 | 4.7 | 4.4 | 3.5 | 2.6 | 2.6 |
| **USA** | 6.6 | 4.6 | 5.7 | 6.0 | 5.5 | 5.7 | 5.5 | 5.4 | 6.5 | 3.8 | 1.8 | 1.2 | 1.6 |
| **Japan** | : | 3.6 | 0.5 | 1.2 | 0.6 | 0.6 | 0.8 | 0.2 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 |

**TABLE 34 : Long term interest rates (1961-2004)**

| | long-term average | 5-year average | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| **Belgium** | 8.5 | 8.1 | 5.5 | 7.5 | 6.5 | 5.8 | 4.8 | 4.8 | 5.6 | 5.1 | 5.0 | 4.2 | 4.2 |
| **Germany** | 7.5 | 7.3 | 5.2 | 6.9 | 6.2 | 5.6 | 4.6 | 4.5 | 5.3 | 4.8 | 4.8 | 4.1 | 4.0 |
| **Greece** | : | : | 9.1 | 17.0 | 14.5 | 9.9 | 8.5 | 6.3 | 6.1 | 5.3 | 5.1 | 4.3 | 4.3 |
| **Spain** | : | 11.1 | 6.0 | 11.3 | 8.7 | 6.4 | 4.8 | 4.7 | 5.5 | 5.1 | 5.0 | 4.1 | 4.1 |
| **France** | 9.4 | 7.8 | 5.3 | 7.5 | 6.3 | 5.6 | 4.6 | 4.6 | 5.4 | 4.9 | 4.9 | 4.1 | 4.1 |
| **Ireland** | : | 8.4 | 5.7 | 8.3 | 7.3 | 6.3 | 4.8 | 4.7 | 5.5 | 5.0 | 5.0 | 4.1 | 4.1 |
| **Italy** | 11.0 | 12.1 | 6.3 | 12.2 | 9.4 | 6.9 | 4.9 | 4.7 | 5.6 | 5.2 | 5.0 | 4.3 | 4.3 |
| **Luxembourg** | : | 7.5 | 5.4 | 7.2 | 6.3 | 5.6 | 4.7 | 4.7 | 5.5 | 4.9 | 4.9 | 4.1 | 4.2 |
| **Netherlands** | 7.5 | 7.4 | 5.3 | 6.9 | 6.2 | 5.6 | 4.6 | 4.6 | 5.4 | 5.0 | 4.9 | 4.1 | 4.1 |
| **Austria** | : | 7.5 | 5.4 | 7.1 | 6.3 | 5.7 | 4.7 | 4.7 | 5.6 | 5.1 | 5.0 | 4.2 | 4.2 |
| **Portugal** | : | 12.3 | 6.0 | 11.5 | 8.6 | 6.4 | 4.9 | 4.8 | 5.6 | 5.2 | 5.0 | 4.2 | 4.1 |
| **Finland** | 9.9 | 10.1 | 5.6 | 8.8 | 7.1 | 6.0 | 4.8 | 4.7 | 5.5 | 5.0 | 5.0 | 4.1 | 4.1 |
| **Euro area** | 9.1 | 9.1 | 5.7 | 8.9 | 7.4 | 6.1 | 4.8 | 4.7 | 5.4 | 5.0 | 4.9 | 4.1 | 4.0 |
| **Czech Republic** | : | : | : | : | : | : | : | : | 6.9 | 6.3 | 4.9 | 4.1 | 4.8 |
| **Denmark** | 12.0 | 8.3 | 5.8 | 8.3 | 7.2 | 6.3 | 4.9 | 4.9 | 5.6 | 5.1 | 5.1 | 4.3 | 4.3 |
| **Estonia** | : | : | : | : | : | : | 13.2 | 11.4 | 10.5 | 10.2 | 8.4 | 5.3 | 4.4 |
| **Cyprus** | : | : | : | : | : | 6.9 | 6.7 | 7.4 | 7.6 | 7.6 | 5.7 | 4.7 | 5.8 |
| **Latvia** | : | : | : | : | : | : | : | : | : | 7.6 | 5.4 | 4.9 | 4.9 |
| **Lithuania** | : | : | : | : | : | : | : | : | : | 8.2 | 6.1 | 5.3 | 4.5 |
| **Hungary** | : | : | : | : | : | : | : | 9.9 | 8.6 | 8.0 | 7.1 | 6.8 | 8.2 |
| **Malta** | : | : | : | : | : | : | : | : | 5.8 | 6.2 | 5.8 | 5.0 | 4.7 |
| **Poland** | : | : | : | : | : | : | : | 9.5 | 11.8 | 10.7 | 7.4 | 5.8 | 6.9 |
| **Slovenia** | : | : | : | : | : | : | : | : | : | : | : | 6.4 | 4.7 |
| **Slovakia** | : | : | : | : | : | : | : | : | 8.3 | 8.0 | 6.9 | 5.0 | 5.0 |
| **Sweden** | 9.1 | 9.8 | 6.0 | 10.2 | 8.0 | 6.6 | 5.0 | 5.0 | 5.4 | 5.1 | 5.3 | 4.6 | 4.4 |
| **United Kingdom** | 10.2 | 8.6 | 6.2 | 8.4 | 7.9 | 7.1 | 5.6 | 5.0 | 5.3 | 5.0 | 4.9 | 4.6 | 4.9 |
| **EU-25** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **EU-15** | 9.3 | 9.1 | 5.8 | 8.8 | 7.5 | 6.3 | 4.9 | 4.7 | 5.4 | 5.0 | 4.9 | 4.2 | 4.3 |
| **USA** | 7.4 | 7.0 | 6.0 | 6.7 | 6.5 | 6.5 | 5.3 | 5.6 | 6.0 | 5.0 | 4.6 | 4.0 | 4.3 |
| **Japan** | : | 4.7 | 2.0 | 3.3 | 3.0 | 2.2 | 1.3 | 1.8 | 1.8 | 1.3 | 1.3 | 1.0 | 1.4 |

**TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1970-2006) [1]** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 52.8 | 54.2 | 50.9 | 49.2 | 49.3 | 50.2 | 50.9 | 50.8 | 49.5 | 50.7 | 49.3 | 50.8 | 49.0 |
| **Germany** | 44.8 | 48.2 | 48.6 | 45.7 | 48.3 | 48.7 | 48.8 | 47.5 | 47.5 | 46.6 | 47.0 | 45.9 | 46.2 |
| **Greece** | 33.2 | 47.6 | 48.9 | 52.0 | 50.2 | 49.0 | 48.0 | 49.8 | 50.0 | 48.5 | 48.8 | 48.2 | 48.7 |
| **Spain** | 31.6 | 45.4 | 41.4 | 39.9 | 39.7 | 40.1 | 39.7 | 40.5 | 40.5 | 40.1 | 40.4 | 40.2 | 40.4 |
| **France** | 45.3 | 53.0 | 54.0 | 52.5 | 52.5 | 53.4 | 54.6 | 54.2 | 54.5 | 53.9 | 54.5 | 53.8 | 54.4 |
| **Ireland** | 42.6 | 39.6 | 35.7 | 32.0 | 33.6 | 33.9 | 34.4 | 34.3 | 34.3 | 34.0 | 35.1 | 33.6 | 34.6 |
| **Italy** | 44.1 | 54.6 | 49.9 | 46.9 | 49.0 | 48.2 | 49.2 | 48.4 | 48.4 | 48.1 | 48.2 | 48.7 | 48.5 |
| **Luxembourg** | : | : | 42.3 | 38.5 | 39.1 | 43.7 | 45.1 | 45.5 | 46.0 | 46.1 | 46.0 | 46.2 | 46.0 |
| **Netherlands** | 51.4 | 53.0 | 47.5 | 45.3 | 46.6 | 47.8 | 49.0 | 48.6 | 48.0 | 48.4 | 47.9 | 47.7 | 49.2 |
| **Austria** | 46.0 | 52.3 | 53.8 | 52.0 | 51.4 | 51.0 | 51.2 | 50.5 | 50.7 | 49.5 | 50.1 | 48.5 | 49.2 |
| **Portugal** | 32.8 | 42.4 | 45.0 | 45.1 | 46.3 | 45.9 | 47.7 | 46.7 | 46.7 | 47.0 | 47.4 | 47.0 | 47.8 |
| **Finland** | 39.2 | 58.7 | 54.0 | 49.1 | 49.2 | 50.0 | 50.8 | 50.9 | 50.4 | 50.6 | 50.3 | 50.0 | 49.8 |
| **Euro area** | 44.2 | 50.8 | 49.4 | 47.1 | 48.3 | 48.6 | 49.1 | 48.5 | 48.5 | 48.0 | 48.2 | 47.7 | 48.0 |
| **Czech Republic** | : | : | 42.8 | 42.1 | 45.0 | 46.9 | 53.3 | 46.7 | 45.7 | 46.3 | 46.3 | 45.8 | 45.1 |
| **Denmark** | 50.3 | 59.3 | 56.6 | 54.1 | 54.3 | 54.9 | 55.3 | 54.7 | 55.0 | 53.7 | 54.3 | 52.8 | 53.5 |
| **Estonia** | : | : | 40.3 | 38.2 | 36.9 | 36.6 | 35.8 | 38.8 | 39.1 | 39.4 | 40.0 | 38.9 | 38.7 |
| **Cyprus** | : | : | : | 37.7 | 38.9 | 40.6 | 45.4 | 45.6 | 43.6 | 44.4 | 42.3 | 43.9 | 40.7 |
| **Latvia** | : | : | 39.2 | 37.9 | 36.5 | 35.8 | 35.7 | 36.0 | 35.9 | 38.1 | 37.0 | 37.7 | 36.8 |
| **Lithuania** | : | : | 39.5 | 38.4 | 35.0 | 34.3 | 34.2 | 35.7 | 34.3 | 36.2 | 34.8 | 35.1 | 33.6 |
| **Hungary** | : | : | : | 47.6 | 48.7 | 52.6 | 50.8 | 48.7 | 52.0 | 47.6 | 47.8 | 46.7 | 47.1 |
| **Malta** | : | : | : | 42.3 | 44.1 | 45.8 | 50.9 | 52.4 | 54.1 | 50.7 | 52.6 | 49.2 | 51.4 |
| **Poland** | : | : | 48.1 | 45.2 | 47.7 | 47.5 | 48.8 | 51.3 | 48.7 | 49.9 | 48.6 | 48.3 | 48.0 |
| **Slovenia** | : | : | : | 48.2 | 47.9 | 48.1 | 48.2 | 47.5 | 47.7 | 46.8 | 47.6 | 46.3 | 47.2 |
| **Slovakia** | : | : | 60.8 | 59.9 | 51.5 | 50.9 | 39.2 | 38.3 | 38.5 | 38.3 | 39.9 | 37.9 | 38.8 |
| **Sweden** | 54.9 | 64.9 | 61.3 | 57.4 | 57.0 | 58.1 | 58.4 | 57.3 | 57.0 | 56.6 | 57.0 | 56.3 | 56.6 |
| **United Kingdom** | 41.5 | 42.4 | 40.3 | 37.4 | 40.9 | 41.7 | 43.4 | 43.4 | 43.6 | 43.3 | 44.0 | 43.4 | 44.1 |
| **EU-25** | : | : | : | 45.8 | 47.3 | 47.7 | 48.5 | 48.0 | 47.9 | 47.5 | 47.8 | 47.2 | 47.6 |
| **EU-15** | 44.3 | 50.2 | 48.4 | 45.8 | 47.3 | 47.7 | 48.5 | 48.0 | 48.0 | 47.5 | 47.9 | 47.3 | 47.7 |
| **USA** | 34.1 | 36.2 | 33.4 | 32.5 | 33.5 | 34.3 | 34.4 | 33.8 | 33.8 | 33.6 | 33.3 | 33.4 | 33.1 |
| **Japan** | 28.6 | 33.3 | 38.9 | 39.6 | 39.2 | 39.9 | 39.3 | 38.2 | 38.6 | 38.1 | 38.4 | 37.8 | 37.9 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. Total expenditure includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

**TABLE 36 : Total revenue, general government (as a percentage of GDP, 1970-2006) [1]**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 46.1 | 48.3 | 49.6 | 49.4 | 49.9 | 50.3 | 51.3 | 50.7 | 49.6 | 50.4 | 49.1 | 50.2 | 48.5 |
| **Germany** | 43.0 | 45.1 | 46.9 | 47.1 | 45.5 | 45.1 | 45.0 | 43.5 | 43.8 | 43.2 | 43.6 | 43.0 | 43.4 |
| **Greece** | 27.5 | 36.1 | 44.9 | 47.9 | 46.5 | 45.2 | 43.5 | 44.3 | 43.9 | 44.9 | 44.3 | 45.2 | 44.3 |
| **Spain** | 29.4 | 39.8 | 38.8 | 39.1 | 39.2 | 39.8 | 40.0 | 39.9 | 40.2 | 40.0 | 40.4 | 40.2 | 40.5 |
| **France** | 44.1 | 48.5 | 51.4 | 51.2 | 50.9 | 50.2 | 50.4 | 50.5 | 50.8 | 50.9 | 51.5 | 50.4 | 51.1 |
| **Ireland** | 34.9 | 37.5 | 37.7 | 36.4 | 34.5 | 33.6 | 34.6 | 34.1 | 35.7 | 33.4 | 34.5 | 33.1 | 34.0 |
| **Italy** | 34.8 | 45.5 | 46.9 | 46.2 | 46.0 | 45.6 | 46.3 | 45.4 | 45.4 | 45.1 | 44.6 | 45.0 | 44.0 |
| **Luxembourg** | : | : | 45.8 | 44.7 | 45.3 | 46.0 | 45.5 | 44.7 | 44.9 | 44.5 | 44.4 | 44.2 | 44.2 |
| **Netherlands** | 48.5 | 49.5 | 47.3 | 47.5 | 46.6 | 45.9 | 45.8 | 45.7 | 45.5 | 46.0 | 45.8 | 45.7 | 47.6 |
| **Austria** | 44.2 | 48.4 | 51.5 | 50.5 | 51.7 | 50.8 | 50.0 | 49.1 | 49.4 | 47.4 | 48.1 | 46.7 | 47.4 |
| **Portugal** | 28.2 | 37.2 | 41.6 | 42.3 | 41.9 | 43.3 | 44.8 | 43.8 | 43.8 | 43.2 | 42.5 | 43.3 | 43.1 |
| **Finland** | 43.1 | 53.7 | 55.4 | 56.1 | 54.4 | 54.2 | 53.3 | 53.2 | 52.5 | 52.7 | 51.9 | 52.2 | 51.3 |
| **Euro area** | 40.8 | 45.8 | 47.3 | 47.2 | 46.5 | 46.1 | 46.3 | 45.6 | 45.7 | 45.5 | 45.6 | 45.2 | 45.4 |
| **Czech Republic** | : | : | 39.2 | 38.5 | 39.1 | 40.2 | 41.6 | 41.9 | 42.7 | 41.6 | 41.8 | 41.5 | 41.0 |
| **Denmark** | 50.5 | 56.9 | 57.9 | 56.7 | 57.4 | 56.6 | 56.6 | 55.7 | 57.7 | 55.3 | 56.5 | 54.6 | 55.7 |
| **Estonia** | : | : | 39.3 | 37.7 | 37.2 | 38.0 | 38.9 | 39.3 | 40.9 | 39.6 | 40.8 | 39.0 | 39.2 |
| **Cyprus** | : | : | : | 35.3 | 36.6 | 36.1 | 39.1 | 40.4 | 39.4 | 41.4 | 39.4 | 41.4 | 38.9 |
| **Latvia** | : | 33.7 | 37.6 | 35.1 | 34.4 | 33.1 | 34.2 | 34.0 | 35.2 | 35.3 | 35.4 | 34.8 | 35.3 |
| **Lithuania** | : | : | 36.4 | 35.8 | 33.0 | 32.8 | 32.3 | 33.2 | 31.8 | 33.7 | 32.3 | 33.2 | 31.6 |
| **Hungary** | : | : | : | 45.3 | 45.0 | 44.1 | 44.5 | 43.3 | 47.5 | 42.5 | 43.9 | 42.0 | 43.0 |
| **Malta** | : | : | : | 36.0 | 37.6 | 40.0 | 40.5 | 47.3 | 49.0 | 46.7 | 48.8 | 45.9 | 48.6 |
| **Poland** | : | : | 44.8 | 42.5 | 43.8 | 43.9 | 44.3 | 45.6 | 43.8 | 45.7 | 44.2 | 45.2 | 44.2 |
| **Slovenia** | : | : | : | 44.7 | 45.1 | 45.7 | 46.2 | 45.3 | 45.8 | 44.6 | 45.4 | 44.3 | 45.1 |
| **Slovakia** | : | : | 53.5 | 47.6 | 45.5 | 45.2 | 35.4 | 34.4 | 35.1 | 34.3 | 36.1 | 33.7 | 34.8 |
| **Sweden** | 55.4 | 57.6 | 62.4 | 62.3 | 59.5 | 57.8 | 58.6 | 57.9 | 58.4 | 57.2 | 57.8 | 57.1 | 57.4 |
| **United Kingdom** | 39.3 | 36.7 | 40.0 | 41.2 | 41.5 | 40.0 | 40.0 | 40.5 | 40.4 | 40.7 | 40.9 | 41.0 | 41.4 |
| **EU-25** | : | : | : | 46.6 | 46.0 | 45.4 | 45.6 | 45.1 | 45.3 | 45.1 | 45.2 | 44.9 | 45.1 |
| **EU-15** | 41.4 | 45.1 | 46.8 | 46.8 | 46.2 | 45.5 | 45.7 | 45.3 | 45.4 | 45.2 | 45.4 | 45.0 | 45.2 |
| **USA** | 30.7 | 31.4 | 33.4 | 34.2 | 33.1 | 30.5 | 29.8 | 29.6 | 29.4 | 29.6 | 29.3 | 29.2 | 29.3 |
| **Japan** | 27.7 | 32.5 | 32.0 | 32.2 | 33.1 | 31.9 | 31.6 | 31.1 | 31.6 | 31.1 | 31.8 | 31.0 | 31.8 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

**TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2006) [1]** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | -6.8 | -5.9 | -1.3 | 0.2 | 0.6 | 0.1 | 0.4 | *-0.1* | 0.1 | *-0.3* | -0.2 | *-0.5* | -0.6 |
| **Germany** | -1.9 | -3.1 | -1.7 | 1.3 | -2.8 | -3.7 | -3.8 | *-3.9* | -3.7 | *-3.4* | -3.3 | *-2.9* | -2.8 |
| **Greece** | -5.7 | -11.5 | -5.2 | -4.1 | -3.6 | -4.1 | -5.2 | *-5.5* | -6.1 | *-3.6* | -4.5 | *-3.0* | -4.4 |
| **Spain** | -2.4 | -5.6 | -2.6 | -0.9 | -0.5 | -0.3 | 0.3 | *-0.6* | -0.3 | *-0.1* | 0.0 | *0.0* | 0.1 |
| **France** | -1.2 | -4.5 | -2.6 | -1.4 | -1.5 | -3.2 | -4.2 | *-3.7* | -3.7 | *-3.0* | -3.0 | *-3.3* | -3.4 |
| **Ireland** | -7.7 | -2.1 | 2.1 | 4.4 | 0.9 | -0.4 | 0.2 | *-0.2* | 1.3 | *-0.6* | -0.6 | *-0.5* | -0.6 |
| **Italy** | -9.1 | -9.1 | -3.0 | -0.6 | -3.0 | -2.6 | -2.9 | *-3.0* | -3.0 | *-3.0* | -3.6 | *-3.6* | -4.6 |
| **Luxembourg** | : | 1.8 | 3.5 | 6.2 | 6.2 | 2.3 | 0.5 | *-0.8* | -1.1 | *-1.6* | -1.5 | *-2.0* | -1.9 |
| **Netherlands** | -3.2 | -3.5 | -0.2 | 2.2 | -0.1 | -1.9 | -3.2 | *-2.9* | -2.5 | *-2.4* | -2.0 | *-2.1* | -1.6 |
| **Austria** | -1.8 | -3.9 | -2.4 | -1.5 | 0.3 | -0.2 | -1.1 | *-1.3* | -1.3 | *-2.0* | -2.0 | *-1.7* | -1.7 |
| **Portugal** | -4.6 | -5.2 | -3.4 | -2.8 | -4.4 | -2.7 | -2.9 | *-2.9* | -2.9 | *-3.7* | -4.9 | *-3.8* | -4.7 |
| **Finland** | 3.9 | -5.0 | 1.3 | 7.1 | 5.2 | 4.3 | 2.5 | *2.3* | 2.1 | *2.1* | 1.7 | *2.2* | 1.6 |
| **Euro area** | -3.3 | -5.0 | -2.1 | 0.1 | -1.7 | -2.4 | -2.8 | *-2.9* | -2.7 | *-2.5* | -2.6 | *-2.5* | -2.7 |
| **Czech Republic** | : | : | -3.6 | -3.7 | -5.9 | -6.8 | -11.7 | *-4.8* | -3.0 | *-4.7* | -4.5 | *-4.3* | -4.0 |
| **Denmark** | -0.5 | -2.4 | 1.3 | 2.6 | 3.2 | 1.7 | 1.2 | *1.0* | 2.8 | *1.5* | 2.1 | *1.7* | 2.2 |
| **Estonia** | : | : | -0.9 | -0.6 | 0.3 | 1.4 | 3.1 | *0.5* | 1.8 | *0.2* | 0.9 | *0.1* | 0.5 |
| **Cyprus** | : | : | : | -2.4 | -2.3 | -4.5 | -6.3 | *-5.2* | -4.2 | *-3.0* | -2.9 | *-2.4* | -1.9 |
| **Latvia** | : | 0.8 | -1.6 | -2.8 | -2.1 | -2.7 | -1.5 | *-2.0* | -0.8 | *-2.8* | -1.6 | *-2.9* | -1.5 |
| **Lithuania** | : | : | -3.2 | -2.5 | -2.0 | -1.5 | -1.9 | *-2.6* | -2.5 | *-2.5* | -2.4 | *-1.9* | -1.9 |
| **Hungary** | : | : | : | -2.4 | -3.7 | -8.5 | -6.2 | *-5.5* | -4.5 | *-5.2* | -3.9 | *-4.7* | -4.1 |
| **Malta** | : | : | : | -6.3 | -6.4 | -5.9 | -10.5 | *-5.1* | -5.2 | *-4.0* | -3.9 | *-3.3* | -2.8 |
| **Poland** | : | -3.2 | -2.5 | -1.6 | -3.9 | -3.6 | -4.5 | *-5.6* | -4.8 | *-4.1* | -4.4 | *-3.1* | -3.8 |
| **Slovenia** | : | : | : | -3.5 | -2.8 | -2.4 | -2.0 | *-2.3* | -1.9 | *-2.2* | -2.2 | *-1.9* | -2.1 |
| **Slovakia** | : | : | -7.4 | -12.3 | -6.0 | -5.7 | -3.7 | *-3.9* | -3.3 | *-4.0* | -3.8 | *-4.1* | -4.0 |
| **Sweden** | 0.6 | -7.3 | 1.1 | 5.0 | 2.5 | -0.3 | 0.2 | *0.6* | 1.4 | *0.6* | 0.8 | *0.8* | 0.8 |
| **United Kingdom** | -2.2 | -5.7 | -0.3 | 3.8 | 0.7 | -1.7 | -3.4 | *-2.8* | -3.2 | *-2.6* | -3.0 | *-2.4* | -2.7 |
| **EU-25** | : | : | : | 0.8 | -1.2 | -2.3 | -2.9 | *-2.8* | -2.6 | *-2.4* | -2.6 | *-2.3* | -2.5 |
| **EU-15** | -2.9 | -5.1 | -1.6 | 1.0 | -1.1 | -2.2 | -2.8 | *-2.7* | -2.6 | *-2.4* | -2.5 | *-2.3* | -2.5 |
| **USA** | -3.4 | -4.8 | 0.0 | 1.6 | -0.4 | -3.8 | -4.6 | *-4.2* | -4.4 | *-4.0* | -3.9 | *-4.2* | -3.8 |
| **Japan** | -1.4 | -0.9 | -6.9 | -7.5 | -6.1 | -7.9 | -7.7 | *-7.1* | -7.0 | *-7.0* | -6.6 | *-6.8* | -6.1 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The net lending (borrowing) includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

**TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1970-2006) [1]**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 6.6 | 10.1 | 7.6 | 6.7 | 6.5 | 6.0 | 5.4 | *4.9* | 4.7 | *4.5* | 4.5 | *4.1* | 4.2 |
| **Germany** | 2.0 | 3.2 | 3.6 | 3.4 | 3.3 | 3.1 | 3.1 | *3.1* | 3.0 | *3.1* | 3.0 | *3.1* | 3.0 |
| **Greece** | 3.2 | 12.0 | 9.7 | 8.2 | 7.3 | 6.3 | 5.8 | *5.5* | 5.8 | *5.3* | 5.5 | *5.1* | 5.5 |
| **Spain** | 1.3 | 4.6 | 4.2 | 3.3 | 3.2 | 2.8 | 2.5 | *2.4* | 2.2 | *2.2* | 2.1 | *2.1* | 2.0 |
| **France** | 1.8 | 3.3 | 3.4 | 3.1 | 3.1 | 3.0 | 2.9 | *3.0* | 2.9 | *3.0* | 2.9 | *3.0* | 3.0 |
| **Ireland** | 6.2 | 6.2 | 3.3 | 2.0 | 1.5 | 1.4 | 1.3 | *1.4* | 1.2 | *1.3* | 1.1 | *1.3* | 1.0 |
| **Italy** | 5.6 | 11.2 | 8.4 | 6.5 | 6.5 | 5.8 | 5.3 | *5.0* | 5.0 | *5.0* | 4.9 | *5.2* | 5.0 |
| **Luxembourg** | : | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | *0.2* | 0.2 | *0.2* | 0.2 | *0.2* | 0.2 |
| **Netherlands** | 4.3 | 5.9 | 4.8 | 3.8 | 3.4 | 3.1 | 2.9 | *2.9* | 2.9 | *2.9* | 2.8 | *3.0* | 2.8 |
| **Austria** | 2.4 | 4.0 | 3.6 | 3.6 | 3.5 | 3.4 | 3.1 | *3.1* | 3.0 | *3.0* | 2.9 | *2.9* | 2.8 |
| **Portugal** | 3.7 | 6.6 | 3.9 | 3.2 | 3.2 | 3.0 | 2.9 | *2.7* | 2.8 | *2.7* | 2.9 | *2.8* | 3.1 |
| **Finland** | 1.2 | 3.6 | 3.6 | 2.9 | 2.7 | 2.2 | 2.0 | *1.8* | 1.9 | *1.7* | 1.6 | *1.6* | 1.5 |
| **Euro area** | 3.0 | 5.4 | 4.8 | 4.1 | 4.0 | 3.7 | 3.5 | *3.4* | 3.3 | *3.3* | 3.3 | *3.3* | 3.3 |
| **Czech Republic** | : | : | 1.1 | 0.9 | 1.1 | 1.5 | 1.3 | *1.2* | 1.3 | *1.4* | 1.3 | *1.5* | 1.4 |
| **Denmark** | 4.5 | 6.8 | 4.5 | 3.5 | 3.2 | 2.8 | 2.5 | *2.3* | 2.3 | *2.2* | 2.2 | *2.1* | 2.0 |
| **Estonia** | : | : | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | *0.3* | 0.2 | *0.2* | 0.2 | *0.2* | 0.2 |
| **Cyprus** | : | : | : | 3.4 | 3.4 | 3.2 | 3.4 | *3.5* | 3.4 | *3.5* | 3.3 | *3.5* | 3.2 |
| **Latvia** | : | : | 1.0 | 1.0 | 1.0 | 0.8 | 0.8 | *0.8* | 0.8 | *0.8* | 0.8 | *0.9* | 0.8 |
| **Lithuania** | : | : | 1.2 | 1.7 | 1.6 | 1.4 | 1.3 | *1.2* | 1.0 | *1.1* | 0.9 | *1.0* | 0.9 |
| **Hungary** | : | : | : | 5.6 | 4.7 | 4.0 | 4.0 | *4.4* | 4.3 | *4.0* | 3.8 | *3.6* | 3.4 |
| **Malta** | : | : | : | 3.8 | 3.7 | 3.9 | 3.8 | *3.8* | 4.1 | *3.8* | 4.3 | *3.7* | 4.3 |
| **Poland** | : | 6.0 | 3.2 | 3.1 | 3.2 | 2.9 | 2.9 | *3.1* | 2.6 | *3.1* | 2.6 | *3.1* | 2.5 |
| **Slovenia** | : | : | : | 2.4 | 2.4 | 2.3 | 2.1 | *2.0* | 1.9 | *1.9* | 1.7 | *1.8* | 1.6 |
| **Slovakia** | : | : | 2.9 | 4.1 | 4.0 | 3.6 | 2.5 | *2.3* | 2.2 | *2.4* | 2.4 | *2.3* | 2.2 |
| **Sweden** | 4.2 | 5.8 | 5.4 | 4.1 | 3.2 | 3.0 | 2.1 | *2.1* | 1.8 | *2.2* | 2.0 | *2.3* | 2.1 |
| **United Kingdom** | 4.2 | 3.0 | 3.3 | 2.7 | 2.4 | 2.1 | 2.1 | *2.0* | 2.1 | *2.0* | 2.1 | *2.0* | 2.1 |
| **EU-25** | : | : | : | 3.8 | 3.6 | 3.3 | 3.2 | *3.0* | 3.0 | *3.0* | 3.0 | *3.0* | 3.0 |
| **EU-15** | 3.2 | 5.1 | 4.5 | 3.8 | 3.6 | 3.3 | 3.2 | *3.1* | 3.0 | *3.0* | 3.0 | *3.0* | 3.0 |
| **USA** | 3.6 | 4.9 | 4.2 | 3.7 | 3.4 | 3.0 | 2.8 | *2.7* | 2.7 | *2.7* | 2.6 | *2.7* | 2.6 |
| **Japan** | 2.7 | 3.6 | 3.4 | 3.3 | 3.2 | 3.0 | 2.8 | *3.0* | 3.0 | *3.1* | 3.1 | *3.3* | 3.3 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

**TABLE 39 : Primary balance, general government (as a percentage of GDP, 1970-2006) [1] [2]** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | -0.2 | 4.2 | 6.3 | 6.9 | 7.2 | 6.1 | 5.7 | 4.8 | 4.8 | 4.2 | 4.3 | 3.6 | 3.6 |
| **Germany** | 0.2 | 0.1 | 1.9 | 4.7 | 0.4 | -0.5 | -0.7 | -0.8 | -0.6 | -0.3 | -0.3 | 0.2 | 0.2 |
| **Greece** | -2.4 | 0.5 | 4.5 | 4.0 | 3.7 | 2.2 | 0.6 | 0.0 | -0.4 | 1.6 | 1.0 | 2.1 | 1.0 |
| **Spain** | -1.1 | -1.0 | 1.6 | 2.4 | 2.6 | 2.6 | 2.8 | 1.7 | 1.9 | 2.1 | 2.1 | 2.0 | 2.1 |
| **France** | 0.5 | -1.2 | 0.9 | 1.7 | 1.6 | -0.2 | -1.3 | -0.7 | -0.8 | -0.1 | -0.1 | -0.4 | -0.4 |
| **Ireland** | -1.5 | 4.1 | 5.4 | 6.4 | 2.4 | 1.0 | 1.5 | 1.2 | 2.5 | 0.7 | 0.5 | 0.8 | 0.5 |
| **Italy** | -3.5 | 2.1 | 5.4 | 5.8 | 3.6 | 3.2 | 2.4 | 2.0 | 2.0 | 2.1 | 1.3 | 1.5 | 0.4 |
| **Luxembourg** | : | 2.2 | 4.0 | 6.5 | 6.5 | 2.6 | 0.8 | -0.6 | -0.9 | -1.4 | -1.3 | -1.8 | -1.7 |
| **Netherlands** | 1.1 | 2.4 | 4.6 | 6.0 | 3.3 | 1.1 | -0.3 | 0.0 | 0.4 | 0.5 | 0.8 | 0.9 | 1.2 |
| **Austria** | 0.6 | 0.1 | 1.2 | 2.1 | 3.8 | 3.1 | 2.0 | 1.7 | 1.7 | 0.9 | 0.9 | 1.2 | 1.1 |
| **Portugal** | -0.9 | 1.4 | 0.5 | 0.4 | -1.2 | 0.3 | 0.0 | -0.2 | -0.1 | -1.0 | -2.0 | -0.9 | -1.6 |
| **Finland** | 5.0 | -1.4 | 5.0 | 10.0 | 7.9 | 6.5 | 4.5 | 4.1 | 4.0 | 3.9 | 3.3 | 3.8 | 3.1 |
| **Euro area** | -0.4 | 0.4 | 2.7 | 4.2 | 2.2 | 1.2 | 0.6 | 0.5 | 0.6 | 0.8 | 0.6 | 0.8 | 0.6 |
| **Czech Republic** | : | : | -2.5 | -2.8 | -4.8 | -5.2 | -10.3 | -3.6 | -1.8 | -3.3 | -3.2 | -2.9 | -2.6 |
| **Denmark** | 4.0 | 4.3 | 5.8 | 6.2 | 6.3 | 4.5 | 3.8 | 3.3 | 5.1 | 3.8 | 4.3 | 3.8 | 4.2 |
| **Estonia** | : | : | -0.5 | -0.2 | 0.5 | 1.7 | 3.3 | 0.8 | 2.0 | 0.4 | 1.1 | 0.3 | 0.7 |
| **Cyprus** | : | : | : | 1.1 | 1.1 | -1.3 | -2.8 | -1.8 | -0.9 | 0.5 | 0.4 | 1.1 | 1.4 |
| **Latvia** | : | : | -0.5 | -1.8 | -1.1 | -1.9 | -0.7 | -1.2 | 0.0 | -2.0 | -0.8 | -2.0 | -0.7 |
| **Lithuania** | : | : | -1.9 | -0.8 | -0.4 | -0.1 | -0.6 | -1.4 | -1.5 | -1.4 | -1.5 | -0.9 | -1.1 |
| **Hungary** | : | : | : | 3.2 | 1.0 | -4.5 | -2.2 | -1.1 | -0.2 | -1.2 | 0.0 | -1.1 | -0.7 |
| **Malta** | : | : | : | -2.5 | -2.8 | -1.9 | -6.7 | -1.3 | -1.1 | -0.2 | 0.5 | 0.4 | 1.5 |
| **Poland** | : | 2.8 | 0.6 | 1.6 | -0.7 | -0.7 | -1.6 | -2.5 | -2.2 | -1.0 | -1.9 | 0.0 | -1.3 |
| **Slovenia** | : | : | : | -1.0 | -0.4 | 0.0 | 0.1 | -0.3 | 0.0 | -0.2 | -0.5 | -0.1 | -0.5 |
| **Slovakia** | : | : | -4.5 | -8.2 | -2.0 | -2.1 | -1.2 | -1.6 | -1.1 | -1.6 | -1.4 | -1.8 | -1.7 |
| **Sweden** | 4.8 | -1.5 | 6.5 | 9.1 | 5.7 | 2.8 | 2.3 | 2.7 | 3.2 | 2.8 | 2.9 | 3.0 | 2.9 |
| **United Kingdom** | 2.0 | -2.7 | 3.0 | 6.6 | 3.1 | 0.3 | -1.3 | -0.9 | -1.1 | -0.6 | -1.0 | -0.4 | -0.7 |
| **EU-25** | : | : | : | 4.6 | 2.4 | 1.0 | 0.3 | 0.2 | 0.4 | 0.6 | 0.4 | 0.7 | 0.4 |
| **EU-15** | 0.3 | 0.0 | 2.9 | 4.8 | 2.5 | 1.2 | 0.4 | 0.3 | 0.4 | 0.7 | 0.5 | 0.7 | 0.5 |
| **USA** | 0.1 | 0.0 | 4.2 | 5.3 | 3.0 | -0.8 | -1.9 | -1.5 | -1.7 | -1.3 | -1.3 | -1.5 | -1.2 |
| **Japan** | 1.3 | 2.7 | -3.5 | -4.2 | -3.0 | -4.9 | -4.9 | -4.1 | -4.0 | -3.8 | -3.4 | -3.6 | -2.8 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The primary balance includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

[2] Net lending/borrowing excluding interest expenditure.

**TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2006) [1]**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | -9.8 | -8.3 | -1.3 | -1.0 | 0.1 | 0.5 | 1.2 | 0.4 | 0.6 | 0.0 | 0.3 | -0.4 | -0.2 |
| **Germany** | -1.7 | -3.7 | -1.9 | -1.7 | -3.2 | -3.6 | -3.2 | -3.4 | -3.3 | -2.9 | -2.8 | -2.4 | -2.3 |
| **Greece** | -5.8 | -10.9 | -4.4 | -3.8 | -4.1 | -4.3 | -5.7 | -6.1 | -7.1 | -4.4 | -5.5 | -3.8 | -5.3 |
| **Spain** | -2.2 | -5.0 | -2.5 | -1.7 | -1.1 | -0.6 | 0.2 | -0.7 | -0.3 | -0.1 | 0.0 | 0.0 | 0.2 |
| **France** | -1.2 | -4.3 | -2.4 | -2.2 | -2.4 | -3.6 | -4.0 | -3.5 | -3.6 | -2.8 | -2.8 | -3.1 | -3.1 |
| **Ireland** | -7.6 | -1.2 | 1.5 | 2.7 | -0.2 | -1.4 | 0.2 | 0.1 | 1.6 | 0.0 | -0.1 | 0.3 | 0.1 |
| **Italy** | -9.2 | -8.8 | -3.6 | -2.7 | -3.9 | -2.9 | -2.6 | -2.4 | -2.4 | -2.6 | -2.9 | -3.4 | -4.0 |
| **Luxembourg** | : | : | 3.4 | 3.1 | 5.2 | 2.5 | 1.3 | 0.4 | -0.3 | 0.3 | -0.6 | 0.7 | -0.6 |
| **Netherlands** | -2.9 | -3.0 | -1.1 | -0.6 | -1.4 | -2.3 | -2.0 | -1.4 | -1.2 | -1.0 | -0.4 | -1.0 | 0.0 |
| **Austria** | -1.8 | -4.0 | -2.6 | -2.5 | 0.0 | -0.3 | -0.8 | -1.0 | -1.1 | -1.9 | -1.9 | -1.7 | -1.6 |
| **Portugal** | -4.6 | -4.9 | -3.7 | -4.0 | -5.0 | -2.9 | -2.2 | -1.9 | -2.1 | -2.7 | -3.9 | -2.8 | -3.7 |
| **Finland** | 0.2 | -4.5 | 0.5 | 4.7 | 4.7 | 4.5 | 3.2 | 2.8 | 2.4 | 2.3 | 1.9 | 2.3 | 1.8 |
| **Euro area** | : | -5.1 | -2.3 | -1.8 | -2.4 | -2.6 | -2.4 | -2.5 | -2.4 | -2.1 | -2.1 | -2.2 | -2.2 |
| **Czech Republic** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Denmark** | -0.3 | -0.8 | 0.6 | 1.2 | 1.9 | 1.4 | 2.0 | 1.5 | 3.4 | 1.8 | 2.5 | 1.9 | 2.4 |
| **Estonia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Cyprus** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Latvia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Lithuania** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Hungary** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Malta** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Poland** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Slovenia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Slovakia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Sweden** | -2.0 | -6.7 | 2.5 | 4.2 | 2.9 | 0.3 | 1.3 | 0.7 | 1.7 | 0.4 | 0.8 | 0.6 | 0.7 |
| **United Kingdom** | -7.2 | -8.8 | -1.0 | 0.8 | 0.3 | -1.6 | -3.0 | -2.7 | -3.0 | -2.4 | -2.9 | -2.1 | -2.6 |
| **EU-25** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **EU-15** | : | -5.6 | -1.9 | -1.1 | -1.7 | -2.3 | -2.3 | -2.3 | -2.3 | -2.0 | -2.1 | -2.0 | -2.1 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The proceeds from UMTS licences are not included in the calculation of the cyclically adjusted balances.
The cyclical adjustment is based on the Production Function approach for calculating output gaps,
except for ES for which the Hodrick-Prescott filter is used.

**TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2006)** [1] 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | -3.1 | 1.8 | 6.4 | 5.8 | 6.7 | 6.5 | 6.5 | 5.3 | 5.3 | 4.5 | 4.7 | 3.7 | 4.0 |
| **Germany** | 0.3 | -0.5 | 1.6 | 1.7 | 0.1 | -0.4 | -0.1 | -0.3 | -0.3 | 0.1 | 0.3 | 0.6 | 0.7 |
| **Greece** | -2.6 | 1.1 | 5.3 | 4.3 | 3.2 | 2.0 | 0.1 | -0.7 | -1.4 | 0.9 | 0.0 | 1.3 | 0.1 |
| **Spain** | -0.7 | -0.4 | 1.7 | 1.6 | 2.0 | 2.2 | 2.7 | 1.7 | 1.8 | 2.1 | 2.1 | 2.1 | 2.2 |
| **France** | 0.6 | -1.0 | 1.0 | 0.9 | 0.7 | -0.6 | -1.0 | -0.6 | -0.7 | 0.2 | 0.2 | -0.1 | -0.1 |
| **Ireland** | -1.5 | 5.0 | 4.8 | 4.8 | 1.3 | 0.0 | 1.5 | 1.4 | 2.8 | 1.3 | 1.0 | 1.6 | 1.1 |
| **Italy** | -3.6 | 2.4 | 4.8 | 3.7 | 2.7 | 2.8 | 2.7 | 2.6 | 2.6 | 2.5 | 2.0 | 1.8 | 1.0 |
| **Luxembourg** | : | : | 3.9 | 3.4 | 5.6 | 2.9 | 1.6 | 0.6 | -0.1 | 0.4 | -0.3 | 0.9 | -0.5 |
| **Netherlands** | 1.3 | 2.9 | 3.7 | 3.2 | 1.9 | 0.8 | 0.9 | 1.4 | 1.7 | 1.9 | 2.5 | 2.0 | 2.8 |
| **Austria** | 0.6 | 0.1 | 1.0 | 1.1 | 3.6 | 3.1 | 2.3 | 2.0 | 1.9 | 1.1 | 1.1 | 1.3 | 1.2 |
| **Portugal** | -0.9 | 1.7 | 0.2 | -0.8 | -1.8 | 0.2 | 0.7 | 0.9 | 0.8 | 0.0 | -1.0 | 0.1 | -0.7 |
| **Finland** | 1.4 | -0.9 | 4.1 | 7.6 | 7.4 | 6.7 | 5.2 | 4.5 | 4.3 | 4.0 | 3.5 | 3.9 | 3.4 |
| **Euro area** | : | 0.3 | 2.5 | 2.3 | 1.6 | 1.0 | 1.0 | 0.9 | 0.9 | 1.2 | 1.1 | 1.1 | 1.0 |
| **Czech Republic** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Denmark** | 4.3 | 6.0 | 5.1 | 4.8 | 5.1 | 4.2 | 4.5 | 3.9 | 5.7 | 4.0 | 4.7 | 4.0 | 4.4 |
| **Estonia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Cyprus** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Latvia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Lithuania** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Hungary** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Malta** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Poland** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Slovenia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Slovakia** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **Sweden** | 2.2 | -1.0 | 7.9 | 8.3 | 6.0 | 3.4 | 3.4 | 2.8 | 3.5 | 2.6 | 2.9 | 2.9 | 2.8 |
| **United Kingdom** | -3.0 | -5.8 | 2.2 | 3.5 | 2.7 | 0.4 | -0.9 | -0.7 | -1.0 | -0.4 | -0.8 | -0.2 | -0.5 |
| **EU-25** | : | : | : | : | : | : | : | : | : | : | : | : | : |
| **EU-15** | : | -0.5 | 2.7 | 2.7 | 2.0 | 1.1 | 0.8 | 0.7 | 0.8 | 1.0 | 0.9 | 1.0 | 0.9 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The proceeds from UMTS licences are not included in the calculation of the cyclically adjusted balances.
The cyclical adjustment is based on the Production Function approach for calculating output gaps,
except for ES for which the Hodrick-Prescott filter is used.

**TABLE 42 : Gross debt, general government (as a percentage of GDP, 1980-2006)** [1]

| | | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1985 | 1990 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 78.6 | 122.3 | 129.2 | 109.1 | 108.0 | 105.4 | 100.0 | 95.8 | 95.6 | 94.4 | 94.9 | 90.9 | 91.7 |
| **Germany** | 31.2 | 40.7 | 42.3 | 60.2 | 59.4 | 60.9 | 64.2 | 65.9 | 66.0 | 67.2 | 68.0 | 67.9 | 68.9 |
| **Greece** | 25.0 | 53.6 | 79.6 | 114.0 | 114.8 | 112.2 | 109.3 | 112.2 | 110.5 | 111.9 | 110.5 | 110.2 | 108.9 |
| **Spain** | 16.8 | 42.3 | 43.6 | 61.1 | 57.8 | 55.0 | 51.4 | 48.2 | 48.9 | 45.5 | 46.5 | 42.9 | 44.2 |
| **France** | 19.8 | 30.8 | 35.1 | 56.8 | 57.0 | 59.0 | 63.9 | 64.9 | 65.6 | 65.5 | 66.2 | 66.3 | 67.1 |
| **Ireland** | 69.8 | 101.7 | 94.2 | 38.3 | 35.8 | 32.6 | 32.0 | 30.7 | 29.9 | 30.7 | 29.8 | 30.6 | 29.6 |
| **Italy** | 58.2 | 82.3 | 97.2 | 111.2 | 110.7 | 108.0 | 106.3 | 106.0 | 105.8 | 104.6 | 105.6 | 104.4 | 106.3 |
| **Luxembourg** | 11.3 | 11.7 | 5.4 | 5.5 | 7.2 | 7.5 | 7.1 | 4.9 | 7.5 | 4.8 | 7.8 | 4.7 | 7.9 |
| **Netherlands** | 45.9 | 70.3 | 76.9 | 55.9 | 52.9 | 52.6 | 54.3 | 55.7 | 55.7 | 58.0 | 57.6 | 58.4 | 57.9 |
| **Austria** | 36.2 | 49.2 | 56.1 | 66.7 | 67.1 | 66.7 | 65.4 | 64.0 | 65.2 | 63.9 | 64.4 | 63.4 | 64.1 |
| **Portugal** | 32.3 | 61.5 | 58.3 | 53.3 | 55.9 | 58.5 | 60.1 | 60.8 | 61.9 | 62.0 | 66.2 | 62.9 | 68.5 |
| **Finland** | 11.5 | 16.2 | 14.2 | 44.6 | 43.8 | 42.5 | 45.3 | 44.8 | 45.1 | 43.4 | 44.3 | 42.2 | 43.7 |
| **Euro area** | 34.0 | 51.6 | 57.7 | 70.4 | 69.6 | 69.5 | 70.8 | 71.1 | 71.3 | 71.1 | 71.7 | 70.9 | 71.9 |
| **Czech Republic** | : | : | : | 18.2 | 27.2 | 30.7 | 38.3 | 37.8 | 37.4 | 39.4 | 36.4 | 40.6 | 37.0 |
| **Denmark** | 39.8 | 76.4 | 63.1 | 52.3 | 47.8 | 47.2 | 44.7 | 43.4 | 42.7 | 40.3 | 40.5 | 38.0 | 38.2 |
| **Estonia** | : | : | : | 4.7 | 4.4 | 5.3 | 5.3 | 4.8 | 4.9 | 4.4 | 4.3 | 4.2 | 4.0 |
| **Cyprus** | : | : | : | 59.9 | 61.9 | 65.2 | 69.8 | 72.6 | 71.9 | 72.4 | 69.1 | 69.4 | 66.6 |
| **Latvia** | : | : | : | 12.9 | 14.9 | 14.1 | 14.4 | 14.6 | 14.4 | 15.4 | 14.0 | 16.6 | 14.3 |
| **Lithuania** | : | : | : | 23.8 | 22.9 | 22.4 | 21.4 | 21.1 | 19.7 | 21.7 | 21.2 | 21.3 | 20.9 |
| **Hungary** | : | : | : | 55.4 | 52.2 | 55.5 | 56.9 | 59.7 | 57.6 | 59.5 | 57.8 | 58.9 | 57.9 |
| **Malta** | : | : | : | 57.0 | 62.4 | 62.7 | 71.8 | 72.4 | 75.0 | 73.7 | 76.4 | 74.2 | 77.1 |
| **Poland** | : | : | : | 36.8 | 36.7 | 41.2 | 45.4 | 47.7 | 43.6 | 49.8 | 46.8 | 49.3 | 47.6 |
| **Slovenia** | : | : | : | 27.4 | 28.1 | 29.5 | 29.4 | 30.9 | 29.4 | 30.8 | 30.2 | 30.6 | 30.4 |
| **Slovakia** | : | : | : | 49.9 | 48.7 | 43.3 | 42.6 | 44.2 | 43.6 | 45.2 | 44.2 | 45.9 | 44.9 |
| **Sweden** | 40.0 | 61.9 | 42.0 | 52.8 | 54.3 | 52.4 | 52.0 | 51.6 | 51.2 | 50.6 | 50.3 | 49.7 | 49.2 |
| **United Kingdom** | 53.2 | 52.7 | 34.0 | 42.0 | 38.8 | 38.3 | 39.7 | 40.4 | 41.6 | 40.9 | 41.9 | 41.2 | 42.5 |
| **EU-25** | : | : | : | 62.9 | 62.2 | 61.7 | 63.3 | 63.5 | 63.8 | 63.5 | 64.1 | 63.3 | 64.2 |
| **EU-15** | 38.1 | 52.3 | 53.8 | 64.1 | 63.3 | 62.7 | 64.3 | 64.4 | 64.7 | 64.5 | 65.0 | 64.3 | 65.1 |

[1] Government gross debt as defined in Council Regulation (EC) Nº 3605/93. ESA 95 from 1996 onwards.

**TABLE 43 : Gross national saving (as a percentage of GDP, 1970-2006)** 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 22.7 | 24.6 | 25.6 | 25.7 | 24.9 | 25.0 | 23.4 | *23.5* | 23.6 | *23.6* | 23.4 | *23.7* | 23.8 |
| **Germany** | 24.3 | 22.4 | 21.1 | 20.6 | 19.8 | 19.7 | 19.9 | *21.3* | 21.5 | *21.7* | 21.7 | *21.8* | 22.2 |
| **Greece** | 27.5 | 20.1 | 17.1 | 15.7 | 16.7 | 15.9 | 17.4 | *18.1* | 18.7 | *18.6* | 19.1 | *19.4* | 19.7 |
| **Spain** | 23.5 | 20.9 | 22.4 | 22.3 | 22.5 | 22.8 | 22.6 | *22.8* | 22.9 | *23.1* | 23.2 | *23.8* | 23.5 |
| **France** | 22.6 | 19.8 | 21.1 | 22.4 | 22.0 | 21.0 | 19.3 | *19.6* | 19.9 | *20.0* | 20.1 | *20.4* | 20.2 |
| **Ireland** | 18.6 | 17.9 | 24.6 | 25.8 | 23.8 | 22.2 | 22.2 | *23.8* | 23.2 | *24.4* | 23.5 | *24.3* | 23.4 |
| **Italy** | 24.2 | 19.7 | 21.1 | 20.0 | 20.0 | 19.7 | 18.6 | *18.7* | 19.4 | *19.0* | 19.5 | *19.4* | 19.9 |
| **Luxembourg** | 39.4 | 37.4 | 34.4 | 37.2 | 32.8 | 32.9 | 29.3 | *26.9* | 27.6 | *26.1* | 28.4 | *24.9* | 28.9 |
| **Netherlands** | 25.3 | 25.6 | 26.7 | 27.1 | 25.4 | 23.3 | 22.8 | *24.1* | 23.6 | *25.0* | 24.1 | *25.5* | 25.0 |
| **Austria** | 25.8 | 21.9 | 21.7 | 22.4 | 22.1 | 23.4 | 23.4 | *23.6* | 23.6 | *23.8* | 23.8 | *24.0* | 24.1 |
| **Portugal** | 23.3 | 21.4 | 19.7 | 18.0 | 17.8 | 18.0 | 17.1 | *16.5* | 15.8 | *16.9* | 15.6 | *17.6* | 16.0 |
| **Finland** | 26.4 | 17.6 | 25.0 | 27.8 | 27.5 | 26.7 | 23.7 | *23.7* | 24.5 | *23.4* | 24.0 | *23.3* | 23.8 |
| **Euro area** | 23.9 | 21.3 | 21.8 | 21.8 | 21.3 | 20.9 | 20.3 | *20.9* | 21.1 | *21.3* | 21.3 | *21.6* | 21.7 |
| **Czech Republic** | : | : | 25.1 | 23.9 | 23.5 | 21.7 | 21.1 | *22.3* | 22.6 | *23.5* | 23.7 | *24.3* | 24.0 |
| **Denmark** | 19.6 | 19.8 | 21.3 | 22.5 | 23.6 | 22.9 | 23.3 | *22.8* | 22.9 | *23.3* | 22.6 | *23.9* | 22.9 |
| **Estonia** | : | : | 20.6 | 22.4 | 22.6 | 20.9 | 19.3 | *16.8* | 18.6 | *18.0* | 18.1 | *19.0* | 18.8 |
| **Cyprus** | : | : | 16.3 | 13.1 | 13.2 | 14.2 | 14.9 | *16.2* | 15.3 | *17.2* | 15.9 | *18.3* | 16.4 |
| **Latvia** | : | 38.6 | 14.7 | 18.7 | 18.9 | 19.6 | 19.8 | *18.7* | 19.2 | *18.7* | 20.6 | *19.0* | 22.2 |
| **Lithuania** | : | : | 13.1 | 13.6 | 15.8 | 16.6 | 15.5 | *14.2* | 15.8 | *15.2* | 16.2 | *16.2* | 17.0 |
| **Hungary** | : | : | 19.8 | 22.3 | 20.6 | 18.2 | 16.8 | *17.8* | 15.5 | *18.2* | 16.3 | *18.0* | 17.4 |
| **Malta** | : | : | 18.5 | 13.8 | 15.5 | 14.7 | 14.9 | *21.1* | 12.0 | *21.8* | 14.4 | *22.5* | 15.2 |
| **Poland** | : | 15.9 | 19.6 | 18.7 | 17.9 | 16.2 | 16.7 | *17.3* | 18.6 | *17.9* | 18.9 | *18.7* | 19.4 |
| **Slovenia** | : | 23.8 | 23.7 | 23.9 | 24.1 | 25.2 | 25.0 | *26.6* | 25.8 | *27.1* | 26.6 | *27.7* | 27.2 |
| **Slovakia** | : | : | 24.9 | 24.0 | 22.9 | 22.2 | 24.3 | *22.8* | 23.3 | *23.3* | 22.8 | *23.6* | 23.5 |
| **Sweden** | 21.1 | 17.3 | 21.3 | 22.6 | 22.3 | 22.1 | 22.1 | *22.7* | 23.9 | *23.0* | 24.3 | *23.1* | 24.4 |
| **United Kingdom** | 18.5 | 14.9 | 16.1 | 15.0 | 15.1 | 15.0 | 14.8 | *15.1* | 15.2 | *15.4* | 15.4 | *15.7* | 15.7 |
| **EU-25** | : | : | 20.8 | 20.6 | 20.2 | 19.9 | 19.4 | *19.9* | 20.1 | *20.2* | 20.3 | *20.5* | 20.6 |
| **EU-15** | 22.8 | 20.0 | 20.8 | 20.7 | 20.3 | 20.0 | 19.5 | *20.0* | 20.2 | *20.3* | 20.4 | *20.6* | 20.7 |
| **USA** | 18.9 | 16.3 | 17.3 | 16.3 | 15.1 | 13.6 | 13.3 | *14.3* | 14.2 | *14.6* | 14.3 | *14.9* | 14.5 |
| **Japan** | 33.6 | 32.4 | 29.7 | 28.8 | 27.9 | 26.8 | 27.1 | *27.2* | 27.6 | *26.8* | 27.5 | *26.9* | 27.8 |

**TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1970-2006)** [1]

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 25.3 | 28.5 | 24.4 | 22.9 | 22.5 | 22.9 | 22.7 | *22.1* | 21.9 | *22.3* | 21.3 | *22.5* | 21.9 |
| **Germany** | 21.5 | 21.6 | 20.6 | 18.9 | 19.6 | 20.5 | 21.1 | *22.8* | 22.7 | *22.7* | 22.6 | *22.3* | 22.6 |
| **Greece** | 29.5 | 27.2 | 18.2 | 15.9 | 16.5 | 15.5 | 17.8 | *20.1* | 20.1 | *19.8* | 20.7 | *20.0* | 21.5 |
| **Spain** | 21.8 | 21.5 | 21.1 | 19.2 | 18.8 | 18.7 | 18.3 | *18.7* | 18.4 | *19.0* | 18.6 | *19.4* | 18.9 |
| **France** | 20.2 | 20.7 | 20.1 | 20.0 | 19.8 | 20.7 | 20.1 | *20.0* | 20.2 | *20.1* | 20.0 | *20.4* | 20.2 |
| **Ireland** | 21.6 | 18.5 | 19.9 | 18.0 | 18.6 | 18.8 | 18.4 | *20.4* | 18.7 | *21.3* | 20.5 | *21.2* | 20.4 |
| **Italy** | 29.4 | 25.1 | 21.3 | 18.6 | 19.0 | 19.1 | 19.2 | *18.8* | 19.5 | *18.6* | 19.7 | *19.1* | 20.3 |
| **Luxembourg** | : | : | 25.6 | 26.1 | 22.9 | 24.4 | 22.8 | *21.6* | 22.0 | *21.8* | 23.2 | *21.0* | 24.0 |
| **Netherlands** | 23.9 | 26.2 | 24.3 | 22.5 | 21.9 | 21.6 | 22.3 | *23.5* | 22.6 | *23.9* | 22.6 | *24.1* | 23.3 |
| **Austria** | 21.6 | 21.1 | 20.3 | 20.8 | 18.6 | 20.8 | 21.8 | *22.1* | 21.9 | *23.1* | 22.8 | *23.0* | 23.3 |
| **Portugal** | 24.1 | 23.2 | 19.2 | 17.3 | 18.5 | 18.3 | 18.3 | *18.6* | 18.1 | *18.4* | 18.4 | *19.1* | 18.5 |
| **Finland** | 18.5 | 19.2 | 20.7 | 18.2 | 19.5 | 19.7 | 18.7 | *19.0* | 19.9 | *19.0* | 19.9 | *18.9* | 19.9 |
| **Euro area** | 22.9 | 22.5 | 20.9 | 19.5 | 19.6 | 20.1 | 20.2 | *20.8* | 20.8 | *20.8* | 20.8 | *20.9* | 21.1 |
| **Czech Republic** | : | : | 21.3 | 21.7 | 20.9 | 19.7 | 18.9 | *19.5* | 19.6 | *20.1* | 20.9 | *20.4* | 21.7 |
| **Denmark** | 16.5 | 20.5 | 18.3 | 18.3 | 19.1 | 19.9 | 20.7 | *20.5* | 18.8 | *20.3* | 19.1 | *20.7* | 19.3 |
| **Estonia** | : | : | 15.3 | 17.8 | 16.7 | 13.7 | 12.1 | *10.5* | 13.5 | *11.4* | 13.0 | *12.8* | 14.2 |
| **Cyprus** | : | : | : | 11.9 | 12.1 | 15.2 | 17.2 | *17.3* | 15.5 | *16.2* | 14.7 | *16.6* | 14.3 |
| **Latvia** | : | 34.9 | 13.7 | 18.5 | 17.9 | 18.9 | 18.1 | *18.1* | 17.1 | *19.5* | 20.2 | *20.1* | 22.0 |
| **Lithuania** | : | : | 12.0 | 12.6 | 15.0 | 15.0 | 13.6 | *13.2* | 14.7 | *14.5* | 15.1 | *15.0* | 15.6 |
| **Hungary** | : | : | : | 19.2 | 17.8 | 17.8 | 17.0 | *18.9* | 15.1 | *18.9* | 16.0 | *17.1* | 16.6 |
| **Malta** | : | : | : | 16.2 | 17.6 | 16.0 | 16.5 | *20.3* | 14.1 | *20.6* | 14.8 | *20.9* | 15.4 |
| **Poland** | : | 16.6 | 18.2 | 17.3 | 17.0 | 17.0 | 16.2 | *19.6* | 20.4 | *19.0* | 19.3 | *18.6* | 18.5 |
| **Slovenia** | : | : | : | 23.1 | 23.4 | 23.8 | 23.1 | *25.2* | 23.9 | *25.8* | 24.8 | *26.3* | 25.4 |
| **Slovakia** | : | : | 22.3 | 23.4 | 23.0 | 22.9 | 24.9 | *23.6* | 23.8 | *23.8* | 23.1 | *24.1* | 24.0 |
| **Sweden** | 16.4 | 20.8 | 17.1 | 14.9 | 16.8 | 19.4 | 19.1 | *19.1* | 19.8 | *19.5* | 20.5 | *19.4* | 20.7 |
| **United Kingdom** | 17.4 | 17.8 | 15.1 | 12.1 | 12.7 | 15.0 | 16.0 | *15.8* | 16.3 | *15.6* | 16.1 | *15.6* | 16.0 |
| **EU-25** | : | : | : | 18.0 | 18.2 | 19.1 | 19.4 | *19.8* | 19.8 | *19.8* | 19.8 | *19.8* | 20.0 |
| **EU-15** | 21.6 | 21.7 | 19.8 | 18.1 | 18.3 | 19.2 | 19.5 | *19.9* | 19.9 | *19.9* | 20.0 | *19.9* | 20.2 |
| **USA** | 19.9 | 18.8 | 15.1 | 12.4 | 13.0 | 14.7 | 15.2 | *15.3* | 15.4 | *15.3* | 15.0 | *15.8* | 15.1 |
| **Japan** | 28.6 | 26.1 | 28.4 | 29.0 | 27.8 | 29.0 | 29.6 | *30.1* | 30.0 | *30.1* | 30.0 | *30.6* | 30.1 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

**TABLE 45 : Gross saving, general government (as a percentage of GDP, 1970-2006)** [1] 18.03.2005

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | -2.7 | -3.9 | 1.2 | 2.8 | 2.5 | 2.2 | 0.8 | *1.5* | 1.7 | *1.4* | 2.2 | *1.2* | 1.9 |
| **Germany** | 2.8 | 0.8 | 0.5 | 1.6 | 0.2 | -0.8 | -1.1 | *-1.5* | -1.2 | *-1.0* | -0.9 | *-0.6* | -0.4 |
| **Greece** | -2.1 | -7.1 | -1.0 | -0.2 | 0.2 | 0.4 | -0.3 | *-2.0* | -1.6 | *-1.1* | -1.6 | *-0.6* | -1.8 |
| **Spain** | 1.7 | -0.6 | 1.3 | 3.1 | 3.7 | 4.1 | 4.4 | *4.0* | 4.5 | *4.1* | 4.6 | *4.3* | 4.6 |
| **France** | 2.5 | -0.9 | 1.0 | 2.3 | 2.2 | 0.3 | -0.7 | *-0.4* | -0.3 | *-0.1* | 0.0 | *0.0* | 0.0 |
| **Ireland** | -3.0 | -0.6 | 4.8 | 7.7 | 5.1 | 3.4 | 3.8 | *3.5* | 4.5 | *3.1* | 3.0 | *3.2* | 3.0 |
| **Italy** | -5.1 | -5.5 | -0.2 | 1.5 | 1.0 | 0.7 | -0.5 | *-0.2* | 0.0 | *0.4* | -0.2 | *0.3* | -0.4 |
| **Luxembourg** | : | : | 8.8 | 11.0 | 9.9 | 8.5 | 6.5 | *5.2* | 5.6 | *4.4* | 5.2 | *4.0* | 4.9 |
| **Netherlands** | 1.4 | -0.6 | 2.3 | 4.6 | 3.5 | 1.8 | 0.5 | *0.7* | 1.1 | *1.1* | 1.5 | *1.4* | 1.9 |
| **Austria** | 4.2 | 0.8 | 1.5 | 1.8 | 3.8 | 3.0 | 2.0 | *1.6* | 1.9 | *0.8* | 1.1 | *1.1* | 1.0 |
| **Portugal** | -0.8 | -1.7 | 0.6 | 0.7 | -0.7 | -0.3 | -1.1 | *-2.1* | -2.3 | *-1.5* | -2.8 | *-1.5* | -2.5 |
| **Finland** | 7.9 | -1.6 | 4.3 | 9.7 | 8.0 | 7.0 | 5.1 | *5.0* | 4.8 | *4.7* | 4.3 | *4.6* | 4.1 |
| **Euro area** | 0.9 | -1.3 | 0.9 | 2.3 | 1.8 | 0.9 | 0.2 | *0.1* | 0.4 | *0.5* | 0.5 | *0.6* | 0.6 |
| **Czech Republic** | : | : | 3.8 | 2.2 | 2.5 | 2.0 | 2.2 | *2.8* | 3.0 | *3.4* | 2.8 | *3.9* | 2.2 |
| **Denmark** | 3.1 | -0.7 | 3.0 | 4.3 | 4.6 | 3.0 | 2.8 | *2.5* | 4.3 | *3.1* | 3.7 | *3.3* | 3.7 |
| **Estonia** | : | : | 5.3 | 4.6 | 5.8 | 7.2 | 7.2 | *6.3* | 5.1 | *6.6* | 5.1 | *6.2* | 4.6 |
| **Cyprus** | : | : | : | 1.1 | 1.1 | -0.9 | -2.3 | *-1.1* | -0.2 | *1.0* | 1.2 | *1.6* | 2.0 |
| **Latvia** | : | 3.8 | 1.1 | 0.3 | 1.1 | 0.8 | 1.7 | *0.7* | 2.1 | *-0.8* | 0.5 | *-1.1* | 0.2 |
| **Lithuania** | : | : | 1.1 | 1.0 | 0.7 | 1.5 | 2.0 | *1.0* | 1.1 | *0.8* | 1.1 | *1.3* | 1.4 |
| **Hungary** | : | : | : | 3.2 | 2.8 | 0.4 | -0.2 | *-1.1* | 0.3 | *-0.7* | 0.3 | *1.0* | 0.8 |
| **Malta** | : | : | : | -2.4 | -2.1 | -1.3 | -1.5 | *0.8* | -2.1 | *1.2* | -0.3 | *1.5* | -0.2 |
| **Poland** | : | -0.7 | 1.6 | 1.0 | 0.8 | 0.0 | 0.5 | *-2.2* | -1.6 | *-1.1* | -0.4 | *0.1* | 0.8 |
| **Slovenia** | : | : | : | 0.8 | 0.7 | 1.4 | 1.9 | *1.4* | 1.9 | *1.3* | 1.7 | *1.4* | 1.8 |
| **Slovakia** | : | : | 2.6 | 0.6 | -0.1 | -0.7 | -0.6 | *-0.8* | -0.5 | *-0.5* | -0.3 | *-0.5* | -0.5 |
| **Sweden** | 4.8 | -3.5 | 4.2 | 7.7 | 5.5 | 2.9 | 3.2 | *3.6* | 4.3 | *3.5* | 3.7 | *3.7* | 3.6 |
| **United Kingdom** | 1.2 | -2.9 | 1.0 | 2.9 | 2.4 | 0.1 | -1.1 | *-0.7* | -1.0 | *-0.2* | -0.7 | *0.1* | -0.3 |
| **EU-25** | : | : | : | 2.6 | 2.0 | 0.8 | 0.1 | *0.1* | 0.3 | *0.5* | 0.5 | *0.7* | 0.7 |
| **EU-15** | 1.2 | -1.6 | 1.0 | 2.6 | 2.0 | 0.8 | 0.1 | *0.1* | 0.3 | *0.5* | 0.5 | *0.7* | 0.6 |
| **USA** | -1.1 | -2.5 | 2.2 | 4.0 | 2.1 | -1.2 | -1.9 | *-1.0* | -1.2 | *-0.7* | -0.7 | *-1.0* | -0.6 |
| **Japan** | 5.0 | 6.3 | 1.3 | -0.2 | 0.0 | -2.2 | -2.5 | *-2.9* | -2.4 | *-3.3* | -2.5 | *-3.7* | -2.3 |

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

**TABLE 46 : Exports of goods, volume (percentage change on preceding year, 1961-2006)**

| | long-term average | 5-year average | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1961-90 | 1991-95 | 1996-00 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Belgium** | 6.2 | 4.8 | 4.9 | 7.4 | 0.4 | 1.8 | 2.4 | *5.0* | 6.9 | *5.5* | 5.7 | *5.8* | 6.0 |
| **Germany** | 6.2 | 3.7 | 8.5 | 13.5 | 5.4 | 3.2 | 2.6 | *11.9* | 10.1 | *6.7* | 6.9 | *5.5* | 6.4 |
| **Greece** | 8.0 | 4.1 | 4.0 | 8.7 | -1.6 | -7.1 | 4.2 | *-2.4* | -1.3 | *6.1* | 5.6 | *6.1* | 5.6 |
| **Spain** | : | 11.9 | 10.1 | 10.0 | 2.4 | 3.0 | 3.9 | *6.4* | 6.9 | *6.7* | 6.3 | *7.0* | 6.1 |
| **France** | 7.0 | 5.9 | 8.1 | 12.2 | 2.1 | 2.3 | -1.5 | *4.5* | 3.9 | *6.1* | 5.3 | *6.6* | 6.4 |
| **Ireland** | 8.5 | 13.2 | 15.3 | 18.4 | 4.5 | 4.6 | -3.3 | *6.4* | 3.2 | *6.9* | 6.1 | *6.6* | 6.3 |
| **Italy** | 8.1 | 7.3 | 4.1 | 9.4 | 1.5 | -2.9 | -2.1 | *4.5* | 3.3 | *5.8* | 5.1 | *5.4* | 4.6 |
| **Luxembourg** | 3.8 | 4.0 | 8.5 | 13.1 | 9.8 | -0.3 | -4.3 | *5.0* | 6.5 | *6.4* | 6.2 | *6.7* | 6.4 |
| **Netherlands** | 6.6 | 6.0 | 7.3 | 11.9 | 1.3 | 0.2 | 0.3 | *8.1* | 8.5 | *7.1* | 4.4 | *6.5* | 6.2 |
| **Austria** | : | 4.6 | 9.7 | 13.1 | 6.8 | 4.5 | 1.5 | *7.2* | 12.1 | *6.5* | 6.9 | *6.2* | 7.0 |
| **Portugal** | : | 6.1 | : | : | : | : | : | *7.9* | 4.5 | *7.4* | 4.7 | *7.1* | 6.9 |
| **Finland** | : | 7.7 | 12.4 | 22.6 | -0.2 | 4.2 | 2.0 | *3.1* | 4.2 | *5.3* | 5.5 | *5.0* | 5.2 |
| **Euro area** [1] | 6.9 | 6.0 | 7.9 | 12.2 | 3.1 | 1.9 | 0.9 | *7.6* | 7.1 | *6.4* | 5.9 | *6.0* | 6.1 |
| **Czech Republic** | : | : | 11.8 | 19.6 | 14.4 | 6.0 | 9.8 | *15.8* | 22.3 | *11.3* | 12.7 | *8.1* | 11.0 |
| **Denmark** | 5.8 | 3.4 | 6.2 | 9.9 | 3.5 | 5.1 | -2.9 | *5.8* | 3.7 | *5.4* | 4.2 | *4.8* | 5.2 |
| **Estonia** | : | : | 16.9 | 40.4 | -5.5 | 3.9 | 5.9 | *14.7* | 14.1 | *12.6* | 13.4 | *13.5* | 10.8 |
| **Cyprus** | : | : | -1.5 | 0.9 | 2.5 | -13.5 | -4.5 | *5.5* | 13.0 | *5.9* | 4.0 | *5.9* | 4.0 |
| **Latvia** | : | : | 11.3 | 15.1 | 8.8 | 8.4 | 6.8 | *11.2* | 7.2 | *8.6* | 11.4 | *7.6* | 11.2 |
| **Lithuania** | : | : | 5.2 | 15.0 | 24.6 | 20.1 | 7.2 | *10.0* | 4.0 | *9.5* | 8.9 | *9.3* | 7.9 |
| **Hungary** | : | : | 20.3 | 21.8 | 6.9 | 5.7 | 8.6 | *14.9* | 17.0 | *11.2* | 13.3 | *9.4* | 11.6 |
| **Malta** | : | : | 4.0 | 10.9 | -3.5 | 7.6 | -2.8 | *2.0* | 4.6 | *3.1* | 3.5 | *3.5* | 3.5 |
| **Poland** | : | : | 10.6 | 25.9 | 7.8 | 6.6 | 17.7 | *14.8* | 12.4 | *13.0* | 11.0 | *11.2* | 11.3 |
| **Slovenia** | : | -7.8 | 8.0 | 12.9 | 7.0 | 6.5 | 4.4 | *9.3* | 13.2 | *5.7* | 8.2 | *6.9* | 7.9 |
| **Slovakia** | : | : | 11.3 | 15.4 | 5.7 | 5.7 | 28.0 | *13.6* | 13.3 | *12.5* | 12.5 | *14.9* | 13.1 |
| **Sweden** | : | 7.5 | 8.6 | 12.1 | -2.1 | 2.0 | 4.9 | *10.4* | 9.5 | *7.6* | 6.5 | *6.9* | 5.5 |
| **United Kingdom** | 4.6 | 5.4 | 6.4 | 12.2 | 2.7 | -1.7 | -0.1 | *1.0* | 1.6 | *6.8* | 6.5 | *6.2* | 5.4 |
| **EU-25** [2] | : | : | 8.1 | 12.8 | 3.3 | 2.0 | 1.7 | *7.4* | 7.1 | *6.8* | 6.4 | *6.3* | 6.4 |
| **EU-15** [2] | 6.6 | 5.9 | 7.8 | 12.2 | 2.9 | 1.6 | 0.8 | *7.0* | 6.5 | *6.5* | 5.9 | *6.0* | 6.0 |
| **USA** | 6.2 | 7.8 | 8.0 | 11.2 | -6.1 | -4.1 | 2.2 | *8.8* | 8.8 | *7.8* | 7.4 | *7.9* | 9.8 |
| **Japan** | : | 1.9 | 3.8 | 12.4 | -6.2 | 8.1 | 9.1 | *15.7* | 14.3 | *9.3* | 8.0 | *8.9* | 8.2 |

[1] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.

[2] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

**TABLE 47 : Imports of goods, volume (percentage change on preceding year, 1961-2006)** 18.03.2005

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of *X-2004* | 2004 estimate of III-2005 | 2005 forecast of *X-2004* | 2005 forecast of III-2005 | 2006 forecast of *X-2004* | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 5.8 | 3.8 | 5.1 | 8.3 | -0.2 | 1.4 | 3.2 | *4.3* | 7.5 | *6.0* | 6.0 | *6.8* | 6.4 |
| **Germany** | 6.7 | 3.8 | 8.1 | 11.1 | -0.2 | -1.5 | 5.8 | *8.1* | 7.9 | *7.2* | 7.2 | *6.7* | 7.3 |
| **Greece** | 8.0 | 3.9 | 9.4 | 15.2 | -6.3 | 3.2 | 6.6 | *8.8* | 8.1 | *4.6* | 4.1 | *3.9* | 4.4 |
| **Spain** | : | 7.5 | 11.5 | 10.5 | 3.3 | 3.4 | 5.2 | *7.4* | 9.9 | *7.6* | 9.1 | *7.7* | 8.2 |
| **France** | 7.2 | 3.8 | 8.3 | 15.0 | 1.0 | 3.2 | -0.1 | *8.2* | 8.0 | *7.0* | 6.6 | *7.0* | 6.9 |
| **Ireland** | 6.7 | 9.0 | 13.7 | 16.9 | 3.5 | 0.0 | -7.3 | *5.9* | 3.5 | *6.3* | 6.4 | *5.9* | 7.7 |
| **Italy** | 7.2 | 3.6 | 6.7 | 8.0 | 0.0 | -1.0 | 0.9 | *6.3* | 3.2 | *6.3* | 5.4 | *6.1* | 5.6 |
| **Luxembourg** | 4.6 | 3.4 | 8.3 | 6.8 | 8.7 | -2.6 | -1.8 | *5.5* | 5.8 | *6.5* | 6.3 | *7.0* | 6.1 |
| **Netherlands** | 6.0 | 5.8 | 7.8 | 10.6 | 1.6 | -0.2 | 1.0 | *7.2* | 7.8 | *6.5* | 4.5 | *6.2* | 5.7 |
| **Austria** | : | 3.7 | 7.9 | 11.6 | 4.5 | -0.1 | 5.6 | *5.7* | 8.3 | *6.4* | 6.2 | *6.8* | 7.1 |
| **Portugal** | : | 6.7 | : | : | : | : | : | *8.2* | 7.7 | *5.8* | 4.6 | *6.3* | 6.2 |
| **Finland** | : | 0.6 | 11.3 | 16.8 | 1.0 | 3.0 | 3.7 | *2.2* | 6.0 | *3.8* | 3.8 | *4.5* | 4.2 |
| **Euro area [1]** | 6.9 | 4.4 | 8.2 | 11.4 | 0.8 | 0.6 | 2.9 | *7.1* | 7.3 | *6.7* | 6.4 | *6.6* | 6.7 |
| **Czech Republic** | : | : | 10.4 | 20.0 | 14.7 | 4.6 | 8.9 | *16.1* | 18.7 | *11.4* | 13.3 | *7.6* | 10.8 |
| **Denmark** | 4.8 | 3.5 | 8.1 | 12.4 | 3.4 | 6.1 | -2.4 | *6.8* | 7.6 | *6.2* | 6.1 | *4.8* | 5.3 |
| **Estonia** | : | : | 14.1 | 33.0 | 0.3 | 5.2 | 13.6 | *9.7* | 10.9 | *10.2* | 9.9 | *10.8* | 9.1 |
| **Cyprus** | : | : | 4.6 | 14.8 | 6.0 | -0.9 | -4.6 | *2.4* | 9.5 | *5.0* | 0.5 | *5.0* | 4.6 |
| **Latvia** | : | : | 8.3 | 4.0 | 16.7 | 4.0 | 11.3 | *14.1* | 14.6 | *10.4* | 7.5 | *9.1* | 9.7 |
| **Lithuania** | : | : | 8.8 | 8.6 | 20.0 | 17.6 | 9.9 | *13.6* | 12.9 | *10.9* | 11.2 | *8.9* | 7.8 |
| **Hungary** | : | : | 19.5 | 20.4 | 3.8 | 4.9 | 10.0 | *13.4* | 15.0 | *9.7* | 11.8 | *9.4* | 10.9 |
| **Malta** | : | : | 3.1 | 17.6 | -15.0 | -2.6 | 10.8 | *1.9* | 4.6 | *2.3* | 3.1 | *2.6* | 2.7 |
| **Poland** | : | : | 17.6 | 22.0 | -5.0 | 3.6 | 10.3 | *12.8* | 10.5 | *13.9* | 12.3 | *13.7* | 12.8 |
| **Slovenia** | : | -1.1 | 8.4 | 7.7 | 3.2 | 4.4 | 7.3 | *10.3* | 13.2 | *6.6* | 8.5 | *7.3* | 7.8 |
| **Slovakia** | : | : | 11.7 | 12.7 | 11.7 | 5.0 | 14.1 | *13.7* | 15.1 | *13.1* | 13.8 | *13.8* | 13.5 |
| **Sweden** | : | 3.7 | 7.8 | 11.7 | -5.1 | -0.2 | 6.1 | *6.3* | 7.2 | *8.6* | 8.1 | *7.9* | 7.0 |
| **United Kingdom** | 4.7 | 3.0 | 8.8 | 9.3 | 5.4 | 4.1 | 1.9 | *5.5* | 5.8 | *5.7* | 6.8 | *5.2* | 5.0 |
| **EU-25 [2]** | : | : | 8.7 | 11.8 | 1.6 | 1.4 | 3.3 | *7.4* | 7.6 | *7.0* | 7.0 | *6.8* | 6.8 |
| **EU-15 [2]** | 6.5 | 4.2 | 8.3 | 11.1 | 1.3 | 1.1 | 2.7 | *6.9* | 7.1 | *6.6* | 6.5 | *6.4* | 6.4 |
| **USA** | 6.8 | 8.2 | 12.3 | 13.5 | -3.2 | 3.7 | 4.7 | *10.5* | 10.8 | *6.1* | 7.5 | *5.8* | 4.6 |
| **Japan** | : | 5.1 | 3.5 | 11.9 | 0.1 | 1.1 | 3.8 | *8.9* | 8.9 | *6.9* | 7.1 | *7.9* | 6.2 |

[1] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.

[2] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

**TABLE 48 : Trade balance (fob-fob, as a percentage of GDP, 1974-2006)**

| | long-term average 1974-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of *X-2004* | 2004 estimate of III-2005 | 2005 forecast of *X-2004* | 2005 forecast of III-2005 | 2006 forecast of *X-2004* | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | -2.9 | 2.9 | 3.5 | 2.1 | 2.6 | 3.6 | 3.1 | *3.5* | 2.5 | *3.2* | 2.3 | *2.6* | 2.6 |
| **Germany** | 4.1 | 1.9 | 3.3 | 3.1 | 4.9 | 6.5 | 6.3 | *7.9* | 7.3 | *8.1* | 7.4 | *8.0* | 7.5 |
| **Greece** | -9.9 | -12.6 | -15.2 | -18.7 | -16.2 | -16.5 | -16.7 | *-18.2* | -17.7 | *-17.9* | -17.5 | *-17.3* | -17.1 |
| **Spain** | -5.2 | -3.8 | -4.0 | -6.2 | -5.7 | -5.1 | -5.2 | *-5.9* | -6.8 | *-6.4* | -7.7 | *-6.6* | -8.3 |
| **France** | -1.8 | -0.1 | 0.9 | -0.3 | 0.2 | 0.5 | 0.2 | *-0.6* | -0.7 | *-1.0* | -1.3 | *-1.0* | -1.5 |
| **Ireland** | -4.8 | 14.7 | 21.9 | 24.2 | 24.3 | 25.6 | 23.1 | *22.3* | 21.1 | *22.5* | 20.5 | *22.8* | 20.1 |
| **Italy** | -1.1 | 2.2 | 3.1 | 1.3 | 1.8 | 1.6 | 1.2 | *0.8* | 1.0 | *0.9* | 1.0 | *1.0* | 1.1 |
| **Luxembourg** | -8.5 | -11.2 | -12.0 | -11.6 | -12.5 | -10.5 | -10.6 | *-11.3* | -10.8 | *-11.6* | -10.7 | *-11.8* | -10.4 |
| **Netherlands** | 1.2 | 5.2 | 5.0 | 4.9 | 5.1 | 5.1 | 5.1 | *5.5* | 5.3 | *6.0* | 5.3 | *6.4* | 5.7 |
| **Austria** | -5.0 | -3.7 | -1.9 | -1.5 | -0.5 | 1.8 | 0.8 | *1.3* | 1.8 | *1.1* | 1.8 | *0.9* | 1.6 |
| **Portugal** | : | -9.5 | -9.4 | -11.7 | -11.1 | -9.3 | -7.8 | *-10.4* | -9.6 | *-10.3* | -9.8 | *-10.2* | -9.8 |
| **Finland** | 0.2 | 6.1 | 9.9 | 11.4 | 10.4 | 9.6 | 7.9 | *7.5* | 7.2 | *7.5* | 7.2 | *7.4* | 7.3 |
| **Euro area** | -0.4 | 0.7 | 1.8 | 0.9 | 1.8 | 2.5 | 2.1 | *2.2* | 1.8 | *2.1* | 1.6 | *2.0* | 1.5 |
| **Euro area, adjusted [1]** | | | | 0.1 | 1.1 | 1.8 | 1.4 | *1.7* | 1.4 | *1.7* | 1.1 | *1.6* | 1.1 |
| **Czech Republic** | : | -2.5 | -6.2 | -5.6 | -5.0 | -3.0 | -2.7 | *-2.4* | -0.8 | *-2.4* | 0.1 | *-2.2* | 0.5 |
| **Denmark** | -2.5 | 3.9 | 3.6 | 4.2 | 4.7 | 4.4 | 4.6 | *3.8* | 2.6 | *3.7* | 2.1 | *3.8* | 2.1 |
| **Estonia** | : | : | -18.8 | -14.2 | -13.2 | -15.4 | -17.4 | *-15.2* | -16.4 | *-14.8* | -14.8 | *-14.0* | -14.0 |
| **Cyprus** | : | : | -24.3 | -27.4 | -27.2 | -27.2 | -23.8 | *-25.3* | -25.5 | *-25.0* | -24.5 | *-24.4* | -24.5 |
| **Latvia** | : | : | -14.6 | -13.6 | -16.2 | -16.0 | -18.0 | *-19.4* | -20.2 | *-20.1* | -19.8 | *-20.6* | -19.3 |
| **Lithuania** | : | : | -11.8 | -9.7 | -9.2 | -9.4 | -9.2 | *-10.7* | -10.2 | *-11.7* | -11.1 | *-11.3* | -10.9 |
| **Hungary** | : | : | -4.3 | -6.3 | -4.3 | -3.2 | -3.9 | *-4.1* | -2.8 | *-4.1* | -2.0 | *-4.2* | -1.9 |
| **Malta** | : | -23.0 | -19.7 | -19.8 | -15.0 | -8.9 | -14.7 | *-17.0* | -16.1 | *-16.8* | -17.2 | *-16.5* | -17.3 |
| **Poland** | : | 0.1 | -6.5 | -7.4 | -4.1 | -3.8 | -2.7 | *-2.6* | -2.5 | *-3.1* | -3.0 | *-3.5* | -3.6 |
| **Slovenia** | : | 1.7 | -4.7 | -5.9 | -3.1 | -1.1 | -2.2 | *-3.0* | -3.1 | *-3.6* | -3.9 | *-3.9* | -3.8 |
| **Slovakia** | : | : | -8.5 | -4.8 | -10.6 | -9.0 | -2.3 | *-3.0* | -3.5 | *-3.8* | -4.8 | *-3.5* | -5.1 |
| **Sweden** | : | 3.9 | 7.0 | 6.5 | 6.9 | 6.7 | 6.3 | *7.6* | 6.9 | *7.6* | 6.7 | *7.4* | 6.6 |
| **United Kingdom** | -2.1 | -1.8 | -2.5 | -3.5 | -4.1 | -4.5 | -4.3 | *-4.8* | -5.0 | *-4.7* | -5.3 | *-5.0* | -5.2 |
| **EU-25** | : | : | 1.0 | 0.0 | 0.6 | 1.1 | 0.9 | *0.8* | 0.5 | *0.7* | 0.2 | *0.6* | 0.1 |
| **EU-25, adjusted [1]** | | | | : | -0.5 | 0.0 | -0.1 | *:* | -0.2 | *:* | -0.5 | *:* | -0.5 |
| **EU-15** | -0.6 | 0.6 | 1.3 | 0.3 | 0.9 | 1.4 | 1.1 | *1.0* | 0.7 | *1.0* | 0.4 | *0.9* | 0.3 |
| **USA** | -1.6 | -1.9 | -3.2 | -4.7 | -4.3 | -4.7 | -5.1 | *-5.7* | -5.7 | *-5.9* | -6.0 | *-5.7* | -5.8 |
| **Japan** | 2.2 | 2.9 | 2.5 | 2.5 | 1.7 | 2.4 | 2.7 | *2.8* | 3.1 | *2.9* | 3.2 | *3.5* | 3.7 |

[1] See note 8 on concepts and sources.

**TABLE 49 : Current account balance (as a percentage of GDP, 1961-2006)** 18.03.2005

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 0.5 | 4.1 | 5.0 | 4.0 | 4.5 | 5.8 | 4.4 | *4.5* | 3.9 | *4.3* | 3.7 | *4.1* | 4.0 |
| **Germany** | 1.3 | -0.9 | -0.5 | -1.1 | 0.4 | 2.4 | 2.4 | *4.2* | 3.8 | *4.4* | 4.1 | *4.1* | 4.4 |
| **Greece** | -0.9 | -0.5 | -4.4 | -8.2 | -7.1 | -7.7 | -8.3 | *-7.5* | -6.9 | *-6.8* | -6.3 | *-5.9* | -5.6 |
| **Spain** | -1.1 | -2.0 | -1.2 | -3.3 | -3.1 | -2.7 | -3.3 | *-4.2* | -5.0 | *-4.8* | -5.7 | *-5.0* | -6.2 |
| **France** | -0.7 | -0.1 | 1.9 | 1.3 | 1.5 | 1.5 | 0.4 | *-0.2* | -0.2 | *-0.5* | -0.5 | *-0.3* | -0.6 |
| **Ireland** | -4.4 | 1.9 | 1.4 | -0.4 | -0.7 | -1.3 | -1.4 | *-1.6* | -1.3 | *-1.5* | -1.1 | *-1.3* | -1.4 |
| **Italy** | 0.2 | -0.1 | 1.7 | -0.2 | 0.3 | -0.3 | -0.8 | *-1.0* | -0.4 | *-0.9* | -0.5 | *-0.7* | -0.4 |
| **Luxembourg** | 12.5 | 13.3 | 11.1 | 13.7 | 9.0 | 11.8 | 8.2 | *5.9* | 6.3 | *5.3* | 7.0 | *4.4* | 7.3 |
| **Netherlands** | 1.8 | 4.4 | 4.7 | 4.9 | 3.8 | 2.8 | 2.7 | *3.7* | 3.2 | *4.2* | 3.3 | *4.5* | 3.9 |
| **Austria** | -0.6 | -1.3 | -1.4 | -1.0 | -0.4 | 2.5 | 1.5 | *1.9* | 2.1 | *1.9* | 2.2 | *1.9* | 2.2 |
| **Portugal** | -2.5 | -2.6 | -7.3 | -10.8 | -10.1 | -7.7 | -6.0 | *-6.8* | -7.7 | *-6.5* | -7.7 | *-6.2* | -7.5 |
| **Finland** | -2.1 | -1.3 | 5.7 | 7.2 | 6.9 | 7.4 | 4.3 | *4.9* | 4.2 | *4.9* | 4.0 | *4.9* | 4.1 |
| **Euro area** | 0.1 | -0.2 | 0.8 | -0.1 | 0.5 | 1.2 | 0.6 | *0.8* | 0.6 | *0.8* | 0.6 | *0.8* | 0.6 |
| **Euro area, adjusted [1]** | | | | -1.2 | -0.2 | 0.8 | 0.3 | *0.7* | 0.6 | *0.7* | 0.5 | *0.7* | 0.5 |
| **Czech Republic** | : | : | -4.5 | -4.9 | -5.4 | -6.3 | -6.2 | *-6.1* | -5.2 | *-6.0* | -4.7 | *-5.7* | -4.6 |
| **Denmark** | -2.6 | 1.6 | 0.8 | 1.5 | 3.1 | 2.0 | 3.3 | *3.2* | 2.3 | *3.5* | 2.1 | *3.9* | 2.2 |
| **Estonia** | : | : | -7.7 | -5.5 | -5.6 | -10.2 | -13.2 | *-13.0* | -12.9 | *-11.6* | -12.1 | *-10.2* | -11.2 |
| **Cyprus** | : | : | -2.8 | -5.3 | -3.3 | -4.5 | -3.0 | *-4.5* | -5.7 | *-4.4* | -4.9 | *-3.7* | -4.5 |
| **Latvia** | : | 9.1 | -6.8 | -4.6 | -7.6 | -6.7 | -8.2 | *-9.9* | -12.4 | *-9.8* | -10.5 | *-9.6* | -10.0 |
| **Lithuania** | : | : | -9.5 | -5.9 | -4.7 | -5.2 | -6.9 | *-8.7* | -8.3 | *-8.5* | -8.8 | *-7.9* | -8.5 |
| **Hungary** | : | : | -8.3 | -8.6 | -6.2 | -7.1 | -8.4 | *-8.7* | -8.9 | *-8.5* | -8.7 | *-8.5* | -8.2 |
| **Malta** | : | : | -8.0 | -12.6 | -3.1 | 0.3 | -5.8 | *-4.0* | -10.1 | *-3.6* | -9.9 | *-2.8* | -9.3 |
| **Poland** | : | 0.1 | -3.9 | -6.0 | -2.9 | -2.6 | -2.2 | *-2.6* | -1.5 | *-3.1* | -2.4 | *-3.3* | -3.0 |
| **Slovenia** | : | 4.3 | -1.2 | -2.8 | 0.2 | 1.4 | -0.4 | *-0.2* | -0.7 | *-0.8* | -1.0 | *-1.0* | -0.8 |
| **Slovakia** | : | : | -6.5 | -2.5 | -7.4 | -7.3 | -0.8 | *-2.9* | -3.4 | *-3.3* | -5.0 | *-3.0* | -4.9 |
| **Sweden** | -0.4 | -0.1 | 4.1 | 4.2 | 4.6 | 5.4 | 5.9 | *7.3* | 7.8 | *7.1* | 7.5 | *6.7* | 7.3 |
| **United Kingdom** | -0.5 | -1.6 | -1.3 | -2.5 | -2.3 | -1.7 | -1.8 | *-2.0* | -1.9 | *-1.8* | -2.2 | *-1.9* | -2.2 |
| **EU-25** | : | : | 0.4 | -0.6 | -0.1 | 0.4 | 0.1 | *0.3* | 0.2 | *0.2* | 0.0 | *0.2* | 0.0 |
| **EU-25, adjusted [1]** | | | | : | -0.8 | 0.1 | 0.0 | *:* | -0.3 | *:* | -0.4 | *:* | -0.4 |
| **EU-15** | 0.0 | -0.4 | 0.6 | -0.3 | 0.2 | 0.9 | 0.5 | *0.5* | 0.4 | *0.5* | 0.2 | *0.5* | 0.3 |
| **USA** | -0.3 | -0.8 | -2.4 | -4.1 | -3.7 | -4.4 | -4.7 | *-5.5* | -5.4 | *-5.8* | -5.9 | *-5.7* | -5.8 |
| **Japan** | 1.0 | 2.6 | 2.4 | 2.5 | 2.1 | 2.8 | 3.2 | *3.3* | 3.7 | *3.3* | 3.8 | *3.6* | 4.2 |

[1] See note 8 on concepts and sources.

**TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1961-2006)**

| | long-term average 1961-90 | 5-year average 1991-95 | 5-year average 1996-00 | 2000 | 2001 | 2002 | 2003 | 2004 estimate of X-2004 | 2004 estimate of III-2005 | 2005 forecast of X-2004 | 2005 forecast of III-2005 | 2006 forecast of X-2004 | 2006 forecast of III-2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Belgium** | 0.3 | 3.9 | 5.0 | 3.8 | 4.3 | 5.2 | 3.7 | *3.8* | 3.4 | *3.7* | 3.3 | *3.5* | 3.6 |
| **Germany** | 1.2 | -1.0 | -0.4 | -0.3 | 0.4 | 2.4 | 2.5 | *4.2* | 3.8 | *4.4* | 4.1 | *4.2* | 4.4 |
| **Greece** | : | : | -2.5 | -5.5 | -4.8 | -6.3 | -7.1 | *-6.6* | -4.4 | *-5.9* | -3.9 | *-5.0* | -3.3 |
| **Spain** | : | -1.4 | -0.1 | -2.5 | -2.2 | -1.6 | -2.1 | *-2.9* | -3.9 | *-3.6* | -4.7 | *-3.8* | -5.2 |
| **France** | : | -0.2 | 1.9 | 1.3 | 1.5 | 1.4 | -0.1 | *-0.5* | -0.5 | *-0.6* | -0.6 | *-0.4* | -0.8 |
| **Ireland** | : | 3.1 | 2.4 | 0.8 | 0.0 | -0.9 | -1.1 | *-1.4* | -1.1 | *-1.3* | -0.9 | *-1.1* | -1.2 |
| **Italy** | : | 0.0 | 1.9 | 0.1 | 0.4 | -0.3 | -0.7 | *-0.8* | -0.3 | *-0.7* | -0.3 | *-0.5* | -0.2 |
| **Luxembourg** | : | : | : | : | : | : | : | *5.9* | 6.3 | *5.3* | 7.0 | *4.4* | 7.3 |
| **Netherlands** | : | 4.1 | 4.4 | 4.6 | 3.6 | 2.6 | 2.5 | *3.5* | 1.9 | *3.5* | 2.0 | *3.3* | 2.3 |
| **Austria** | : | -1.4 | -1.4 | -1.1 | -0.7 | 2.3 | 1.4 | *1.8* | 1.9 | *1.9* | 2.1 | *1.8* | 2.0 |
| **Portugal** | : | -0.2 | -4.8 | -9.0 | -8.2 | -5.8 | -3.5 | *-4.8* | -6.1 | *-4.7* | -6.1 | *-4.4* | -6.0 |
| **Finland** | -1.8 | -0.9 | 5.8 | 7.3 | 7.0 | 7.4 | 4.3 | *5.0* | 4.3 | *5.0* | 4.0 | *4.9* | 4.2 |
| **Euro area** | : | -0.1 | 1.1 | 0.3 | 0.6 | 1.3 | 0.7 | *0.9* | 0.7 | *0.9* | 0.7 | *0.9* | 0.7 |
| **Euro area, adjusted [1]** | | | | -0.7 | -0.1 | 0.9 | 0.3 | *0.8* | 0.6 | *0.8* | 0.6 | *0.8* | 0.6 |
| **Czech Republic** | : | : | -4.5 | -4.9 | -5.3 | -5.8 | -6.3 | *-6.1* | -5.0 | *-5.9* | -4.5 | *-5.6* | -4.3 |
| **Denmark** | : | 1.6 | 1.0 | 1.4 | 3.0 | 2.1 | 3.3 | *3.1* | 2.3 | *3.3* | 2.0 | *3.4* | 2.1 |
| **Estonia** | : | : | -7.6 | -5.2 | -5.6 | -9.9 | -12.7 | *-12.7* | -12.2 | *-11.2* | -11.2 | *-9.8* | -9.9 |
| **Cyprus** | : | : | : | : | : | : | : | *-4.4* | -5.6 | *-4.3* | -4.8 | *-3.6* | -4.4 |
| **Latvia** | : | 17.1 | -6.6 | -4.2 | -7.1 | -6.5 | -7.5 | *-8.3* | -11.1 | *-7.1* | -7.9 | *-6.6* | -6.9 |
| **Lithuania** | : | : | -9.5 | -5.9 | -4.7 | -4.8 | -6.5 | *-8.0* | -7.6 | *-7.4* | -7.7 | *-6.8* | -7.4 |
| **Hungary** | : | : | -8.0 | -8.0 | -5.6 | -6.8 | -8.5 | *-8.4* | -8.9 | *-7.9* | -8.0 | *-7.8* | -7.0 |
| **Malta** | : | : | -6.9 | -12.1 | -3.0 | 0.5 | -5.7 | *-4.0* | -8.7 | *-3.6* | -9.1 | *-2.8* | -8.5 |
| **Poland** | : | 1.9 | -3.9 | -6.0 | -2.8 | -2.6 | -2.2 | *-2.3* | -1.2 | *-2.5* | -1.9 | *-2.7* | -2.4 |
| **Slovenia** | : | 4.3 | -1.2 | -2.8 | 0.2 | 0.7 | -1.0 | *-0.9* | -1.4 | *-1.4* | -1.6 | *-1.6* | -1.3 |
| **Slovakia** | : | : | -6.5 | -2.5 | -7.4 | -6.8 | -0.5 | *-2.7* | -3.4 | *-3.0* | -4.5 | *-2.6* | -4.4 |
| **Sweden** | : | -0.5 | 3.6 | 4.0 | 4.5 | 5.3 | 5.9 | *7.3* | 7.8 | *7.1* | 7.5 | *6.7* | 7.3 |
| **United Kingdom** | : | -1.6 | -1.2 | -2.4 | -2.1 | -1.6 | -1.6 | *-1.8* | -1.7 | *-1.6* | -2.1 | *-1.7* | -2.1 |
| **EU-25** | : | : | : | : | : | : | : | *0.4* | 0.2 | *0.4* | 0.1 | *0.3* | 0.1 |
| **EU-25, adjusted [1]** | | | | : | : | : | : | *:* | -0.2 | *:* | -0.3 | *:* | -0.3 |
| **EU-15** | : | -0.3 | 0.8 | 0.0 | 0.4 | 1.0 | 0.6 | *0.6* | 0.5 | *0.6* | 0.3 | *0.6* | 0.3 |
| **USA** | -0.3 | -0.9 | -2.4 | -4.1 | -3.7 | -4.4 | -4.7 | *-5.5* | -5.4 | *-5.8* | -6.0 | *-5.7* | -5.8 |
| **Japan** | 1.0 | 2.5 | 2.1 | 2.3 | 2.0 | 2.8 | 3.1 | *3.2* | 3.6 | *3.2* | 3.7 | *3.5* | 4.1 |

[1] See note 8 on concepts and sources.

**TABLE 51 : Trade balance (fob-fob, in billions of Ecu/euro, 1998-2006)** 18.03.2005

| | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | estimate of | | forecast of | | forecast of | |
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 8.5 | 8.9 | 5.3 | 6.7 | 9.3 | 8.4 | 9.8 | 7.0 | 9.4 | 6.9 | 8.1 | 7.9 |
| **Germany** | 69.4 | 66.6 | 62.9 | 100.7 | 136.9 | 133.7 | 173.3 | 158.0 | 183.0 | 163.7 | 184.4 | 168.3 |
| **Greece** | -16.1 | -18.4 | -23.0 | -21.3 | -23.4 | -25.6 | -29.9 | -29.3 | -31.4 | -30.8 | -32.2 | -32.0 |
| **Spain** | -18.7 | -28.6 | -37.7 | -37.1 | -35.5 | -39.0 | -46.5 | -54.4 | -53.8 | -65.5 | -59.3 | -75.5 |
| **France** | 18.3 | 12.5 | -4.7 | 2.7 | 1.9 | -2.7 | -9.8 | -11.5 | -16.9 | -22.3 | -18.2 | -26.8 |
| **Ireland** | 17.7 | 20.4 | 24.9 | 28.1 | 32.7 | 31.1 | 32.7 | 30.9 | 35.4 | 32.4 | 38.3 | 34.2 |
| **Italy** | 36.8 | 26.1 | 15.1 | 21.7 | 20.5 | 15.0 | 11.3 | 13.8 | 13.1 | 13.4 | 15.0 | 15.5 |
| **Luxembourg** | -2.0 | -2.6 | -2.5 | -2.8 | -2.4 | -2.5 | -2.9 | -2.8 | -3.1 | -2.9 | -3.4 | -3.0 |
| **Netherlands** | 18.2 | 14.7 | 19.7 | 22.1 | 22.7 | 23.1 | 25.5 | 24.8 | 28.7 | 25.0 | 31.5 | 28.0 |
| **Austria** | -3.0 | -3.1 | -3.1 | -1.1 | 4.0 | 1.9 | 3.0 | 4.1 | 2.7 | 4.3 | 2.3 | 4.0 |
| **Portugal** | -9.4 | -11.7 | -13.6 | -13.6 | -11.9 | -10.2 | -14.0 | -12.9 | -14.4 | -13.7 | -15.0 | -14.2 |
| **Finland** | 11.4 | 11.5 | 14.9 | 14.1 | 13.5 | 11.4 | 11.1 | 10.8 | 11.6 | 11.2 | 11.8 | 11.8 |
| **Euro area** | 131.1 | 96.2 | 58.2 | 120.3 | 168.4 | 144.5 | 163.4 | 138.4 | 164.2 | 121.6 | 163.2 | 118.2 |
| **Euro area, adjusted [1]** | 92.3 | 56.3 | 7.8 | 73.6 | 128.9 | 105.3 | 130.1 | 105.7 | 130.8 | 88.9 | 129.8 | 85.5 |
| **Czech Republic** | -2.3 | -1.8 | -3.4 | -3.4 | -2.3 | -2.2 | -2.0 | -0.7 | -2.2 | 0.1 | -2.2 | 0.5 |
| **Denmark** | 3.4 | 6.3 | 7.3 | 8.3 | 6.2 | 6.8 | 7.5 | 5.1 | 7.5 | 4.3 | 8.0 | 4.4 |
| **Estonia** | -1.0 | -0.8 | -0.8 | -0.9 | -1.2 | -1.4 | -1.3 | -1.4 | -1.4 | -1.4 | -1.5 | -1.5 |
| **Cyprus** | -2.0 | -2.1 | -2.7 | -2.9 | -3.0 | -2.8 | -3.1 | -3.2 | -3.3 | -3.3 | -3.4 | -3.5 |
| **Latvia** | -1.0 | -1.0 | -1.1 | -1.5 | -1.6 | -1.8 | -2.1 | -2.2 | -2.5 | -2.4 | -2.9 | -2.5 |
| **Lithuania** | -1.4 | -1.3 | -1.2 | -1.2 | -1.4 | -1.5 | -1.9 | -1.8 | -2.2 | -2.2 | -2.4 | -2.3 |
| **Hungary** | -1.7 | -2.0 | -3.2 | -2.5 | -2.2 | -2.4 | -3.4 | -2.2 | -3.7 | -1.8 | -4.1 | -1.9 |
| **Malta** | -0.6 | -0.6 | -0.8 | -0.6 | -0.4 | -0.6 | -0.8 | -0.7 | -0.8 | -0.8 | -0.8 | -0.8 |
| **Poland** | -11.9 | -10.6 | -13.3 | -8.5 | -7.7 | -5.1 | -5.1 | -4.9 | -6.8 | -7.1 | -8.2 | -8.7 |
| **Slovenia** | -0.7 | -1.2 | -1.2 | -0.7 | -0.3 | -0.5 | -0.8 | -0.8 | -1.0 | -1.1 | -1.1 | -1.1 |
| **Slovakia** | -2.2 | -1.1 | -1.0 | -2.5 | -2.3 | -0.7 | -1.0 | -1.2 | -1.3 | -1.8 | -1.3 | -2.0 |
| **Sweden** | 15.3 | 15.7 | 16.9 | 16.8 | 17.2 | 16.9 | 21.3 | 19.4 | 22.5 | 19.6 | 23.1 | 20.2 |
| **United Kingdom** | -32.3 | -44.1 | -54.1 | -65.4 | -74.2 | -68.9 | -83.0 | -85.4 | -84.0 | -93.1 | -92.7 | -96.1 |
| **EU-25** | 92.9 | 51.8 | -0.6 | 55.3 | 95.2 | 72.3 | 80.7 | 50.5 | 75.5 | 20.9 | 63.0 | 10.7 |
| **EU-25, adjusted [1]** | : | : | : | -47.4 | 2.1 | -7.2 | : | -20.6 | : | -50.2 | : | -60.5 |
| **EU-15** | 117.6 | 74.1 | 28.3 | 80.0 | 117.5 | 99.2 | 109.2 | 77.5 | 110.1 | 52.3 | 101.5 | 46.7 |
| **USA** | -221.6 | -326.7 | -497.7 | -487.8 | -522.2 | -491.7 | -547.9 | -539.9 | -589.5 | -574.2 | -597.5 | -578.7 |
| **Japan** | 109.0 | 115.8 | 126.4 | 78.4 | 99.4 | 101.6 | 105.3 | 114.8 | 108.8 | 120.4 | 137.3 | 145.5 |

[1] See note 8 on concepts and sources.

**TABLE 52 : Current account balance (in billions of Ecu/euro, 1998-2006)**

| | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | estimate of | | forecast of | | forecast of | |
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 11.9 | 12.6 | 9.9 | 11.3 | 15.1 | 12.0 | 12.7 | 11.0 | 12.8 | 11.0 | 12.5 | 12.5 |
| **Germany** | -5.2 | -16.6 | -21.8 | 8.8 | 50.6 | 52.1 | 92.6 | 82.1 | 99.6 | 90.9 | 95.6 | 98.8 |
| **Greece** | -3.8 | -6.8 | -10.1 | -9.3 | -11.0 | -12.7 | -12.4 | -11.4 | -12.0 | -11.1 | -11.0 | -10.5 |
| **Spain** | -4.6 | -11.7 | -20.3 | -20.3 | -18.2 | -22.1 | -33.2 | -40.0 | -40.8 | -48.7 | -44.7 | -55.9 |
| **France** | 30.8 | 35.5 | 18.0 | 22.7 | 22.3 | 6.4 | -3.4 | -3.1 | -7.6 | -8.4 | -5.5 | -11.1 |
| **Ireland** | 0.6 | 0.2 | -0.4 | -0.8 | -1.6 | -1.9 | -2.3 | -1.9 | -2.3 | -1.7 | -2.2 | -2.4 |
| **Italy** | 20.5 | 11.1 | -2.0 | 3.4 | -3.9 | -11.0 | -13.1 | -5.7 | -12.8 | -6.8 | -9.8 | -5.3 |
| **Luxembourg** | 1.6 | 1.7 | 2.9 | 2.0 | 1.6 | 1.3 | 1.5 | 1.6 | 1.4 | 1.9 | 1.3 | 2.1 |
| **Netherlands** | 10.6 | 15.0 | 19.6 | 16.1 | 12.1 | 11.9 | 17.2 | 14.9 | 19.9 | 15.8 | 22.1 | 19.1 |
| **Austria** | -1.5 | -2.0 | -2.2 | -0.9 | 5.6 | 3.3 | 4.3 | 4.9 | 4.6 | 5.4 | 4.7 | 5.5 |
| **Portugal** | -7.1 | -9.4 | -12.5 | -12.4 | -9.7 | -6.9 | -9.1 | -10.4 | -9.2 | -10.7 | -9.2 | -10.9 |
| **Finland** | 6.6 | 7.4 | 9.4 | 9.4 | 10.3 | 6.1 | 7.3 | 6.3 | 7.6 | 6.2 | 7.8 | 6.7 |
| **Euro area** | 58.8 | 35.3 | -12.4 | 28.1 | 73.4 | 38.5 | 62.0 | 48.4 | 61.2 | 43.7 | 61.6 | 48.6 |
| **Euro area, adjusted [1]** | 19.6 | -29.1 | -77.6 | -16.7 | 57.8 | 21.8 | 54.7 | 41.6 | 53.9 | 37.0 | 54.3 | 41.8 |
| **Czech Republic** | -1.1 | -1.4 | -2.9 | -3.7 | -4.4 | -4.9 | -5.2 | -4.5 | -5.5 | -4.6 | -5.6 | -4.7 |
| **Denmark** | -1.4 | 2.8 | 2.5 | 5.4 | 3.7 | 6.2 | 6.3 | 4.5 | 7.1 | 4.3 | 8.3 | 4.7 |
| **Estonia** | -0.4 | -0.2 | -0.3 | -0.4 | -0.7 | -1.1 | -1.1 | -1.1 | -1.1 | -1.2 | -1.1 | -1.2 |
| **Cyprus** | 0.3 | -0.2 | -0.5 | -0.4 | -0.5 | -0.4 | -0.5 | -0.7 | -0.6 | -0.7 | -0.5 | -0.6 |
| **Latvia** | -0.6 | -0.6 | -0.4 | -0.7 | -0.7 | -0.8 | -1.1 | -1.4 | -1.2 | -1.3 | -1.3 | -1.3 |
| **Lithuania** | -1.2 | -1.1 | -0.7 | -0.6 | -0.8 | -1.1 | -1.5 | -1.5 | -1.6 | -1.7 | -1.7 | -1.8 |
| **Hungary** | -4.0 | -4.3 | -4.3 | -3.6 | -4.9 | -6.2 | -7.1 | -7.2 | -7.7 | -7.8 | -8.2 | -8.0 |
| **Malta** | -0.2 | -0.1 | -0.5 | -0.1 | 0.0 | -0.2 | -0.2 | -0.4 | -0.2 | -0.4 | -0.1 | -0.4 |
| **Poland** | -5.9 | -8.0 | -10.8 | -6.0 | -5.3 | -4.1 | -5.0 | -3.0 | -6.7 | -5.5 | -7.8 | -7.4 |
| **Slovenia** | -0.1 | -0.7 | -0.6 | 0.0 | 0.3 | -0.1 | -0.1 | -0.2 | -0.2 | -0.3 | -0.3 | -0.2 |
| **Slovakia** | -1.8 | -0.7 | -0.6 | -1.7 | -2.1 | -0.3 | -0.9 | -1.1 | -1.2 | -1.9 | -1.1 | -1.9 |
| **Sweden** | 8.9 | 10.0 | 10.8 | 11.3 | 13.8 | 15.6 | 20.5 | 21.7 | 21.1 | 21.9 | 21.0 | 22.4 |
| **United Kingdom** | -5.9 | -37.1 | -39.6 | -36.0 | -28.0 | -31.4 | -34.2 | -32.0 | -31.9 | -39.3 | -34.6 | -40.8 |
| **EU-25** | 47.0 | -4.5 | -57.5 | -6.3 | 43.9 | 4.0 | 26.8 | 15.9 | 25.0 | -1.8 | 21.1 | -1.5 |
| **EU-25, adjusted [1]** | : | : | : | -73.2 | 5.3 | -3.2 | : | -26.1 | : | -43.8 | : | -43.5 |
| **EU-15** | 60.5 | 11.1 | -38.7 | 8.8 | 62.9 | 28.9 | 54.7 | 42.5 | 57.6 | 30.6 | 56.3 | 34.9 |
| **USA** | -167.4 | -256.9 | -429.9 | -413.8 | -485.0 | -452.2 | -525.0 | -511.1 | -578.8 | -564.1 | -593.3 | -574.5 |
| **Japan** | 105.9 | 107.8 | 129.5 | 98.0 | 119.8 | 120.5 | 123.7 | 138.3 | 124.7 | 143.4 | 142.5 | 162.9 |

[1] See note 8 on concepts and sources.

**TABLE 53 : Export markets (a) (percentage change on preceding year, 1998-2006)** 18.03.2005

| | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | 8.2 | 6.9 | 11.9 | 1.1 | 2.4 | 4.0 | 8.3 | 8.5 | 7.3 | 7.1 | 6.9 | 6.8 |
| **Germany** | 7.3 | 5.9 | 12.3 | 0.6 | 3.8 | 4.0 | 9.0 | 9.7 | 7.9 | 8.0 | 7.5 | 7.4 |
| **Greece** | 6.0 | 5.6 | 9.7 | 1.6 | 3.2 | 4.5 | 9.6 | 9.5 | 8.5 | 8.1 | 7.6 | 7.5 |
| **Spain** | 8.5 | 6.0 | 10.8 | 0.6 | 1.9 | 3.1 | 8.4 | 8.5 | 7.3 | 6.9 | 7.0 | 6.8 |
| **France** | 7.3 | 7.2 | 10.7 | 0.6 | 2.9 | 4.6 | 8.1 | 8.7 | 7.4 | 7.5 | 7.1 | 7.0 |
| **Ireland** | 7.8 | 6.9 | 11.5 | 0.1 | 3.2 | 3.6 | 7.8 | 8.5 | 6.7 | 7.1 | 6.5 | 6.2 |
| **Italy** | 7.1 | 6.4 | 12.3 | 0.5 | 3.6 | 5.1 | 9.2 | 9.9 | 7.9 | 8.1 | 7.5 | 7.4 |
| **Luxembourg (b)** | : | : | : | : | : | : | 7.6 | 8.1 | 7.1 | 7.1 | 6.9 | 7.0 |
| **Netherlands** | 7.2 | 4.8 | 9.6 | 0.3 | 2.3 | 4.2 | 7.7 | 8.3 | 7.2 | 7.3 | 6.9 | 6.9 |
| **Austria** | 8.6 | 6.6 | 12.5 | 1.2 | 2.0 | 4.6 | 9.0 | 9.3 | 7.9 | 8.2 | 7.3 | 7.7 |
| **Portugal** | 9.3 | 8.2 | 12.5 | 0.7 | 1.4 | 3.9 | 7.7 | 8.5 | 7.1 | 7.6 | 7.0 | 7.0 |
| **Finland** | 6.0 | 3.8 | 11.6 | 0.6 | 4.0 | 5.3 | 9.7 | 9.8 | 8.8 | 8.3 | 7.6 | 7.4 |
| **Euro area (c)** | 7.5 | 6.2 | 11.5 | 0.6 | 3.1 | 4.3 | 8.6 | 9.1 | 7.6 | 7.7 | 7.2 | 7.2 |
| **Czech Republic** | | : | : | : | : | : | 9.0 | 9.2 | 8.3 | 8.2 | 7.9 | 8.1 |
| **Denmark** | 6.9 | 5.0 | 9.5 | 0.1 | 2.6 | 4.5 | 8.1 | 8.7 | 7.6 | 7.6 | 7.2 | 7.0 |
| **Estonia** | : | : | : | : | : | : | 7.9 | 9.7 | 7.6 | 7.7 | 6.8 | 7.1 |
| **Cyprus** | : | : | : | : | : | : | 8.1 | 7.6 | 7.4 | 6.9 | 6.7 | 6.0 |
| **Latvia** | : | : | : | : | : | : | 8.7 | 9.2 | 8.0 | 8.3 | 6.9 | 7.1 |
| **Lithuania** | : | : | : | : | : | : | 10.0 | 10.6 | 8.9 | 8.7 | 7.7 | 8.0 |
| **Hungary** | : | : | : | : | : | : | 8.6 | 8.9 | 7.8 | 7.9 | 7.3 | 7.6 |
| **Malta** | : | : | : | : | : | : | 9.9 | 11.0 | 8.3 | 8.6 | 8.0 | 8.1 |
| **Poland** | : | : | : | : | : | : | 9.1 | 9.6 | 8.1 | 8.2 | 7.2 | 7.6 |
| **Slovenia** | : | : | : | : | : | : | 8.4 | 8.4 | 7.8 | 7.8 | 7.3 | 7.6 |
| **Slovakia** | : | : | : | : | : | : | 9.7 | 10.3 | 8.4 | 8.7 | 7.5 | 8.2 |
| **Sweden** | 7.3 | 6.0 | 11.3 | -0.4 | 3.5 | 3.9 | 8.5 | 9.3 | 7.4 | 7.6 | 7.0 | 6.9 |
| **United Kingdom** | 7.5 | 6.5 | 11.4 | 0.0 | 3.0 | 4.1 | 8.7 | 9.0 | 7.4 | 7.3 | 7.0 | 6.8 |
| **EU-25 (c)** | : | : | : | : | : | : | 8.6 | 9.1 | 7.6 | 7.7 | 7.2 | 7.2 |
| **EU-15 (c)** | 7.4 | 6.2 | 11.5 | 0.5 | 3.1 | 4.2 | : | : | : | : | : | : |
| **USA** | 1.6 | 6.7 | 10.8 | -2.2 | 6.5 | 5.2 | 9.6 | 10.8 | 7.9 | 8.0 | 7.6 | 7.4 |
| **Japan** | 3.2 | 9.1 | 12.5 | -2.3 | 7.9 | 6.6 | 11.7 | 12.8 | 9.1 | 9.1 | 8.8 | 8.2 |

(a) Imports to the various markets (incl. EU-markets) weighted according to their share in country's exports.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

**TABLE 54 : Export performance (a) (percentage change on preceding year, 1998-2006)**

| | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | X-2004 | III-2005 | X-2004 | III-2005 | X-2004 | III-2005 |
| **Belgium** | -3.8 | -1.6 | -4.0 | -0.6 | -0.6 | -1.6 | -3.0 | -1.5 | -1.7 | -1.3 | -1.0 | -0.7 |
| **Germany** | 0.2 | -0.6 | 1.1 | 4.7 | -0.6 | -1.3 | 2.7 | 0.4 | -1.1 | -1.0 | -1.9 | -0.9 |
| **Greece** | -4.1 | -3.1 | -0.9 | -3.1 | -10.0 | -0.3 | -10.9 | -9.9 | -2.2 | -2.3 | -1.4 | -1.8 |
| **Spain** | -3.1 | -0.9 | -0.7 | 1.8 | 1.1 | 0.8 | -1.8 | -1.5 | -0.6 | -0.6 | 0.0 | -0.7 |
| **France** | -0.5 | -3.3 | 1.4 | 1.5 | -0.6 | -5.8 | -3.3 | -4.4 | -1.2 | -2.0 | -0.5 | -0.6 |
| **Ireland** | 12.6 | 4.5 | 6.2 | 4.4 | 1.4 | -6.7 | -1.3 | -4.9 | 0.2 | -0.9 | 0.1 | 0.1 |
| **Italy** | -3.4 | -5.0 | -2.6 | 1.0 | -6.3 | -6.8 | -4.3 | -6.0 | -1.9 | -2.8 | -2.0 | -2.6 |
| **Luxembourg (b)** | : | : | : | : | : | : | -2.4 | -1.5 | -0.7 | -0.8 | -0.2 | -0.6 |
| **Netherlands** | -0.7 | 0.8 | 2.1 | 1.0 | -2.0 | -3.8 | 0.4 | 0.2 | -0.1 | -2.7 | -0.4 | -0.7 |
| **Austria** | -0.4 | 1.2 | 0.5 | 5.6 | 2.5 | -3.0 | -1.7 | 2.6 | -1.3 | -1.2 | -1.0 | -0.6 |
| **Portugal** | -1.5 | : | : | : | : | : | 0.2 | -3.7 | 0.3 | -2.7 | 0.1 | -0.1 |
| **Finland** | 3.8 | 3.7 | 9.9 | -0.8 | 0.2 | -3.2 | -6.0 | -5.1 | -3.2 | -2.6 | -2.4 | -2.0 |
| **Euro area (c)** | -0.6 | -1.5 | 0.7 | 2.5 | -1.2 | -3.3 | -0.9 | -1.8 | -1.1 | -1.7 | -1.1 | -1.0 |
| **Czech Republic** | | : | : | : | : | : | 6.2 | 12.0 | 2.8 | 4.2 | 0.2 | 2.7 |
| **Denmark** | -5.2 | 2.3 | 0.4 | 3.4 | 2.5 | -7.1 | -2.1 | -4.6 | -2.0 | -3.2 | -2.2 | -1.7 |
| **Estonia** | : | : | : | : | : | : | 6.3 | 4.0 | 4.6 | 5.3 | 6.3 | 3.5 |
| **Cyprus** | : | : | : | : | : | : | -2.4 | 5.0 | -1.4 | -2.7 | -0.7 | -1.9 |
| **Latvia** | : | : | : | : | : | : | 2.3 | -1.8 | 0.6 | 2.9 | 0.7 | 3.8 |
| **Lithuania** | : | : | : | : | : | : | 0.0 | -6.0 | 0.6 | 0.2 | 1.5 | -0.1 |
| **Hungary** | : | : | : | : | : | : | 5.8 | 7.4 | 3.2 | 5.0 | 2.0 | 3.7 |
| **Malta** | : | : | : | : | : | : | -7.2 | -5.8 | -4.8 | -4.7 | -4.2 | -4.3 |
| **Poland** | : | : | : | : | : | : | 5.2 | 2.6 | 4.5 | 2.6 | 3.7 | 3.4 |
| **Slovenia** | : | : | : | : | : | : | 0.8 | 4.4 | -1.9 | 0.4 | -0.4 | 0.3 |
| **Slovakia** | : | : | : | : | : | : | 3.6 | 2.7 | 3.8 | 3.5 | 6.9 | 4.5 |
| **Sweden** | -0.5 | -1.0 | 0.7 | -1.7 | -1.5 | 1.0 | 1.8 | 0.2 | 0.2 | -1.0 | -0.1 | -1.3 |
| **United Kingdom** | -5.8 | -2.8 | 0.7 | 2.7 | -4.6 | -4.1 | -7.1 | -6.8 | -0.6 | -0.7 | -0.7 | -1.3 |
| **EU-25 (c)** | : | : | : | : | : | : | -1.1 | -1.8 | -0.7 | -1.2 | -0.8 | -0.7 |
| **EU-15 (c)** | -1.4 | -1.6 | 0.6 | 2.4 | -1.4 | -3.2 | : | : | : | : | : | : |
| **USA** | 0.5 | -2.5 | 0.4 | -4.0 | -9.9 | -2.9 | -0.7 | -1.8 | -0.1 | -0.6 | 0.3 | 2.2 |
| **Japan** | -4.5 | -13.4 | -0.1 | -4.0 | 0.1 | 2.4 | 3.6 | 1.3 | 0.2 | -1.0 | 0.1 | 0.0 |

(a) Index for exports divided by an index for growth of markets.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

**TABLE 55 : World GDP, volume (percentage change on preceding year, 1999-2006)** 18.03.2005

| | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **EU-25** | 22.3 | 2.9 | 3.6 | 1.8 | 1.1 | 1.0 | *2.5* | 2.4 | *2.3* | 2.0 | *2.4* | 2.3 |
| **Euro area** | 16.3 | 2.8 | 3.5 | 1.6 | 0.9 | 0.6 | *2.1* | 2.0 | *2.0* | 1.6 | *2.2* | 2.1 |
| **Belgium** | 0.6 | 3.2 | 3.9 | 0.7 | 0.9 | 1.3 | *2.5* | 2.7 | *2.5* | 2.2 | *2.6* | 2.3 |
| **Czech Republic** | 0.2 | 1.2 | 3.9 | 2.6 | 1.5 | 3.7 | *3.8* | 4.0 | *3.8* | 4.0 | *4.0* | 4.2 |
| **Denmark** | 0.4 | 2.6 | 2.8 | 1.6 | 1.0 | 0.4 | *2.3* | 2.0 | *2.4* | 2.3 | *2.0* | 2.1 |
| **Germany** | 4.9 | 2.0 | 2.9 | 0.8 | 0.1 | -0.1 | *1.9* | 1.6 | *1.5* | 0.8 | *1.7* | 1.6 |
| **Estonia** | 0.0 | -0.1 | 7.8 | 6.4 | 7.2 | 5.1 | *5.9* | 6.2 | *6.0* | 6.0 | *6.2* | 6.2 |
| **Greece** | 0.4 | 3.4 | 4.5 | 4.3 | 3.8 | 4.7 | *3.8* | 4.2 | *3.3* | 2.9 | *3.3* | 3.1 |
| **Spain** | 1.7 | 4.2 | 4.4 | 2.8 | 2.2 | 2.5 | *2.6* | 2.7 | *2.6* | 2.7 | *2.7* | 2.7 |
| **France** | 3.6 | 3.2 | 3.8 | 2.1 | 1.2 | 0.5 | *2.4* | 2.5 | *2.2* | 2.0 | *2.2* | 2.2 |
| **Ireland** | 0.3 | 11.1 | 9.9 | 6.0 | 6.1 | 3.7 | *5.2* | 5.4 | *4.8* | 4.9 | *5.0* | 5.1 |
| **Italy** | 3.0 | 1.7 | 3.0 | 1.8 | 0.4 | 0.3 | *1.3* | 1.2 | *1.8* | 1.2 | *1.8* | 1.7 |
| **Cyprus** | 0.0 | 4.8 | 5.0 | 4.1 | 2.1 | 2.0 | *3.5* | 3.7 | *3.9* | 3.9 | *4.2* | 4.2 |
| **Latvia** | 0.0 | 3.3 | 6.9 | 8.0 | 6.4 | 7.5 | *7.5* | 8.5 | *6.7* | 7.2 | *6.7* | 6.9 |
| **Lithuania** | 0.0 | -1.7 | 3.9 | 6.4 | 6.8 | 9.7 | *7.1* | 6.7 | *6.4* | 6.4 | *5.9* | 5.9 |
| **Luxembourg** | 0.1 | 7.8 | 9.0 | 1.5 | 2.5 | 2.9 | *4.0* | 4.2 | *3.5* | 3.8 | *3.6* | 4.0 |
| **Hungary** | 0.2 | 4.2 | 5.2 | 3.8 | 3.5 | 3.0 | *3.9* | 4.0 | *3.7* | 3.9 | *3.8* | 3.8 |
| **Malta** | 0.0 | 4.1 | 6.4 | -1.7 | 2.2 | -1.8 | *1.0* | 1.5 | *1.5* | 1.7 | *1.8* | 1.9 |
| **Netherlands** | 1.0 | 4.0 | 3.5 | 1.4 | 0.6 | -0.9 | *1.4* | 1.3 | *1.7* | 1.0 | *2.4* | 2.0 |
| **Austria** | 0.5 | 3.3 | 3.4 | 0.7 | 1.2 | 0.8 | *1.9* | 2.0 | *2.4* | 2.1 | *2.4* | 2.1 |
| **Poland** | 0.4 | 4.1 | 4.0 | 1.0 | 1.4 | 3.8 | *5.8* | 5.3 | *4.9* | 4.4 | *4.5* | 4.5 |
| **Portugal** | 0.3 | 3.8 | 3.4 | 1.7 | 0.4 | -1.1 | *1.3* | 1.0 | *2.2* | 1.1 | *2.4* | 1.7 |
| **Slovenia** | 0.1 | 5.6 | 3.9 | 2.7 | 3.3 | 2.5 | *4.0* | 4.6 | *3.6* | 3.7 | *3.8* | 4.0 |
| **Slovakia** | 0.1 | 1.5 | 2.0 | 3.8 | 4.6 | 4.5 | *4.9* | 5.5 | *4.5* | 4.9 | *5.2* | 5.2 |
| **Finland** | 0.3 | 3.4 | 5.1 | 1.1 | 2.2 | 2.4 | *3.0* | 3.7 | *3.1* | 3.3 | *2.7* | 2.9 |
| **Sweden** | 0.6 | 4.6 | 4.3 | 1.0 | 2.0 | 1.5 | *3.7* | 3.5 | *3.1* | 3.0 | *2.9* | 2.8 |
| **United Kingdom** | 3.6 | 2.9 | 3.9 | 2.3 | 1.8 | 2.2 | *3.3* | 3.1 | *2.8* | 2.8 | *2.8* | 2.8 |
| **Candidate Countries** | 1.5 | -3.5 | 6.2 | -4.3 | 7.0 | 5.4 | *7.8* | 7.3 | *5.0* | 5.1 | *5.2* | 5.0 |
| **- Bulgaria** | 0.1 | 2.3 | 5.4 | 4.1 | 4.9 | 4.3 | *5.5* | 5.7 | *6.0* | 6.0 | *4.5* | 4.5 |
| **- Croatia** | 0.1 | -0.9 | 2.9 | 4.4 | 5.2 | 4.3 | *3.8* | 3.7 | *4.0* | 4.0 | *4.5* | 4.3 |
| **- Romania** | 0.2 | -1.2 | 2.1 | 5.7 | 5.0 | 4.9 | *7.2* | 8.3 | *5.6* | 5.5 | *5.1* | 5.1 |
| **- Turkey** | 1.0 | -4.7 | 7.4 | -7.5 | 7.9 | 5.8 | *8.5* | 7.7 | *5.0* | 5.0 | *5.3* | 5.1 |
| **USA** | 21.6 | 4.5 | 3.7 | 0.8 | 1.9 | 3.1 | *4.4* | 4.4 | *3.0* | 3.6 | *2.9* | 3.0 |
| **Japan** | 7.2 | -0.1 | 2.4 | 0.2 | -0.3 | 1.4 | *4.2* | 2.7 | *2.1* | 1.1 | *2.3* | 1.7 |
| **Canada** | 2.0 | 5.6 | 5.3 | 1.8 | 3.4 | 2.0 | *3.0* | 2.8 | *3.5* | 2.6 | *3.4* | 2.9 |
| **Norway** | 0.4 | 2.1 | 2.8 | 2.7 | 1.4 | 0.4 | *2.8* | 3.0 | *3.3* | 3.8 | *3.1* | 2.9 |
| **Switzerland** | 0.4 | 1.3 | 3.6 | 1.0 | 0.3 | -0.4 | *1.6* | 1.7 | *2.3* | 1.3 | *2.0* | 1.7 |
| **Iceland** | 0.0 | 4.2 | 5.7 | 2.2 | -0.5 | 4.3 | *4.5* | 5.5 | *4.8* | 5.1 | *4.5* | 4.5 |
| **Australia** | 1.1 | 3.8 | 2.1 | 3.9 | 3.2 | 3.8 | *3.6* | 3.6 | *3.3* | 3.3 | *2.9* | 3.3 |
| **New Zealand** | 0.2 | 5.2 | 2.3 | 3.4 | 4.5 | 3.6 | *4.0* | 4.8 | *2.2* | 2.3 | *2.5* | 2.7 |
| **Industrialised countries** | 56.6 | 3.1 | 3.6 | 1.1 | 1.5 | 2.0 | *3.5* | 3.4 | *2.6* | 2.6 | *2.7* | 2.6 |
| **Others** | 43.4 | 4.8 | 6.0 | 3.9 | 4.4 | 5.9 | *6.8* | 7.1 | *6.2* | 6.2 | *6.0* | 6.1 |
| **CIS** | 3.7 | 5.0 | 9.1 | 6.3 | 5.2 | 7.7 | *8.3* | 8.0 | *7.0* | 6.5 | *5.8* | 5.8 |
| **- Russia** | 2.6 | 6.4 | 10.0 | 5.1 | 4.7 | 7.3 | *7.4* | 7.1 | *6.6* | 6.0 | *5.1* | 5.3 |
| **- Other** | 1.1 | 1.9 | 6.9 | 9.2 | 6.4 | 8.6 | *9.3* | 10.0 | *8.4* | 7.5 | *8.3* | 7.0 |
| **MENA** | 3.9 | 2.4 | 5.2 | 0.6 | 1.4 | 2.2 | *6.9* | 5.9 | *6.4* | 5.4 | *5.5* | 4.8 |
| **Other emerging markets** | 35.8 | 5.0 | 5.8 | 4.0 | 4.7 | 6.1 | *6.6* | 7.1 | *6.1* | 6.3 | *6.1* | 6.3 |
| **Asia** | 25.7 | 6.7 | 6.6 | 5.3 | 6.2 | 7.6 | *7.5* | 7.8 | *6.9* | 7.1 | *6.9* | 7.1 |
| **- China** | 12.9 | 7.1 | 8.0 | 7.5 | 8.3 | 9.3 | *9.2* | 9.5 | *8.2* | 8.6 | *8.2* | 8.4 |
| **- India** | 5.9 | 7.1 | 3.9 | 5.1 | 4.6 | 8.3 | *6.4* | 6.7 | *6.5* | 6.5 | *6.6* | 6.8 |
| **- Hong Kong** | 0.4 | 3.4 | 10.2 | 0.5 | 1.9 | 3.2 | *7.1* | 8.3 | *4.7* | 4.5 | *4.2* | 4.5 |
| **- Korea** | 1.7 | 9.5 | 8.5 | 3.8 | 7.0 | 3.1 | *4.6* | 4.6 | *4.0* | 3.8 | *4.0* | 4.3 |
| **- Indonesia** | 1.5 | 0.8 | 4.9 | 3.4 | 3.6 | 4.5 | *5.0* | 5.0 | *5.2* | 5.2 | *5.9* | 5.5 |
| **Latin America** | 7.8 | 0.3 | 3.9 | 0.4 | -0.2 | 1.7 | *4.7* | 5.6 | *3.7* | 3.9 | *3.7* | 3.6 |
| **- Brazil** | 2.8 | 0.8 | 4.4 | 1.3 | 1.9 | -0.2 | *4.4* | 5.2 | *3.5* | 3.7 | *3.7* | 3.7 |
| **- Mexico** | 1.9 | 3.6 | 6.6 | 0.0 | 0.7 | 1.3 | *4.1* | 4.4 | *3.6* | 3.6 | *3.5* | 3.5 |
| **Africa** | 2.3 | 1.9 | 3.4 | 1.3 | 4.4 | 3.8 | *3.3* | 4.2 | *4.4* | 5.7 | *4.5* | 6.1 |
| **World** | 100.0 | 3.8 | 4.6 | 2.3 | 2.8 | 3.7 | *5.0* | 5.0 | *4.2* | 4.2 | *4.2* | 4.1 |
| **World excluding EU-25** | 77.7 | 4.1 | 4.9 | 2.4 | 3.2 | 4.5 | *5.7* | 5.7 | *4.8* | 4.8 | *4.6* | 4.6 |
| **World excluding euro area** | 83.7 | 4.0 | 4.9 | 2.4 | 3.1 | 4.3 | *5.5* | 5.6 | *4.6* | 4.7 | *4.5* | 4.5 |

(a) Relative weights, based on GDP (at constant prices and pps) in 2003.

**TABLE 56 : World exports of goods, volume (percentage change on preceding year, 1999-2006)** 18.03.2005

| | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **EU-25 (b)** | 41.8 | 5.1 | 12.8 | 3.3 | 2.0 | 1.7 | *7.4* | 7.1 | *6.8* | 6.4 | *6.3* | 6.4 |
| **Euro area (b)** | 31.9 | 5.2 | 12.2 | 3.1 | 1.9 | 0.9 | *7.6* | 7.1 | *6.4* | 5.9 | *6.0* | 6.1 |
| **Candidate Countries** | 1.3 | 4.9 | 15.6 | 18.9 | 16.7 | 18.5 | *14.7* | 14.6 | *12.7* | 13.2 | *12.5* | 13.2 |
| **- Bulgaria** | 0.1 | : | : | : | : | : | *13.0* | 12.0 | *10.0* | 10.0 | *10.0* | 10.0 |
| **- Croatia** | 0.1 | : | : | : | : | : | *9.0* | 12.5 | *8.5* | 9.9 | *8.2* | 11.0 |
| **- Romania** | 0.3 | 10.2 | 24.7 | 10.9 | 20.4 | 11.0 | *19.5* | 15.4 | *14.5* | 13.5 | *13.0* | 12.5 |
| **- Turkey** | 0.8 | 3.1 | 12.4 | 21.6 | 15.5 | 21.0 | *14.0* | 15.0 | *13.0* | 14.0 | *13.2* | 14.0 |
| **USA** | 10.0 | 3.8 | 11.2 | -6.1 | -4.1 | 2.2 | *8.8* | 8.8 | *7.8* | 7.4 | *7.9* | 9.8 |
| **Japan** | 6.2 | -5.5 | 12.4 | -6.2 | 8.1 | 9.1 | *15.7* | 14.3 | *9.3* | 8.0 | *8.9* | 8.2 |
| **Canada** | 3.9 | 11.7 | 9.2 | -3.5 | 0.7 | -2.2 | *7.8* | 5.2 | *5.6* | 3.3 | *5.5* | 4.5 |
| **Norway** | 0.9 | 3.2 | 2.1 | 7.7 | 1.2 | 0.3 | *3.1* | 4.1 | *6.0* | 6.5 | *6.6* | 6.6 |
| **Switzerland** | 1.4 | 6.5 | 11.6 | 1.4 | 1.1 | -0.2 | *3.9* | 8.2 | *5.3* | 7.4 | *5.3* | 7.3 |
| **Iceland** | 0.0 | -2.0 | -8.0 | -12.2 | 2.6 | -2.4 | *3.9* | 6.0 | *4.6* | 5.1 | *6.0* | 5.8 |
| **Australia** | 1.0 | 5.2 | 9.5 | 1.1 | 0.7 | 0.1 | *12.5* | 6.5 | *12.0* | 6.5 | *10.0* | 6.0 |
| **New Zealand** | 0.2 | 2.6 | -8.5 | -11.4 | 24.2 | 44.0 | *7.0* | 7.0 | *5.5* | 6.5 | *5.0* | 6.5 |
| **Industrialised countries** | 66.7 | 4.3 | 12.1 | 0.9 | 1.9 | 2.6 | *8.5* | 8.0 | *7.3* | 6.7 | *6.9* | 7.1 |
| **Others** | 33.3 | 7.4 | 16.1 | -0.5 | 9.2 | 13.9 | *11.9* | 14.5 | *8.8* | 10.2 | *8.6* | 8.8 |
| **CIS** | 2.6 | 5.1 | 14.0 | 1.6 | 6.9 | 15.0 | *7.1* | 14.2 | *4.5* | 7.9 | *5.4* | 4.2 |
| **- Russia** | 1.9 | 11.2 | 9.5 | 2.4 | 6.5 | 13.8 | *4.4* | 14.2 | *3.0* | 7.0 | *4.7* | 2.5 |
| **- Other** | 0.8 | -8.8 | 26.5 | -0.5 | 8.1 | 18.1 | *18.0* | 14.0 | *8.6* | 10.0 | *8.0* | 8.0 |
| **MENA** | 4.4 | 7.2 | 1.2 | -0.7 | -4.7 | 9.4 | *8.4* | 6.9 | *6.6* | 6.3 | *6.1* | 4.2 |
| **Other emerging markets** | 26.3 | 7.7 | 18.7 | -0.7 | 11.7 | 14.5 | *13.1* | 15.8 | *9.6* | 11.1 | *9.4* | 10.0 |
| **Asia** | 19.8 | 8.4 | 19.7 | -0.8 | 16.0 | 17.3 | *13.8* | 16.8 | *10.6* | 12.1 | *10.3* | 10.8 |
| **- China** | 6.0 | 7.2 | 26.1 | 16.2 | 25.6 | 32.0 | *20.0* | 27.5 | *16.5* | 21.0 | *16.0* | 17.5 |
| **- India** | 0.8 | 12.8 | 20.1 | 8.5 | 16.6 | 13.8 | *15.0* | 17.0 | *14.0* | 15.0 | *14.0* | 14.0 |
| **- Hong Kong** | 3.1 | 2.9 | 16.8 | -3.7 | 8.3 | 13.2 | *14.5* | 14.4 | *11.5* | 10.5 | *9.3* | 8.5 |
| **- Korea** | 2.7 | 11.2 | 19.4 | -13.0 | 30.5 | 16.5 | *15.0* | 17.0 | *8.0* | 7.5 | *7.5* | 7.6 |
| **- Indonesia** | 0.9 | 24.1 | -17.2 | 1.1 | -3.1 | -2.3 | *4.5* | 8.0 | *5.5* | 9.5 | *5.5* | 12.0 |
| **Latin America** | 5.3 | 5.0 | 16.9 | -0.3 | -0.8 | 3.0 | *12.5* | 14.5 | *6.4* | 7.6 | *6.9* | 7.1 |
| **- Brazil** | 1.0 | -0.7 | 7.0 | 11.4 | 8.4 | 8.6 | *12.0* | 18.0 | *6.2* | 8.0 | *7.8* | 6.5 |
| **- Mexico** | 2.3 | 14.0 | 16.6 | -3.5 | 1.4 | 1.6 | *14.5* | 13.5 | *6.3* | 7.0 | *7.0* | 7.0 |
| **Africa** | 1.3 | 7.6 | 10.8 | -0.1 | -3.6 | 18.0 | *3.5* | 7.0 | *4.9* | 9.0 | *5.0* | 9.0 |
| **World** | 100.0 | 5.3 | 13.4 | 0.4 | 4.3 | 6.3 | *9.7* | 10.2 | *7.8* | 7.8 | *7.5* | 7.7 |
| **World excluding EU-25** | 58.2 | 5.5 | 13.8 | -1.7 | 6.0 | 9.7 | *11.2* | 12.4 | *8.4* | 8.9 | *8.3* | 8.6 |
| **World excluding euro area** | 68.1 | 5.4 | 13.9 | -0.9 | 5.4 | 9.0 | *10.6* | 11.7 | *8.4* | 8.7 | *8.2* | 8.4 |

(a) Relative weights, based on exports (at current prices and current exchange rates) in 2003.
(b) Intra- and extra-EU trade.

**TABLE 57 : Export shares in EU trade (goods only - 2003)**

| | EU-25 | Candidate Countries | USA | Japan | Canada | Other Industr. Countries | CIS | MENA | Other Emerging Markets | Rest Asia | Latin America | Africa | World |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU-25** | 68.6 | 2.2 | 8.5 | 1.5 | 0.8 | 4.5 | 2.0 | 3.8 | 8.1 | 5.0 | 1.8 | 1.4 | 100 |
| **Belgium** | 77.6 | 1.2 | 6.8 | 1.0 | 0.7 | 2.1 | 0.9 | 3.0 | 6.8 | 4.8 | 1.0 | 1.0 | 100 |
| **Czech Republic** | 87.1 | 2.3 | 2.5 | 0.3 | 0.2 | 2.0 | 2.1 | 1.4 | 2.3 | 1.7 | 0.4 | 0.2 | 100 |
| **Denmark** | 70.2 | 0.9 | 6.3 | 3.1 | 0.9 | 8.3 | 1.8 | 2.2 | 6.3 | 4.4 | 1.2 | 0.8 | 100 |
| **Germany** | 64.8 | 2.4 | 9.4 | 1.8 | 0.7 | 5.5 | 2.6 | 3.0 | 9.8 | 6.6 | 2.0 | 1.2 | 100 |
| **Estonia** | 73.5 | 0.3 | 2.4 | 0.4 | 0.3 | 3.9 | 15.8 | 0.5 | 2.9 | 1.8 | 0.7 | 0.4 | 100 |
| **Greece** | 60.0 | 14.4 | 7.1 | 0.7 | 0.7 | 2.1 | 3.9 | 6.2 | 4.9 | 2.8 | 0.8 | 1.3 | 100 |
| **Spain** | 76.8 | 1.8 | 4.3 | 0.7 | 0.5 | 1.9 | 0.8 | 4.8 | 8.3 | 2.4 | 4.7 | 1.2 | 100 |
| **France** | 67.3 | 1.8 | 7.0 | 1.6 | 0.8 | 4.5 | 1.2 | 6.6 | 9.3 | 4.7 | 2.0 | 2.6 | 100 |
| **Ireland** | 62.9 | 0.5 | 20.8 | 2.6 | 0.6 | 4.8 | 0.4 | 1.2 | 6.2 | 4.5 | 1.0 | 0.7 | 100 |
| **Italy** | 60.6 | 4.6 | 8.7 | 1.7 | 0.9 | 5.4 | 2.2 | 6.3 | 9.6 | 5.6 | 2.8 | 1.2 | 100 |
| **Cyprus** | 65.5 | 1.8 | 2.1 | 0.3 | 0.4 | 0.9 | 2.5 | 19.4 | 7.0 | 3.2 | 1.1 | 2.7 | 100 |
| **Latvia** | 79.7 | 0.1 | 2.9 | 0.9 | 0.4 | 3.0 | 9.9 | 1.3 | 1.7 | 0.9 | 0.6 | 0.2 | 100 |
| **Lithuania** | 61.5 | 2.0 | 2.8 | 0.6 | 0.4 | 14.1 | 17.0 | 0.2 | 1.4 | 1.0 | 0.1 | 0.3 | 100 |
| **Luxembourg** | 89.5 | 0.4 | 2.0 | 0.4 | 0.3 | 2.5 | 0.6 | 1.1 | 3.4 | 2.3 | 0.5 | 0.5 | 100 |
| **Hungary** | 82.4 | 4.7 | 3.2 | 0.7 | 0.2 | 1.7 | 2.9 | 2.2 | 2.0 | 1.2 | 0.4 | 0.4 | 100 |
| **Malta** | 39.8 | 2.6 | 12.6 | 1.5 | 0.7 | 0.6 | 0.2 | 5.5 | 36.4 | 34.6 | 1.0 | 0.7 | 100 |
| **Netherlands** | 81.2 | 1.3 | 4.5 | 0.9 | 0.4 | 2.8 | 1.5 | 2.2 | 5.3 | 3.0 | 1.1 | 1.3 | 100 |
| **Austria** | 74.7 | 3.7 | 5.0 | 1.1 | 0.7 | 6.2 | 2.2 | 1.7 | 4.6 | 3.2 | 0.8 | 0.7 | 100 |
| **Poland** | 81.4 | 2.1 | 2.3 | 0.2 | 0.4 | 3.0 | 7.0 | 1.0 | 2.6 | 1.3 | 0.9 | 0.4 | 100 |
| **Portugal** | 81.5 | 0.8 | 5.7 | 0.3 | 0.6 | 2.4 | 0.2 | 1.7 | 6.8 | 2.0 | 1.1 | 3.8 | 100 |
| **Slovenia** | 73.3 | 11.9 | 4.0 | 0.2 | 0.2 | 2.0 | 4.9 | 1.9 | 1.7 | 1.1 | 0.4 | 0.2 | 100 |
| **Slovakia** | 86.1 | 3.0 | 4.7 | 0.3 | 0.5 | 1.3 | 2.5 | 0.5 | 1.1 | 0.8 | 0.2 | 0.1 | 100 |
| **Finland** | 60.5 | 1.0 | 8.2 | 2.1 | 1.1 | 4.5 | 8.3 | 4.9 | 9.3 | 6.5 | 1.9 | 0.9 | 100 |
| **Sweden** | 58.8 | 1.2 | 11.6 | 2.0 | 1.3 | 11.1 | 1.8 | 3.1 | 9.1 | 6.1 | 1.9 | 1.1 | 100 |
| **United Kingdom** | 57.8 | 1.4 | 16.2 | 2.1 | 1.8 | 4.2 | 1.1 | 4.8 | 10.8 | 7.1 | 1.5 | 2.1 | 100 |

**TABLE 58 : World imports of goods, volume (percentage change on preceding year, 1999-2006)** 18.03.2005

| | | | | | | | 2004 estimate of | | 2005 forecast of | | 2006 forecast of | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **EU-25 (b)** | 40.6 | 6.6 | 11.8 | 1.6 | 1.4 | 3.3 | *7.4* | 7.6 | *7.0* | 7.0 | *6.8* | 6.8 |
| **Euro area (b)** | 29.6 | 7.3 | 11.4 | 0.8 | 0.6 | 2.9 | *7.1* | 7.3 | *6.7* | 6.4 | *6.6* | 6.7 |
| **Candidate Countries** | 1.8 | -2.3 | 31.6 | -12.3 | 16.2 | 25.0 | *19.5* | 20.0 | *14.4* | 13.8 | *14.2* | 13.2 |
| **- Bulgaria** | 0.2 | : | : | : | : | : | *15.0* | 11.9 | *14.0* | 14.0 | *9.0* | 10.5 |
| **- Croatia** | 0.2 | : | : | : | : | : | *6.1* | 5.4 | *7.0* | 6.5 | *7.3* | 7.7 |
| **- Romania** | 0.3 | -1.5 | 29.5 | 22.1 | 13.0 | 17.3 | *19.9* | 18.1 | *14.0* | 18.0 | *12.0* | 14.0 |
| **- Turkey** | 1.0 | -2.6 | 32.3 | -23.9 | 17.3 | 27.6 | *23.0* | 25.0 | *16.0* | 13.8 | *16.8* | 14.2 |
| **USA** | 17.5 | 12.4 | 13.5 | -3.2 | 3.7 | 4.7 | *10.5* | 10.8 | *6.1* | 7.5 | *5.8* | 4.6 |
| **Japan** | 4.6 | -1.0 | 11.9 | 0.1 | 1.1 | 3.8 | *8.9* | 8.9 | *6.9* | 7.1 | *7.9* | 6.2 |
| **Canada** | 3.3 | 8.5 | 8.6 | -5.6 | 1.5 | 3.4 | *7.8* | 8.5 | *6.3* | 7.5 | *5.6* | 6.3 |
| **Norway** | 0.6 | -3.4 | 3.0 | -0.3 | 2.8 | 2.4 | *5.8* | 9.8 | *5.7* | 9.9 | *5.7* | 8.0 |
| **Switzerland** | 1.3 | 4.0 | 10.2 | 1.8 | -3.0 | 1.9 | *4.8* | 9.9 | *4.9* | 10.1 | *5.4* | 8.6 |
| **Iceland** | 0.0 | 1.1 | -2.4 | -27.3 | 2.2 | -5.8 | *11.0* | 12.8 | *10.3* | 11.0 | *7.0* | 8.1 |
| **Australia** | 1.2 | 6.6 | 5.5 | -5.3 | 13.6 | 11.6 | *27.0* | 13.6 | *11.5* | 4.5 | *10.0* | 3.5 |
| **New Zealand** | 0.2 | 13.1 | -16.5 | -17.8 | 34.1 | 54.8 | *9.5* | 10.5 | *10.0* | 11.0 | *10.2* | 11.0 |
| **Industrialised countries** | 71.2 | 7.3 | 12.2 | -0.6 | 2.6 | 4.5 | *8.8* | 9.0 | *7.0* | 7.3 | *6.8* | 6.4 |
| **Others** | 28.8 | 6.0 | 15.9 | -0.7 | 9.7 | 13.1 | *12.5* | 14.9 | *10.7* | 10.3 | *9.8* | 9.8 |
| **CIS** | 1.8 | -18.8 | 20.6 | 14.1 | 7.6 | 20.8 | *17.6* | 15.8 | *15.0* | 12.1 | *8.4* | 9.2 |
| **- Russia** | 1.0 | -17.0 | 32.4 | 23.3 | 10.8 | 20.9 | *20.8* | 14.3 | *17.4* | 12.2 | *8.1* | 9.0 |
| **- Other** | 0.7 | -20.4 | 9.8 | 4.0 | 3.4 | 20.6 | *-3.9* | 18.0 | *-9.7* | 12.0 | *1.0* | 9.5 |
| **MENA** | 3.1 | 3.6 | 3.3 | 9.0 | 4.6 | 5.0 | *10.0* | 6.4 | *10.7* | 6.7 | *7.1* | 5.8 |
| **Other emerging markets** | 23.9 | 8.2 | 17.2 | -3.0 | 10.6 | 13.6 | *12.5* | 16.0 | *10.4* | 10.7 | *10.3* | 10.4 |
| **Asia** | 18.1 | 10.9 | 18.7 | -4.7 | 14.5 | 15.5 | *13.2* | 16.4 | *11.1* | 11.4 | *11.1* | 11.3 |
| **- China** | 5.4 | 19.8 | 29.4 | 13.6 | 24.3 | 34.9 | *26.0* | 30.0 | *19.0* | 20.0 | *17.5* | 18.2 |
| **- India** | 1.1 | 3.4 | 5.8 | 1.4 | 4.3 | 21.5 | *9.0* | 18.0 | *9.0* | 12.0 | *9.0* | 13.0 |
| **- Hong Kong** | 3.2 | -0.5 | 18.1 | -2.4 | 7.5 | 11.9 | *10.0* | 14.0 | *9.6* | 8.3 | *9.7* | 8.1 |
| **- Korea** | 2.4 | 28.5 | 17.0 | -23.2 | 41.1 | 7.6 | *4.2* | 6.5 | *4.5* | 4.5 | *6.3* | 5.0 |
| **- Indonesia** | 0.5 | -11.0 | 33.0 | -2.9 | 3.5 | 0.5 | *7.5* | 19.0 | *7.2* | 14.7 | *7.1* | 14.0 |
| **Latin America** | 4.7 | 1.3 | 14.7 | -0.4 | -1.9 | 1.8 | *12.0* | 16.5 | *9.3* | 8.6 | *8.5* | 7.6 |
| **- Brazil** | 0.7 | -6.2 | 8.5 | 0.0 | -2.5 | 2.9 | *16.0* | 19.0 | *12.5* | 10.0 | *10.0* | 8.0 |
| **- Mexico** | 2.3 | 14.9 | 21.4 | -2.0 | 1.3 | -1.3 | *11.0* | 11.5 | *8.0* | 9.0 | *8.0* | 7.5 |
| **Africa** | 1.2 | -6.6 | 3.2 | 11.9 | -0.9 | 32.2 | *5.9* | 6.7 | *6.0* | 7.0 | *6.3* | 7.0 |
| **World** | 100.0 | 6.9 | 13.3 | -0.6 | 4.6 | 7.0 | *9.9* | 10.7 | *8.1* | 8.2 | *7.7* | 7.4 |
| **World excluding EU-25** | 59.4 | 7.2 | 14.3 | -2.1 | 6.8 | 9.5 | *11.6* | 12.8 | *8.8* | 9.1 | *8.3* | 7.7 |
| **World excluding euro area** | 70.4 | 6.8 | 14.1 | -1.2 | 6.4 | 8.8 | *11.1* | 12.2 | *8.6* | 9.0 | *8.1* | 7.6 |

(a) Relative weights, based on imports (at current prices and current exchange rates) in 2003.
(b) Intra- and extra-EU trade.

**TABLE 59 : Import shares in EU trade (goods only - 2003)**

| | EU-25 | Candidate Countries | USA | Japan | Canada | Other Industr. Countries | CIS | MENA | Other Emerging Markets | Rest Asia | Latin America | Africa | World |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU-25** | 69.9 | 1.6 | 5.2 | 2.5 | 0.4 | 4.3 | 2.8 | 2.8 | 10.4 | 7.5 | 1.6 | 1.3 | 100 |
| **Belgium** | 75.5 | 0.6 | 7.2 | 2.7 | 0.5 | 2.0 | 0.7 | 2.6 | 8.2 | 6.1 | 0.8 | 1.3 | 100 |
| **Czech Republic** | 83.1 | 0.8 | 1.4 | 1.2 | 0.1 | 2.5 | 5.2 | 0.8 | 4.9 | 4.5 | 0.3 | 0.2 | 100 |
| **Denmark** | 77.6 | 1.0 | 3.0 | 1.3 | 0.3 | 7.0 | 0.7 | 0.4 | 8.7 | 7.0 | 1.3 | 0.4 | 100 |
| **Germany** | 70.4 | 2.0 | 4.9 | 2.8 | 0.3 | 5.4 | 2.2 | 1.5 | 10.5 | 8.1 | 1.5 | 0.9 | 100 |
| **Estonia** | 64.2 | 0.4 | 1.6 | 1.6 | 0.1 | 1.4 | 24.7 | 0.1 | 5.9 | 3.8 | 0.4 | 1.7 | 100 |
| **Greece** | 65.2 | 5.1 | 2.8 | 3.2 | 0.3 | 2.5 | 2.8 | 7.0 | 11.1 | 9.4 | 1.1 | 0.6 | 100 |
| **Spain** | 74.1 | 1.1 | 2.9 | 1.8 | 0.3 | 2.8 | 0.8 | 5.3 | 11.0 | 5.7 | 3.1 | 2.2 | 100 |
| **France** | 74.6 | 1.2 | 4.5 | 1.9 | 0.4 | 4.0 | 1.1 | 4.1 | 8.2 | 5.3 | 1.2 | 1.6 | 100 |
| **Ireland** | 67.3 | 0.6 | 13.9 | 3.4 | 0.6 | 2.4 | 1.6 | 0.3 | 9.8 | 8.4 | 0.9 | 0.5 | 100 |
| **Italy** | 65.4 | 3.5 | 3.7 | 1.9 | 0.4 | 4.2 | 4.3 | 7.1 | 9.5 | 6.1 | 1.9 | 1.4 | 100 |
| **Cyprus** | 34.0 | 0.4 | 3.2 | 2.8 | 0.1 | 0.9 | 45.7 | 4.0 | 9.0 | 8.4 | 0.5 | 0.1 | 100 |
| **Latvia** | 65.3 | 0.6 | 1.7 | 0.3 | 0.2 | 2.6 | 25.9 | 0.3 | 3.1 | 2.7 | 0.3 | 0.0 | 100 |
| **Lithuania** | 66.0 | 1.0 | 1.5 | 0.3 | 0.1 | 1.6 | 25.3 | 0.3 | 3.9 | 3.0 | 0.6 | 0.3 | 100 |
| **Luxembourg** | 91.5 | 0.1 | 1.8 | 1.0 | 1.1 | 1.1 | 0.4 | 0.2 | 2.8 | 2.7 | 0.0 | 0.1 | 100 |
| **Hungary** | 72.7 | 2.3 | 2.1 | 2.4 | 0.2 | 1.5 | 8.4 | 0.2 | 10.2 | 9.7 | 0.3 | 0.1 | 100 |
| **Malta** | 58.3 | 5.7 | 4.0 | 5.6 | 0.2 | 1.8 | 3.0 | 3.1 | 18.5 | 17.7 | 0.5 | 0.2 | 100 |
| **Netherlands** | 56.8 | 0.9 | 7.8 | 4.4 | 0.4 | 4.2 | 3.7 | 3.1 | 18.7 | 13.9 | 3.2 | 1.6 | 100 |
| **Austria** | 84.8 | 1.9 | 2.1 | 1.3 | 0.2 | 4.0 | 1.6 | 1.0 | 3.0 | 2.6 | 0.1 | 0.3 | 100 |
| **Poland** | 77.9 | 1.2 | 1.2 | 0.9 | 0.2 | 2.1 | 9.8 | 0.5 | 6.2 | 4.8 | 0.9 | 0.5 | 100 |
| **Portugal** | 83.5 | 0.7 | 1.7 | 1.3 | 0.2 | 2.5 | 0.5 | 2.5 | 7.2 | 2.6 | 2.5 | 2.1 | 100 |
| **Slovenia** | 84.6 | 5.3 | 1.1 | 0.7 | 0.2 | 1.9 | 1.5 | 0.8 | 3.8 | 2.6 | 1.0 | 0.2 | 100 |
| **Slovakia** | 82.4 | 0.7 | 0.6 | 0.3 | 0.1 | 1.1 | 12.9 | 0.1 | 1.8 | 1.5 | 0.1 | 0.2 | 100 |
| **Finland** | 66.4 | 0.5 | 3.8 | 3.0 | 0.5 | 4.5 | 9.8 | 0.2 | 11.2 | 9.8 | 1.1 | 0.3 | 100 |
| **Sweden** | 77.0 | 0.8 | 3.9 | 2.0 | 0.2 | 7.9 | 1.2 | 1.0 | 6.0 | 4.7 | 1.1 | 0.2 | 100 |
| **United Kingdom** | 61.7 | 1.3 | 8.7 | 3.4 | 1.0 | 6.5 | 1.6 | 1.8 | 13.9 | 10.3 | 1.6 | 2.0 | 100 |

**TABLE 60 : World trade balances (fob-fob, bn. US dollars, 1998-2006)** 18.03.2005

| | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | estimate of | | forecast of | | forecast of | |
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **EU-25** | 104.0 | 55.2 | -0.6 | 49.5 | 89.8 | 81.6 | *99.0* | 62.8 | *93.4* | 27.4 | *78.2* | 14.1 |
| **EU-25, adjusted [1]** | : | : | : | -42.5 | 2.0 | -8.1 | *:* | -25.6 | *:* | -65.8 | *:* | -79.8 |
| **Euro area** | 146.8 | 102.6 | 53.7 | 107.7 | 158.8 | 163.2 | *200.5* | 172.0 | *203.1* | 159.3 | *202.7* | 156.0 |
| **Euro area, adjusted [1]** | 103.5 | 60.0 | 7.2 | 65.9 | 121.9 | 119.1 | *159.6* | 131.5 | *161.8* | 116.4 | *161.2* | 112.9 |
| **Candidate Countries** | : | : | : | : | -18.1 | -32.5 | *-51.6* | -50.3 | *-63.7* | -58.2 | *-73.9* | -66.5 |
| **USA** | -248.1 | -348.3 | -459.2 | -436.7 | -492.6 | -555.5 | *-672.3* | -670.9 | *-729.3* | -752.2 | *-742.0* | -763.8 |
| **Japan** | 122.1 | 123.4 | 116.6 | 70.2 | 93.8 | 114.8 | *129.1* | 142.7 | *134.6* | 157.7 | *170.5* | 192.0 |
| **Canada** | 16.0 | 28.3 | 45.1 | 45.2 | 36.4 | 41.5 | *62.0* | 51.7 | *78.3* | 54.1 | *76.5* | 52.0 |
| **Norway** | 1.7 | 10.7 | 26.0 | 25.8 | 23.2 | 27.2 | *33.0* | 37.5 | *34.2* | 54.0 | *33.4* | 52.5 |
| **Switzerland** | -1.6 | -0.2 | -2.5 | -2.8 | 3.3 | 3.5 | *6.3* | 1.5 | *10.9* | -2.7 | *17.3* | -4.3 |
| **Iceland** | -0.4 | -0.3 | -0.5 | -0.1 | -0.1 | -0.1 | *-0.4* | -0.4 | *-0.6* | -0.7 | *-0.7* | -0.8 |
| **Australia** | -5.3 | -9.8 | -4.8 | 1.8 | -5.4 | -15.3 | *-15.3* | -18.5 | *-17.0* | -16.1 | *-23.9* | -18.0 |
| **New Zealand** | 0.9 | -0.4 | 0.7 | 1.5 | 0.5 | -0.4 | *-1.8* | -1.1 | *-3.1* | -3.2 | *-4.2* | -4.5 |
| **Industrialised countries** | : | : | : | : | -269.2 | -335.1 | *-412.0* | -445.0 | *-462.4* | -539.9 | *-468.7* | -547.4 |
| **Others** | 75.0 | 185.9 | 277.8 | 209.0 | 258.7 | 325.5 | *453.0* | 439.8 | *505.7* | 601.2 | *443.6* | 576.1 |
| **CIS** | 8.4 | 33.9 | 63.3 | 49.3 | 49.8 | 62.7 | *79.0* | 85.8 | *80.7* | 110.7 | *71.5* | 96.9 |
| **MENA** | -13.9 | 40.0 | 111.2 | 72.8 | 72.7 | 91.3 | *213.6* | 169.2 | *276.6* | 288.0 | *232.9* | 266.3 |
| **Other emerging markets** | 80.5 | 112.0 | 103.4 | 86.9 | 136.1 | 171.4 | *160.3* | 184.7 | *148.4* | 202.6 | *139.2* | 212.9 |
| **Asia** | 122.8 | 116.9 | 86.4 | 85.4 | 106.2 | 122.6 | *141.4* | 114.0 | *153.6* | 98.5 | *161.9* | 110.3 |
| **Latin America** | -38.5 | -9.4 | 1.5 | -6.0 | 21.2 | 41.8 | *43.8* | 53.0 | *26.5* | 70.8 | *14.7* | 68.2 |
| **Africa** | -3.7 | 4.6 | 15.5 | 7.5 | 8.8 | 7.1 | *-24.9* | 17.8 | *-31.6* | 33.2 | *-37.3* | 34.4 |
| **World** | : | : | : | : | -10.6 | -9.6 | *41.0* | -5.2 | *43.4* | 61.3 | *-25.1* | 28.7 |

[1] See note 8 on concepts and sources.

**TABLE 61 : World current account balances (bn. US dollars, 1998-2006)**

| | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | estimate of | | forecast of | | forecast of | |
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **EU-25** | 50.9 | -6.6 | -55.7 | -7.5 | 41.4 | 4.5 | *32.9* | 19.7 | *31.0* | -2.4 | *26.2* | -2.0 |
| **EU-25, adjusted [1]** | : | : | : | -65.6 | 5.0 | -3.6 | *:* | -32.5 | *:* | -57.4 | *:* | -57.4 |
| **Euro area** | 65.9 | 37.7 | -11.5 | 25.2 | 69.2 | 43.5 | *76.1* | 60.1 | *75.7* | 57.3 | *76.6* | 64.1 |
| **Euro area, adjusted [1]** | 22.0 | -31.0 | -71.7 | -15.0 | 54.7 | 24.7 | *67.1* | 51.7 | *66.7* | 48.4 | *67.5* | 55.2 |
| **Candidate Countries** | : | : | : | : | -5.4 | -15.9 | *-27.1* | -29.2 | *-30.0* | -30.7 | *-31.9* | -34.9 |
| **USA** | -187.4 | -273.9 | -396.6 | -370.4 | -457.5 | -510.8 | *-644.1* | -635.1 | *-716.0* | -739.0 | *-736.8* | -758.4 |
| **Japan** | 118.6 | 114.9 | 119.5 | 87.7 | 113.0 | 136.1 | *151.8* | 171.9 | *154.2* | 187.9 | *177.0* | 215.0 |
| **Canada** | -7.6 | 2.4 | 23.6 | 21.8 | 15.9 | 17.5 | *35.5* | 26.7 | *48.6* | 25.8 | *46.2* | 25.3 |
| **Norway** | 0.1 | 8.5 | 26.0 | 26.2 | 24.6 | 28.4 | *33.8* | 38.3 | *35.4* | 52.8 | *35.4* | 51.5 |
| **Switzerland** | 24.0 | 28.4 | 29.2 | 20.5 | 23.4 | 28.4 | *33.7* | 36.6 | *37.9* | 29.5 | *45.8* | 24.6 |
| **Iceland** | -0.6 | -0.6 | -0.8 | -0.3 | -0.1 | 0.9 | *-0.2* | -0.2 | *-0.4* | -0.5 | *0.5* | 0.4 |
| **Australia** | -18.0 | -22.3 | -15.4 | -8.3 | -16.7 | -30.2 | *-37.3* | -35.5 | *-30.0* | -33.1 | *-36.9* | -31.5 |
| **New Zealand** | -2.2 | -3.5 | -2.5 | -1.3 | -1.9 | -0.9 | *-4.5* | -5.6 | *-11.1* | -5.7 | *-12.2* | -6.0 |
| **Industrialised countries** | : | : | : | : | -263.3 | -341.9 | *-425.4* | -412.4 | *-480.5* | -515.3 | *-486.6* | -516.0 |
| **Others** | -30.9 | 80.4 | 150.5 | 97.2 | 166.9 | 245.4 | *368.2* | 395.2 | *426.2* | 510.9 | *356.5* | 466.6 |
| **CIS** | -6.0 | 23.0 | 48.6 | 33.4 | 34.4 | 36.6 | *52.5* | 53.3 | *50.4* | 67.7 | *40.4* | 52.2 |
| **MENA** | -31.5 | 15.1 | 66.1 | 36.4 | 31.8 | 59.3 | *151.2* | 137.0 | *211.1* | 255.9 | *167.8* | 234.3 |
| **Other emerging markets** | 6.6 | 42.3 | 35.7 | 27.4 | 100.6 | 149.5 | *164.5* | 204.9 | *164.6* | 187.3 | *148.3* | 180.1 |
| **Asia** | 112.1 | 106.6 | 80.4 | 85.5 | 119.0 | 147.3 | *168.9* | 193.7 | *171.0* | 155.2 | *175.7* | 149.9 |
| **Latin America** | -90.5 | -56.3 | -47.1 | -53.3 | -15.3 | 7.9 | *13.3* | 5.5 | *18.2* | 11.8 | *2.8* | 9.3 |
| **Africa** | -15.1 | -8.0 | 2.4 | -4.7 | -3.1 | -5.7 | *-17.8* | 5.8 | *-24.5* | 20.2 | *-30.1* | 20.9 |
| **World** | : | : | : | : | -96.4 | -96.6 | *-57.2* | -17.2 | *-54.3* | -4.5 | *-130.1* | -49.4 |

[1] See note 8 on concepts and sources.

**TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 1998-2006)**

| | | | | | | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SITC | | | | | | | estimate of | | forecast of | | forecast of | |
| Classification | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | *X-2004* | III-2005 | *X-2004* | III-2005 | *X-2004* | III-2005 |
| **Food (0 + 1)** | -13.6 | -10.8 | 0.4 | 0.3 | 0.0 | 2.0 | *4.1* | 7.1 | *-6.7* | 1.5 | *1.6* | 3.2 |
| **Basic materials (2 + 4)** | -14.8 | -3.7 | 5.4 | -7.0 | 1.1 | 8.5 | *17.3* | 18.0 | *-1.2* | 1.2 | *-1.3* | -3.0 |
| **- of which :** | | | | | | | | | | | | |
| **Agricultures non-food** | -13.6 | -5.1 | 1.5 | -5.2 | 4.7 | 7.2 | *5.4* | 6.7 | *-5.1* | -3.3 | *0.4* | -0.3 |
| **- of which :** | | | | | | | | | | | | |
| **Wood and pulp** | -13.8 | 9.0 | 3.4 | -10.7 | -3.3 | 6.8 | *11.2* | 14.8 | *2.6* | 4.5 | *-0.2* | -1.6 |
| **Minerals and metals** | -16.7 | -1.6 | 11.4 | -9.6 | -4.2 | 10.6 | *35.8* | 35.6 | *3.5* | 6.7 | *-3.2* | -6.1 |
| **Fuel products (3)** | -27.7 | 23.2 | 47.5 | -8.9 | -0.3 | 12.7 | *34.9* | 29.9 | *14.4* | 31.2 | *-10.3* | -5.2 |
| **- of which :** | | | | | | | | | | | | |
| **Crude petroleum** | -33.4 | 41.1 | 59.1 | -12.4 | 0.2 | 14.8 | *37.8* | 31.6 | *14.9* | 34.4 | *-11.1* | -5.7 |
| **Primary commodities** | | | | | | | | | | | | |
| **- Total excluding fuels** | -14.4 | -6.2 | 3.7 | -4.6 | 0.7 | 6.3 | *12.9* | 14.4 | *-2.9* | 1.3 | *-0.5* | -1.1 |
| **- Total including fuels** | -19.9 | 4.8 | 23.5 | -7.2 | 0.2 | 9.6 | *24.5* | 22.6 | *7.0* | 18.0 | *-6.5* | -3.7 |
| | | | | | **Crude petroleum - price per barrel (us dollar)** | | | | | | | |
| **Brent** | 12.7 | 17.9 | 28.5 | 25.0 | 25.0 | 28.8 | *39.3* | 37.8 | *45.1* | 50.9 | *40.1* | 48.0 |

***Note on concepts and sources***

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short- term economic forecasts twice a year: in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Candidate Countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2004 are estimates and those for 2005 and 2006 are projections. The sources for all tables are the Commission services, except where it is stated otherwise. In general, the historical data for the Member States are based on the ESA 95 system. For DE, IE and PT, data start in the late 1980s or early 1990s. For all other Member States, most data are reported for longer periods in the past, except for the 10 recently-acceded member states for which ESA95 data start in the early or mid-1990s. For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand, respectively, present data including inventories.

4. In Table 16, the data are based on the national index for USA and Japan, and for EU Member States and the aggregates prior to 1996.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAIRU play a key role. The cyclical adjustment of budgetary balances is based on this concept, except for ES.

6. Employment data are based on numbers of persons employed. The concept of full-time equivalent is used for Spain, France, Italy, the Netherlands, Austria and Estonia. Tables 21-27 and 31-32 use data on FTE for these countries.

7. The nominal short term interest rates are defined as the 3-month inter-bank rates. The nominal long term interest rates are defined as the yield on the central government benchmark 10-year bond from 1995.

8. EU-25 and euro area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 48 - 52, 60 and 61 show also EU25 and euro area "adjusted" balances. Theoretically, balances of EU25 and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU25 or the euro area. However, intra-EU25 or intra-euro-area balances are non-zero because of reporting errors.

   The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past, the "adjusted" balances are Eurostat (for EU25) estimates and ECB (for euro area) estimates. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2003.

9. Tables 37, 38, 39 and 42 are based on government debt and deficit data for the period 2001-2004, as transmitted by Member States to the European Commission in March 2005. In publishing these data, Eurostat has indicated that, for certain Member States (Greece and Italy), it “has to undertake further examination of deficit and debt data before the figures can be validated”, while there are “ongoing discussions” with the national statistical authorities of Latvia, Lithuania and Portugal, “which may lead to a subsequent revision of the data” (see Eurostat news release N° 39 of 18 March 2005). The data are according to the ESA95 system of national accounts. Interest expenditure includes settlements under swap arrangements and forward rate agreements (Tables 35, 37, 38 and 40).

10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000-2005. Tables 35, 37 and 39 include the amounts from the sale of the licences, while the cyclically adjusted balances in tables 40 and 41 exclude these amounts. The amounts in bn of national currency are for 2000: DE 50.8, ES 0.5, IT 13.8, NL 2.7, AT 0.8, PT 0.4, UK 22.5, EU25 105.9 and euro area 69.1. For 2001: BE 0.5, CZ 7.4, DK 3.2, EL 0.6, FR 1.2, PL 3.0, SI 21.8, EU25 3.8 and euro area 2.3. For 2002: FR 0.6, IE 0.2, EU25 0.8 and euro area 0.8. For 2003: EE 0.2. For 2005: SI 9.0.

11. Second pillar pension funds are included in the general government sector in the following Member States (with the estimated effect as % of GDP indicated in brackets): DK (1.1 in 2001, 1.0 in 2002-2003, 1.1 in 2004, 1.0 in 2005-2006), HU (0.7 in 2001-2002, 0.9 in 2003-2004, 1.1 in 2005, 1.2 in 2006), PL (1.5 in 2001, 1.9 in 2002, 1.7 in 2003, 2.0 in 2004, 1.9 in 2005-2006) and SE (0.9 in 2001-2003, 1.0 in 2004, 2005 and 2006). They are excluded from the general government sector in the following MS : LV (0.4 in 2004-2006), LT (0.3 in 2004, 0.5 in 2005-2006) and SK (0.5 in 2005 and 1.0 in 2006).

12. German, EU-25 and euro-area figures are for unified Germany from 1991 onwards; from 1992 onwards for percentage changes.

13. With respect to the RAMS (recently-acceded Member States), which are presently in a transition phase, data may not always be directly comparable to the EU-15 Member States.

14. Geographical zones are defined as follows :
    - Euro area:
      - EUR-12 (EU-15 excluding DK, SE and the UK)
    - Candidate countries:
      - Bulgaria, Croatia, Romania and Turkey.
    - Industrialised Countries :
      - EU-25, Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.
    - MENA (Middle East and Northern Africa):
      - Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.
    - Asia :
      - All countries except Japan and the Asian MENA countries.
    - Latin America :
      - All countries.
    - Africa :
      - All countries except the African MENA countries.

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