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Economic forecasts
Autumn 2005

European Economy appears six times a year. It contains important reports and communications from the Commission to the Council and the Parliament on the economic situation and developments ranging from *The Broad economic policy guidelines* and its implementation report to *the Economic forecasts*, the *EU Economic review* and the *Public finance report*. As a complement, *Special reports* focus on problems concerning economic policy.

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European Commission

EUROPEAN ECONOMY

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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

Gradual growth revival underway in the euro area and the EU

After reaching annual average growth rates above 2% last year, economic activity in the euro area and the EU has been more subdued this year, but is expected to return to potential at the beginning of next year. From an estimated 1.3% in the euro area and 1.5% in the EU in 2005, growth is projected to reach 1.9% and 2.1%, respectively, next year and to accelerate further to 2.1% and 2.4% in 2007.

The main factors behind the outlook include an accommodative macroeconomic policy mix, benign financial conditions, wider profit margins, a weaker nominal effective exchange rate and a robust global environment.

Over the forecast horizon, the recovery is underpinned by an acceleration in domestic demand, with a slight stimulus in net terms from the external sector. This includes, more specifically, a relatively strong pick-up in the pace of investment expenditure and a more gradual recovery of private consumption. A steady improvement is also foreseen for the labour market, supported by continued wage moderation and the revival of confidence among entrepreneurs. Employment growth in the euro area is expected to rise from 1% in 2005 to 1.2% in 2006, while easing slightly to 1.1% in 2007. For the EU as a whole, the profile is similar, although the growth in employment is projected to be slightly lower throughout the forecast horizon.

Global growth and trade to moderate, while remaining vibrant

World GDP growth exceeded 5% last year, the fastest pace since the early seventies. Despite the soft patch in growth in the second quarter of this year, the outlook for the global economy remains bright. Economic activity is projected to normalise to 4.3% this year and next, before edging slightly lower in 2007. Many of the factors behind last year's stellar performance remain in place. These include supportive macroeconomic policies, low real interest rates, housing-market-induced wealth effects, as well as sustained strong growth in certain economies, such as China, India and most of the oil-exporting countries.

Growth decelerated across most regions of the world in the second quarter of this year, partly as a result of rising oil prices. The slowdown was most apparent in the manufacturing sector. Growth remained healthy in the US, supported by private consumption and is expected to reach 3.5% on average this year. Nonetheless, in view of the unbalanced nature of the domestic source of US growth and the large and rising current account deficit and general government deficit, this pace of economic expansion is probably unsustainable. Accordingly, the growth rate is projected to fall to 3.2% next year and to 2.7% in 2007.

After last year's recession, the Japanese economy staged a comeback early this year due to a strong rebound in domestic demand, especially investment. Growth is set to yield a robust 2.5% this year, before easing next year to 2.2%. Deflation in consumer prices is still present in the economy but is projected to turn into inflation from 2006 onwards. Although easing, growth in Asia (excluding Japan) is set to remain strong in the region of 7-7.2% over the forecast horizon. The pace of China's growth is expected to moderate somewhat from over 9% to around 8.2%, while India's growth rate is sustained at around 7%. Among the other emerging regions, economic activity in Latin America is set to cool down in 2006-7, while growth should accelerate next year in some parts of Africa. Rising oil revenues have limited the slowdown in the main oil-exporting countries, with economic activity projected to remain around 6% in Russia. In the candidate and acceding countries, the dynamic performance of last year is expected to be followed by lower, but still robust, growth of around 5% in 2006 and 2007.

Having reached an annual average growth rate of around 11½% in 2004, the pace of world trade growth decelerated in the first quarter of this year in line with the slowdown in the global manufacturing sector, but recovered once again in the second quarter. World trade growth is set to reach a lower 7% this year and to stabilise in the vicinity of 7.2% over the forecast horizon as a result of the projected moderation in world growth.

Energy prices escalate, while real long-term bond yields remain low

World commodity prices maintained their upward trend this year. The rise was driven mainly by the sharp price increase in oil and other energy products.

In view of the sustained rise in oil prices over the last twelve months, reaching record highs in September of this year, the assumed profile for oil prices has been revised upwards considerably compared to the spring forecasts. From an average of USD 49 per barrel (Brent crude) in the first half of this year, the price of oil is assumed to rise to USD 61.5 in the second half of next year before declining gradually to USD 59.5 per barrel at the end of 2007. This leads to an average of USD 55 per barrel for this year, USD 61.4 per barrel next year and USD 60.3 per barrel in 2007. After a rise of 45% this year, this profile implies a further increase of 12% next year, followed by a slight decline in 2007.

In real terms, the price of oil has not reached the peak level recorded during previous shocks and the oil-intensity of industrialised oil-importing economies has been reduced substantially during the last twenty-five years. Nevertheless, the sustained increase has taken its toll on world growth and the persistence of higher oil prices and their increased volatility have adverse implications for the outlook for growth and inflation over the forecast horizon.

Euro-area equity markets have experienced a sustained upward trend since April of this year, having fluctuated in a fairly narrow range in previous months. While there is considerable variation across Member States, euro-area equity markets – in line with broader European and Japanese share prices - have tended to outperform the US market, which has remained broadly flat. The decoupling of European and US long-term bond yields, which began in the fourth quarter of last year, continued for much of this year. In the euro area, long-term government bond yields maintained their downward trend, reaching record lows in September. Since then, yields have increased as rising inflation expectations boosted market expectations of the likelihood of a tightening of monetary policy. From the third quarter of last year until very recently, no trend was apparent in US yields. Accordingly, the yield differential vis-à-vis the euro-area rose to 120 basis points in October, a gap not observed since 1999, before diminishing once again with the rise in euro-area yields. Real yields remain low in historical terms both in the US and in Europe. Emerging market and corporate bond spreads have continued to narrow this year. On the whole, financial conditions have improved further since the spring and remain supportive to growth.

Subdued growth in the euro area and the EU in the first half of this year ….

After growing at potential last year, the economic performance of both the euro area and the EU was disappointing in the first half of this year. Following a modest acceleration to 0.4% in the first quarter in the euro area, real GDP growth slowed to 0.3% in the second quarter. For the EU, the pace of economic activity was sustained at 0.4% in both quarters. In assessing the quarterly data outturn, it is worth noting that the working-day adjustment may have distorted the outcome for the first quarter.

The pattern of a strengthening contribution to growth from domestic demand and a negative contribution from the external sector, which had emerged in the second half of last year, was broken in the first quarter of this year. The pick-up in domestic demand faltered and net exports became once again the main driving force behind growth in both the euro area and the EU. Reflecting the deceleration in world trade growth, this was achieved through a sharp contraction in imports, which outweighed a smaller decline in exports. The outcome for the second quarter proved more encouraging for the prospects of a revival of the domestic demand, since growth was driven almost exclusively by the latter. For the EU, the contribution to growth was shared across consumption and investment, while the accumulation of inventories also played an important role in the euro area. Growth in investment picked up in both the euro area and the EU between the first and second quarters. However, private consumption

Table 0.1

Main features of the Autumn 2005 forecast - EU25

(Real annual percentage change unless otherwise stated)				Autumn 2005 forecast [1]			Difference vs spring 2005 (a)	
	2002	2003	2004	2005	2006	2007	2005	2006
GDP	1.2	1.2	2.4	1.5	2.1	2.4	-0.5	-0.2
Consumption	1.6	1.6	2.1	1.6	1.6	2.1	-0.3	-0.4
Total investment	-1.2	0.8	3.0	2.3	3.5	3.6	-1.3	-0.6
Employment	0.4	0.2	0.6	0.9	1.0	1.0	0.2	0.2
Unemployment rate (b)	8.7	9.0	9.0	8.7	8.5	8.1	-0.3	-0.2
Inflation (c)	2.1	1.9	2.1	2.3	2.2	1.9	0.4	0.5
Government balance (% GDP) (d)	-2.4	-3.0	-2.6	-2.7	-2.7	-2.7	-0.1	-0.2
Government debt (% GDP)	61.4	63.0	63.4	64.1	64.2	64.3	0.0	0.0
Current account balance (% GDP)	0.3	0.1	0.0	-0.3	-0.4	-0.3	-0.3	-0.4

[1] The Commission services' Autumn 2005 Forecasts are based on available data up to November 7, 2005.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2005.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

growth remained unchanged in the euro area, while accelerating slightly in the EU. Supported by a weaker euro, export growth surged in the euro area, but an even sharper acceleration in the growth of imports left the growth contribution of the external sector at almost zero.

....followed by a pick-up in the second half of the year and a return to potential growth in 2006

Following the poor readings at the first half this year, survey indicators began to send out positive signals once again during the third quarter of this year on the prospects for a renewal of the recovery. After dropping in the first half of the year, the overall economic sentiment indicator for the euro area from the Harmonised EU Business and Consumer Surveys exhibited a sustained increase in the third quarter, which has extended into the start of the fourth quarter. The composite Purchasing Managers Index (PMI) has followed a similar path.

While the surge in oil prices took a toll on business confidence in the first half of the year, the confidence indicator for the euro-area manufacturing sector has been rising since the turn of the second quarter. The flat trend in confidence in the services sector, which emerged at the beginning of 2004, was maintained for most of this year. However, there is some evidence of a change for the better more recently in both the business climate indicator and the PMI for services in the euro area. Current levels of the PMI for both manufacturing and services remain consistent with a continuation of economic expansion in both the manufacturing and services sectors.

Table 0.2

Main features of the Autumn 2005 forecast - euro area

(Real annual percentage change unless otherwise stated)				Autumn 2005 forecast [1]			Difference vs spring 2005 (a)	
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2005**	**2006**
GDP	0.9	0.7	2.1	1.3	1.9	2.1	-0.3	-0.2
Consumption	0.9	1.1	1.6	1.4	1.4	1.9	-0.2	-0.4
Total investment	-2.0	0.9	2.3	1.7	3.1	3.2	-1.1	-0.6
Employment	0.7	0.3	0.7	1.0	1.2	1.1	0.3	0.3
Unemployment rate (b)	8.3	8.7	8.9	8.6	8.4	8.1	-0.2	-0.1
Inflation (c)	2.3	2.1	2.1	2.3	2.2	1.8	0.4	0.7
Government balance (% GDP) (d)	-2.5	-3.0	-2.7	-2.9	-2.8	-2.8	-0.3	-0.1
Government debt (% GDP)	69.2	70.4	70.8	71.7	71.7	71.8	0.0	-0.2
Current account balance (% GDP)	0.8	0.5	0.6	0.0	-0.1	-0.1	-0.6	-0.7

[1] The Commission services' Autumn 2005 Forecasts are based on available data up to November 7, 2005.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2005.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

Unlike business confidence, the indicators for consumer confidence have continued to provide little encouragement for a near-term acceleration in consumer spending. While the Commission's consumer confidence indicator has edged up recently, this follows a decline since the beginning of the year. The index remains below its long-term average, as well as below the levels recorded at a similar stage in previous upswings. The retail confidence index also witnessed an increase in recent months, but its longer-term trend has been flat since the end of 2003.

In general, although the trends are similar, the Commission's overall economic confidence indicator for the EU has exceeded that for the euro area since the third quarter of 2003. This is mainly due to the consistently higher level of consumer confidence in the EU, while the levels of the industrial and services confidence indicators have been almost indistinguishable from their euro-area counterparts in recent months.

With these indicators providing a background, the impulse to domestic demand stems mainly from a strong acceleration in gross fixed capital formation, especially in 2006. The case for a strengthening of investment growth is underpinned by favourable financial conditions, improved balance sheets, wider profit margins, and an increasing need for replacement investment. The projected pick-up in private consumption over the forecast horizon is more gradual in view of the subdued level of consumer confidence. However, good progress in the implementation of structural reforms in some countries has resolved some uncertainties, which have acted as a brake on consumption in the past. And although purchasing power prospects of consumers may be dented by rising energy prices in the near-term, the real disposable income of households should be sustained by the projected rise in employment and the effect on wealth of buoyant housing markets and rising stock markets in several countries should also provide a positive impetus to private consumption.

There are several factors underpinning the outlook for a sustained recovery in the euro area and the EU over the forecast horizon. The accommodative financial conditions and policy-mix, which have prevailed for some time now, together with the progress made in the implementation of structural reforms by some Member States, mean that the euro-area and the EU are in a strong position to participate in the global industrial recovery that is now in progress. On the investment side, the latter recovery, reinforced by the depreciation in the effective exchange rate during this year provides the boost to demand, which allows corporate investors to finally take advantage of their improved balance sheets and profit margins. The resilience of many of the world's economies in the face of soaring oil prices has also served to boost investor confidence in the prolongation of the current phase of strong demand. The return of confidence in the business sector should permeate through to consumers as employment grows further and unemployment declines. Indeed, the fact that consumer confidence has not lost further ground following the surge in oil prices over the summer could imply that this process has already started. The case of Germany is particularly telling because of its considerable share in euro-area GDP. Here the strong improvement in competitiveness has laid the foundations for the resurgence of domestic demand in Germany, which would have positive spillover effects on other Member States.

Improvement in labour market conditions

Both the euro-area and the EU labour markets have been markedly less influenced by the recent economic downswings and upswings, compared to earlier cycles. Although the labour market conditions worsened with the usual lag to the economic slowdown in 2001-2003, the rise in the annual unemployment rate was limited to one percentage point, compared to a rise of over three percentage points in the early nineties. In this cycle, unemployment peaked at 8.9% of the labour force in the euro area in the fourth quarter of 2004. Several factors bear witness to the structural improvement in the functioning of the labour market, including a decline in long-term unemployment rates and in the average duration of unemployment spells, as well as an improvement in the matching process.

In line with the usual lagged response of the labour market, around 1.4 million jobs are expected to be created this year in the euro area and 1.9 million in the EU. These figures should improve further in 2006 as growth regains momentum. The euro-area unemployment rate is expected to diminish from 8.6% this year to 8.1% in 2007. For the EU, the profile is similar, from a higher starting point of 8.7% this year to 8.1% in 2007.

No second-round effects from rising energy prices

Boosted by such factors as rising energy prices and, to a lesser extent, the temporary impact of rises in indirect taxes and administered prices, headline inflation in the euro area remained sticky this year. On the other hand, since the second half of last year, core inflation has maintained a downward trend until recently. Inflation expectations, as derived from index-linked bonds, continued to fall until mid-year, despite rising oil prices. While rising slightly above 2% in the third quarter, the survey evidence suggests that second-round effects remain contained due to ongoing wage moderation and in spite of the continued increase in energy prices. From an estimated average rate of 2.3% in 2005, headline inflation is expected to edge lower to 2.2% next year and a further fall to 1.8% is foreseen for 2007. For the EU as a whole, the projected profile over the forecast horizon is similar. After an initial rise from 2.1% in 2004 to 2.3% this year, a decline is projected to 2.2% next year and 1.9% in 2007.

Fiscal consolidation stalls as economic growth weakens

Over the forecast horizon the general government deficit in the euro area is expected to mainly reflect cyclical developments. It is forecast to rise to 2.9% of GDP in 2005, up from 2.7% of GDP a year earlier, in the wake of slowing economic growth, and to diminish again marginally in 2006 and 2007 in the context of a moderate economic recovery. Based on the usual assumption of unchanged policies, the fiscal stance is expected to be broadly neutral. In the EU, the nominal deficit is expected to remain at 2.7% of GDP throughout the forecast horizon. Thanks to the planned fiscal adjustment effort in some non-euro area countries, the fiscal stance is expected to be slightly restrictive for the EU as a whole.

Among the euro-area Member States, which are currently running an excessive deficit, Portugal, Greece, Germany and Italy are projected to achieve, to varying degrees, some fiscal consolidation in 2006. In the case of Germany, current policies do not include the 2006 draft budget, the presentation of which was delayed in view of the early elections in September. In France, under current policies, the deficit would rebound in 2006, due to the expiry of a large one-off operation carried out in 2005. Overall, current polices are expected to be insufficient to bring the deficit below the reference value by the end of the forecast horizon in any of the euro-area Member States, which are currently under the excessive deficit procedure. Euro-area Member States with a relatively favourable budget balance are expected to stabilise or slightly ease their fiscal position in 2006 and beyond.

Outside the euro area, the fiscal outlook across countries is relatively heterogeneous. Among the six recently-acceded Member States with an excessive deficit, Hungary and the Czech Republic are expected to further widen their budget deficit in 2006. In the case of Hungary, the upward trend is projected to continue also in 2007, when current policies are likely to bring the deficit close to 7% of GDP. Current policies are expected to keep the deficit above the 3% of GDP reference value in Poland and the United Kingdom. By contrast, Cyprus is projected to correct the excessive deficit by a small margin in 2005, followed by Slovakia and Malta in 2006. In the non euro-area Member States with a relatively favourable budgetary position, current policies are mostly expected to produce a slight increase the deficit or to reduce the surplus.

The upward trend in the euro-area debt ratio observed since 2003 is not expected to reverse during the forecast period. It is projected to reach 71.8% of GDP in 2007, one percentage point higher than in 2004. A similar development is expected in the EU, where the debt ratio is set to increase, to close to 64½% of GDP in 2007, up from 63½% of GDP in 2004. Concerning the respect of the 60% of GDP reference value, apart from Portugal, where the debt ratio is estimated to rise above 60% of GDP in 2005, no Member State is expected to cross the reference value over the forecast horizons, either from above or below. Among the countries with a debt ratio above the 60% of GDP threshold, Belgium, Greece, Cyprus and Austria are projected to further reduce it up to 2007 (inclusive). In Italy, following a sharp increase in 2005, the debt ratio is also projected to decline slowly over the forecast horizon, mainly on account of the planned receipts from privatisations. Conversely, a further increase in the debt ratio is expected to take place in Germany, France and Portugal.

Upside and downside risks to the forecast

The central scenario in this forecast paints a picture of robust global economic growth, a sustained momentum in world trade growth and a return to potential growth in the euro area and the EU as a result of a strengthening of domestic demand. However, there are several factors that should be taken into account in assessing the risks to this forecast.

The effects of the sharp rise in energy prices this year have been incorporated in the central scenario described above. However, in view of the vulnerability of oil production and refining to further climatic, security and political-tension disruptions, the possibility of even higher prices cannot be ruled out. Although world economic growth has withstood the effect of the oil-price shock well so far, it cannot be excluded that negative non-linear confidence effects might come into play in the relationship between energy prices and economic growth at higher price levels.

The resilience of growth in the US has continued to surprise forecasters in recent years. However, an adjustment of consumer behaviour in the US in the light of growing uncertainties about future income and the impact of rising interest rates cannot be ruled out.

Global current account imbalances have continued to rise this year. Hence, a disorderly correction of global imbalances remains a threat to world growth. The new Chinese exchange rate policy may be seen as the first of a series of steps that would lead towards more burden-sharing in the correction of global imbalances. However, this step alone is not sufficient to alleviate fears that a large share of the burden of adjustment would fall on European exporters in the event of a disorderly unwinding of the imbalances. Furthermore, an abrupt shift in investor expectations regarding global economic growth and inflation could lead to a severe correction in some asset prices, with adverse implications for both financial markets and the real economy.

On the positive side, the counterbalancing effect of the behaviour of oil-exporting countries should also be considered. There is evidence to suggest that the EU has already benefited from the recycling of oil earnings from these countries. Since the start of 2001, the value of EU exports to OPEC and the CIS has grown at annualised rates of 13% and 20%, respectively, compared to 5.5% to the “rest of the world”. Should the oil-exporting countries choose to spend a larger share of their additional income from oil on imports, the EU would be well placed to benefit from this extra demand.

Internally, private consumption is subject to both upside and downside risks. Consumer confidence could improve by more than expected due to better labour market conditions and a reduction of uncertainty over future income streams, thanks to past or ongoing structural reforms. Such a recovery in confidence could trigger a release of the pent-up demand, which has accumulated in the household sector and which could be financed through a reduction in the saving rate. The nature of the risk associated with buoyant housing market in some Member States is difficult to assess. The perceived wealth effects from rising housing prices could boost consumption expenditure, while a correction of the over-valuation of housing would work in the opposite direction.

In the case of investment, positive risks arise from stronger growth of specific housing markets, stronger-than-expected external demand or higher productivity as a result of IT-investments and past reforms. Negative risks include higher oil prices, a disappointing development of aggregate demand and entrenched low-growth expectations.

Overall, the risks are tilted to the downside on the external side, but appear to be balanced on the domestic side.

Acceding and Candidate Countries

In the acceding and candidate countries, GDP growth is expected to remain relatively high over the forecast horizon, at more than 5% in Bulgaria, Romania and Turkey each year, while accelerating to nearly 4½% in Croatia in 2007. Rising labour productivity and an expanding and modernised capital stock are the main sources of this continued expansion. In all countries, domestic demand should continue to outpace production, driven by a strong investment performance and also by private consumption. In Bulgaria and Romania, private consumption expenditure has recently expanded particularly rapidly, and is set to decelerate only gradually over the forecast horizon.

Inflation is forecast to decline or remain relatively subdued. Rising productivity and competition in these economies and overall prudent fiscal and monetary policies are conducive to this outlook, combined with a real appreciation of the currencies in some countries. However, in all countries rising commodity prices are expected to weigh on inflation, for example by slowing down disinflation in Turkey and Romania or temporarily boosting inflation in Bulgaria and Croatia.

Labour markets are likely to benefit from strong output growth: employment is forecast to rise, particularly in Turkey by more than 2% annually. Unemployment rates are accordingly expected to decline, to around 7% in Romania in 2007, 9½% in Bulgaria and Turkey, and 12% in Croatia.

Bulgaria is expected to show balanced government balances and Romania is projected to have small deficits, also underpinned by strong economic growth. In Croatia and Turkey, deficits are currently at higher levels, but are expected to narrow by 2007 to less than 3% in Turkey and around 3.5% in Croatia.

In all the acceding and candidate countries, current account deficits have been widening during 2005, due to strong domestic demand, together with rising oil prices. External imbalances are forecast to remain high, in particular in Bulgaria and Romania, where current account deficits are set to hover around 10% of GDP in 2006 and 2007, while they are expected to reach around 6% of GDP annually over the forecast horizon in Croatia and Turkey.

Chapter 1

The world economy

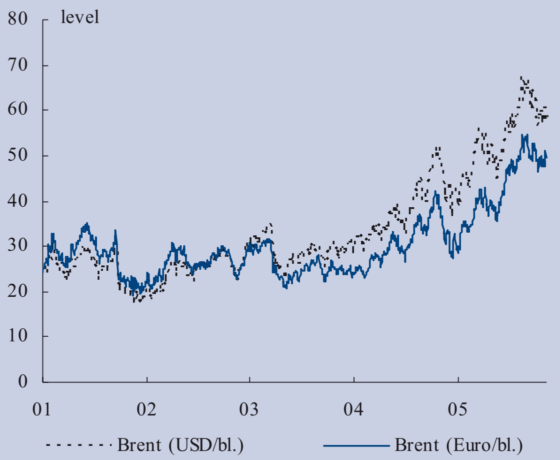
1. World economic activity to remain robust despite high oil prices

The world economy is expected to continue to expand at a robust pace, despite the impact from higher energy prices and the negative effect of Hurricane Katrina on the US economy in the second half of this year. This is accompanied by a slower, but still robust, expansion of world trade. Financial conditions remain supportive of global growth with continued low long-term real interest rates and low risk premia on corporate and emerging market debt, although US short-term interest rates have been increasing due to ongoing removal of monetary policy accommodation in view of growing threats to inflation. Growth in the demand for oil is expected to slow somewhat as global growth decelerates and as higher prices curb demand. Nevertheless, oil prices are expected to remain high for the forecast horizon due to limited excess supply and refinery capacity and continuing concerns about the security of supply. Although the world economy has, so far, withstood higher oil prices quite well, high and volatile oil prices remain a significant source of downside risk for the world economy in the short term, in particular for oil-importing countries. Global current account imbalances are set to persist, implying ongoing downside risks related to a disorderly adjustment.

Oil prices peak in the third quarter

The high level of oil prices weighed on growth during the first half of the year and is currently one of the main sources of uncertainty surrounding the outlook for both the EU and the world economy.

Graph 1.1: **Oil prices (Brent) in USD and €**



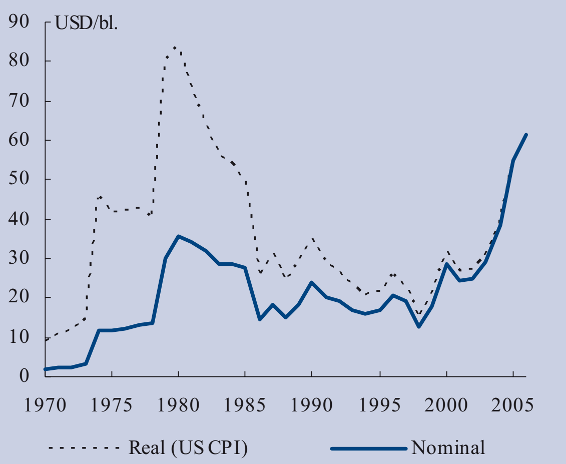
Over the summer and early autumn, oil prices rose further, driven by concerns about supply disruptions and shortage of refining capacity. In particular, Hurricane Katrina influenced prices of crude oil by initially halting crude oil production by around 1.5 million barrels per day (mb/d.), while global production was 84.7 mb/d. in August, according to the International Energy Agency (IEA). As a result, oil prices initially jumped to new record levels in nominal terms, with the price of Brent crude futures climbing to around 68 USD/bl. around the end of August and the beginning of September. In addition, Hurricane Katrina and the ensuing flooding also disrupted as much as a quarter of US refinery capacity. This occurred at a time when refining capacity in the US was already stretched to the limit. The outcome was not only a jump in US petrol prices, but also a significant increase in petrol prices in Europe, as the prevailing market prices in the US prompted exports of petrol from Europe.

The IEA Member States on 2 September to make available to the market an equivalent of 2 mb/d. of crude oil from reserves for an initial period of 30 days brought crude oil prices down from their record levels and reduced the pressure on petrol prices. In addition, demand growth projections have been revised down somewhat recently by the IEA, also alleviating the pressure on crude oil prices.

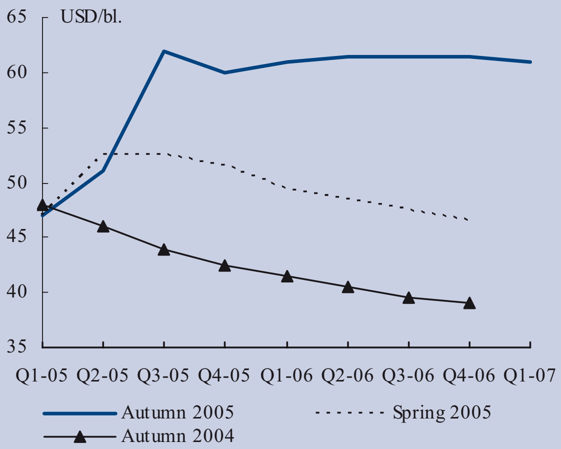
The easing of prices has occurred despite the fact that Hurricane Rita added to the disruption caused by Hurricane Katrina. Nevertheless, the prices of both crude oil and refined products remain high.

Since the end of last year, the price of oil (monthly averages) has risen by close to 50% in US dollar terms and around 60%, when measured in euro. However, the current price level in real terms and the pace of the recent price increases remain below the supply-driven price shock of the late 1970s and early 1980s. In real terms, the current price level is approximately 35% below the record highs of the early 1980s in US dollar terms. Several factors imply upside risks to oil prices. Although slowing, demand is projected to remain robust. In its October report, the IEA projected that oil demand would rise by 1.5% in 2005 and 2.1% in 2006. In addition, in a more short-term perspective, the increased demand in the northern hemisphere winter season could also create some upward pressure on prices.

Graph 1.2: **Oil prices - real and nominal**



Graph 1.3: **Oil price expectations (Brent) in USD**



But the recent surge in oil prices is mostly seen to be due to concerns about supply developments. Under-investment in both crude production and refinery capacity, as a reaction to low oil prices and excess capacity in the refining sector in the 1980s and 1990s, has constrained supply capacities.

Higher oil prices should boost investment in new oil production and alternative energy sources. However, since it takes several years for new investment in supply capacity to enter the market, the low level of spare capacity is likely to persist for some time. Lastly, the factors behind disruptions to production in important oil-producing countries, i.e. political instability, impact of hurricanes and ongoing security risks, are likely to remain present thereby increasing the risk premium and the volatility in oil prices.

The high level of oil prices is, therefore, expected to prevail in the medium-term, with current futures prices indicating that the price of oil would remain around 60 USD/bl. in 2006 and 2007.

Compared to the assumption in the spring forecast of an average price of 48 USD/bl. in 2006, the assumption for oil prices in this forecast, based on current futures prices, implies that the average price of oil in 2006 would be about 28% higher at around 61.4 USD/bl. In 2007, the price is expected to be marginally lower, at 60.3 USD/bl., indicating that the market participants believe that the current level of oil prices will be maintained in the medium-term.

The pace of global economic growth has withstood rising energy prices quite well, but it is likely that the increase in oil prices has had some impact on the global growth outlook. Calculations based on simulations with DG Economic and Financial Affairs QUEST model suggest that a permanent 25% increase in oil prices – from a baseline of 48 USD/bl. (which also leads to higher prices for natural gas with a time lag) – could shave around 0.3 of a percentage point off euro-area GDP growth in the first year and 0.2 of a percentage point in the second. Euro-area inflation would be raised by about a quarter of a percentage point during the first two years after the shock. The simulations take into account the repercussions on other regions of the world. The impact on US growth is slightly higher and that on Japanese growth marginally lower, as a result of their respective higher and lower energy intensities.

In the simulations, some recycling of higher revenues from oil-exporting countries is also taken into account. There is evidence that the demand for imports by oil-exporting countries has been increasing strongly and that the EU has benefited more compared to previous episodes of rising oil prices. Since January 2001, EU export values to OPEC and CIS countries grew at annualised rates of 13% and 20%, respectively, compared with 5.5% average growth for exports to the rest of the world.

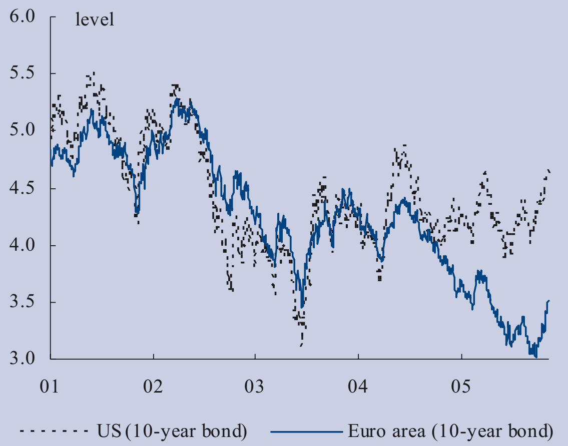
Nevertheless, the major oil-exporting countries have in general seen current account surpluses jump along with the oil price. Such high current account surpluses are likely to persist, although imports driven by strong domestic demand are likely to lead to somewhat lower surpluses over the forecast horizon.

While the world economy is therefore expected to withstand higher energy prices, the possibility of further oil price increases and the uncertainty surrounding the assessment of the impact of the price increase seen so far, including the possibility of second-round effects on inflation, imply that oil prices should be considered as one of the main sources of downside risks to the growth outlook.

Financial conditions remain supportive of growth

Although world growth has continued to be robust, with inflation creeping up in many countries due to higher energy prices, and the US Federal Reserve continuing to withdraw monetary policy stimulus, long-term interest rates remain low by historical standards.

Graph 1.4: **Long-term interest rates, euro area and US**



In the United States, the trend in long-term interest rates has remained relatively flat until recently, despite increases in short-term interest rates. In the euro area, long-term interest rates declined further in 2005, but have also increased very recently in view of concerns about inflation and market expectations of a tightening of monetary policy. Low interest rates also benefited emerging market economies, as emerging market spreads remain at historically low levels. While low interest rates are supportive of growth, they also imply risks for the outlook, in particular in the medium-term, given that global current account imbalances persist and that inflationary pressures following higher oil prices could yet emerge.

An important development in currency markets was the decision by the Chinese authorities to allow some flexibility in the exchange rate of the yuan renminbi. So far, however, this has not caused any significant shifts in Asian currencies, but some gradual appreciation is expected in the coming years. Among the major currencies, the euro exchange rate has continued to depreciate against the dollar, although the dollar weakened temporarily in the wake of Hurricane Katrina. Vis-à-vis the Japanese yen, the euro is roughly unchanged compared to earlier in the year, but it has appreciated somewhat in recent months, reversing the depreciation earlier in the year.

Stock markets have also been supportive of growth, contributing to the favourable financing conditions for firms. In Japan and Europe, equity prices have continued to increase on the back of solid profit developments, whereas US equities have been relatively flat, as profit growth has passed its peak.

World growth set to remain robust

Following a relatively strong first quarter, the global economy lost some momentum in the second quarter. This was mainly due to a slowdown in the manufacturing sector which was hit by rising oil prices. Over the summer, momentum improved once again and, despite the impact of Hurricane Katrina, the world economy is expected to continue to grow at robust rates over the forecast horizon. For 2005, the world economy, excluding the EU Member States, is set to grow by 5.1% (pps weighted), slowing slightly to 4.9% in 2006 and 4.6% in 2007.

The **US** economy is expected to maintain its role as an important driver of world growth, although growth should gradually slow down as private consumption growth is projected to moderate. In the first three quarters of the year, the US economy continued to expand above its long-term potential, boosted by strong growth in consumer spending and solid growth in business fixed investment and residential construction. Despite the continued relatively strong growth momentum over the summer, it is expected that the growth out-turn later on this year will be affected by Hurricane Katrina, as a result of the disruptions to economic activity in the affected area and the effects of soaring energy prices. Overall, an annual growth rate of 3.5% is projected for this year, 0.1 pp lower than the spring forecast. The clean-up and rebuilding of the hurricane-affected area is likely to raise GDP growth in the first half of next year. Once this positive effect fades away, growth is projected to slow in conjunction with a gradual deceleration of consumer spending. Higher interest rates, along with slowing increases in house prices, should stimulate personal saving. The cooling down of the housing market should also curb growth in residential investment.

All in all, the US economy is projected to grow by 3.2% in 2006, falling to a below-potential rate of 2.7% in 2007. Due to the cost of the rebuilding effort following the hurricanes, the US government deficit is set to expand to around 5% of GDP in 2006. Despite an improved export performance, the current account deficit is projected to grow partly due to energy prices and a deteriorating investment income balance. As also noted in chapter 6, there are several risks to the outlook, with short-term upside risks to private consumption growth if housing prices continue to experience strong growth and downside risks relating to possible unwinding of the US imbalances.

In **Japan**, the economy has bounced back from the technical recession seen in mid-2004. Strong GDP growth in the first half of the year was mainly fuelled by a rebound in domestic demand. Looking ahead, the Japanese economy is expected to sustain an expansion above potential in the coming quarters. With the global economic environment remaining supportive of GDP growth and domestic demand maintaining its current momentum, this should lead to annual GDP growth of 2.5% in 2005 (well over the 1.1% figure of the spring forecast). On the external side, despite an acceleration of imports associated with stronger domestic demand, net exports are also projected to support GDP growth. On the domestic side, strong projected profit growth, continued corporate deleveraging and high capacity utilisation suggest that the increase in capital expenditures should be sustained. Rising wages, asset prices and confidence should underpin consumption. Growth is expected to gradually decelerate towards the potential rate, reaching 2.2% in 2006 and 1.8% in 2007. Core inflation is projected to turn positive around the

Table 1.1

International environment

(Real annual percentage change)					Autumn 2005 forecast			Difference vs spring 2005	
		2002	2003	2004	2005	2006	2007	2005	2006
					Real GDP growth				
USA		1.6	2.7	4.2	3.5	3.2	2.7	-0.1	0.2
Japan		-0.3	1.4	2.7	2.5	2.2	1.8	1.4	0.5
Asia (excl. Japan)		6.3	7.5	7.8	7.2	7.2	7.0	0.1	0.1
of which	China	8.3	9.3	9.5	9.3	8.7	8.2	0.7	0.3
	ASEAN4 + Korea (a)	5.4	3.9	5.0	4.4	5.1	5.2	-0.6	-0.2
Acceding/Candidate Countries		7.0	5.4	8.2	5.0	5.2	5.1	-0.1	0.2
CIS		5.4	7.9	8.3	6.8	6.9	6.4	0.3	1.1
of which	Russia	4.7	7.3	7.1	6.0	6.3	5.8	0.0	1.0
MENA		1.8	3.0	8.6	5.2	5.1	4.8	-0.2	0.3
Latin America		-0.6	1.9	5.5	4.0	3.6	3.6	0.1	0.0
Africa		3.0	3.0	4.3	5.0	6.0	5.5	-0.7	-0.1
World		2.8	3.8	5.2	4.3	4.3	4.2	0.1	0.2
World excl. EU25		3.3	4.5	5.9	5.1	4.9	4.6	0.3	0.3
					World trade				
World import growth		4.9	7.5	11.6	6.9	7.4	7.3	-1.3	0.0
World import growth excl. EU25		7.0	9.7	13.9	8.6	8.7	8.4	-0.5	1.0
Extra EU25 export market growth		:	:	12.1	9.0	9.0	8.4	-0.1	1.3

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

beginning of next year. However, it should remain low in 2006, despite the narrowing of the output gap and high oil prices. The fiscal deficit is set to decrease over the forecast horizon, due to the improvement in the economic situation and fiscal consolidation, but will remain high.

For **Asia** (excl. Japan) as a whole, many countries witnessed a deceleration in export growth in early 2005, partly explained by the cyclical downturn in the technology sector and slower import growth in China. In the second half of 2005, exports from Asia are generally expected to register strong rates of growth, as the IT sector experiences a cyclical upturn and exports to China rebound. At 7.2%, the autumn forecast for real GDP growth in the Asian region in 2005 is slightly higher than that predicted in the spring (7.1%), primarily due to the upward revision of Chinese growth from 8.5% to 9.3%. Overall, growth is set to remain around 7% throughout the forecast horizon. Growth in other Asian economies is expected to stabilize, underpinned by more balanced growth of domestic demand and exports. Despite steps towards greater exchange rate flexibility, which is expected to result in a gradual appreciation of non-Japan Asian currencies and a transition toward more reliance on domestic demand as driver of growth, the current account surplus for the region as a whole is expected to remain substantial for the foreseeable future.

GDP growth in **China** remained buoyant in the first half of 2005, with an extension of the already-observed trend of a modest shift in the composition of growth away from investment and towards net exports. Private consumption has continued to grow at a healthy pace, supported by rising rural income and strong job creation. Growth is expected to moderate in the second half of 2005, averaging about 9.3% for 2005 as a whole, before slowing to 8.7% in 2006 and 8.2% in 2007. The growth slowdown is expected to come mainly from a deceleration in investment spending in 2005, combined with a decline in net export growth in 2006 and 2007. Investment growth is foreseen to remain constrained by restrictive macroeconomic policies. In addition, the observed squeeze in corporate profit margins due to higher commodity prices and wages should also help to moderate investment spending, particularly since retained earnings are a key source of investment financing. Consumption growth is projected to remain strong and to increasingly contribute to output growth, supported by government efforts to boost rural income and employment. On the external side, a continuation of strong export growth is likely in 2005. Import growth is set to pick up during the remainder of 2005, as inventories have been run down, while remaining below the 2004 level due to lower investment growth and increased domestic supply of import substitutes. The resulting larger trade surplus is forecast to lead to an increase in the current account surplus of about 2 pps of GDP in 2005. For 2006 and 2007, the trade and current account surpluses are expected to stay close to this higher level.

For the **Commonwealth of Independent States (CIS) countries**, economic growth is also expected to be strong in the coming years. The Russian economy is set to expand by around 6% annually in 2005-2007. Given the projected substantial fiscal expansion in 2006 and the potential for higher oil prices, however, there is an upside risk at least to the short-run outlook. Robust Russian demand growth and sustained high levels of commodity prices are likely to complement strong domestic demand growth in the other CIS countries. GDP growth in 2005 in these countries is projected to reach over 8%, despite a significant slowdown in Ukraine, the second largest CIS economy. For the remainder of the forecast period, growth is expected to remain at about 8%.

Economic growth in the **Middle East and North Africa** region was strong in the first half of 2005 and is projected to remain so throughout the forecast period, with real GDP growth rates of around 5% in each forecast year. On the external side, the region's oil export volume is projected to grow by 3-4% annually during the forecast period and non-oil export growth should also remain strong for most countries. Import growth is expected to be high, supported by oil-price-driven improvements in the terms of trade. Trade and current account surpluses for the oil-exporting countries are likely to improve substantially in 2005 and 2006, before stabilising in 2007.

Latin America and **sub-Saharan Africa** are also expected to experience sustained robust growth. Both regions are benefiting from high prices of primary commodities and the relatively strong world growth.

Chapter 2

The economies of the euro area and the EU

1. Growth decelerated in the first half of 2005

Renewed growth weakness in the first half of 2005

Real GDP growth is estimated to slow down this year to 1.5% in the EU and 1.3% in the euro area, from 2.4% and 2.1%, respectively, in 2004. This represents a downward revision of 0.5 pp for the EU and 0.3 pp for the euro area with respect to the spring forecasts.

Reflecting an external environment characterised by soaring oil prices as well as a deceleration in world growth and trade, albeit from the vibrant expansion of the previous year, economic activity in the EU showed renewed weakness during the first half of 2005. Following a modest acceleration to 0.4% (q-o-q) in the first quarter of 2005, real GDP growth slowed to 0.3% in the second quarter in the euro area, while it remained unchanged at 0.4% in the EU. The latter outturn was one tenth of a percentage point lower than expected in the spring for the EU and two tenths of a percentage point lower for the euro area.

Table 2.1

Quarter-on-quarter GDP growth in the euro area

% change on previous period				
GDP and components	**04Q3**	**04Q4**	**05Q1**	**05Q2**
GDP	0.3	0.2	0.4	0.3
Consumption expenditure of households	0.2	0.8	0.1	0.1
Government consumption expenditure	0.4	-0.2	0.4	0.4
Gross fixed capital formation	0.5	0.3	-0.2	0.5
Changes in inventories (% of GDP)	0.1	0.1	0.0	0.1
Export* of goods and services	1.3	0.5	-0.5	1.8
Import* of goods and services	2.4	1.4	-1.4	2.3
Contributions to GDP growth (% points)				
Consumption expenditure of households	0.1	0.5	0.1	0.1
Government consumption expenditure	0.1	0.0	0.1	0.1
Gross fixed capital formation	0.1	0.1	0.0	0.1
Changes in inventories	0.4	0.0	-0.1	0.2
Net exports	-0.4	-0.3	0.3	-0.1

* Incl. intra-euro area trade

In terms of the composition of growth, however, the picture emerging from the quarterly national accounts data is more encouraging. A weakening of domestic demand (excluding inventories), following the improvement in the second half of 2004, was behind the moderate level of growth in the first half of the year. However, the data for the second quarter of 2005 showed signs of improving domestic activity. Indeed, a mild pick-up of domestic demand in the second quarter of this year more than offset the negative impulse from the external side in the euro area.

At the country level, the growth acceleration in the first quarter of 2005 was driven by the strong pick-up in Germany (0.8%, up from -0.1% in the previous quarter). The slowdown in the second quarter also reflected a marked deceleration in Germany (0.0%) and France (0.1%). Noticeably, some countries even registered a contraction of economic activity in the course of the first half of 2005. Given these lacklustre performances and the fact that working-day adjustments may have exaggerated the extent of the rebound in Germany in the first quarter of 2005, the euro-area recovery was not able to regain much momentum in the first half of this year.

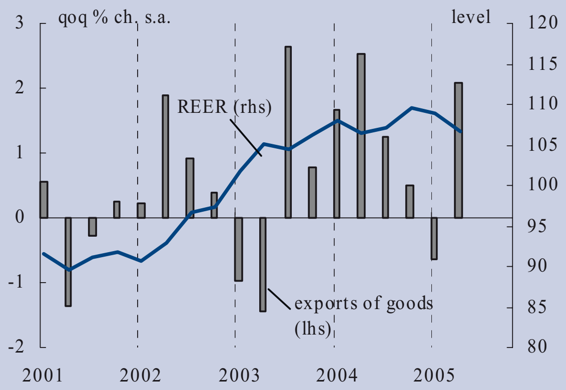
Volatile contributions from net exports

The turnaround observed in the contribution of net exports to growth in the first half of the year resulted from the more pronounced swings in the evolution of imports compared to exports. In the EU and the euro area, both export and import growth had been on a downward path since the third quarter of last year. This culminated in a contraction in the first quarter of 2005 that was about three times larger for imports than for exports.

Accordingly, after having depressed growth during the second half of 2004, the contribution of net exports turned positive in the first quarter of 2005 in both the EU and the euro area (0.4 and 0.3 pp respectively). In the subsequent quarter, however, imports rebounded strongly, outpacing the pick-up of exports. This pushed the growth contribution of net exports to zero in the EU and into slightly negative territory in the euro area (-0.1 pp). Nonetheless, due to the first-quarter outcome, the average contribution from net exports in the first half of 2005 still came out slightly positive in both the EU and the euro area.

While the downward trend in import growth observed up to the first quarter of 2005 was in line with weak final demand, the deceleration in the growth of exports may be attributed to the slowdown in world trade growth and the previous appreciation of the euro. According to estimates by the CPB Netherlands Bureau of Economic Policy Analysis, world trade expanded at double-digit rates (y-o-y) during the first half of 2004 and decelerated below 5% by the end of the first quarter of 2005. In parallel, the euro-area real effective exchange rate (REER) rose in the last quarter of 2004 to its strongest level in the last six years, implying a considerable deterioration of euro-area price and cost competitiveness. However, world trade growth rebounded once again in the second quarter, to around 7% (y-o-y), while the REER has depreciated since the start of the year, as the euro eased from the historical highs reached at the turn of the year. Euro-area cost competitiveness improved by about 2% in the second quarter of 2005 vis-à-vis the previous quarter, and by close to 3% compared to the last quarter of 2004.

Graph 2.1: **Exports of goods and real effective exchange rate, euro area (1999=100)**



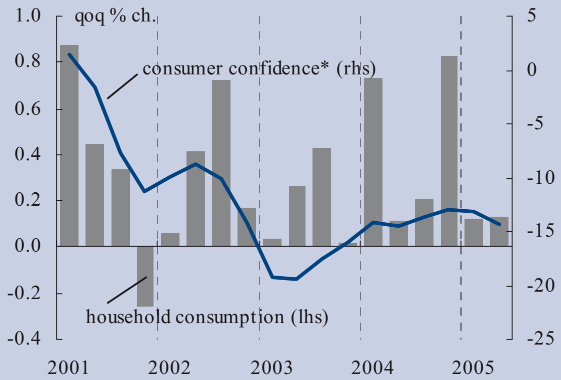
At the country level, the performance in terms of cost competitiveness has continued to vary greatly, with Germany and the Netherlands seeing improvements over the first two quarters of 2005, while Greece, Spain, Italy and Ireland recorded further losses.

Nearly stagnant private consumption

Following a sharp rebound in the last quarter of 2004, private consumption growth slowed markedly during the first half of 2005 in both the EU and the euro area. It grew by merely 0.1% q-o-q in the first quarter, down from 0.8% in the fourth quarter of 2004, in both regions. In the following quarter, private consumption growth accelerated slightly to 0.2% in the EU, but remained unchanged in the euro area.

The near stagnation of consumption growth during the first half of 2005 reflects a deterioration of consumer confidence. According to the EU Harmonised surveys, consumers became more pessimistic about employment prospects once again, against the background of a marginally improving but still high unemployment rate. The surveys also revealed perceptions on the part of consumers of slightly stronger price trends. Such perceptions are likely to have been influenced by the fact that the euro-dollar exchange rate movements provided less shelter than during 2004 against the sharp rises in energy prices experienced during the first half of 2005.

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

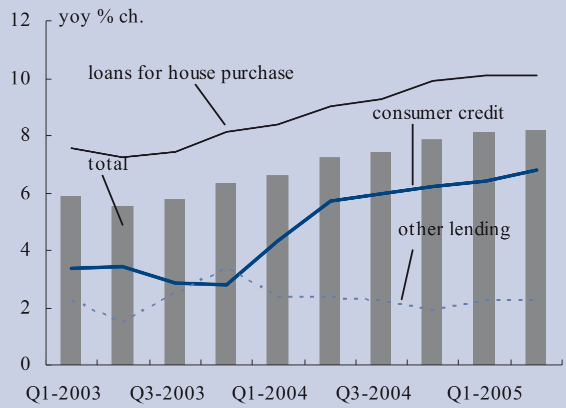


* EU Harmonised Business and Consumer Surveys

Continued robust credit growth to households

The subdued growth of private consumption stands in contrast with continued high level of liquidity and robust credit growth in the euro-area economy. Monetary data up to and including the third quarter of 2005 confirmed the persistence of strong monetary dynamics observed since mid-2004. M3 growth increased to 8.5% in the year to September 2005. This strengthening of monetary dynamics continued to be driven, on the counterpart side, mainly by strong expansion of credit 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 8.6% in the year to September 2005. The main contribution to this expansion came from lending to households for house purchase, which grew at an annual rate of 10.5% in September 2005. These developments suggest that ongoing robust credit expansion to households may be contributing to strong house price dynamics in several parts of the euro area. Set against a combination of ample liquidity and strong credit growth, buoyant housing markets might constitute a risk to the growth outlook through their underpinning of unsustainable price increases in property markets in some parts of the euro area. However, it is still an open question whether buoyant housing markets could, instead, be a source of wealth effects that would support consumption at an opportune time in the cycle.

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



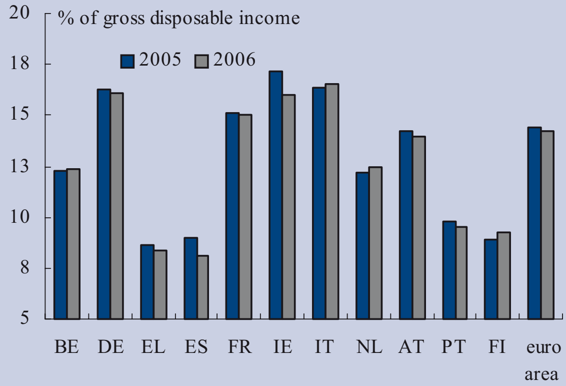
Source: ECB

Moreover, the saving rate of households in the euro area is set to decline slightly over the forecast horizon, from 14.4% in 2005 to 14.2% in 2007. Nevertheless, the projected decline in the saving rate is not sufficient to reverse the rise observed at the beginning of this decade. However, developments at the aggregate level mask divergences across countries. Among the larger euro-area countries, for instance, the saving rate is expected to remain broadly stable in Italy and France, decline slightly in Germany and more markedly in Spain.

Subdued investment spending

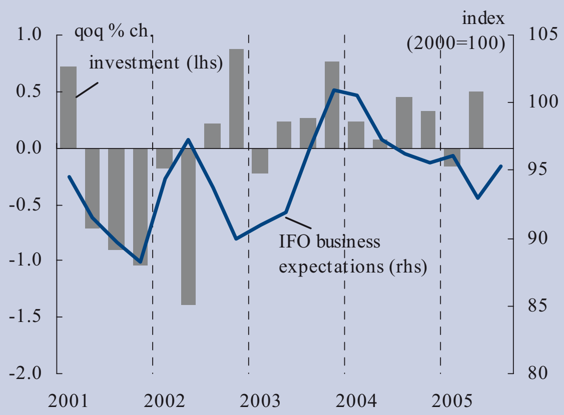
In both the EU and the euro area, investment spending has, so far this year, failed to build on the momentum achieved in the second half of last year. Despite solid earnings growth and supportive financing conditions, the evolution of fixed capital formation was considerably weaker than expected in the spring forecasts. In the first quarter of 2005, the revised national accounts data show no investment growth in the EU and a contraction of capital spending by 0.2% in the euro area. In the subsequent quarter, investment growth picked up to 0.6% in the EU and to 0.5% in the euro area.

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



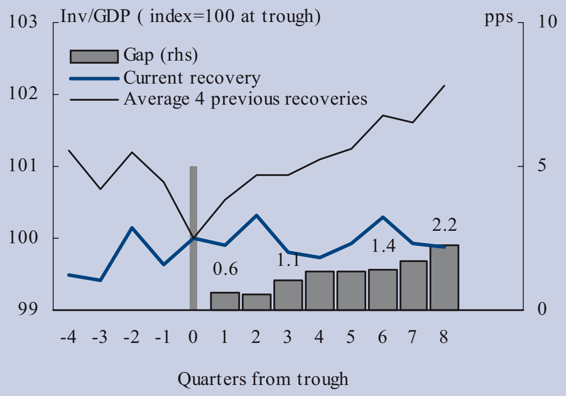
The weakness of capital formation in the first quarter of the year and the subsequent upturn were essentially attributable to marked swings in investment in the construction sector. In the first quarter of 2005, construction investment in the euro area contracted by 1.1%, the largest quarterly contraction in the last four years. Bad weather conditions, in particular in Germany, contributed to this outcome. Growth in equipment investment, by contrast, picked up sharply, from -1.1% (q-o-q) in the last quarter of 2004 to 1.7% in the first quarter of 2005. In the subsequent quarter, a moderation of equipment investment (to 0.8%) was accompanied by a marked rebound of construction investment (to 1.3%).

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



Comparing the current performance with past experience, it can be seen that investment spending remains well below the average level of previous recoveries, even taking into account the fact that the current upswing is relatively modest. Contrary to previous upturns, investment spending has not increased as a share of GDP so far. This suggests that, on top of the sluggishness of the recovery, investment may be held back by a number of longer-term factors related to the slowdown in total factor productivity growth, particularly in the euro area, as well as by labour force developments.

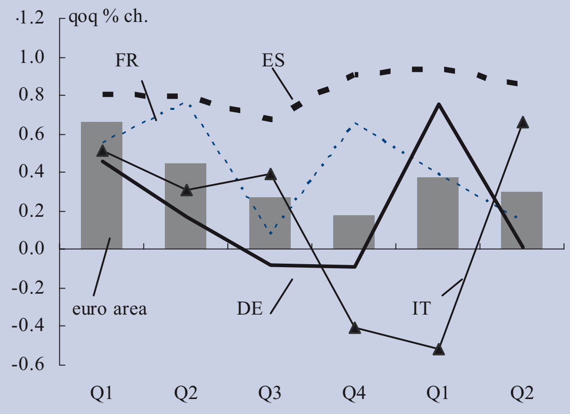
Graph 2.6: **Investment-to-GDP ratio in various recoveries, euro area**



Sizeable growth differences across Member States

Growth dispersion among euro-area countries, as indicated by the gap between the highest and the lowest growth rates, remained wide in the first half of 2005. For instance, in the second quarter of 2005, economic activity contracted by 1.6% q-o-q in Finland, whereas it expanded by 1.2% in the Netherlands. A sizable dispersion in growth rates was again particularly noticeable among the four largest Member States, where the gap increased to about 1.2 pps on average during the first half of 2005. This followed a widening of dispersion last year, when the gap rose from 0.3 pp in the first quarter of 2004 to a full percentage point in the final quarter of that year. A peak in dispersion was registered in the first quarter of 2005, when Italy registered a contraction of 0.5%, while economic activity expanded in Germany by 0.8%. In the subsequent quarter, the gap narrowed somewhat, with Germany and France showing almost flat activity, while Spain and Italy recorded growth rates of 0.9% and 0.7%, respectively. Although, as mentioned earlier, some of the recent dispersion in growth rates is also likely to be due to the effects of working-day adjustments, the issue has raised some concern. Further analysis shows that, even though cyclical elements continue to play a non-negligible role, a significant part of the dispersion can be attributed to differences in trend growth rates across countries. The analysis also shows that the factors driving growth in this upturn differ considerably across Member States.

Graph 2.7: **GDP quarter-on-quarter growth, euro area and selected Member States**



Outside the euro area, most of the recently-acceded Member States continued to experience growth rates above the euro-area average during the first half of 2005. This was particularly the case for the Baltic countries, as well as in the Czech Republic and Slovenia. In contrast, among the largest of the recently-acceded economies, Poland registered a slight contraction in the second quarter of 2005. The performance was closer to, but still above, the EU average in the three Member States that have been members of the EU for a longer period of time: growth picked up to around 0.5% in Sweden and the UK, and to a very strong 1.6% in Denmark in the second quarter of 2005.

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 krone), the EEK (Estonian kroon), the CYP (Cyprus pound), the LVL (Latvian lats), the LTL (Lithuanian litas), the MTL (Maltese lira) and the SIT (Slovenian tolar). Constant real exchange rates (that is nominal rates adjusted for changes in GDP deflators) are assumed for the CZK (Czech koruna), the HUF (Hungarian forint), the PLN (Polish zloty), the SKK (Slovakian koruna), the SEK (Swedish krona) and the GBP (sterling). Constant real exchange rates are also assumed for non-EU currencies.

The reference period used for the exchange rate constancy assumption is the fourth quarter of 2005, calculated on the basis of historical values from 19 October to 2 November 2005. The average USD/EUR rate for the fourth quarter of 2005 was 1.20 and the JPY/EUR rate 138.9. This leads to implied average USD/EUR rates of 1.25 in 2005, 1.21 in 2006 and 1.22 in 2007, and average JPY/EUR rates of 136.7, 137.3 and 135.7 in 2005, 2006 and 2007 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 55.0 USD/bl in 2005, 61.4 USD/bl in 2006 and 60.3 USD/bl in 2007. Prices of primary commodities, excluding fuels, are assumed to increase by 7.4% in 2005, 1.3% in 2006, and to decline by approximately 1% in 2007. In 2005, the prices of all groups, except for agricultural products, are expected to increase compared to 2004.

Chain linking

In order to improve the accuracy of GDP growth estimates, National Accounts have moved to ‘chain linking’ in several Member States to incorporate more up-to-date price weights. Chain-linking refers to an alternative volume measure using the previous year’s prices (instead of prices from a given base year) which are then ‘chained’ together. Forecasts for 10 Member States (namely CZ, DE, ES, FR, IE, NL, AT, PL, PT and SI) have been made using the new volume measure.

Budgetary data

Data for 2004 are based on government debt and deficit data transmitted by Member States to the European Commission in September 2005. In publishing these data, Eurostat has indicated that, for certain Member States (the Czech Republic, Greece and Portugal), it “has reservations on the quality of the data”. For 2006, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2007, 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 swap 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.

The revisions in GDP following FISIM allocations (financial services indirectly measured) will only be taken into consideration for the calculations of the deficit- and debt- to-GDP ratios in spring 2006, although FISIM allocations have been implemented by 10 Member States already (namely DK, DE, EE, ES, FR, IE, NL, AT, FI and SI).

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 remain supportive of growth in the EU

Financing conditions have improved

Financing prospects and costs in the euro area, which were already favourable in the spring, have improved further, for both corporations (a term used in this section for non-financial corporations) and households. However, these favourable financing conditions have not yet triggered a significant pick-up in investment or private consumption.

Interest rates on bank lending and direct financing remain at very low levels, in both nominal and real terms; although nominal market-based interest rates have risen in recent weeks. Interest rates on bank lending, which is still the predominant source of external funding for both sectors, have declined steadily since 2003 and have remained at very low levels in recent months. The decline in interest rates has been pronounced for corporate and mortgage lending, while rates for consumer credit retreated more modestly.

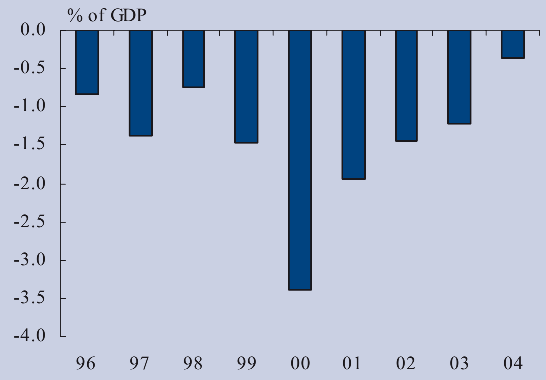
Further evidence of increasingly favourable financing conditions can be derived from the ECB bank lending survey, which shows a continuous amelioration in the terms of credit conditions for both the corporate sector and households. More recently, however, the banks' credit stance toward the two sectors has begun to diverge, remaining on an easing stance in respect of companies but reverting toward "neutral" in respect of households. In addition to the decline in interest rates on bank lending, financing conditions in corporate bond markets also remain favourable due to the continued subdued level of interest rates and the fact that corporate bond spreads remain close to historical lows.

Euro-area equity prices have been on a sustained upward trend since the end of April 2005, having fluctuated in a fairly narrow range in previous months. However, evidence suggests that companies have yet to return to equity issuance as a major external funding option. While there is considerable variation across Member States, the euro-area equity markets – in line with broader European and Japanese share prices - have tended to outperform US markets. Robust global growth, improved profitability outlook, increasing dividend payments and share buyback activity and increased merger and acquisition activity are factors that have contributed to the increases in equity prices.

Corporate balance-sheet restructuring advanced

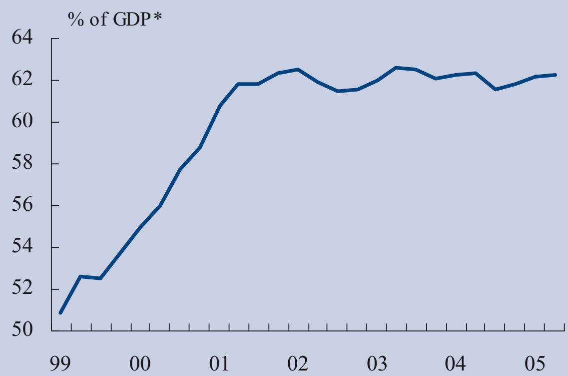
Investment activity in the euro area has been sluggish for several years amid a gradual decline in the net financial position of non-financial corporations to less than 0.5% of GDP in 2004, as suggested by financial accounts data. The decline in net lending reflects weak demand and can be explained as a reaction to the accumulation of substantial corporate debt in the period 1999-2001.

Graph 2.8: **Net financial position of non-financial corporations, euro area**



As the global economy slowed in the aftermath of the 2000 stock market correction, the level of accumulated debt was assessed as being too high and companies have spent much of the period since 2002 in balance-sheet restructuring.

Graph 2.9: **Corporate debt to GDP, euro area**



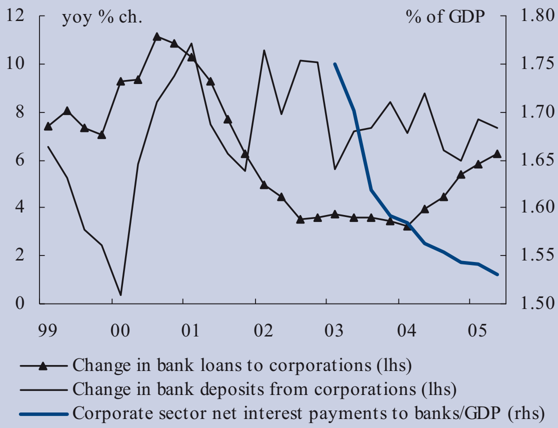
*Source: ECB; * 05Q2 estimated*

More specifically, companies have made use of low interest rates to re-finance existing debt, while simultaneously limiting their expenditure on physical investment. As a result, the level of accumulated corporate debt has stabilised at about 62% of GDP since 2002.

As a result of lower interest rates and balance-sheet restructuring, companies have reduced their debt-servicing costs, with net interest payments to the banking sector declining to slightly over 1.5% of GDP in the second quarter of this year. This development is also mirrored in the growing accumulation of cash balances within the corporate sector. In that context, the question arises as to what the corporate sector is planning to do with those funds: dividend payouts and share buy backs and/or preparing forthcoming investment and spending decisions.

If the latter option is chosen, the improvement in company balance sheets since 2001 has laid the ground for a future acceleration in investment expenditure and recent developments are encouraging in this regard.

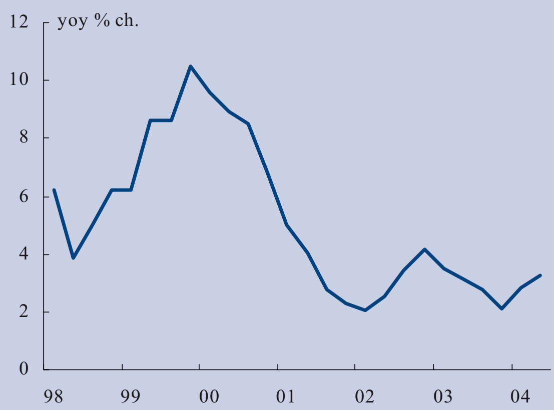
Graph 2.10: **Corporate sector exposure, euro area**



Source: ECB

For example, mainly as a result of a pick-up in bank loans, there has been a narrowing in the gap between y-o-y growth in non-financial corporate deposits at banks and the corresponding growth of bank loans to the sector. In August 2005, the ratio of outstanding bank loans to the non-financial corporate sector and the corporate sector's bank deposits was about 3:1. In addition, total demand for external funding – although still markedly below earlier expansionary periods – seems to be recovering. Lastly, rising equity prices also suggest a brightening in the business outlook and the most recent ECB bank lending survey predicts higher loan demand later this year. However, given the still-high level of corporate debt, companies remain vulnerable to any negative economic shock, insofar as further repair of balance sheets could then become necessary with negative implications for investment.

Graph 2.11: **Total external funding demand of the corporate sector**



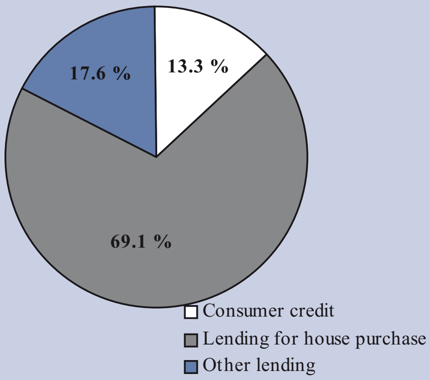
Source: ECB; series includes debt and equity financing

The euro-area household sector

In contrast to the corporate sector, and as mentioned in section 1 of this chapter, euro-area households have responded to favourable financing conditions in recent years by accumulating debt. Bank lending to households has picked up progressively since the beginning of 2003, accelerating to an annual rate slightly above 8% in the first three quarters of 2005.

Pronounced growth in mortgage lending, which represents nearly 70% of total outstanding loans to households, has been the main contributor to the rise in total lending to households. However, growth in consumer credit has also accelerated from 2% at the end of 2003 to around 7% in 2005. On this basis, the financial outlook for the household sector is unclear. While a positive wealth effect might be expected from the recent rise in the price of housing and other assets, increased debt liabilities are a cause for concern.

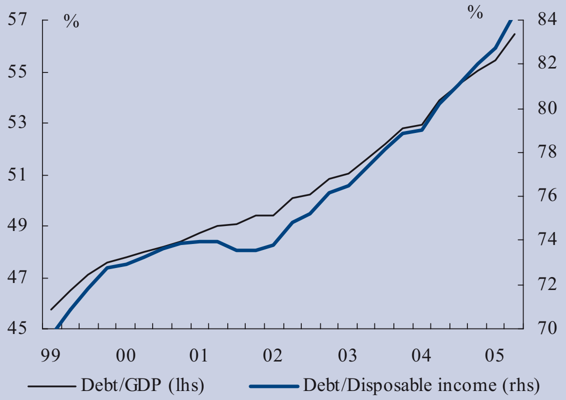
Graph 2.12: **Composition of outstanding bank loans to households in August 2005, euro area**



Source: ECB

In recent years, household debt has risen from about 45% of GDP in 1999 to about 56% in 2005 and from about 70% to 84% of disposable income over the same period. Most of this accumulated debt is secured against housing, leaving households vulnerable to adverse developments in house prices and mortgage financing costs – with potentially negative implications for expenditure on private consumption.

Graph 2.13: **Household debt to GDP and to disposable income, euro area**

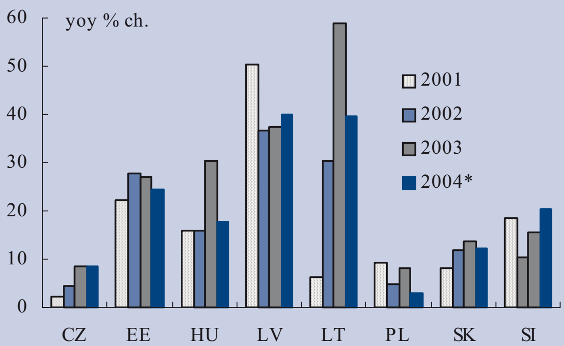


Source: ECB

Developments in non-euro-area Member States

Despite accumulated non-financial corporate debt of 78% of GDP, no significant problems have been reported at an aggregate level in the United Kingdom. Corporate debt levels in Sweden continue to decline, falling to 65% of GDP in 2004 from 70% in 2003, while corporate debt in Denmark was about 85% in 2004. In all three countries, household debt is at a very high level, mostly secured against housing. While corporate and household debt levels remain relatively low in the recently-acceded Member States, many of these are experiencing an accelerated financial convergence, as evidenced by the strong pace of credit growth to the private sector. While strong credit growth is expected to boost economic performance, it also poses some risks such as financing an unsustainable rise in demand, vulnerability to exchange-rate or interest-rate shocks and inefficient credit allocation. Consequently, the challenge for affected Member States is to ensure the soundness of the financial sector so as to deliver growth supportive financing conditions in the medium term.

Graph 2.14: **Credit to the private sector, some recently-acceded Member States**



Source: IMF *Some 2004 figures are estimates

3. A gradual return to potential growth (with alternative risk scenarios)

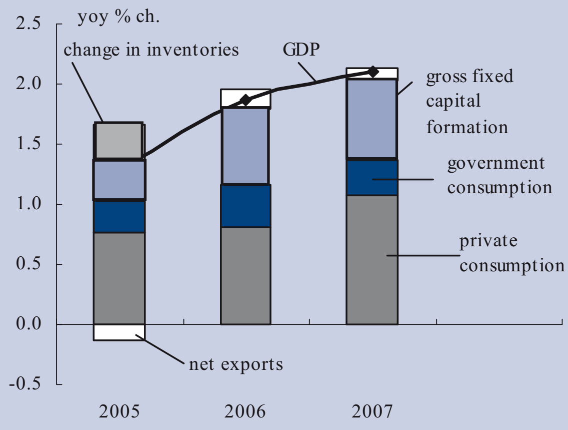
A gradual return to potential in 2006

While growth has disappointed in 2005 – annual GDP growth is estimated to be 1.3% in the euro area and 1.5% in EU – the conditions remain in place for a return to potential at the start of 2006 in the absence of further shocks. The forecast envisages annual GDP growth of 1.9% in the euro area and 2.1% in EU in 2006, followed by a further improvement to 2.1% and 2.4%, respectively, in 2007.

Extending the pattern which emerged in the second quarter of this year, the rebound is driven almost exclusively by a strengthening of domestic demand in the euro area and the EU, with a marginal contribution from the external sector.

Within domestic demand, the growth impulse stems mainly from a strong acceleration in gross fixed capital formation, especially next year. The positive outlook for investment is supported by a marked recovery in business confidence, especially in the manufacturing sector, in recent months. The case for a strengthening of investment growth is underpinned by favourable financial conditions, improved balance sheets, wider profit margins, and an increasing need for replacement investment.

Graph 2.15: **Growth contributions, euro area**



The projected pick-up in private consumption over the forecast horizon is more gradual than in the case of investment. The fact that euro-area consumer confidence remains below its long-term average and below the level recorded at a similar stage of the recovery in previous cycles supports such a profile. However, good progress in the implementation of structural reforms in some countries has resolved some uncertainties, which have acted as a brake on consumption in the past. And although purchasing power prospects of consumers may be dented by

Table 2.2

Composition of growth - EU25

(Real annual percentage change)

	2004							Autumn 2005 forecast		
	bn Euro curr. prices	% GDP	2000	2001	2002	2003	2004	2005	2006	2007
			Real percentage change							
Private consumption	6027.7	58.3	3.4	2.0	1.6	1.6	2.1	1.6	1.6	2.1
Government consumption	2141.5	20.7	2.3	2.1	2.9	2.1	1.3	1.2	1.9	1.7
Gross fixed capital formation	2001.3	19.4	4.8	0.5	-1.2	0.8	3.0	2.3	3.5	3.6
Change in stocks as % of GDP	40.4	0.4	0.4	-0.1	-0.3	-0.1	0.3	0.5	0.5	0.5
Exports of goods and services	3735.1	36.1	12.0	3.6	1.7	1.8	6.7	3.9	5.3	5.3
Final demand	13945.9	134.9	5.6	1.9	1.2	1.7	3.6	2.3	3.0	3.2
Imports of goods and services	3608.5	34.9	11.1	2.2	1.2	3.2	7.0	4.2	5.2	5.3
GDP	10337.4	100.0	3.8	1.9	1.2	1.2	2.4	1.5	2.1	2.4
GNI	10317.2	99.8	3.9	1.7	1.2	1.1	2.5	1.7	2.1	2.4
p.m. GDP euro area	7698.7	74.5	3.8	1.9	0.9	0.7	2.1	1.3	1.9	2.1
			Contribution to change in GDP							
Consumption			2.5	1.6	1.5	1.3	1.5	1.2	1.3	1.6
Investment			1.0	0.1	-0.2	0.2	0.6	0.4	0.7	0.7
Inventories			0.0	-0.4	-0.3	0.2	0.3	0.0	0.0	0.0
Exports			4.0	1.3	0.6	0.7	2.4	1.5	2.0	2.1
Final demand			7.4	2.7	1.6	2.3	4.8	3.1	4.1	4.4
Imports (minus)			-3.6	-0.8	-0.4	-1.1	-2.4	-1.5	-1.9	-2.1
Net exports			0.4	0.5	0.2	-0.5	0.0	0.0	0.1	0.1

higher energy prices, the projected acceleration in job creation and fall in unemployment should provide a boost to private consumption expenditure in 2007.

Risks and alternative scenarios

The risks on the external side are tilted to the downside.

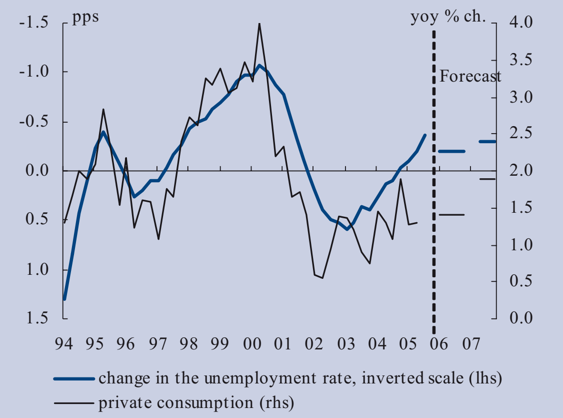
World demand could be stronger if the projected deceleration of growth in the US and Asia is less than anticipated. Indeed, the resilience of the US and emerging Asian economies has continued to surprise forecasters in recent years. Moreover, the behaviour of oil-exporting countries should also be considered. Should these countries choose to spend a larger share of their additional income from oil on imports, the EU should continue to be well placed to benefit from this extra demand. The EU has large export-market shares in OPEC, CIS and Norway, in particular.

In view of the sharp rise in oil prices this year, the possibility of even higher prices than projected in the central scenario cannot be ruled out. The downside risk of higher oil prices is also related to the uncertainty about the impact of higher oil prices. Business and consumer confidence could be more negatively affected by a percentage-point rise in the oil price at higher price levels. These so-called “non-linear” effects could then lead to a stronger adverse impact on the economy than already observed.

It must also be acknowledged that global current account imbalances continue to rise. Accordingly, a disorderly correction of global imbalances (with much volatility in financial markets) cannot be ruled out. The new Chinese exchange rate policy may be seen as the first of a series of steps that would lead towards a more broad-based sharing of the burden of the correction of global imbalances. But this step alone is not sufficient to alleviate fears that a large share of the burden of adjustment would fall on European exporters in the event of a disorderly unwinding of the imbalances.

Finally, a possible abrupt shift in investor expectations regarding global economic growth and inflation could lead to a severe correction in some asset prices. The current level of asset prices suggests that a sustained economic recovery and low inflation are fully discounted. Revisions in these expectations would affect both financial markets and the real economy.

Graph 2.16: **Unemployment and private consumption, euro area**



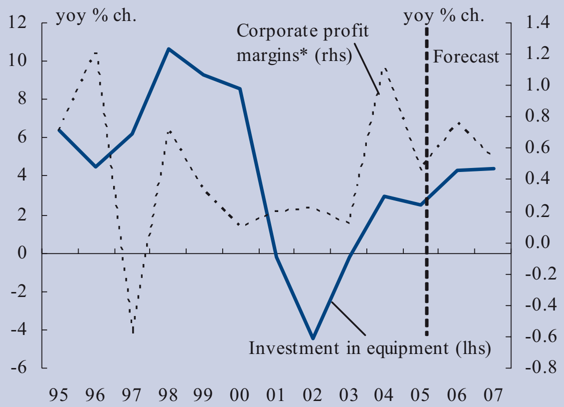
The risks on the domestic side appear to be more balanced.

Several factors pose a risk to the outlook for private consumption. Higher oil prices represent an important threat to real disposable income. On the other hand, consumer confidence could improve by more than expected, due to better labour market conditions and a reduction of uncertainty over future income streams, as a result of ongoing and past structural reforms. Such an increase in confidence could trigger the release of the pent-up demand that has accumulated among private consumers. This could, in turn, be financed through a reduction in the savings rate. As already mentioned in the first section of this chapter, the effect of the buoyant housing market in some Member States is difficult to predict. Unanticipated housing wealth effects could boost consumption, while a correction of the over-valuation of housing could work in the opposite direction, with negative confidence effects for households.

In the case of investment, positive risks are linked to stronger growth of specific housing markets, stronger-than-expected external demand or higher productivity as a result of past IT-investments and past reforms. Negative risks include higher oil prices, a disappointing development of overall demand and entrenched low-growth expectations.

Overall, risks are tilted somewhat to the downside in this forecast.

Graph 2.17: **Profit margins and investment in equipment, euro area**



*approximated by the GDP deflator minus unit labour cost

It is worth exploring what the implications would be, should some of the risks materialise. Accordingly, two alternative scenarios were simulated and these are summarised in the box below. In the worse-case scenario, GDP growth in the euro area and the EU would be reduced by around ½ pp in both 2006 and in 2007, compared to the central scenario. In the better-case scenario, GDP growth in the euro area and the EU would be raised by 0.3 and 0.1 pp, respectively, in 2006 and 2007.

Box 2.2: Simulation of alternative scenarios

A worse-case scenario was simulated by applying a number of simultaneous shocks in the QUEST model. The shocks include:

(1) An additional increase in oil prices to a "permanent" 80 USD/barrel level from the fourth quarter of 2005 onwards;

(2) A similar rise in natural gas prices with a six-month lag;

(3) A substantial reduction in private consumption growth in the US: by 1.2 pps, which could be linked to a marked slowdown in the housing market and a consequent increased propensity to save. In addition, a reduction in US investment by 1.8 pps is also assumed.

Furthermore, higher oil prices and the reduced demand from the US are also assumed to have an impact on the rest of the world. Accordingly, GDP growth would be cut by around 1¼ pps in Asia, while growth in other regions (except OPEC, CIS and Norway) would be reduced by 1¾ pps.

The combined effects of the shocks described above is a marked slowdown in US GDP growth (which is lowered by 1.1 pps compared to the central scenario) and in world growth (excluding EU15) by 1.2 pps in 2006 and a further 0.9 pp in 2007. This would cause global growth to fall to between 3 to 3½%.

Higher oil prices and reduced global growth would limit the EU and the euro-area GDP growth as well. Overall, GDP growth would be reduced by around ½ pp in both 2006 and in 2007 in the euro area and the EU25. This is mainly due to the impact of higher oil prices, which reduces growth by around 0.3-0.4 percentages points in both years.

Table 2.3
GDP growth differentials in the alternative (worse-case) vs. the central scenario

	2005	2006	2007
USA	-0.1	-1.1	-0.7
Japan	-0.1	-0.8	-0.7
Other Asia (incl. China, India)	-0.2	-1.2	-0.8
Latin America	-0.1	-1.8	-1.2
Rest of the world	-0.1	-1.8	-1.4
Recently-acceded Member States	-0.1	-0.6	-0.5
World GDP (excl. EU15)	-0.1	-1.2	-0.9
Euro area	-0.1	-0.6	-0.5
EU15	-0.1	-0.6	-0.4
EU25	-0.1	-0.6	-0.4

Compared to the central scenario, the alternative scenario would imply a downward revision of GDP growth from 1.9% to 1.3% in 2006 and from 2.1% to 1.6% in 2007 in the euro area. Similarly, EU GDP growth would be cut back from the central scenario of 2.1% to 1.5% in 2006 and from 2.4% to 2.0% in 2007.

The outcome may appear somewhat surprising, as global growth falls to 3-3½% without implying a larger impact for the EU. However, it should be noted that, in the QUEST model, interest and exchange rates are endogenous, while confidence indicators are not explicitly modelled. The benign results reflect the reduced oil intensity and the relatively low share of extra-EU exports of goods (of around 10% of GDP).

A better-case scenario was simulated by applying the following shocks to the model:

(1) An unwinding of pent-up consumer demand in Germany, with the savings rate falling in 2006 and 2007, as consumers become more optimistic about the future. This implies that consumer spending in Germany would be raised (above the levels in the central scenario) by 1.2% in 2006 and by 1.8% in 2007; and

(2) a spill-over of some of this optimism to other Member States, implying that private consumption in the EU would be lifted above the central scenario by 0.6 and 0.9%, respectively, in 2006 and 2007 (0.7 and 1.0%, respectively, in the euro area).

A decline in savings should be associated with a rise in real interest rates to restore the equilibrium between savings and investment in the QUEST model. However, under the assumption of an accommodating monetary stance, the negative impact on investment would be negligible.

This more optimistic scenario pushes GDP growth in Germany higher than the central scenario by 0.5 pp in 2006 and 0.2 pp in 2007. For the euro area, and the EU as a whole, GDP growth would be 0.3 and 0.1 pp higher, respectively, in 2006 and 2007.

Table 2.4
GDP growth differentials in the alternative (better-case) vs. the central scenario

	2006	2007
Germany		
Consumption	1.2	0.6
GDP	0.5	0.2
Euro area		
Consumption	0.7	0.3
GDP	0.3	0.1
EU25		
Consumption	0.6	0.3
GDP	0.3	0.1

4. Improvement in labour market conditions

Limited increase in long-term unemployment in the downswing

Both the euro-area and the EU labour markets have been markedly less influenced by the recent economic downswings and upswings, compared to earlier cycles. Although the labour market conditions worsened with the usual lag to the economic slowdown in 2001-2003, the rise in the annual unemployment rate was limited to one percentage point, compared to some three percentage points in the early 1990s. In this cycle, unemployment peaked at 8.9% of the labour force in the euro area in the second quarter of 2004.

Several factors bear witness to the structural improvement in the functioning of the labour market, including a decline in long-term unemployment rates and in the average duration of unemployment spells, as well as an improvement in the matching process.

Weak labour demand so far in the upswing

Euro-area employment growth accelerated to 0.2% in the second quarter of 2005 (q-o-q) up from 0.1% in the first quarter. The still relatively modest employment growth can be partly explained by the labour hoarding, which took place during the economic downturn and created a 'reserve' of employees in many enterprises.

Table 2.5

Sectoral employment growth in the euro area

(Quarterly percentage change, seasonally adjusted)

	2003	2004	04Q3	04Q4	05Q1	05Q2
Whole economy	0.3	0.6	0.2	0.2	0.1	0.2
Agriculture	-1.9	-0.7	0.1	-0.4	-1.2	0.1
Industry	-1	-0.9	-0.1	0	-0.6	0.1
Services	0.9	1.2	0.3	0.3	0.4	0.3

Source: ECB

The overall development of job creation masks significant differences across Member States and across sectors. In the euro area, employment creation of 2½-3% was recorded in Greece, Spain, Ireland and Luxembourg in 2004, whereas a decline was noted in France and, in particular, the Netherlands (-1½%). At the sectoral level, net job creation continued to be limited to the services sector, while employment has been falling in the agriculture and industry sectors (besides the moderate pick-up noted in industry in the most recent quarter).

Employment expectations suggest a pick-up

Looking ahead, employment expectations, as reported in the Harmonised EU Business and Consumer Survey, improved in October. While the volatility of monthly indicators in general suggests that they should be interpreted with due caution, an analysis of the three-month moving average confirms the improvement (when comparing August-October to the previous three months).

At the sectoral level, expectations are indicative of a further expansion of employment in the services sector and a possible further deterioration in industry, although activity is expected to expand in both sectors. This would be in line with the sectoral employment trends discussed above. Nevertheless, it should be noted that, when comparing companies' expectations and their assessment of the recent past, employment growth has recovered more slowly in the services sector than the expectations would suggest.

Overall, the survey results thus point to a modest improvement in the employment outlook, although a considerable acceleration of employment creation in the second half of 2005 appears unlikely. This is consistent with the improvement noted in consumers' unemployment expectations in the period August-October compared to May-July.

Unemployment at 8½% in September 2005

In view of the moderate employment creation in 2003-2004, the standardised unemployment rate stabilised at around 9% of the labour force in both the euro area and the EU in 2004. In line with the pick-up in employment this year, a certain decline in the unemployment rate has been recorded: in September 2005, the unemployment rate was 8.4% in the euro area and at 8.6% in the EU.

Differences continue to be sizeable across Member States, with unemployment ranging from around 4½-5% in Denmark, Ireland, the Netherlands, Austria and the United Kingdom to some 9-10% in Germany, Spain, Greece, France and Latvia and more than 16% in Slovakia and Poland in September 2005.

Improving employment outlook

Employment is expected to increase by 1% in the euro area and 0.9% in the EU in 2005, before accelerating marginally to 1.2% in 2006 and 1.1% in 2007 in the euro area, and to 1.0% in both years in the EU.

The employment outlook for 2005 may appear high in view of the weaker outlook for economic activity (both compared to 2004 and to the spring forecast). The combined effect of the current GDP growth and the employment forecasts is an expected strong decline in labour productivity growth, from 1.4% in 2004 to 0.3% in 2005 in the euro area and from 1.8% to 0.6% in the EU.

Specific factors behind the improvement

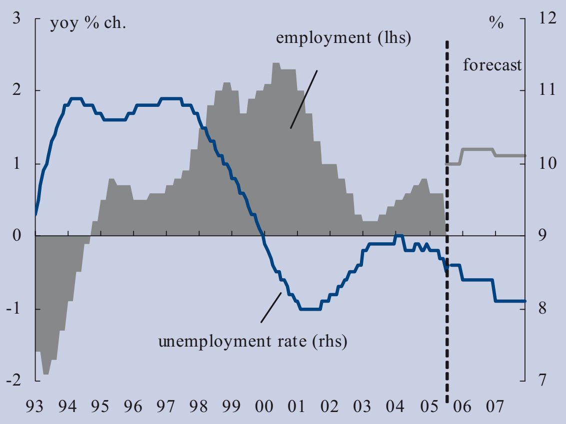
Employment growth in 2005 is, however, partly explained by a number of other factors in some Member States.

In Spain, the apparent strong demand for labour is further reinforced as a consequence of the regularisation of immigrant workers. It is estimated that the latter will boost the number of employed persons by 700,000, even if the rise in full-time equivalents would be substantially lower, as many immigrants tend to occupy temporary jobs. In Italy, in spite of almost flat GDP growth this year, the regularisation of immigrant workers and the continuing effect of labour market reforms introduced since the 1990's has led to a further increase in employment. As a result, measured labour productivity growth turns negative again in Italy in 2005. On the other hand, weaker-than-earlier-expected economic activity is foreseen to dampen (regular) employment growth in Germany, France and, in particular, the Netherlands.

Job creation also arises from measures taken to combat unemployment and stimulate employment in some Member States. In Germany, for example, job creation in 2005 stems partly from jobs with reduced payroll taxes ("mini-jobs") and jobs for benefit recipients ("one-euro-jobs"). Both measures raise part-time employment. The former are created in the regular labour market, whereas the latter are provided and remunerated by the public sector. As with the regularisation of immigrants, full-time equivalent employment growth from this type of measure is more limited.

As the economic upswing accelerates, investment-led GDP growth is set to be complemented by a gradual pick-up in private consumption. This is likely to further enhance the importance of the services sector. With lower labour productivity on average in the services sector, GDP growth should also tend to be accompanied by a greater increase in employment.

Graph 2.18: **Employment growth and unemployment rate in the euro area**



Unemployment diminishing to around 8% in 2007

Employment is expected to increase by 1.4 million persons this year in the euro area, while the influx to the labour force limits the decline in the number of unemployed to 0.3 million persons. It is thus anticipated that the euro-area unemployment rate will fall to 8.6% in 2005 (from 8.9% of the labour force in 2004). Similarly, the unemployment rate in the EU is projected to improve by 0.3 pp this year (to 8.7%).

Over the remainder of the forecast period, euro-area employment is expected to grow by 1.6 million per year in both 2006 and 2007, facilitating a further decline in unemployment. Overall, employment is expected to increase by 4½ million persons in 2005-2007 in the euro area and by 6 million persons in the EU.

The unemployment rate is thus foreseen to fall further to 8.4% in 2006 and to 8.1% in 2007 in the euro area. A decline is also expected in the EU with the unemployment rate declining to 8.5% and 8.1%, respectively. This development would correspond to a reduction in number of unemployed persons by 0.8 million in the euro area and by 1.6 million persons in the EU over the whole forecast period.

The marked differences in unemployment rates recorded across Member States will remain, even if some convergence can be noted. This follows from the expected favourable development in the two Member States with the highest unemployment rate, Poland and Slovakia, where the unemployment rate continues to fall over the forecast period. Within the euro area, the relatively wide unemployment rate range is maintained: from 4-5% in Ireland, the Netherlands and Austria to around 9% in Germany and France and almost 10% in Greece.

Different wage trends across Member States

On average, wage growth, as measured by compensation of employees per head, remained relatively unaffected by the economic slowdown in 2001-2003. Wage growth began to moderate more markedly only this year. Euro-area wage growth is expected to ease to 1.8% in 2005, 2.0% in 2006, before edging up to 2.4% in 2007.

Wage trends exhibit considerable differences across Member States, with wage growth being markedly higher in (most of) the recently-acceded Member States, causing wages in the EU to rise by around 2½-3%. Differences are also pronounced within the euro area, with projected wage growth ranging from around 0% in Germany this year to around 5% or more in Greece and Ireland.

Wage growth seems to reflect labour market tightness (or lack thereof) relatively well in most Member States in 2005. This explains the wage increases of above 3% in Greece, Spain, Ireland and Luxembourg, as well as the decline in wages in Germany.

However, in the cases of Portugal and Finland, average wage increases were higher than might be expected from the weak economic situation and cannot be justified by a rapid increase in labour productivity. Wage growth in these countries could, to a certain extent, be explained by the ongoing impact of multi-annual wage agreements. Wage increases in Italy (of close to 3%) also appear to be somewhat on the high side in view of the marked deceleration in GDP growth in 2005 and negative growth in labour productivity.

Increasing divergence in competitiveness

Persistent and relatively high wage increases, combined with low (or even negative) labour productivity growth, have given rise to competitiveness problems for some Member States.

Nominal unit labour cost is estimated to have risen by around 2½-3% in Spain, Portugal and Finland, and by 3% or more in Greece, Ireland and Italy in 2005. Taking into account real effective exchange rates, unit labour cost rose by around 1-2% in Ireland, Italy and Finland. This has had a negative impact on export performance of these countries, particularly in the case of Italy. On the other hand, the pronounced wage moderation in Germany, as reflected in falling unit labour costs in 2004-2006, has provided a substantial impetus to exports, thus contributing to rising export market shares.

Table 2.6

Labour market outlook - EU25

(Annual percentage change)				Autumn 2005 forecast			Difference vs spring 2005	
	1991-95	1996-00	2004	2005	2006	2007	2005	2006
Population in working age (15-64)	:	:	0.5	0.4	0.4	0.4	0.1	0.1
Labour force	:	:	:	0.7	0.7	0.7	0.1	0.1
Employment	:	1.2	0.6	0.9	1.0	1.0	0.2	0.2
Employment (change in million)	:	10.1	1.2	1.9	2.1	2.0	0.6	0.5
Unemployment (levels in millions)	:	19.3	19.5	19.0	18.5	17.9	-0.3	-0.3
Unemployment rate (% of labour force)	:	9.5	9.0	8.7	8.5	8.1	-0.3	-0.2
Labour productivity, whole economy	:	1.7	1.8	0.6	1.1	1.4	-0.7	-0.4
Employment rate (a)	:	:	63.0	63.4	63.8	64.1	0.0	0.1
p.m. Employment euro area	-0.2	1.6	0.7	1.0	1.2	1.1	0.3	0.3

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

5. Headline inflation lifted by rising oil prices

After falling below 2% in the beginning of 2005, the annual rate of headline inflation in the euro area fluctuated around 2.1%, before rising to 2½% in September-October. The stickiness of euro-area inflation mainly reflects the rise in energy inflation, triggered by soaring oil prices. Since the end of last year, crude oil prices have risen by more than 60% in euro terms.

One rule of thumb suggests that a 10% increase in oil prices leads to a rise of 1½ pps in the annual rate of change in consumer prices of energy within about half a year. As energy has a weight of roughly 8-9% in the overall HICP basket, this translates into a direct increase in consumer price inflation of 0.1-0.2 of a percentage point. Compared to an annual rate of 4.5% in 2004, energy HICP inflation averaged 9.1% in the nine months to September 2005. This resulted in a rise in the contribution of energy to overall inflation from 0.4 pp to 0.7 pp over the corresponding period.

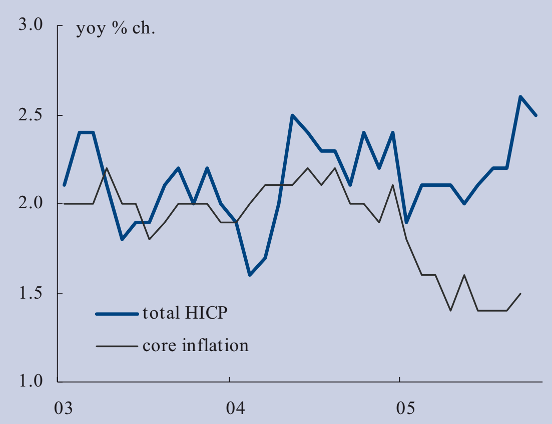
Largely reflecting fluctuations in oil prices, among the main components of headline inflation in the first nine months of 2005, the highest annual rates of inflation were observed in housing (4.5%) and transport (4%). The former, driven by higher rentals for housing and surging prices for gas, electricity and fuels, contributed 0.7 pp to headline inflation in 2005. As the cost of energy represents a sizeable share of total transport costs, transport prices also grew rapidly, adding 0.6 pp to overall inflation.

Rises in indirect taxes and administrated prices remained high during 2005, contributing 0.4 pp to headline inflation. While smaller than in 2004, partly as a result of base effects related to sizeable increases in indirect tax rates last year, this contribution is still above the long-term average of 0.2 pp.

Deceleration of core inflation

In contrast to the upward trend in headline inflation, core inflation (HICP inflation excluding energy and unprocessed food) has been on an almost uninterrupted downward trend since the beginning of 2005. In the euro area, core inflation diminished from 2% in 2004 to 1.5% in September 2005. A similar decelerating pattern is evident for the EU. The decomposition of core inflation into its main components – services, non-energy industrial goods and processed food – reveals that the downward trend was driven by a slowdown of inflation in manufacturing goods and processed food and, to a lesser extent, in services.

Graph 2.19: **Headline and core inflation, euro area**



Price rises in industrial goods have added just 0.1 pp to overall inflation this year. Strong competition in the tradable goods sector, coupled with subdued growth in the euro area, put downward pressure on industrial prices. Similarly, processed food inflation contributed only 0.2 pp to overall inflation, mainly as a result of slowing inflation for fresh food.

Services inflation, while also decelerating, remained above 2% and has added 1 pp to this year's headline inflation. Since services represent more than 40% of the HICP basket, they play an important role in shaping the evolution of overall inflation. Within services, the moderation is largely attributable to a continuous decline (at an average annual pace of about 2%) in prices for communication services.

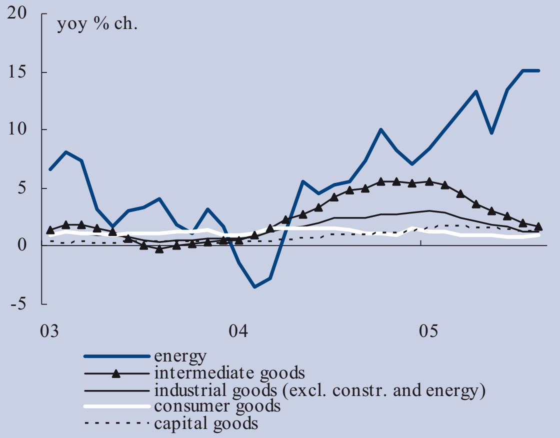
Short-term upward revision due to energy prices

Headline inflation is expected to be stubbornly high in the short run and to remain above 2% for longer than anticipated in the spring forecast. A prolonged period of high energy prices is the main element behind the expected upward shift in the profile for inflation over the coming quarters. As mentioned in chapter 1, a fall in oil prices is not expected in the near future in view of continuous strong demand, limited spare capacity and geopolitical tensions in some important oil-producing countries. As a consequence, the direct impact of higher oil prices on headline inflation via the energy component of the HICP is likely to remain substantial.

Contained indirect effects

Oil prices can also affect inflation indirectly through the effect of higher costs for energy inputs on the prices of other goods and services. However, while lagged effects might still materialise, to date, there is little or no evidence of a pass-through of higher energy costs into producer prices. The annual growth rate of producer prices excluding energy and construction remained broadly unchanged at 2% in 2004 and during the first nine months of 2005.

Graph 2.20: **Breakdown of industrial producer prices, euro area**



Evidence from survey data of a strengthening of input price pressures in the manufacturing and services sectors in the short-run is, at best, mixed. While the price component of the euro-area manufacturing PMI suggests an increase in production prices, the indicator for prices actually charged by firms is consistent with stable manufacturing prices. A similar development is evident in the price components of the PMI for services. The index of input prices rebounded in the third quarter of 2005, after several months of moderating price pressure. However, the index for prices charged is still hovering around 50, thus indicating stable output prices. On the whole, the more muted increases in prices charged compared to input prices suggest that firms are absorbing part of the rising costs by squeezing profits.

In addition, despite the rise in oil prices, there are only limited sign of inflationary effects stemming from changes in inflation expectations. For instance, according to Harmonised EU Business and Consumer Surveys, inflation expectations in manufacturing have been on a downward trend for the first half of 2005 and remain well below the historical average, despite the up-tick in recent months. On the other hand, inflation expectations of consumers have risen since the beginning of 2005. The record high prices of oil have apparently influenced households' assessment of the situation. Nevertheless, at the current level, consumer inflation expectations are below their long-term average. While inflation expectations derived from indexed-bonds moved upwards in recent months, they remain relatively subdued. The ECB's survey of professional forecasters reported an upward revision of short-term inflation expectations from 1.9% to 2.1% in 2005, but inflation is expected to decline to 1.8% in 2006 and to stay at that level also in 2007.

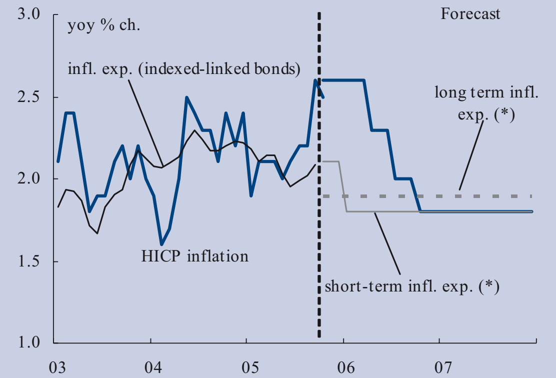
Overall, euro-area inflation is set to hover around 2.5% for the remainder of this year and during the first half of 2006. For 2005 as a whole, HICP inflation is estimated at 2.3% in both the euro area and the EU. Compared to the spring forecast, this represents an upward adjustment of 0.4 pp. HICP inflation in 2005 has been revised upwards in all euro-area Member States, apart from Finland and Portugal.

An improved inflation outlook in the medium term

Notwithstanding the short-term effects of temporary price shocks, the medium-term outlook for price developments remains favourable. The inflation rate is projected to ease in the second half of 2006, reaching 2% in the third quarter of the year and hovering around 1.8% from the fourth quarter onwards. In annual average terms, HICP inflation in the euro area is estimated at 2.2% in 2006 and 1.8% in 2007. The corresponding figures for the EU are 2.2% and 1.9%.

Both domestic and external factors are expected to contribute to the improved inflation outlook. These include overall economic conditions, which are expected to be conducive to moderate wage developments, and an improvement in unit labour costs. Growth in compensation of employees per head is forecast to be in the vicinity of 2% this year and the next, accelerating to 2.4% in 2007. Combined with a pick-up in labour productivity growth from 0.3% in 2005 to 0.9% at the end of the forecast horizon, this results in some moderation of growth in unit labour costs.

Graph 2.21: **Euro-area HICP inflation and inflation expectations**



(*) Survey of Professional Forecasters (ECB)

This relatively benign outlook for wage developments rests on the hypothesis that the rise in oil prices does not translate into additional wage claims, thus avoiding second-round effects on inflation. Given the projected gradual recovery in economic activity (a negative output gap of 0.8% of GDP is foreseen over the forecast period) and moderate improvement in labour market conditions, it is unlikely that wages will represent a major source of inflationary pressures. However, one should acknowledge the risk that a long period of high headline inflation may, at a certain stage, feed into core inflation.

On the external side, the stabilisation of oil prices should translate into lower imported inflation, thus putting downward pressure on overall inflation. Import prices are expected to decelerate from an annual growth rate of above 4% in 2005 to 2.5% in 2006 and to fall further to 1.5% in 2007. From the second half of 2006 onwards, inflation should also benefit from sizeable base effects related to the past increase in energy prices.

Inflation differentials across Member States remain wide

At the Member State level, inflation is expected to remain low in Germany, at around 1.6% in 2006 and 1.1% in 2007, held down by weak domestic demand. Inflation in France is forecast at 2.1% next year and 1.9% in 2007, following relatively higher wage growth compared to its main trading partners. Similar inflation rates are forecast for Italy. Services inflation remains high but some moderation in wage inflation compared to the recent past should lead to a decline in overall inflation. In Spain, inflation is expected to decelerate from 3.3% in 2006 to 2.6% in 2007, while remaining above the euro-area average due to relatively high growth in unit labour costs. By contrast, inflation in the Netherlands, estimated at 2% in 2006 and 1.9% in 2007, is set to benefit from a contraction in unit labour costs both this year and next. Inflation is projected to remain above 2% in 2006 in the remaining euro-area economies, apart for Finland. In 2007, Belgium and Austria are also expected to record inflation rates below that threshold.

Outside the euro area, inflation in the UK is set to reach 2.2% next year and 2% in 2007. Among the larger recently-acceded Member States, inflation in Poland is foreseen at 2.3% in 2006 and 2.5% in 2007. In Hungary, inflation is set to decelerate markedly in 2006 (2%), before accelerating once again to 3% in 2007. Inflation in the Czech Republic is forecast to accelerate from 1.7% this year to 2.6% in 2006 and 2007, largely reflecting rising unit labour costs. For the remaining Member States, the general picture is one of decelerating inflation between 2006 and 2007.

Table 2.7

Inflation outlook - euro area and EU25

(Annual percentage change)	Euro area				Difference vs spring 2005		EU25				Difference vs spring 2005	
	2004	2005	2006	2007	2005	2006	2004	2005	2006	2007	2005	2006
Private consumption deflator	1.9	2.0	2.1	1.7	0.1	0.4	1.9	2.1	2.1	1.8	0.2	0.3
GDP deflator	1.8	1.8	1.7	1.7	0.1	0.0	1.9	1.9	1.9	1.9	0.0	0.0
HICP	2.1	2.3	2.2	1.8	0.4	0.7	2.1	2.3	2.2	1.9	0.4	0.5
Compensation per employee	2.4	1.8	2.0	2.4	-0.4	-0.4	2.9	2.4	2.7	3.0	-0.4	-0.4
Unit labour costs	0.9	1.5	1.3	1.4	0.2	0.1	1.1	1.8	1.5	1.6	0.3	-0.1
Import prices of goods	1.5	4.1	2.5	1.5	2.4	1.8	1.5	3.7	2.4	1.5	2.2	1.6

6. Fiscal consolidation stalls in the wake of weak economic growth

Aggregate budget deficit set to increase slightly

The general government deficit in the euro area is set to reach 2.9% of GDP in 2005, up from 2.7% of GDP a year earlier, in the wake of slowing economic growth as evidenced by a significant widening of the negative output gap. The deficit is expected to diminish again marginally in 2006, based on unchanged policies, and to stabilise in 2007 in the context of a moderate economic recovery. The cyclical nature of the widening budget deficit over the forecast horizon is mirrored in a primary budget balance net of cyclical factors, which remains broadly stable at around ¾ of a percent of GDP up to 2007 (inclusive). This extends further the period since 2002 in which little to no adjustment has been made to correct the underlying budgetary position. The public finance outlook for the EU as a whole is essentially stable. The nominal deficit is expected to edge up marginally, from 2.6% of GDP in 2004 to 2.7% of GDP in 2005, and to remain at that level until 2007. Unless policies change, the increase in the nominal budget balance masks a slight improvement of the fiscal position net of cyclical factors and interest expenditure due to the fiscal effort outside the euro area.

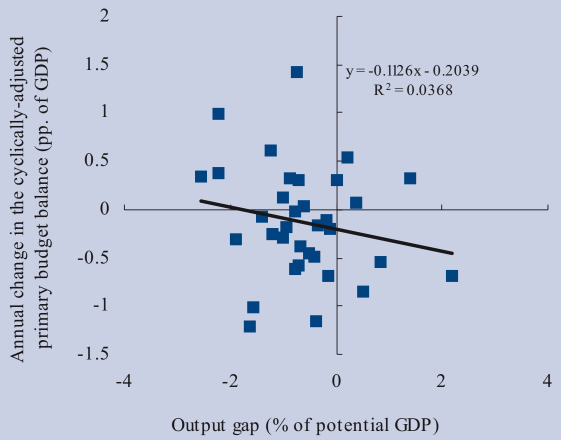
It should be recalled that these figures, and those that follow, are based on a "no-policy change" assumption. They incorporate the measures announced with the budgets for 2006, but do not include possible further measures for 2006 nor measures for 2007 beyond those resulting from decisions already taken.

When the projected fiscal stance for 2005-2007 is assessed against the expected cyclical conditions, cross-country data of Member States, which are not currently under the excessive deficit procedure, reveal some pro-cyclicality in current policies.

Euro area: diverging trends in 2006

Following a broad-based pattern towards higher deficits among euro-area Member States in 2005, trends are expected to diverge somewhat in 2006, dividing the euro area into two main country groupings. In most Member States with a relatively favourable position, i.e. a budget deficit below 2.5% of GDP, the draft 2006 budget is expected to stabilise or to slightly weaken the fiscal position. By contrast, among the euro-area Member States, which are currently running an excessive deficit, Portugal, Greece, Germany and Italy are projected to achieve, to varying degrees, some fiscal consolidation compared to 2005. In the case of Germany, current policies do not include the 2006 draft budget, the presentation of which was delayed in view of the early elections in September. In France, under current policies, the deficit would rise in 2006, due to the expiry of a large one-off operation carried out in 2005. Overall, current polices are expected to be insufficient to bring the deficit below the reference value by the end of the forecast horizon in any of the euro-area Member States currently under the excessive deficit procedure.

Graph 2.22: **Fiscal stance and cyclical conditions in non-EDP countries: 2005-2007**



EU as a whole: moderate recovery does not rub off on public finances

Outside the euro area, the public finance trends projected in 2006 and 2007 are at least as heterogeneous as in the euro area. In spite of a moderate recovery of economic activity, there is no broad-based trend towards improving, or at least securing, the fiscal position. Specifically, of the six recently-acceded Member States currently under the excessive deficit procedure, Hungary and the Czech Republic are expected to widen their budget deficit further in 2006. In the case of Hungary the upward trend is expected to continue also in 2007, when current policies are likely to bring the deficit close to 7% of GDP. In Poland, current policies are expected to stabilise the deficit at 3.6% of GDP and to reduce it only marginally in 2007. By contrast, Cyprus is projected to correct the excessive deficit by a small margin in 2005, followed by Slovakia and Malta in 2006. Among the recently-acceded Member States with a relatively favourable budget balance, only Lithuania is expected to reduce its budget deficit over the forecast horizon. In Estonia (which runs a surplus), Latvia, and Slovenia, current policies are forecast to slightly loosen the fiscal position.

The Scandinavian non-euro countries, Denmark and Sweden, are expected to spend some of their budgetary surplus in 2006, but without compromising their comfortable position. Current policies are likely to keep the deficit above the 3% of GDP reference value in the United Kingdom.

Debt ratios remain on an upward trend

The upward trend in the euro-area debt ratio observed since 2003 is not expected to reverse during the forecast period, in spite of the projected recovery of nominal GDP growth in 2006 and 2007. The debt ratio is set to reach 72% of GDP in 2007, around one percentage point higher than in 2004, as the projected revival of economic activity is unlikely to outweigh the downward shift in the primary budget surplus in 2005 and beyond.

A similar development is forecast in the EU, where the debt ratio is expected to increase from 63.4% of GDP in 2004 to 64.3% of GDP in 2007. In view of an essentially stable primary balance, the increase is mainly driven by slower nominal GDP growth.

Concerning the respect of the 60% of GDP reference value of the Treaty, apart from Portugal, where the debt ratio is estimated to rise above 60% of GDP in 2005, no Member State is expected to cross the reference value over the forecast horizon, either from above or below. Among the countries with a debt ratio above the 60% of GDP threshold, Belgium, Greece, Cyprus and Austria are projected to reduce it up to 2007 (inclusive). In the case of Italy, following the sharp increase in 2005, the debt ratio is also expected to decline slowly, mainly on account of planned receipts from privatisations. Conversely, a further increase in the debt ratio up to 2007 (inclusive) is expected to take place in Germany, France and Portugal.

Table 2.8

General government budgetary position - EU25

(% of GDP)				Autumn 2005 forecast			Difference vs spring 2005	
	2002	2003	2004	2005	2006	2007	2005	2006
Total receipts (1)	45.2	45.2	45.1	45.2	45.0	44.8	0.0	-0.1
Total expenditure (2)	47.5	48.3	47.7	47.9	47.7	47.5	0.1	0.1
Actual balance (3) = (1)-(2)	-2.4	-3.0	-2.6	-2.7	-2.7	-2.7	-0.1	-0.2
Interest expenditure (4)	3.2	3.0	2.9	2.9	2.8	2.8	-0.1	-0.2
Primary balance (5) = (3)+(4)	0.8	0.0	0.2	0.1	0.1	0.1	-0.3	-0.3
Change in actual balance :	-1.1	-0.6	0.4	-0.1	0.0	0.0	-0.1	-0.1
Gross debt	61.4	63.0	63.4	64.1	64.2	64.3	0.0	0.0
p.m. Actual balance euro area	-2.5	-3.0	-2.7	-2.9	-2.8	-2.8	-0.3	-0.1
p.m. Primary balance euro area	1.0	0.4	0.5	0.3	0.2	0.2	-0.3	-0.4
p.m. Cycl. adj. prim. balance euro area	0.7	0.8	0.7	0.9	0.8	0.7	-0.2	-0.2

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

Chapter 3

Member States

1. Belgium

A slow economic recovery

Activity in 2005

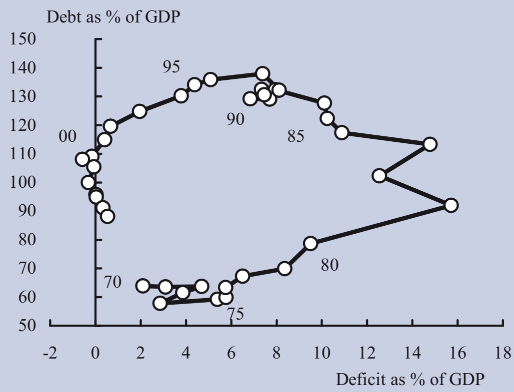
In 2005, the economic slowdown that had started at the end of 2004 turned out to be more severe than anticipated. Real GDP growth almost came to a standstill in the first quarter and remained moderate in the second quarter, mainly as a result of declining exports. For the last two quarters a real growth of 0.4% is expected, mainly due to increased external demand. Overall, GDP growth in 2005 is forecast at 1.4%.

Despite the recovery in the balance of trade expected for the second half of the year, external demand is likely to have a negative impact on economic growth in 2005. Moreover, continuous weak consumer confidence, fuelled by the recent turmoil in the oil markets and uncertainty regarding the ongoing debate on pensions and early retirement, could also dampen consumption. Investment was exceptionally strong in the first half of the year despite decreasing business confidence, possibly because of some catching-up after low investments in previous years. In the second half of the year, investment is expected to slow down somewhat and, following a recent improvement in business confidence, settle at an average rate of 4.9% for 2005.

Prospects for 2006 and 2007

From 2006 onwards, some economic recovery is expected, albeit at a moderate GDP growth rate close to 2%. While exports should continue to recover in 2006, consumption will benefit from stronger growth in gross disposable income resulting from the final stage of the 2001 direct tax reform and some improvement in employment. After decreasing continuously since 2002, the household saving rate is expected to stabilise around 12.3%. On the other hand, growth in government consumption should remain moderate, especially in 2006, in view of the government's efforts required to reach its budgetary targets. Gross capital formation is forecast to remain strong in 2006, mainly driven by public investment by local authorities in the run-up to the 2006 local elections. However, following the pattern that has been observed in the past, public investment in 2007 should decrease markedly. On the other hand, the anticipated recovery of external markets and some improvement in consumption expenditure should continue to stimulate private investment, which is expected to remain reasonably solid throughout the forecast period.

Graph 3.1 : **Belgium - Deficit and debt as % of GDP in 1970 - 2004**



Labour market, costs and prices

In the first half of 2005, the Belgian labour market benefited from the strong economic growth observed in 2004, but lost momentum towards the second half of the year. Higher economic growth and efforts to reduce the tax burden on labour should revive job creation from 2006 onwards, but its effect on the unemployment rate remains limited due to a growing labour force. Moreover, the cumulative nominal wage increase of 4.5% for 2005-2006 foreseen in the latest wage agreement will probably be exceeded, which will also have an adverse effect on the labour market.

In 2005, the CPI is expected to increase by 2.8%. The inflationary effect of rising oil prices has been slightly offset by some compensating tax measures in the second half of the year. However, because some of these measures only reduce prices in 2005 and due to inflationary pressure stemming from increased wages, inflation could still reach 2.7% in 2006, but should fall again afterwards.

Public finances

In 2005, despite the economic slowdown, tax revenue remained on track and reforms in the health sector helped to keep health care expenditure in line with the 4.5% real growth target (against an overrun of 7.8% in 2004). Therefore government accounts are expected to reach a position close to balance. For 2006 a deficit of 0.3% of GDP can be expected, against a balanced budget foreseen in the 2006 budget law[1]. The difference is mainly due to less optimistic assumptions on government expenditure, lower estimates for the proceeds of a fiscal regularisation measure as well as for some new tax measures, and an expected loss in income linked to the sale of tax arrears in 2005. In 2007 the government balance is expected to further deteriorate due to a substantial package of one-off measures in the 2006 budget (some 0.5% of GDP) and reductions in social security contributions (close to 0.2%). On the other hand, public finances will benefit from a normalisation of spending by local authorities after the local elections (over 0.2% of GDP) and lower interest payments (0.1%). Therefore, on a no-policy-change basis and in the absence of new one-off receipts a deficit of over 0.5% of GDP is forecast.

In 2005, the debt reduction has been slowed down by the assumption of a 2.5% of GDP debt from the national railway company. Overall, as a result of sustained budgetary efforts and declining interest expenditure the debt ratio remains on a downward path (see graph 3.1). By the end of the forecast horizon, the debt ratio is expected to fall well below 90%.

[1] For the time being, an assumption of debt from the railway company by the government in 2005 has been treated without direct impact on the government deficit, while securitisations of tax arrears in 2005 and 2006 have been recorded as deficit-reducing. These treatments are of a purely technical nature and are without prejudice to the final accounting decision. Should Eurostat decide that such operations should be booked differently, the forecast for the deficit would increase by up to 2.7% of GDP in 2005 and 0.2% of GDP in 2006. Moreover, the forecast for 2006 assumes that the conditions of sales and lease-backs of government buildings (0.2% of GDP) permit these transactions to be recorded as deficit reducing.

Table 3.1

Main features of country forecast - BELGIUM

		2004		Annual percentage change						
bn Euro		Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		288.1	100.0	2.0	1.5	0.9	2.6	1.4	2.1	2.0
Private consumption		152.8	53.1	1.9	0.8	0.9	1.5	1.3	1.5	1.8
Public consumption		66.1	22.9	1.4	2.9	2.5	2.0	1.1	1.5	1.6
Gross fixed capital formation		54.3	18.8	1.9	-2.3	-0.7	4.2	4.9	3.9	2.2
of which : equipment		25.9	9.0	4.6	-2.8	-2.5	2.3	5.4	4.2	4.1
Change in stocks as % of GDP		3.3	1.2	0.1	0.3	0.3	0.7	0.6	0.5	0.4
Exports (goods and services)		241.5	83.8	4.5	1.2	2.9	6.2	2.2	4.4	4.8
Final demand		518.0	179.8	2.9	0.9	1.9	4.3	2.0	3.1	3.2
Imports (goods and services)		229.9	79.8	4.1	0.1	3.1	6.4	2.7	4.3	4.7
GNI at constant prices (GDP deflator)		290.7	100.9	2.1	1.3	1.0	2.1	1.4	2.1	2.0
Contribution to GDP growth :	Domestic demand			1.8	0.6	0.9	2.1	1.9	1.9	1.8
	Stockbuilding			0.0	0.0	0.0	0.4	-0.1	-0.1	-0.1
	Foreign balance			0.3	0.9	-0.1	0.1	-0.4	0.3	0.3
Employment				0.5	-0.3	0.1	0.7	0.7	0.6	0.7
Unemployment (a)				8.9	7.3	8.0	7.9	8.0	7.9	7.8
Compensation of employees/head				4.3	4.1	1.6	2.1	2.6	2.7	2.4
Unit labour costs				2.7	2.2	0.8	0.2	1.8	1.3	1.1
Real unit labour costs				-0.3	0.4	-0.9	-2.1	-0.8	-1.0	-0.7
Savings rate of households (b)				-	-	14.3	12.8	12.3	12.4	12.2
GDP deflator				3.0	1.8	1.7	2.3	2.6	2.3	1.9
Private consumption deflator				3.0	1.3	1.6	2.5	2.9	2.7	2.0
Harmonised index of consumer prices				-	1.6	1.5	1.9	2.7	2.6	1.9
Trade balance (c)				0.5	3.8	3.5	2.7	2.1	2.2	2.4
Current account balance (c)				2.4	5.0	4.5	3.5	3.0	3.1	3.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.3	4.8	4.4	3.4	3.0	3.1	3.2
General government balance (c)(d)				-5.8	0.0	0.1	0.0	0.0	-0.3	-0.5
General government gross debt (c)				118.5	105.8	100.4	96.2	94.9	91.1	88.1

(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).

2. Czech Republic

Strong growth fuelled by vigorous exports

Activity in 2005

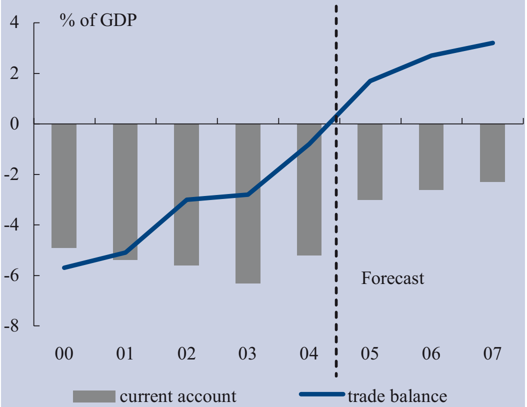
The performance of the Czech economy remained strong in the first half of 2005, with growth increasing to 4.9% year-on-year, the highest growth rate since 1996. Economic activity was driven mainly by net exports which increased substantially. Private consumption accelerated, but remained subdued. Public consumption continued to fall and growth of gross fixed capital formation decelerated. Robust economic activity is expected to continue for the rest of 2005, leading to an annual growth rate of about 4¾%. Strong economic performance will be mainly due to vigorous exports.

Prospects for 2006 and 2007

In 2006 and 2007, the economic expansion is projected to remain strong, but to decelerate to some 4½% in 2006 and 4¼% in 2007. Although net exports are expected to continue to be an important driving force of GDP growth, domestic demand is expected to strengthen. Private demand will be stimulated by an improving labour market situation and investment by higher utilisation of EU structural funds and favourable financial conditions. Public consumption will accelerate, though only slightly.

Vigorous exports resulted in a significant improvement of the trade balance and a substantial narrowing of the current account deficit. The developments in the external sector are forecast to be positive. Vigorous export growth boosted by EU accession should continue, though at a slower pace. The trade balance is expected to improve substantially, reaching a surplus for the first time since 1991. Czech exports seem to be profiting from the German export boom and strong growth in Slovakia (the second biggest export market), as well as gaining new markets to the east. As a result, the current account deficit should decline from 5.2% of GDP in 2004 to less than 3% in 2005. The positive trend in the external sector is projected to continue. In 2007, the trade balance surplus is forecast to be about 3% of GDP and the current account deficit should shrink to some 2¼% of GDP.

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



Labour market, costs and prices

Strong economic performance helped improve the situation in the labour market. The trend of falling employment was reversed and the rate of unemployment began to fall, reaching about 8%. Employment is projected to increase over the forecast horizon. The rate of unemployment is forecast to fall continuously from 8.3% in 2004 to about 7½% in 2007, mainly thanks to strong economic growth.

Due to the ongoing appreciation of the koruna, strong competition, falling food prices and favourable base effects, average annual HICP inflation was only 1.3% in the first half of 2005. Since the beginning of 2005, inflation has been below the target band set by the monetary authorities. As a consequence of high energy prices, inflation is likely to increase towards the end of 2005 and in the first half of 2006. A temporary overshooting of the upper limit of the inflation target is expected. However, average HICP inflation is projected to remain low in 2005 (1¾%). Acceleration to almost 3% is foreseen in 2006 and future inflation development will largely depend on the reaction of wages to increased energy prices. Assuming relatively weak second-round effects, the inflation rate is forecast to be slightly below the monetary policy target in 2007 (CPI inflation of 3% year on year +/-1 pp since 2006).

Public finances

Forecasting public finances has become complicated since the spending ministries gained the possibility of rolling over unspent funds from previous budgetary years. Last year, the unspent funds amounted to about 1% of GDP. This creates uncertainty about when those funds will be accumulated and when they will be spent.

Over the first ten months of 2005, budgetary revenues have been higher than expected, mainly due to very strong economic growth. At the same time, under-execution of expenditures is likely to be repeated. Given the very positive cash developments in the state budget, the total budgetary outcome in 2005 is expected to again be better than expected. The general government deficit is forecast to reach about 3¼% of GDP, compared with the convergence programme target of 4.7% of GDP. The projected deficit includes two major one-off expenditures (financial leasing of military jets and alleviation of foreign debt) and assumes that the expenditure rolled over from 2004 will be fully spent, but new savings of about 1½ % of GDP may be realised.

The 2006 deficit is projected to reach 3¾% of GDP, under the assumption that about 1% of GDP on the expenditure side will be again rolled over into 2007. Despite the planned nominal medium-term expenditure ceilings being overshot in the 2006 draft budget, higher spending will be financed by budgetary revenues generated by strong economic growth. Given ongoing good economic performance and a record of prudent budgetary policy, the deficit of 3¼% of GDP in 2007 is within reach. However, the structural budgetary balance is forecast to worsen in both 2005 and 2006.

Gross public debt is expected to slightly decrease in 2005 to 36¼% of GDP, mainly thanks to privatisation proceeds. In 2006 and 2007, government debt is projected to slightly increase.

Table 3.2

Main features of country forecast - CZECH REPUBLIC

		2004		Annual percentage change						
	bn CZK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		2749.1	100.0	2.3	1.5	3.2	4.4	4.8	4.4	4.3
Private consumption		1378.6	50.1	3.1	2.8	4.6	2.1	2.4	3.5	3.9
Public consumption		621.9	22.6	1.0	4.5	3.8	-2.0	0.3	1.9	1.4
Gross fixed capital formation		749.9	27.3	4.0	3.4	4.7	7.6	3.9	4.2	5.4
of which : equipment		333.5	12.1	11.0	7.7	3.3	5.1	5.8	4.8	5.7
Change in stocks as % of GDP		8.1	0.3	1.0	1.7	0.6	0.7	-0.6	-0.5	-0.4
Exports (goods and services)		1973.2	71.8	10.6	2.1	7.5	21.9	9.1	9.7	9.6
Final demand		4731.7	172.1	5.7	2.9	5.0	9.9	4.6	6.2	6.5
Imports (goods and services)		1982.6	72.1	11.7	4.9	7.9	18.4	4.5	8.4	9.1
GNI at previous year prices (GDP deflator)		2609.6	94.9	1.7	0.2	3.5	3.9	4.3	3.5	3.9
Contribution to GDP growth :	Domestic demand			3.0	3.4	4.5	2.6	2.3	3.2	3.6
	Stockbuilding			0.3	0.1	-0.9	0.1	-0.8	0.0	0.0
	Foreign balance			-1.0	-2.0	-0.4	1.7	3.3	1.2	0.7
Employment				-	1.5	-1.4	0.1	0.5	0.4	0.3
Unemployment (a)				6.3	7.3	7.8	8.3	7.9	7.5	7.4
Compensation of employees/head				-	6.2	4.9	5.9	4.6	5.6	5.4
Unit labour costs				-	6.3	0.2	1.4	0.3	1.6	1.4
Real unit labour costs				-	3.4	-2.3	-1.6	-2.3	-0.9	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				6.7	2.8	2.6	3.0	2.7	2.5	2.2
Private consumption deflator				6.1	0.7	1.8	2.7	2.1	2.3	2.3
Harmonised index of consumer prices				-	1.4	-0.1	2.6	1.7	2.9	2.6
Trade balance (c)				-6.2	-3.0	-2.7	-0.8	1.7	2.7	3.1
Current account balance (c)				-4.3	-5.6	-6.3	-5.2	-2.9	-2.6	-2.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.3	-5.7	-6.3	-5.7	-2.7	-2.4	-2.1
General government balance (c)(d)				-5.3	-6.8	-12.5	-3.0	-3.2	-3.7	-3.3
General government gross debt (c)				-	29.8	36.8	36.8	36.2	36.6	36.9

(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).

3. Denmark

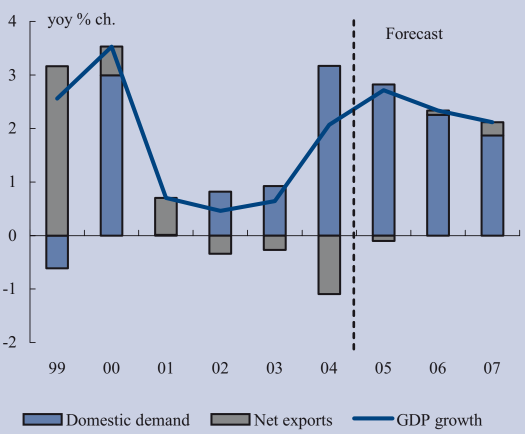
An economy in excellent shape on most scores

Activity in 2005

The recovery of economic activity in Denmark which took hold in 2004 has continued in 2005. After a hesitant first quarter, GDP growth was very strong in the second quarter, with the economy growing at a yearly rate of more than 2½% in the first half of the year. Private consumption continues to be the main engine of growth. Consumption is boosted by real disposable income gains, a booming housing market, falling unemployment and low interest rates. Consumers have, it seems, not been overly discouraged by high fuel prices and car sales in particular remain buoyant. Public consumption grew by 2% in real terms in 2004 and is expected to expand in excess of the government's 0.5% objective also in 2005. Fixed investment rebounded vigorously in the second quarter, with investment in equipment expanding at a two-digit rate. Investment has been growing irregularly in recent quarters but seems to be on an upward trend. Exports also grew very strongly in the second quarter, in spite of subdued growth in the euro area, Denmark's main export market. However, the impact on GDP growth was cancelled out by a rise in imports of a similar magnitude.

Recent trends are expected to continue during the rest of the year. Backed by strong consumer confidence, private consumption growth is set to be even stronger than in 2004 (4.1%). As exports gather strength, the growth contribution of net exports is expected to be only slightly negative in 2005, in contrast to the markedly negative growth contribution in 2004.

Graph 3.3: **Denmark - Contributions to GDP growth**



Prospects for 2006 and 2007

Continuing the healthy growth from 2005, robust domestic demand should allow a GDP growth of around 2¼% in 2006, only slightly lower than in the previous year. Private consumption growth is expected to remain vigorous, underpinned by the suspension also in 2006 and 2007 of the special pension savings contributions. Nevertheless, consumption growth should moderate as the effects of the tax cuts on real disposable income taper off. In addition, the stimulus to household wealth coming from the substantial rises in house prices in recent years is expected to be less marked as the financing costs rise.

Denmark's export markets are expected to expand firmly in the forecast period, and Danish exports are set to grow robustly, albeit with some loss of market share. This is a not uncommon feature for Denmark in phases of upswing, linked inter alia to the composition of exports. As the growth of imports is expected to dampen in line with domestic demand, the growth contribution of net exports should turn positive in the forecast period.

In 2007, a continued slowdown of private consumption is expected as consumer demand for durables begins to be satisfied and interest rates increase. In the absence of further tax cuts, the stimulus from income gains will be weaker. Exports are foreseen to remain robust, with net exports contributing positively to economic activity. The upswing is thus foreseen to be more balanced and less dependent on strong consumption growth. On this basis, GDP growth in 2007 is expected to be around 2%.

Labour market, costs and prices

After the only slight improvement in 2004, the labour market reacted positively, though with some lag, to the recovery in economic activity. Employment growth picked up in 2005 and unemployment has started to head down firmly. As the expansion continues, the labour market can be expected to move close to its capacity towards the end of the forecast period. This should lead to some upward pressure on domestic inflation coming from wages. However, there are as yet few signs of labour shortages leading to wage-driven inflation. In particular in the tradable goods sectors, globalisation may be acting to dampen inflationary pressures.

After the historically low inflation in 2004, which was due to temporary price effects due to tax cuts and low import prices, consumer price inflation in 2005 has increased. This is largely due to rising energy prices, while domestic inflation remains relatively subdued. Over the forecast period, the effects on inflation of rising oil prices will taper off, while domestically generated inflation is set to pick up as capacity pressure in the economy increases. Headline inflation is foreseen to be around 2% through 2007.

Public finances

Denmark's public finances are among the strongest in the EU. After a surplus of 2.7% of GDP in 2004, general government finances are expected to post an even higher surplus of around 3½% of GDP in 2005. In addition to the effects of the healthy growth, the strength of public finances is largely due to the developments of revenues from oil and gas exploitation and from the pension fund yield tax, where the rise in prices and financial market developments respectively have boosted tax revenues substantially. It should be noted that the figures reported by the Commission, in contrast to the Danish National Accounts, include the surplus of the ATP pension fund, thereby improving the general government balance by around 1 pp of GDP. This situation is expected to continue until spring 2007.

In the forecast period, dampened economic activity and receding oil prices and lower revenues from the pension fund yield tax are expected to contribute to lower surpluses. On this basis, the gross debt ratio is expected to continue to fall markedly, reaching some 31% of GDP at the end of 2007.

Table 3.3

Main features of country forecast - DENMARK

		2004		Annual percentage change						
	bn DKK	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1460.0	100.0	2.0	0.5	0.6	2.1	2.7	2.3	2.1
Private consumption		710.1	48.6	1.3	0.8	1.4	3.8	4.1	2.6	2.1
Public consumption		388.3	26.6	1.6	2.2	0.4	2.0	0.9	0.5	0.5
Gross fixed capital formation		284.5	19.5	2.9	0.5	1.6	3.3	3.8	4.0	3.3
of which : equipment		118.4	8.1	4.3	2.8	2.1	5.4	4.8	4.9	4.0
Change in stocks as % of GDP		3.8	0.3	0.4	0.4	0.3	0.5	0.2	0.1	0.1
Exports (goods and services)		667.3	45.7	5.2	4.8	-1.1	3.2	5.5	4.8	4.6
Final demand		2054.0	140.7	2.6	2.2	0.3	3.3	3.8	3.2	2.9
Imports (goods and services)		594.0	40.7	4.8	6.5	-0.6	6.5	6.3	5.1	4.5
GNI at constant prices (GDP deflator)		1453.9	99.6	2.0	0.7	1.2	2.3	2.8	2.4	2.1
Contribution to GDP growth :	Domestic demand			1.6	-0.2	1.2	2.2	3.0	2.3	1.9
	Stockbuilding			0.0	-0.2	-0.1	0.2	-0.2	0.0	0.0
	Foreign balance			0.3	-0.3	-0.3	-1.1	-0.1	0.1	0.2
Employment				0.4	-0.2	-1.2	0.0	0.6	0.5	0.4
Unemployment (a)				6.6	4.6	5.6	5.4	4.6	4.2	4.0
Compensation of employees/head				5.1	3.8	3.5	3.2	3.3	3.6	3.8
Unit labour costs				3.4	3.1	1.6	1.1	1.1	1.7	2.0
Real unit labour costs				-0.5	1.5	-0.6	-0.9	-1.1	-0.3	0.1
Savings rate of households (b)				-	-	7.9	5.2	4.0	4.5	5.2
GDP deflator				3.9	1.5	2.2	2.1	2.3	2.0	1.9
Private consumption deflator				3.9	2.3	2.0	1.6	1.7	2.0	1.9
Harmonised index of consumer prices				-	2.4	2.0	0.9	1.7	2.0	1.9
Trade balance (c)				1.5	3.7	3.6	2.9	3.0	3.1	2.9
Current account balance (c)				-0.6	2.5	3.3	2.5	2.9	3.2	3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.5	2.6	3.3	2.5	2.9	3.1	3.3
General government balance (c)(d)(e)				-1.2	1.4	1.2	2.9	3.7	3.0	2.7
General government gross debt (c)				65.5	47.6	45.0	43.2	36.0	33.0	31.5

(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).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

4. Germany

Domestic demand picking up only gradually

Activity in 2005

Seasonally-adjusted GDP data have been very volatile over the last few quarters. After a marginal decline in the last quarter of 2004, the first quarter of 2005 saw a strong pick-up, followed by stagnation in the second. However, this variation in activity may have been exaggerated by the statistical adjustment for calendar effects.

Overall, the main growth contribution came from foreign demand. Exports benefited from decreasing relative unit labour costs, which led to higher market shares in an environment of growing world trade. In contrast, domestic demand remained weak as both private consumption and construction investment receded further in the first half of 2005. The reduction in the personal income tax rate from the beginning of 2005 has so far had little effect on private consumption.

Indicators point to a stronger second half of 2005 as the German economy is suffering less from rising oil and other raw material prices than might have been expected. Net exports will remain the main driving force. Recent data on production and domestic orders for investment goods point towards a strengthening of machinery and equipment investment whereas private consumption may still remain sluggish. The construction sector is projected to continue its structural decline, though not at the same rate as in the first semester.

Prospects for 2006 and 2007

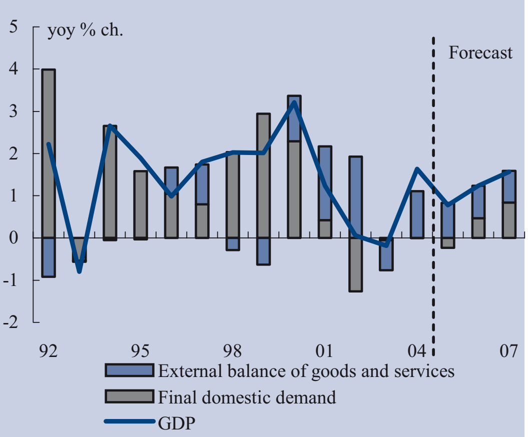
Foreign trade is expected to continue supporting economic growth in the medium term. At broadly stable exchange rates, German companies should profit in domestic and export markets from improved price competitiveness. The current account surplus is therefore projected to increase to above 4% of GDP in 2007.

During the winter months of 2005/2006 in particular, private consumption will be constrained by the surge in energy prices, but is expected to gain momentum towards the end of the forecast period. From 2006 on, real disposable income should benefit from the fall in inflation and the pick-up in regular employment. Once a new government is installed, uncertainty about the future reform strategy and its implications should wane. Consequently, the private savings rate is expected to decline somewhat over the forecast period.

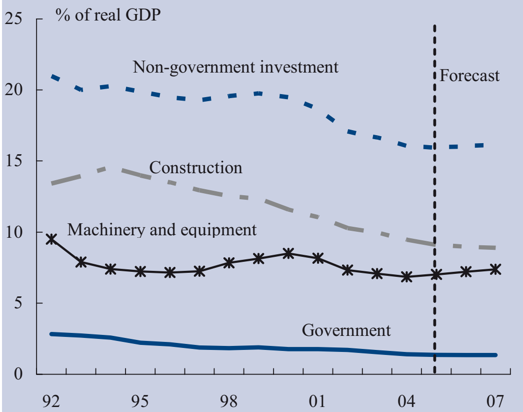
Investment in machinery and equipment should accelerate, while the decline in construction investment that has now lasted for over a decade should only gradually peter out. Housing investment in particular is still suffering from excess capacity, subdued disposable income growth and, notably in the East, a declining population.

With a continued sizeable positive growth contribution from the external side and a gradual recovery of domestic demand, GDP growth in Germany will gain momentum. With a projected growth rate of about 1½ % year-on-year in 2007,

Graph 3.4: **Germany - GDP and contributions to growth**



Graph 3.5: **Germany - Components of gross fixed capital formation**



actual growth should finally rise above potential.

Labour market, costs and prices

Recent developments in the labour market were largely shaped by policy measures. The bulk of the new jobs created were the result of either subsidised self-employment, reduced payroll taxes ("mini-jobs") or work for benefit recipients ("one-euro jobs"). In contrast, employment subject to social security contributions fell substantially in the first months of 2005, but seems to have stabilised thereafter. As a consequence, seasonally-adjusted unemployment continued to increase at the beginning of this year and stabilised only recently.

The shift towards more flexible forms of employment as a result of recent labour market reforms should come to an end over the forecast period. In addition, continued strong exports and a gradual pick-up in domestic demand will lead to a stronger creation of full-time employment. This in turn should allow wage growth in the private sector to pick-up as of 2007. In the public sector however, the recent collective agreement broadly fixes nominal wages at the current level until the end of 2007. The current wage constraint, together with still rising labour productivity, will lead to a further fall in unit labour costs in 2005 and 2006, which should bottom out thereafter.

Surging energy prices, together with increases in the tobacco tax, have driven headline inflation to the highest levels in four years. Based on the assumption of slightly lower oil prices compared with the level reached in September 2005, inflation should, under current policies with no tax rises legislated, converge towards the core rate, which is currently hovering around 1%.

Public finances

In 2005, the general government deficit is projected to widen and will hence breach the 3%-of-GDP ceiling for the fourth consecutive year. In cyclically adjusted terms, the deficit is expected to improve marginally from the previous year.

The revenue share in GDP is expected to fall slightly this year, which is due to the implementation of the last stage of the tax relief law from the year 2000. However, subsidy repayments by several Landesbanken and the introduction of the road toll for lorries are adding to revenues. The low wage dynamics and the fall in the number of regular jobs are weighing on the contribution base of the social security system. Despite the 2004 reform of the public health care system, public health insurers lowered the contribution rates only marginally in 2005 in order to continue running surpluses so as to reduce their debt.

Expenditure relief continues to come from public sector wage restraint, reductions in public employment and a declining share of public investment in GDP. Nevertheless, the expenditure share in GDP is unlikely to fall in 2005. While pension outlays have been growing less than nominal GDP, the rising number of recipients is burdening the budget. Pensions are indexed to wage developments with a lag. Despite the stagnating contribution base, current legislation prevents a decline in expenditure per recipient. As a consequence, the liquidity funds of the pension system have been further depleted in order to hold the contribution rate constant. The dampening effect of the 2004 reform of the health sector abated in 2005 due to rising prices of medication.

The expenditure relief from the public sector wage bill and reduced public investment has been balanced by significantly growing expenditure on unemployment and social benefits. Employment growth could not contribute much to reducing this budgetary burden, as it was to a large extent promoted by public schemes. Holders of “one-euro jobs” continue to be entitled to their social benefits and receive a small top-up. Moreover, the implementation of the new social benefit system (“Hartz IV”-package) did not provide the expenditure relief expected by the government. Administrative frictions in the transition have been greater than expected, and problems in the application of means-testing have led to higher expenditure per head and a higher number of recipients than expected.

Finally, the pension office for former post office civil servants securitised future contributions from the post office’s successor companies, raising its liquidity, so that the federal government would be able to postpone payments to the office in 2005, equalling 0.25% of GDP. According to ESA95 accounting rules, however, this transaction does not reduce government expenditure calculated on an accrual basis.

Up to the cut-off date for this forecast, the federal government had not adopted a draft budget for 2006. With current legislation in force, Germany would continue breaching the 3%-of-GDP deficit ceiling also in 2006 and 2007. Further changes to the tax system are not legislated. Budgetary relief will continue to come from the public sector wage bill, as the wage agreement of 2005 extends to 2007. In addition, pension expenditure is projected to be dampened by the slow growth of the contribution base. In 2006, companies will have to carry forward a part of their monthly social contributions from the middle of the following month to the end of the month when the payment is due. This will lead to thirteen instead of twelve cash payments in 2005, but does not affect the budget balance according to ESA95 accounting rules. With the political intention to keep the pension contribution rate constant, the pension system will record a deficit in 2006 and 2007. Under current legislation, the unemployment insurance period will be shortened for elderly new recipients from February 2006, providing budgetary relief from 2007. This will be supported by the recovery in the primary labour market expected for 2007. Overall, these measures are projected to reduce the cyclically-adjusted deficit slightly towards the end of the forecast period.

Government debt would continue to rise over the entire forecast period, reaching 70% of GDP by 2006. According to ESA95 accounting rules, privatisation operations that involve the transfer of shares to Kreditanstalt für Wiederaufbau (KfW) are not debt-reducing, pending the actual sale of shares on the market by KfW. As the federal government would have transferred most of its stock to KfW by 2006, the dampening effect of privatisation proceeds on gross debt will wane.

Table 3.4

Main features of country forecast - GERMANY

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		2215.7	100.0	2.2	0.1	-0.2	1.6	0.8	1.2	1.6
Private consumption		1312.5	59.2	2.1	-0.5	0.1	0.6	-0.1	0.3	0.8
Public consumption		412.8	18.6	1.6	1.4	0.1	-1.6	-0.4	0.0	0.0
Gross fixed capital formation		384.9	17.4	1.6	-6.1	-0.8	-0.2	-0.5	1.6	2.0
of which : equipment		149.4	6.7	2.5	-7.5	-0.2	2.6	4.2	4.7	4.6
Change in stocks as % of GDP		-4.0	-0.2	0.0	-1.9	-1.3	-0.8	0.0	0.0	0.0
Exports (goods and services)		842.8	38.0	6.0	4.2	2.4	9.3	6.1	6.5	6.2
Final demand		2949.0	133.1	2.7	-0.3	1.1	2.9	1.6	2.3	2.6
Imports (goods and services)		733.4	33.1	5.0	-1.4	5.1	7.0	4.5	5.2	5.0
GNI at previous year prices (GDP deflator)		2216.0	100.0	2.1	-0.1	0.2	2.4	0.8	1.3	1.8
Contribution to GDP growth :	Domestic demand			1.8	-1.3	0.0	0.0	-0.3	0.5	0.8
	Stockbuilding			-0.1	-0.6	0.6	0.5	0.2	0.0	0.0
	Foreign balance			0.4	1.9	-0.7	1.1	0.8	0.8	0.8
Employment				0.7	-0.6	-1.0	0.4	0.3	0.5	0.4
Unemployment (a)				6.9	8.2	9.0	9.5	9.5	9.3	9.1
Compensation of employees/head				3.7	2.0	2.4	1.4	-0.1	0.2	1.2
Unit labour costs				2.2	1.3	1.6	0.1	-0.5	-0.5	0.1
Real unit labour costs				0.0	-0.1	0.6	-0.6	-1.2	-0.9	-0.4
Savings rate of households (b)				-	-	16.0	16.1	16.3	16.1	16.1
GDP deflator				2.2	1.5	1.0	0.8	0.6	0.4	0.5
Private consumption deflator				2.2	1.2	1.5	1.4	1.7	1.6	1.1
Harmonised index of consumer prices				-	1.3	1.0	1.8	2.0	1.6	1.1
Trade balance (c)				3.7	6.4	6.1	7.0	7.1	7.1	7.4
Current account balance (c)				0.7	2.2	2.1	3.7	3.8	3.9	4.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.6	2.2	2.1	3.7	3.9	3.9	4.4
General government balance (c)(d)				-2.2	-3.8	-4.1	-3.7	-3.9	-3.7	-3.3
General government gross debt (c)				47.2	61.2	64.8	66.4	68.6	70.0	71.4

(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).

5. Estonia

Booming activity, with external balance set to improve

Activity in 2005

GDP growth accelerated further during the first six months of 2005, from an annual growth rate of 7.8% in 2004 to a remarkable 8.6%. Activity is receiving strong support from both domestic demand and net exports, including tourism. Investment jumped by 9.1%, up from 6% last year, while private and public consumption, though lively, expanded at a distinctly slower pace than GDP. Construction benefited in particular from a housing boom, driving up credit demand.

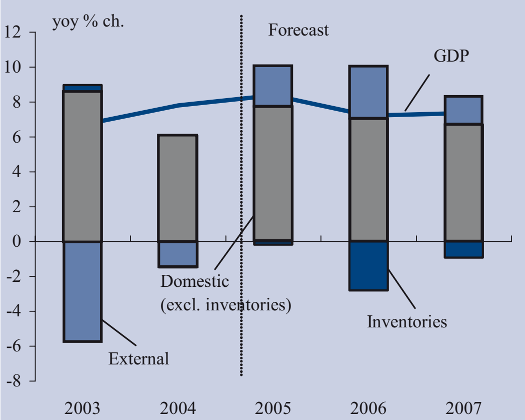
With the trade balance rapidly improving, the external account deficit is likely to narrow to less than 10% of GDP this year, despite a widening deficit on the income balances.

Prospects for 2006 and 2007

Estonia's economy is expected to remain on a path of strong and broad-based growth, with annual rates well above 7% and little cyclical variation. Investment is expected to remain strong, fuelled by public infrastructure spending and smooth absorption of EU transfers. The corporate sector can also be expected to invest vigorously, partly due to the fact that a tax exemption for reinvested earnings will be abolished by the end of 2008, in accordance with the provisions of the EU Accession Treaty. Net exports should remain positive, while private and public consumption may ease somewhat, keeping overall growth well-balanced.

Continued adherence to a prudent fiscal stance and the build-up of private pension funds should improve Estonia's savings–investment balance. As a consequence, the external account deficit can be expected to distinctly narrow to a more sustainable level of around 6% of GDP towards the end of the forecast period.

Graph 3.6: **Estonia - GDP growth and its contributors**



Labour market, costs and prices

Buoyant activity is creating many new job opportunities, notably for the self-employed. However, statistics may overestimate the effective increase, as improved tax collection measures are leading to a systematic whitening of the grey economy. This same effect explains part of the employment growth observed in 2005. With unemployment steadily decreasing to 8.1% of the workforce in August 2005, labour shortages are emerging in certain segments of the market.

Although wage pressure is mounting in some sectors, overall wage growth continues to be largely in line with the substantial productivity increases. Consequently, real unit labour costs for the whole economy are projected to remain largely broadly stable. Service sector wages are growing most strongly as tourism and transport services are booming, followed by construction and the public sector. Since wage formation is highly decentralised, settlements largely respect each sector's financial constraints.

During the first 9 months of 2005, HICP inflation picked up strongly to an average of more than 4% year-on-year, from 3% in the year 2004. Since June, when the strong base effect from EU accession in 2004 had just started to abate, consumer prices accelerated again as a result of the oil price shock combined with a number of administered price increases that became effective in March. The weight of energy in the Estonian HICP basket is among the highest in the EU. Owing to this, core inflation rates so far have remained stable and low, at around 2%, while overall monthly HICP rates are running twice as high.

Higher oil prices and public transport charges will continue to drive up inflation in the months to come. Annual HICP inflation is projected to peak at over 4% in 2005 before gradually declining to somewhat above 3% in 2006 and to around 2½% in 2007. With strong competition in the retail sector, low pressure on producer prices and even declining prices in the telecom industry, core inflation can be expected to remain at present levels, provided that wage increases stay in line with productivity gains. Since the country is aiming for adoption of the euro in 2007, keeping inflation in check will remain high on the Estonian policy agenda.

Public finances

Despite a supplementary budget adopted in October 2005 raising expenditure by 1.3% of GDP, Estonia is expected to post a higher-than-projected general government surplus of over 1% of GDP in 2005. This is owed to a combination of efficient tax collection, buoyant GDP growth and windfall gains from higher-than-anticipated inflation, in combination with strictly applied nominal expenditure ceilings.

The comfortable budgetary situation is set to prevail throughout 2006 and 2007. The 2006 budget which targets a small surplus is at present before Parliament, to be adopted in the last days of the year. The official target for 2007 is a balanced budget. However, as has been the case in recent years, some room for manoeuvre seems to be built into the underlying government forecast. For both years, further cuts to the flat income tax rate, from its current 24% to an eventual 22%, are planned on the revenue side. Possible handouts to the electorate ahead of the 2007 national elections, especially higher benefits for pensioners, whose income is not fully protected against losses in purchasing power, may partly be covered by accumulated public reserves. In all, budgetary execution may yield small surpluses also for 2006 and 2007. Still, the fiscal stance is expected to ease at a time when GDP growth is close to its estimated potential.

Table 3.5

Main features of country forecast - ESTONIA

	2004		Annual percentage change						
bn EEK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	141.5	100.0	5.5	7.2	6.7	7.8	8.4	7.2	7.4
Private consumption	79.2	56.0	6.3	10.7	7.6	4.4	6.5	6.5	6.2
Public consumption	26.9	19.0	2.5	6.2	5.9	6.9	5.7	5.9	6.0
Gross fixed capital formation	40.2	28.4	8.1	17.2	8.5	6.0	8.3	6.5	6.1
of which : equipment	19.3	13.7	-	-	-	-	13.0	6.5	6.1
Change in stocks as % of GDP	4.1	2.9	1.5	3.8	3.4	3.7	3.3	0.5	-0.4
Exports (goods and services)	111.0	78.4	10.6	0.8	5.8	16.0	18.5	16.0	13.8
Final demand	261.3	184.7	7.9	7.4	6.9	9.6	12.0	9.6	9.6
Imports (goods and services)	121.8	86.1	10.9	3.8	10.6	14.6	13.7	11.6	11.4
GNI at constant prices (GDP deflator)	132.5	93.7	5.0	7.4	5.3	7.2	8.0	6.9	7.2
Contribution to GDP growth :	Domestic demand		6.6	12.7	8.6	6.1	7.7	7.1	6.7
	Stockbuilding		0.4	1.4	0.4	-0.1	-0.2	-2.8	-0.9
	Foreign balance		-1.3	-3.2	-5.7	-1.4	2.3	3.0	1.6
Employment			-2.5	1.6	0.8	0.1	0.4	0.6	0.8
Unemployment (a)			10.6	9.5	10.2	9.2	7.2	6.0	5.4
Compensation of employees/head			18.8	10.3	10.9	10.8	12.8	10.0	8.3
Unit labour costs			9.7	4.5	4.7	2.8	4.5	3.2	1.7
Real unit labour costs			-2.5	0.1	2.6	-0.2	-0.2	0.0	-1.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			12.5	4.4	2.1	3.1	4.7	3.2	2.9
Private consumption deflator			11.4	3.2	0.7	2.6	4.1	3.3	2.6
Harmonised index of consumer prices			-	3.6	1.4	3.0	4.1	3.3	2.6
Trade balance (c)			-17.8	-15.4	-16.9	-17.5	-16.4	-15.3	-15.0
Current account balance (c)			-6.9	-10.2	-12.0	-12.7	-9.9	-7.7	-7.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-8.0	-12.1	-13.4	-10.5	-9.0	-6.8	-6.2
General government balance (c)(d)(e)			-0.6	1.5	2.6	1.7	1.1	0.6	0.4
General government gross debt (c)			-	5.8	6.0	5.5	5.1	4.0	3.1

(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).

(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

6. Greece

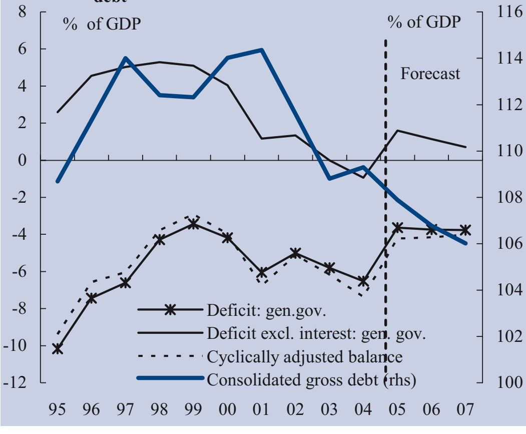
Growth returns to potential

Activity in 2005

Following two years of strong economic activity, with GDP growing at 4.7%, high growth continued in the first quarter of 2005. However, the second quarter brought evidence of a slowdown, which would suggest that the planned fiscal withdrawal and the petering out of the 'Olympic bonus' would already weigh on growth prospects. Leading indicators and hard data also point to slowing-down activity for the second half of the year, as well as for the year as a whole, but by less than anticipated in the Commission services spring 2005 forecasts, which projected growth rates around 3%. In addition, no clear signs have yet been observed that the recent oil price hike is having a significant impact on the real economy. Overall, GDP growth for 2005 is projected at 3.5%. Although this growth projection represents a relatively sharp growth slowdown compared with the 4.7% GDP growth rate recorded in 2004, economic activity in Greece is still growing well above most euro-area countries.

The slowdown has its origin in a deceleration of the domestic sector, while, after several years of negative contributions, net exports should add to growth this year. With real disposable income growing less than last year, private consumption is projected to decelerate in 2005. In parallel, the fiscal retrenchment should put a brake on public consumption and reduce public investment in real terms, thus heavily weighing on total investment, which is projected to grow at a sluggish 1% in real terms. Overall, domestic demand is now expected to grow by less than 3%, compared with more than 4.5% last year.

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



Lower growth prospects in the domestic sector should partially be compensated by developments in the external sector. The sharp deceleration in domestic demand is weighing on imports, which, after stagnating in the first half of the year, are forecast to be just above 1% for the whole year. However, supported by a strong tourism sector and, to a lesser extent, by wage moderation, exports could grow by close to 6%. As a result, the external sector could add almost one percentage point to GDP growth.

Prospects in 2006 and 2007

Although the Greek economy is projected to decelerate only marginally over the forecast horizon, important changes are expected in growth composition. In particular, economic activity will be almost exclusively based on domestic demand. GDP is expected to grow at just below 3.5% in both 2006 and 2007, so that the Greek economy could continue growing above the rates projected in spring and, indeed, well above those of the euro area. Moderate wage and employment growth, as well as higher oil prices, should cause private consumption to slightly decelerate. However, investment is projected to rebound and sustain domestic demand. This rebound is expected to come from public investment, which is projected to return to growth rates close to those of GDP. Overall, as the recent incentives law and the business tax reform should continue to support private investment, total gross fixed capital formation is projected to grow at above 4% in 2006.

On the external front, imports are also projected to rebound next year, coming back to rates more in line with past trends and growing by more than 4%. Based on a resilient tourism sector and helped by wage moderation, exports are expected to grow above 6%. As a result, the external sector is projected to contribute marginally to GDP growth.

The economy should develop along quite similar trends towards the end of the forecast period, with the external sector being broadly neutral for growth.

Labour market, costs and prices

Consistent with decelerating but still robust GDP growth, employment (full-time equivalent) is projected to grow above 1% per year until 2007. The unemployment rate should accordingly decrease to around 10% by the end of the forecast period. Wages per head are set to keep rising above the projected productivity growth, but by much less than in 2004. The combination of high nominal wage growth, strong domestic demand and oil price hikes should fuel inflation, which is expected to rise to 3.5% this year and remain close to 3% until 2007.

Public finances

The September 2005 notification reported a deficit figure of 6.6% of GDP in 2004[1]. Compared with the deficit reported in March this year, the 2004 deficit outcome is 0.5 percentage points of GDP higher. For 2005, a deficit of 3.7% is projected, in line with the planned deficit announced by the government in September. This projection includes 0.8 percentage points of GDP one-off revenues from a securitisation of tax arrears, although the accounting treatment of this operation has not been yet approved by Eurostat. The deficit for 2006 is projected at 3.8% of GDP, which compares with the target of 2.6% in the draft budget. Several factors explain this difference. The forecast is based on a less favourable growth scenario (3.4% compared with 3.8% in the draft budget) and on a more prudent assessment of direct tax revenues, based on past outcomes. Moreover, temporary revenues worth 0.6% of GDP have not been taken into account because the draft budget does not spell out the underlying measures. Following established practice, the deficit projection for 2007, around 3.8% of GDP, is based on unchanged legislation. Finally, after rising to more than 109% of GDP in 2004, the general government debt is projected to still remain above 100% of GDP at the end of the forecast period.

[1] In its press release of 28 September Eurostat noted that there were still some pending issues to be settled with Greece regarding the accounts of social security and other items for the years 2002-2004.

Table 3.6

Main features of country forecast - GREECE

		2004		Annual percentage change						
		bn Euro Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		167.2	100.0	1.7	3.8	4.6	4.7	3.5	3.4	3.4
Private consumption		111.0	66.4	2.2	3.3	4.5	4.4	3.2	3.0	2.9
Public consumption		27.8	16.6	1.7	7.3	-2.1	3.9	2.7	1.3	2.1
Gross fixed capital formation		42.4	25.4	1.7	5.7	13.7	5.7	1.1	4.2	4.3
of which : equipment		16.7	10.0	6.2	6.8	18.3	8.2	1.1	5.0	5.3
Change in stocks as % of GDP		0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Exports (goods and services)		35.1	21.0	4.4	-7.7	1.0	11.7	5.9	6.7	6.2
Final demand		216.4	129.4	2.4	2.3	4.7	5.7	2.9	3.6	3.7
Imports (goods and services)		49.2	29.4	5.8	-2.4	5.2	9.3	1.4	4.3	4.5
GNI at constant prices (GDP deflator)		167.4	100.1	1.4	3.8	4.5	4.9	3.4	3.4	3.4
Contribution to GDP growth :	Domestic demand			2.1	4.8	5.9	5.0	2.9	3.4	3.4
	Stockbuilding			0.0	0.1	0.0	0.0	-0.3	-0.1	0.0
	Foreign balance			-0.5	-1.1	-1.3	-0.4	0.9	0.2	0.0
Employment				0.8	0.1	1.3	2.9	1.2	1.3	1.3
Unemployment (a)				8.1	10.3	9.7	10.5	10.4	10.0	9.7
Compensation of employees/head				14.3	10.1	4.6	6.2	6.2	5.6	5.0
Unit labour costs				13.3	6.1	1.3	4.5	3.9	3.4	2.9
Real unit labour costs				-0.5	2.0	-2.1	0.8	0.2	0.2	-0.2
Savings rate of households (b)				-	-	8.3	8.9	8.6	8.4	8.3
GDP deflator				13.9	4.0	3.5	3.6	3.7	3.1	3.1
Private consumption deflator				13.5	3.7	3.4	2.9	3.7	3.3	3.0
Harmonised index of consumer prices				-	3.9	3.4	3.0	3.5	3.1	3.0
Trade balance (c)				-12.3	-16.6	-16.9	-17.9	-17.1	-17.1	-16.7
Current account balance (c)				-2.0	-7.8	-8.5	-8.2	-7.4	-6.6	-6.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-7.0	-7.2	-6.5	-6.1	-4.9	-4.6
General government balance (c)(d)				-9.2	-4.9	-5.7	-6.6	-3.7	-3.8	-3.8
General government gross debt (c)				81.6	111.6	108.8	109.3	107.9	106.8	106.0

(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).

7. Spain

Sustained growth but higher external imbalances

Activity in 2005[1]

Economic activity in 2005 is underpinned by dynamic domestic demand, while the external sector continuous contributing negatively to growth. Private consumption remains robust, supported by strong job creation and easy monetary and financial conditions. Such factors are also largely behind the projected acceleration in household investment in dwellings. Private consumption growing above real disposable income should further lower the households' savings rate, which is expected to fall below 10%. This will further increase households' exposure to interest rate and employment shocks. Investment in equipment is projected to remain robust, reflecting improved business expectations. Overall, domestic demand would contribute with more than 5 percentage points to GDP growth in 2005.

The external sector is still recording large imbalances. Its negative contribution to growth could be close to 2 percentage points this year. In spite of increasing oil prices, imports are projected to grow at 7% in real terms, while exports present a rather flat profile, growing at a meagre 1%. As a result, the trade deficit should widen by more than 1 percentage point of GDP to attain 7½% this year, while the net lending position of the country would reach 6.3% of GDP (4.4% in 2004). These widening external imbalances mirror the continuous deterioration of the competitive position of the Spanish economy.

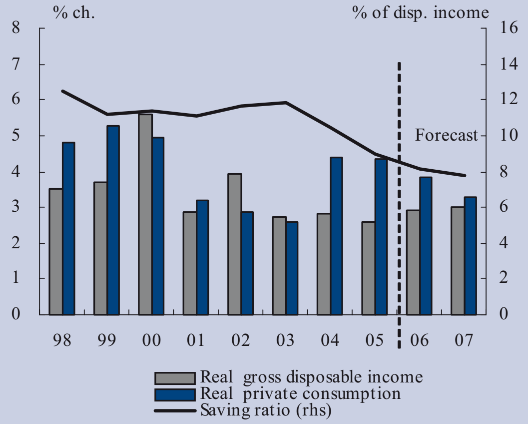
Prospects for 2006 and 2007

GDP growth is projected to slightly decelerate to 3.2% in 2006. Growth should still be based on buoyant domestic demand, as, in spite of higher interest rate expectations, high inflation is projected to keep real interest rates in the red, which, in turn, should push private consumption growing above disposable income. As a result, the saving ratio should continue in a decreasing path, going just below 8%. In parallel, household debt would rise well above 100% of gross disposable income. Investments should remain robust, backed by equipment and software, whereas residential construction growth is expected to moderate. All in all, the contribution of domestic demand to GDP growth is projected to be slightly below 5 percentage points.

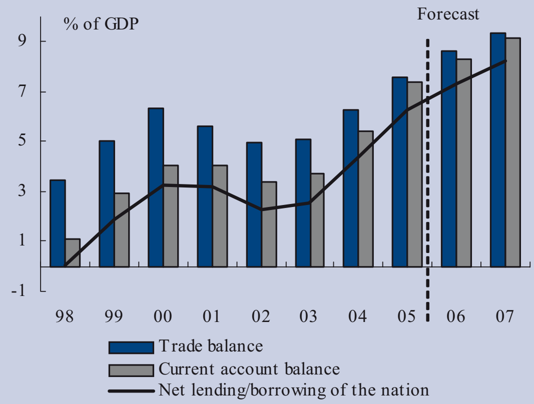
Imports are projected to decelerate only marginally since the modest slowdown in domestic demand comes from the construction sector, which has a low import intensity. Deteriorating competitiveness should keep exports growing well below EU trade, thus further reducing Spanish market shares. Consequently, the trade deficit should continue to widen to over 8.5% of GDP. Overall, the negative contribution from the external sector to GDP growth is projected to be above 1.5 percentage points.

GDP growth is projected to further slow down in 2007. Although oil prices are expected to remain relatively stable, higher interest rate expectations should finally lead to positive interest rates in real terms, which would put a break on both private consumption and investment in dwellings. With residential construction growing at a reduced speed, gross fixed capital formation should decelerate at the end of the forecast period. In parallel, although at a

Graph 3.8: **Spain - Households use of income account**



Graph 3.9: **Spain - Deficit in external accounts**



more moderate path, the household saving rate should go down to situate just below 8% of the gross disposable income, which, in turn, will further increase household's debt. Overall, in spite of the rising risks associated to the financial position of households, domestic demand would contribute to GDP growth by around 4¼ percentage points.

The projected deceleration of domestic demand should further moderate import growth. However, since no significant improvements are expected on productivity growth and inflation differentials between Spain and its main trade partners, exports would only grow by 2%, thus leading to further losses of market shares. As a result, the trade deficit might peak above 9% of GDP. Overall, the negative contribution to GDP growth from the external sector should remain slightly below 1¼ percentage points.

The evolution of the external accounts in 2006 and 2007 deserves special attention. Declining net tourism inflows will narrow the surplus recorded by services, especially tourism, which has traditionally offset the deficit in goods trade. The deficit of the balance of primary incomes and current transfers should increase, partially as a result of larger migrants' transfers abroad and the expected decrease in EU transfers by 2007. In fact, provisional data for the first half of 2005 indicate that the surplus of services only just compensates for the aggregate deficits in the primary incomes and current transfers accounts. Therefore, the current account deficit is of same size as the trade deficit. All in all, the current account deficit is expected to reach 9% of GDP at the end of the forecast period. The net borrowing position of the economy is projected at above 8% of GDP in 2007. Since net FDI is projected to decrease, portfolio investments should represent the main source of finance of the external deficit. Persistently increasing financial needs might put pressure on risk premia, with possible negative feedbacks for Spanish households, which are already highly exposed to interest rate shocks.

There are risks to this scenario. In particular, some of the current trends, namely, higher household's indebtedness, low productivity growth, a persistent inflation differential with the euro area and wider external imbalances, are increasing the risks of a slowdown of the internal demand. However, neither hard data nor softer indicators currently point to a likely drastic deceleration of the economic activity in the short term.

Labour market, costs and prices

Job creation is projected to remain robust over the forecast period. In 2005, employment is expected to grow at around 3% in full-time-equivalent terms. Part of the growth is the result of the regularization of immigrants carried out by the government during the first semester of the year. In 2006 and 2007, job creation should decelerate to about 2.5% and 2.2% respectively, in line with slower economic activity, especially in residential construction. The unemployment rate would slightly fall over the forecast period, to around 8% of the labour force by 2007.

Following the oil price hike in the first and second quarters of 2005, headline inflation, measured by the HICP, might be close to 3½% at the end of the year, while core inflation would remain around 1 percentage point lower. Since the increase in energy prices is expected to have also an impact on 2006, inflation is projected to remain above 3% in that year and then ease gradually to 2.4% in 2007. Structural factors such as insufficient competition in certain utilities and services sectors, coupled with remaining rigidities in the labour market, would keep the inflation differential with the euro area at around 1 percentage point. Although the relative moderation of construction prices in 2006 and 2007 should lead to a narrowing of the gap, the GDP deflator is projected to keep growing well above the HICP over the forecast period.

Compensation of employees per head is projected to grow at around 3% until the end of the forecast period. Therefore, real wages would almost stagnate, consistently with low productivity growth. However, nominal wages in Spain would still grow above the euro area average, thus mirroring the high and persistent inflation differential. Low productivity growth, coupled with high inflation, will continue being a drag on the competitiveness of the Spanish economy. As a result, unit labour costs are projected to keep on growing above the euro area average.

Public finances

According to the EDP notification of September 2005, a small surplus of 0.1% of GDP is projected for the general government consolidated balance in 2005. This target appears attainable. In 2006, a close-to-balance position is projected in both nominal and structural terms. Therefore, the fiscal policy should remain broadly neutral[2]. This is in line with the draft Budget Law, which targets a general government surplus of 0.2%, based on a plausible scenario where nominal GDP is projected to grow by 7%. However, the official projected revenues growth by 8.4% for the central government could turn out slightly optimistic. Regarding central government expenditures, the draft budget gives priority to R&D and infrastructures expenditure, which will grow by around 30% and 12% respectively. Overall, central government expenditures are projected to increase by around 8% in nominal terms. In 2007, within the framework of the customary no-policy change scenario, with decelerating residential construction and private consumption, the elasticity of indirect taxes is projected to partially return to its long-term value of about 1. Consequently, revenues would grow at 6½% in nominal terms, compared with 6% nominal GDP growth. However, total expenditures are assumed to follow previous trends and increase by 7½%. On this basis, the general government deficit could be around 0.4% of a percentage point of GDP. The debt to GDP ratio is projected to continue on a declining path, falling from almost 47% of GDP in 2004 to 41% in 2007.

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[1] At the beginning of the year, the Spanish statistical office carried out an upward revision of labour statistics over the last decade and a concomitant upward revision of GDP figures by around 0.5 of a percentage point per year since 2000.

[2] The calculation of the output gap in Spain, based on the production function methodology agreed by the EPC, might have led to an overestimation of the contribution of the total factor productivity, which therefore could have overestimated the potential output.

Table 3.7

Main features of country forecast - SPAIN

	2004		Annual percentage change						
	bn Euro Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices	837.3	100.0	2.9	2.7	3.0	3.1	3.4	3.2	3.0
Private consumption	483.2	57.7	2.6	2.9	2.6	4.3	4.3	3.9	3.3
Public consumption	148.9	17.8	4.1	4.5	4.8	6.0	5.3	5.3	5.3
Gross fixed capital formation	233.6	27.9	4.3	3.4	5.5	4.9	6.5	5.3	4.5
of which : equipment	56.2	6.7	4.7	-2.9	2.5	3.7	6.2	6.6	6.3
Change in stocks as % of GDP	3.1	0.4	0.3	0.4	0.4	0.4	0.4	0.3	0.3
Exports (goods and services)	216.9	25.9	7.5	1.8	3.6	3.3	1.1	1.7	2.0
Final demand	1085.7	129.7	3.8	3.0	3.7	4.5	4.2	3.9	3.6
Imports (goods and services)	248.4	29.7	8.9	3.9	6.0	9.3	6.8	6.4	5.6
GNI at previous year prices (GDP deflator)	823.6	98.4	2.8	3.0	3.2	2.9	3.1	3.7	3.2
Contribution to GDP growth : Domestic demand			3.2	3.3	3.8	4.9	5.2	4.7	4.2
Stockbuilding			0.0	0.0	0.0	0.0	0.1	0.0	0.0
Foreign balance			-0.2	-0.7	-0.8	-1.8	-1.7	-1.5	-1.2
Employment			1.4	2.4	2.5	2.6	3.0	2.4	2.2
Unemployment (a)			15.3	11.5	11.5	11.0	9.2	8.5	8.1
Compensation of employees/head			7.4	3.3	3.4	3.3	3.1	3.9	3.5
Unit labour costs			5.9	3.0	2.9	2.8	2.7	3.0	2.7
Real unit labour costs			-0.7	-1.4	-1.0	-1.2	-1.5	-0.7	-0.2
Savings rate of households (b)			-	-	11.8	10.5	9.0	8.1	7.8
GDP deflator			6.6	4.4	4.0	4.0	4.3	3.8	2.9
Private consumption deflator			6.5	2.9	2.8	3.4	3.7	3.4	2.9
Harmonised index of consumer prices			-	3.6	3.1	3.1	3.6	3.3	2.6
Trade balance (c)			-4.2	-5.0	-5.1	-6.3	-7.6	-8.5	-9.3
Current account balance (c)			-1.6	-3.9	-4.2	-5.9	-7.4	-8.3	-9.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.2	-2.8	-3.1	-4.8	-6.3	-7.3	-8.2
General government balance (c)(d)			-4.1	-0.3	0.0	-0.1	0.2	0.1	-0.4
General government gross debt (c)			48.0	53.2	49.4	46.9	44.2	41.9	40.7

(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).

8. France

More balanced growth

The economic situation in 2005

In 2005, real GDP growth slowed down more than expected. In the second quarter of this year, French GDP grew by a mere 0.1% (q-o-q), after having increased by 0.4% in the first quarter and 0.6% in the fourth quarter of 2004. Domestic demand and especially private consumption, which had supported the French economy in previous quarters, declined. The expiry of tax exemption, which previously encouraged households to free up some savings, might partly explain the fall in consumption in the second quarter. Lower sales prospects and concerns related to oil price volatility hampered firms' investment plans. According to national accounts data, business investment fell by 1.2% (q-o-q), after a rise of 1.9% in the preceding quarter. On the external side, the contribution of net trade to GDP growth continued to be negative. All in all, the increase in stocks was the only factor that prevented the French economy from declining in the second quarter.

Recent indicators suggest that GDP growth is likely to strengthen in the third quarter of 2005, supported by an exceptional rebound in consumer spending on manufactured goods. However, private consumption is not likely to grow on a sustained basis since the recovery of employment is slower than expected.

Exports are projected to recover in the next semester thanks to the depreciation of the euro. All in all, the economy is forecast to grow by about ½% and ¼% q-o-q, respectively, in the third and fourth quarter of 2005.

Prospects for 2006 and 2007

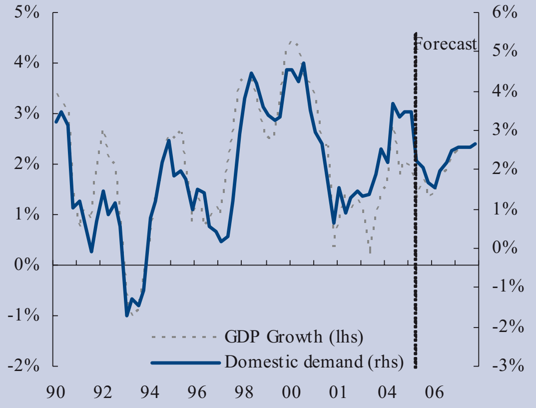
In 2006, real GDP growth is expected to strengthen to 1¾% and to be slightly above its potential in 2007 at 2¼%. Economic activity should still be driven by domestic demand, but the contribution of net exports to GDP growth should be less negative by the end of the forecast period.

Private consumption is forecast to remain the main driving force of economic growth, based on an expected recovery in employment. It will increase in line with disposable household income, reflecting the expected rise in the demand for labour. By the end of 2007, the reform of the 35-hour working week may boost households' income through an increase in authorised annual overtime and the possibility of converting the extra time saved into additional revenues. The projected benign inflation outlook should also support households' purchasing power.

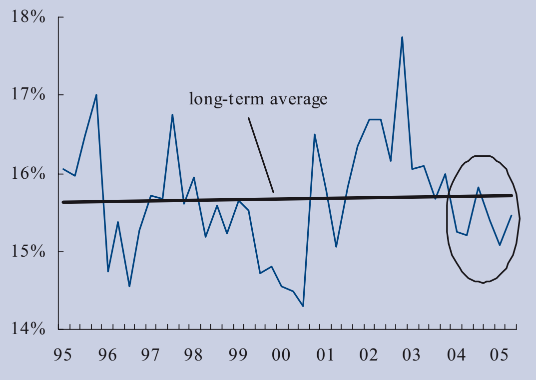
Investment in equipment is expected to decelerate next year (from 4¾ to 3¾%), mainly due to relatively low capacity utilisation. In 2007, this tendency is likely to be reversed due to a more positive economic outlook, still supportive financing conditions and the retention of lower tax rates on new capital expenditure. In contrast, the investment in building construction is forecast to strengthen from 2.4% in 2005 to about 3% in the two coming years thanks to historically favourable mortgage financing conditions.

After a loss in export market shares in 2005 for the third consecutive year, export volumes are projected to increase again more in line with the expansion of

Graph 3.10: **France - GDP and domestic demand**



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



external demand. This is due to an improvement in price competitiveness linked to the depreciation of the euro and a somewhat stronger impulse from France's main trading partners (notably Germany and Italy). 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 over the forecast horizon.

Labour markets, costs and prices

Uncertainties concerning the durability of the recovery and the traditional lag with which employment reacts to economic activity largely explain the current weakness in employment growth. In 2006 and 2007, employment growth is set to strengthen in response to improved corporate profitability and better economic prospects over the forecast horizon. The recovery of employment should also be stimulated by the implementation of the "emergency employment plan" which aims at facilitating recruitment by small companies and encouraging return to work. This would allow a substantial decline in the unemployment rate, from 9.7% of the labour force in 2004 to 8.9% in 2007.

Given the still high unemployment rate, wage moderation is expected to continue over the forecast horizon. Nevertheless, wages will still be supported by the harmonisation of the different levels of the minimum wage, induced by the reduction in the working week to 35 hours implemented between 1998 and 2002, as well as by the increase in authorised annual overtime and the possibility of converting a part of it into additional income. Moreover, a slight cyclical acceleration in wages is expected to occur in 2006 and 2007, driven by the improvement of the situation in the labour market.

As productivity growth is expected to decelerate from the high rate observed in 2004, unit labour costs should rise in 2005 but remain broadly constant over the forecast horizon. Core inflation is thus projected to pick up gradually, due to some diffusion effects of oil prices and price increases in the services sector. The government's amendment of the so-called Galland Law regulating the relationship between French retailers and their suppliers is likely to lead to lower prices of major branded products and hence to a moderation of headline inflation. On the other hand, expected increases in administered prices notably linked to the health-care reform and administered energy prices should contribute to a rise in HICP inflation. Overall HICP inflation should be slightly above 2% in 2006 and slightly below 2% in 2007.

Public finances

Following a decline from 4.2% to 3.6% of GDP in 2004, the general government deficit is projected to be further reduced to 3.2% of GDP in 2005, somewhat higher than the government deficit estimate at 3% of GDP. The Commission's scenario is based on (i) a weaker macroeconomic scenario with a slower growth in compensation of employees and private consumption and hence lower wage-based contributions and VAT, and (ii) higher expenditures notably in local administrations and social security funds (due to lower employment and higher prices).

This forecast incorporates substantial one-off payments to the general government for a total amount of 0.5% of GDP which are linked to the inclusion of the specific electricity and gas companies' pension schemes in the general regime. New tax measures have a positive impact on the deficit of about 0.2% of GDP and notably include (i) an increase in social security contributions resulting from the above-mentioned incorporation of specific pension schemes into the general one, the implementation of the health-care reform and the creation of a complementary pension regime for civil servants, and (ii) an exceptional tax of 25% (compensating for the suppression of the previous system) on distributed profits not taxed at the normal rate[1]. Dynamic revenues notably from the personal income tax and revenues stemming from a good housing and stock exchange performance (such as taxes on change of ownership and on interest earnings) should lead to an overall elasticity of revenues to GDP of about 1.2, above the long-term average. This forecast for 2005 is consistent with an improvement in the cyclically adjusted balance of about ½% of GDP, the largest part of which reflects the impact of the one-off measures.

In the following years, the general government deficit would increase again to about 3½% of GDP if no additional measures are taken. For 2006, this mainly reflects the fact that the ½% of GDP of one-off payments mentioned above will vanish. However, the 2006 budget bill also contains one-off revenues of about ¼% of GDP. They are linked to the integration of the postal company's specific pension scheme in the general regime, the liquidation of a precautionary fund associated with subsidised mortgages[2] and the exceptional collection of accumulated social contributions on specific subsidised saving plans that will thereafter be collected on an annual basis. The current general government deficit estimate is above that projected by the government (at 2.9%). The difference stems from a base effect, the growth differential, a lower tax-revenues-to-GDP elasticity and somewhat higher expenditures compared to the government forecast in the areas of local administration and health expenditures. About the latter, this forecast acknowledges that the health reform has noticeably curbed expenditures and thus lowered its assumption from 4% in the spring forecast, to 3.2%, which is still somewhat higher than that of the government (at 2.7%) based on a prudent assessment of some of the measures announced in the 2006 draft budget for social security funds. The deficit forecast for 2007, at 3½% of GDP, assuming GDP growth at 2.3%, follows the conventional assumption of unchanged policies. It thus takes account of already decided measures impacting 2007 such as (i) the income tax reform, (ii) an increase in the employment premium and in the income tax allowance linked for young children, and (iii) the entrenchment of lower tax rates for new investment. All in all, these measures will represent about ¼% of GDP in 2007. The debt to GDP ratio would continue to increase from about 65% in 2004 to 68% in 2007.

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[1] The government's revenues estimate associated with this measure nearly tripled from EUR 0.5 bn to EUR 1.2 bn. Thus, there is a risk that they might turn out to be less important.

[2] While this transaction has been recorded in the forecast as a deficit decreasing transaction, a clarification of the accounting is needed.

Table 3.8

Main features of country forecast - FRANCE

	2004		Annual percentage change						
bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices	1648.4	100.0	2.3	1.2	0.8	2.3	1.5	1.8	2.3
Private consumption	924.3	56.1	2.1	2.3	1.4	2.1	2.0	1.8	2.5
Public consumption	394.4	23.9	2.3	2.9	2.0	2.6	1.7	1.7	1.6
Gross fixed capital formation	316.0	19.2	2.5	-1.7	2.7	2.5	2.6	3.0	3.4
of which : equipment	88.6	5.4	5.2	-4.0	1.3	2.9	4.7	3.8	4.3
Change in stocks as % of GDP	9.5	0.6	0.2	0.2	-0.1	0.9	1.3	1.4	1.6
Exports (goods and services)	427.7	25.9	5.4	1.5	-1.7	3.1	2.3	4.3	4.7
Final demand	2072.0	125.7	2.8	1.3	0.8	3.2	2.4	2.5	3.1
Imports (goods and services)	423.8	25.7	4.9	1.7	0.7	6.9	5.1	5.0	5.5
GNI at previous year prices (GDP deflator)	1657.1	100.5	2.3	0.3	1.0	2.4	2.4	1.9	2.4
Contribution to GDP growth :	Domestic demand		2.2	1.6	1.7	2.3	2.0	2.0	2.5
	Stockbuilding		0.0	-0.3	-0.3	1.0	0.2	0.1	0.1
	Foreign balance		0.1	0.0	-0.6	-0.9	-0.7	-0.2	-0.3
Employment			0.4	0.9	0.1	-0.1	0.1	0.5	0.9
Unemployment (a)			9.7	8.9	9.5	9.6	9.6	9.3	8.9
Compensation of employees/head			4.9	3.0	2.4	3.1	2.9	2.7	3.0
Unit labour costs			2.9	2.7	1.7	0.6	1.5	1.4	1.6
Real unit labour costs			-0.7	0.5	0.1	-1.0	0.1	-0.4	-0.3
Savings rate of households (b)			-	-	15.7	15.1	15.1	15.0	15.1
GDP deflator			3.6	2.2	1.6	1.6	1.4	1.7	1.9
Private consumption deflator			3.7	1.0	1.4	1.7	1.3	1.7	1.6
Harmonised index of consumer prices			-	1.9	2.2	2.3	2.0	2.1	1.9
Trade balance (c)			-0.4	0.5	0.2	-0.4	-1.8	-2.0	-2.0
Current account balance (c)			-0.6	0.8	0.2	-0.7	-0.8	-0.9	-0.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.6	0.8	-0.3	-0.6	-0.8	-0.9	-0.8
General government balance (c)(d)			-2.8	-3.2	-4.1	-3.7	-3.2	-3.5	-3.5
General government gross debt (c)			41.6	58.8	63.2	65.1	66.5	67.1	68.0

(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).

9. Ireland

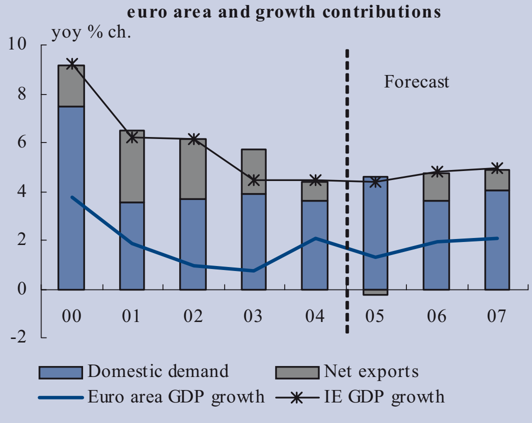
Growth to continue, fuelled by domestic demand

Activity in 2005

According to preliminary national accounts, real GDP expanded by 4.1% on the year in the second quarter after a rather meagre increase of 2.1% in the previous three months. In the first half of 2005, domestic demand was strong and appeared to be the main driver of economic growth while the contribution from the external economy was negative. On the domestic side, consumer demand slightly picked up after a more muted performance in 2004. Investment expenditure also grew rapidly, mirroring very strong demand for equipment and continued buoyancy of the construction sector. On the external side, figures for the first half suggest a fairly weak performance by exports, reflecting a less favourable trading environment. Imports put in a somewhat stronger performance, following the pick-up in consumer and investment demand. For the third quarter, purchasing managers' indices reported increased activity for both manufacturing and services. Confidence indicators, however, did not fully confirm the brightening of the outlook across sectors, as there have been some fluctuations in consumer and retail trade sentiment.

Despite some risk related to uncertainties stemming from the external environment, prospects for the second half of 2005 are positive. The economy's momentum is supported by recent strong employment gains (mainly concentrated in the construction sector), boosted by record immigration and increased participation. Some easing of competitiveness pressures on the back of the recent depreciation of the euro might also allow for a stronger performance of exporting sectors. For the year as a whole, real GDP is estimated to grow just below 4½%, as in 2004.

Graph 3.12: **Ireland - GDP growth compared with the euro area and growth contributions**



Note: contribution from statistical discrepancy is not shown

Prospects for 2006 and 2007

GDP growth is forecast at 4.8% and 5.0% in 2006 and 2007 respectively, close to the rate commonly thought to be sustainable in the medium term. Robust domestic demand is expected to continue to be the main driving force of economic growth. Private consumption is underpinned by strong employment growth (albeit lower than in 2005), though recent fluctuations in confidence suggest that the projected pick-up in consumer spending into 2006 might be rather gradual. Private spending is projected to accelerate further and to reduce the saving rate in 2007, in the year when the bulk of SSIA funds (a government-sponsored saving scheme) reach maturity. Investment in housing is projected to taper-off over the forecast period, as the recent record volumes of completions are unlikely to be repeated. However, part of the downward correction in the residential sector is expected to be offset by a rebound in commercial construction and strong infrastructure investment. On the external side, services exports are projected to put in a strong performance but the outlook for merchandise exports is somewhat less positive. Import growth is forecast to accelerate into 2007, in line with the projected pick-up in consumer expenditure. As net profit outflows are expected to remain on an upward trend, the implied growth rate of Gross National Income is somewhat lower than that of GDP. Overall, robust economic growth is projected to continue, but developments in the international economy and euro/dollar exchange rate remain the key medium-term risks to an economy as highly globalised as Ireland.

Labour market, costs and prices

In 2005, employment growth is set to strengthen to an extremely robust 3.8%. In line with the projected gradual easing back of construction output and strong performance of the service sector, employment gains will be somewhat weaker but still very robust in 2006 and 2007. Labour force growth, fuelled by significant inward migration (notably from the new EU Member States) and increased participation, is projected to keep up with the upward employment trend. The unemployment rate is thus estimated to remain below 4½% over the forecast period. In line with the data for the first half of 2005, per capita compensation is estimated to grow at around 5% on the year in 2005. Some further easing of wage inflation is projected in 2006 due to the completion of the current round of "benchmarking" awards to public sector workers, but this is expected to be partly offset by relatively tight labour demand. HICP inflation has somewhat picked up in the third quarter of 2005, partly reflecting adverse energy price developments, and is forecast to reach 2.2% for the year as a whole. This annual rate is expected to moderate in the second half of 2006 due to a base effect, before rising slightly again into 2007 in line with the projected revival of consumer spending.

Public finances

In 2005, the general government deficit is estimated to fall below ½% of GDP, which compares to the initial official target of 0.8% of GDP. The underlying general government balance is even stronger as the projected deficit includes higher net expenditure of around 0.6 percentage points of GDP for a February 2005 court ruling on nursing home payments. This relatively favourable estimated outturn is mainly due to higher-than-expected tax receipts, including also one-off income from special Revenue Commissioners' (Ireland's tax collection agency) investigations in 2005, and partly also on account of expected slight under-spending in capital outlays. The deficit is projected to fall slightly to 0.3% and 0.1% of GDP in 2006 and 2007 respectively. Given the non-indexed nature of the tax and social benefit system, the no-policy-change assumption is made operational for 2006 and 2007 by freezing average tax rates and adjusting social transfer payments by the forecast of CPI inflation (with a small top-up). Government gross debt is projected on a modest downward trend just below 30% of GDP over the forecast period.

Table 3.9

Main features of country forecast - IRELAND

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		148.6	100.0	5.4	6.1	4.4	4.5	4.4	4.8	5.0
Private consumption		66.3	44.6	3.7	3.5	3.4	3.8	4.9	5.3	6.0
Public consumption		23.3	15.7	2.5	7.4	3.5	2.4	3.0	3.0	3.0
Gross fixed capital formation		36.3	24.4	4.2	3.6	5.7	7.9	7.9	3.2	3.3
of which : equipment		7.9	5.3	4.5	2.3	0.4	5.3	16.8	3.5	6.5
Change in stocks as % of GDP		0.8	0.5	0.6	0.7	1.2	0.9	0.5	0.5	0.5
Exports (goods and services)		123.5	83.1	11.7	4.0	0.8	7.0	2.3	5.1	5.4
Final demand		250.2	168.4	6.8	4.2	2.6	5.6	3.8	4.7	5.1
Imports (goods and services)		100.7	67.8	9.3	1.8	-1.4	7.6	3.2	4.6	5.3
GNI at previous year prices (GDP deflator)		125.7	84.6	4.5	3.9	7.1	4.5	4.5	4.7	4.8
Contribution to GDP growth :	Domestic demand			3.2	3.6	3.3	3.9	4.6	3.6	4.0
	Stockbuilding			0.2	0.1	0.6	-0.3	-0.1	0.0	0.0
	Foreign balance			1.9	2.5	1.8	0.8	-0.2	1.1	0.9
Employment				1.8	1.8	2.0	3.1	3.8	2.2	2.0
Unemployment (a)				12.5	4.3	4.6	4.5	4.3	4.4	4.5
Compensation of employees/head				7.1	5.1	5.6	5.5	4.9	4.5	4.5
Unit labour costs				3.4	0.8	3.1	4.1	4.3	1.9	1.6
Real unit labour costs				-1.8	-4.1	1.0	1.8	1.0	-0.6	-1.0
Savings rate of households (b)				-	-	15.1	16.6	17.2	16.0	14.0
GDP deflator				5.3	5.0	2.0	2.2	3.2	2.5	2.6
Private consumption deflator				5.0	5.4	3.9	1.0	1.8	2.4	2.3
Harmonised index of consumer prices				-	4.7	4.0	2.3	2.2	2.5	2.4
Trade balance (c)				10.0	25.1	21.8	19.8	18.0	17.5	17.0
Current account balance (c)				-1.5	-1.0	0.0	-0.8	-2.2	-2.5	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.6	-0.6	0.1	-0.5	-2.0	-2.3	-2.6
General government balance (c)(d)				-3.8	-0.4	0.2	1.4	-0.4	-0.3	-0.1
General government gross debt (c)				82.8	32.4	31.5	29.8	29.0	28.7	28.2

(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).

10. Italy

Signs of a moderate recovery

Activity in 2005

After two consecutive quarters of negative GDP growth at the end of 2004 and the beginning of 2005, the Italian economy rebounded in the second quarter of 2005. Robust private consumption and investment in construction, as well as strong exports, drove GDP up by 0.7%. Recent economic indicators point to positive growth in the second half of the year. However, due to the decline in output in the first three months of the year, GDP growth in 2005 as a whole is forecast to be only 0.2%, down from 1.2% in 2004.

The nearly flat growth in 2005 is the result of a weak contribution of domestic demand and a negative contribution of the external sector. Private consumption in 2005 has been supported by surprisingly solid employment growth. The negative impact of higher energy prices on consumption has been partly offset by declines in other components of HICP inflation. Total investment is forecast to decline by around 1% in 2005, as a result of a steep drop in investment in equipment that has been partly offset by positive growth in constructions. On the external side, in spite of the projected recovery in exports in the second half of the year, Italy is expected to record a large loss of market shares in 2005, caused by worsening cost and price competitiveness.

Prospects for 2006 and 2007

Against the background of the assumed strong global growth, broadly stable exchange rates, favourable financial conditions and stabilising oil prices, the recovery started in the second quarter of 2005 is expected to consolidate in 2006. GDP is forecast to grow by around 1.5% in 2006, slightly above the estimated rate of potential growth.

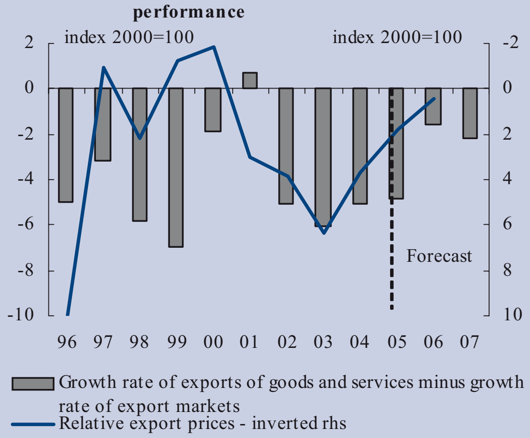
Although the main contribution to GDP growth in 2006 is expected to come from domestic demand, the forecast also projects an improvement in the external contribution to growth relative to 2005. In particular, exports are expected to accelerate, although to a rate of growth still well below that of Italy's export markets.

Private consumption is expected to be supported by healthy real disposable income growth (1.5%), resulting from further increases in employment and real wages. Wealth gains on households' holdings of real and financial assets and a further expansion of borrowing could also provide some stimulus to consumption. The household savings rate is projected to stabilise at the 2005 level.

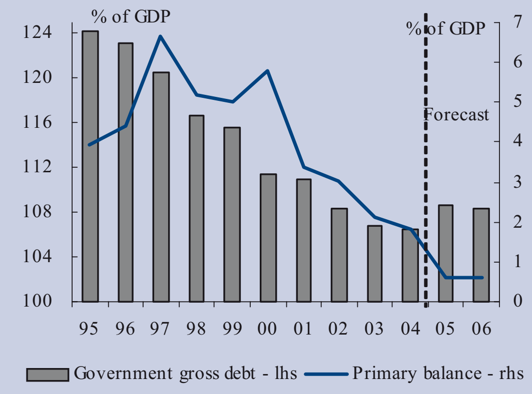
Better demand prospects are expected, in turn, to stimulate investment expenditure. Some of the pre-conditions for a pick-up in investment are in place: business confidence and orders are rising; corporate balance sheets have improved and financing costs have decreased, as a result of the low level of interest rates and the rise in share prices. Companies will also benefit from a reduction in employers' social security contributions of up to 1% introduced by the 2006 budget. However, capacity utilisation is still close to its medium-term average.

The forecast for 2007 posits a continuation of these trends. GDP growth is expected to slow down

Graph 3.13: **Italy - Relative exports prices and market performance**



Graph 3.14: **Italy - Government gross debt and primary balance**



marginally, to 1.4%, as the contribution to growth from the external sector returns slightly negative amidst the assumed weakening in foreign demand and further losses in price competitiveness. Domestic demand is expected to continue growing by around 1.5%, with a slowing down in investment expenditure compensated by slightly stronger consumption growth.

Labour market, costs and prices

Reflecting the pick up in output and further effects from the implementation of the labour market reforms introduced since the mid-1990s, employment, measured in full-time equivalents, is forecast to expand by 0.6% in both 2006 and 2007. The main contribution to overall employment growth is likely to continue to come from the services sector. The rate of unemployment is expected to fall to 7.5% in 2007.

After declining in 2005, labour productivity is forecast to pick up in 2006 and 2007. Together with slightly lower wage inflation in the private sector and the reduction in social security contributions, this should bring about a marked deceleration in unit labour costs compared to 2005 and contribute to keeping core inflation below 2%. Due to the impact of higher oil prices, headline HICP inflation is forecast to remain slightly above 2% in 2006, before declining to 1.9% in 2007.

The expected higher rate of productivity growth and deceleration in unit labour costs will temper but not halt the loss of international competitiveness. Since 1999, Italy's unit wage costs in manufacturing have risen by almost 20% more than in its euro area partners. In addition, high non-wage costs also weigh on Italy's competitive position.

Public finances

Statistical revisions carried-out in May increased the general government deficit in the order of 0.2% of GDP for all the years from 2001 to 2004, on average. The deficit is now reported at 3.2% of GDP in 2001, 2003 and 2004, and at 2.7% of GDP in 2002. Debt levels were also revised upwards. In particular, the debt ratio for 2004 is now reported at 106.5% of GDP, up from the 105.8% of GDP notified in March.

The general government deficit is forecast to increase to 4.3 % of GDP in 2005 from 3.2% in 2004, in line with the government estimates. The primary surplus is forecast to fall to 0.6% of GDP in 2005, from 1.8% in 2004. In cyclically-adjusted terms, the budget balance is expected to deteriorate by about half of a percentage point of GDP compared to 2004. Taking into account the decline in the contribution from temporary measures from 1.4% of GDP in 2004 to 0.5% of GDP in 2005, the structural deficit (defined as the cyclically-adjusted deficit net of one-off and temporary measures) would be around half of a percentage point of GDP lower than in 2004.

In the draft budget for 2006, the government targets a reduction in the deficit to 3.8% of GDP, in line with the Council recommendation to Italy under Article 104(7) of July 2005. When including the amendment decided by the government on 28 October, the draft budget and an accompanying law decree combine deficit-reducing measures estimated at 1.8% of GDP with new expenditures and tax cuts totalling 0.7% of GDP.

The assessment of the 2006 draft budget has been made difficult by the stepwise presentation of the adjustment measures. On the basis of a cautious evaluation of some of the measures in the budget, the Commission services forecast the 2006 deficit at 4.2% of GDP. In particular, the savings on health care expenditure and on current expenditure of central and local government are projected to fall short of the ambitious official targets. Ceilings on health care expenditure have not been attained in the past and the new procedures set in place to control health expenditure in 2006 will have to prove their effectiveness. Similarly, the planned cuts to the intermediate consumption of central and local governments would imply decreases in nominal terms, which do not seem achievable given recent expenditure trends and the fact that mechanisms to durably contain intermediate consumption may need further strengthening. The primary surplus is forecast to remain at the 2005 level (0.6% of GDP). Net of cyclical factors, the budget and the primary balances will remain broadly stable relative to 2005. Deficit-reducing temporary and one-off measures, in particular sales of real estate and revenues from revaluations of corporations' assets, are estimated at around 0.4% of GDP.

The assessment of the 2006 draft budget carries both positive and negative risks. On the one hand, if mechanisms to enforce the ceilings on health care expenditure and the ambitious cuts on central and local government current expenditure turned out to be fully effective, the deficit might be lower than forecast. The possible postponement of expenditure linked to the Lisbon agenda to 2007 might also improve the 2006 deficit figure. On the other hand, even the attainment of the sizable savings on current expenditure included in the Commission services forecasts might prove challenging to carry-out. Moreover, the cuts in transfers to publicly-owned companies may be difficult to sustain given their current financial needs. Finally, the 2006 budgetary forecast incorporates measures announced by the Government but not yet approved by Parliament.

The forecast for 2007 of a deficit of 4.6% of GDP is based on the customary no-policy-change assumption, i.e. only measures already formally adopted by the government are taken into account.

The government debt ratio is forecast to increase to 108.6% of GDP in 2005, up from 106.5% in 2004, thus interrupting the decline started in 1995. The negative impact of debt-increasing below-the-line operations is expected to more than offset the positive effect from privatisation receipts estimated at 0.3% of GDP in 2005. Planned privatisation receipts of about 1% of GDP will contribute to the decline in the debt-to-GDP ratio in 2006.

Table 3.10

Main features of country forecast - ITALY

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1351.3	100.0	1.9	0.4	0.3	1.2	0.2	1.5	1.4
Private consumption		812.6	60.1	2.1	0.4	1.4	1.0	1.0	1.4	1.6
Public consumption		260.1	19.2	1.7	1.9	2.3	0.6	1.1	0.6	0.6
Gross fixed capital formation		262.9	19.5	1.7	1.2	-1.8	2.1	-0.8	2.8	2.2
of which : equipment		114.6	8.5	2.8	-1.0	-5.2	1.4	-3.1	2.7	2.6
Change in stocks as % of GDP		4.8	0.4	0.7	0.3	0.6	0.5	0.5	0.5	0.5
Exports (goods and services)		360.0	26.6	4.9	-3.2	-1.9	3.2	0.1	4.0	3.2
Final demand		1700.3	125.8	2.4	0.2	0.5	1.5	0.6	2.1	1.9
Imports (goods and services)		349.0	25.8	4.8	-0.5	1.3	2.5	2.1	4.2	3.8
GNI at constant prices (GDP deflator)		1343.6	99.4	1.9	0.3	0.3	1.4	0.1	1.5	1.4
Contribution to GDP growth :	Domestic demand			1.9	0.8	0.9	1.1	0.7	1.6	1.5
	Stockbuilding			-0.1	0.4	0.3	-0.1	0.1	0.0	0.0
	Foreign balance			0.1	-0.8	-0.9	0.2	-0.6	0.0	-0.2
Employment				0.4	1.3	0.4	0.8	0.5	0.6	0.6
Unemployment (a)				9.5	8.6	8.4	8.0	7.7	7.6	7.5
Compensation of employees/head				7.6	2.5	3.8	2.9	2.9	2.6	2.7
Unit labour costs				6.0	3.4	3.9	2.4	3.3	1.6	1.9
Real unit labour costs				-0.9	0.4	1.0	-0.2	0.9	-0.6	-0.3
Savings rate of households (b)				-	-	16.0	16.4	16.4	16.5	16.5
GDP deflator				7.0	3.1	2.9	2.6	2.4	2.2	2.2
Private consumption deflator				6.9	3.1	2.5	2.2	2.0	2.1	1.9
Harmonised index of consumer prices				-	2.6	2.8	2.3	2.2	2.1	1.9
Trade balance (c)				0.9	1.6	1.2	1.0	0.5	0.4	0.6
Current account balance (c)				0.0	-0.3	-0.8	-0.4	-1.2	-1.2	-1.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	-0.3	-0.7	-0.3	-1.1	-1.1	-0.9
General government balance (c)(d)				-8.4	-2.7	-3.2	-3.2	-4.3	-4.2	-4.6
General government gross debt (c)				99.5	108.3	106.8	106.5	108.6	108.3	107.9

(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).

11. Cyprus

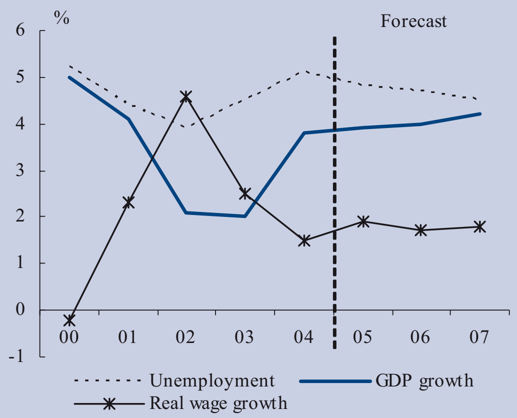
Steady growth and fiscal consolidation

Activity in 2005

In line with the strong growth performance recorded in 2004, when GDP growth picked up to 3.8%, growth in the first two quarters 2005 reached 3.8% and 3.5% year-on-year respectively. Economic activity continued to be mainly driven by domestic demand, notably private sector consumption and investment, including construction. Concurrently, external demand recovered as, inter alia, tourism arrivals rose by 6.4% for the first nine months, up from growth rates recorded in previous years, while import growth decelerated following the import spike in 2004. Surveys indicate a continued positive outlook for tourism arrivals for the remainder of the year.

With uncertainties on oil price developments and restrained EU growth prospects, the outlook for GDP growth for 2005 as a whole is set at 3.9%, similar to 2004's. Domestic private sector demand growth is projected to slow down after the surge in 2004 but remains a main growth factor, supported by a rebound in net external demand. Consumption growth is projected at 4.3%, in line with wage and employment growth. After strong growth in 2004, investment expansion remains relatively buoyant at 4.5%, linked, inter alia, to a more competitive environment following EU accession. Interest rates have been lowered by a total of 125 basis points so far this year, before and after smooth entry in ERM II in May 2005; lower rates also should help stimulate demand. The growth contribution from net external demand is forecast to turn positive through a strengthening in exports and deceleration in import growth after the rush in 2004 linked to strong domestic demand expansion and one-off factors (reduction in car excises). However, high energy import price rises put upward pressure on nominal import growth and the current account deficit is expected to increase slightly to 5.8% of GDP.

Graph 3.15: **Cyprus - Unemployment rate, real wage growth and GDP growth**



Prospects for 2006 and 2007

Based on a continuation of the demand factors noted for 2005, the forecast projects for 2006 and 2007 a marginal strengthening of GDP growth to 4.0% and 4.2%, respectively. Private sector consumption is foreseen to increase by about 4% both years, consistent with wage developments and employment growth. Investment growth is expected to remain strong at 5% by 2007. Public consumption is assumed to increase relatively modestly, by 2-2.7%, throughout. With a moderately positive EU growth outlook, export growth is projected to strengthen somewhat in both years, with similar tourism arrival growth rates as in 2005 and robust growth in non-tourist services. Import growth is expected to pick up with domestic demand in 2006 and 2007, while high oil prices further push nominal imports. Altogether, the forecast projects a slight decline in the current account deficit to below 5% of GDP by 2007. Deficit financing through FDI and portfolio investment is expected to remain unproblematic.

Costs and prices, labour market

HICP inflation for the first nine months of 2005 reached 2.1% compared to the same period in 2004. This is marginally above the 2004 rate at 1.9%, mainly as a result of higher energy prices, but still slightly below the projected rise of 2.3% for the year. In 2006 and 2007 inflation is expected to gradually weaken again to around 2.1% as oil price pressures abate. In May 2005 Cyprus successfully entered ERM II. Following significant capital inflows interest rates were lowered twice, while the Cyprus pound remained in the upper fluctuation margin limits. Overall, the real effective exchange rate has tended to appreciate in the wake of some inflation pressures (mainly one-off, through VAT increases linked to EU harmonisation), leading to some price-competitiveness loss.

With steady GDP growth, unemployment is projected to inch down to 4.8% this year, from a peak of 5.1% last year, and to further diminish to 4.5% by 2007.

Wage moderation in the public sector and an increasing share of foreign labour (currently about 14% of the total labour force, which includes commuting Turkish Cypriot workers) continue to exert some downward pressure on wages, which are expected to increase between 1.5-2.0% in real terms, in line with policy to keep real wage growth below expected productivity growth, leading to real unit labour cost decreases of 0.4%-1.0%.

Public finances

Government revenues in Jan-August 2005 increased by 17% and expenditure by 7%, leading to a balanced budget for the period (cash-basis). This can be attributed to the ongoing impact of one-off (especially tax amnesty) but also structural fiscal consolidation measures on expenditure and revenue sides. While revenues were also supported by a domestic-demand based growth composition, leading to extra tax revenues, major parts of payments associated with expenditure are made toward year-end. Based on the above, together with the base-year effect of a better-than-expected 2004 deficit reduction to a total adjustment of 2.2 percentage points and successful negotiations with social partners on a few key planned consolidation measures, the forecast projects a deficit decline to below 3% of GDP this year, in line with convergence programme commitments. On an unchanged policy basis, and corrected for one-off (revenue) measures, a similar deficit is projected for 2006, declining somewhat by 2007. Given these narrow margins, it remains important to keep up fiscal consolidation efforts unabatedly.

On the same assumption, debt is projected to decline from 72% of GDP in 2004 to below 68% by 2007, reflecting mostly the effects of improved primary balances already from 2005.

Table 3.11

Main features of country forecast - CYPRUS

	2004		Annual percentage change						
mio CYP	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	7216.0	100.0	4.7	2.1	1.9	3.8	3.9	4.0	4.2
Private consumption	4676.2	64.8	6.8	1.5	1.9	6.1	4.3	4.0	3.8
Public consumption	1323.1	18.3	4.3	7.3	5.1	-4.8	2.0	2.7	2.1
Gross fixed capital formation	1336.6	18.5	2.3	8.1	0.7	11.6	4.5	4.8	4.8
of which : equipment	455.3	6.3	6.8	11.8	-12.7	18.0	6.0	5.3	6.0
Change in stocks as % of GDP	158.5	2.2	1.0	0.8	1.3	2.7	1.2	0.9	0.8
Exports (goods and services)	3385.6	46.9	6.9	-5.2	-2.3	5.5	5.2	5.7	5.8
Final demand	10880.0	150.8	5.4	1.2	1.1	5.8	3.6	4.3	4.4
Imports (goods and services)	3663.4	50.8	6.8	-0.5	-0.5	9.7	3.1	4.7	4.8
GNI at constant prices (GDP deflator)	7013.0	97.2	4.3	3.4	2.9	3.6	4.1	4.2	4.3
Contribution to GDP growth : Domestic demand			5.4	3.6	2.2	5.3	4.1	4.0	3.8
Stockbuilding			-0.7	1.1	0.6	0.8	-1.1	-0.3	0.0
Foreign balance			0.1	-2.6	-0.9	-2.4	0.9	0.3	0.4
Employment			-	1.1	1.1	1.5	1.5	1.3	1.3
Unemployment (a)			4.7	3.9	4.5	5.2	4.9	4.8	4.6
Compensation of employees/head			-	4.1	9.3	4.2	4.5	4.0	4.0
Unit labour costs			-	3.1	8.3	1.9	2.1	1.3	1.2
Real unit labour costs			-	0.8	2.9	-0.8	-0.3	-0.9	-0.9
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			2.2	2.2	5.3	2.8	2.5	2.2	2.1
Private consumption deflator			1.6	2.5	3.6	2.2	2.6	2.3	2.2
Harmonised index of consumer prices			-	2.8	4.0	1.9	2.3	2.1	2.1
Trade balance (c)			-24.5	-27.2	-23.7	-25.7	-25.9	-26.7	-26.5
Current account balance (c)			-2.8	-4.5	-3.0	-5.7	-5.8	-5.5	-4.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-5.7	-5.4	-4.6
General government balance (c)(d)			-	-4.5	-6.3	-4.1	-2.8	-2.8	-2.4
General government gross debt (c)			-	65.2	69.8	72.0	70.4	69.1	67.4

(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).

12. Latvia

Growth fever

Activity in 2005

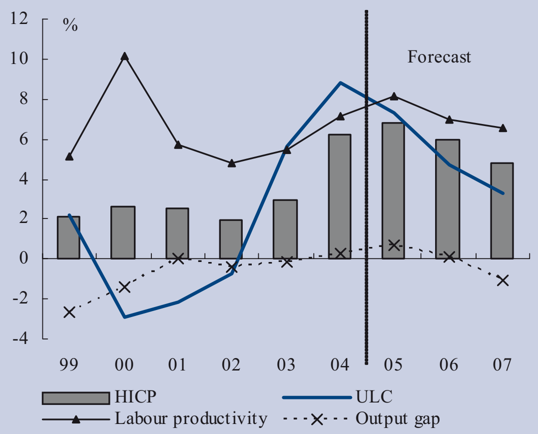
According to preliminary national accounts, real GDP growth reached an all-time-high in the second quarter, registering 11.6% year-on-year after an already robust 7.4% in the previous quarter. In the first half of 2005, domestic demand remained high and external demand accelerated. Judging from retail trade turnover, consumer demand continues to expand at a steady rate, fuelled by better access to consumer credit and significant increases in real disposable income. Investment grew very fast, reflecting strong demand for equipment and continued buoyancy in the construction sector. Export performance was particularly strong in the first half of 2005. Export values grew by more than 30 percent year-on-year, outpacing imports, which grew by around 25 percent. Even though, the external deficit remains large, the contribution to GDP growth of net exports will be negligible.

Overall, the prospects for the economy in the second half of 2005 remain positive. The economy's momentum is supported by significant EU-funds-related activity, increased labour participation and declining unemployment. For the year as a whole, GDP is estimated to grow by around 9%, just above the 8.3% recorded in 2004.

Prospects for 2006 and 2007

Growth prospects for 2006-2006 are also strong, with an expected expansion exceeding 7% in both years, close to the growth of potential output. However, if rate and quality of investment (thus contributing to maintaining high productivity growth) were not achieved as assumed, there would be significant downward risks to the sustainability of expansion at the rates foreseen.

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



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 employment growth, substantially higher real wages and better access to consumer credit. The continued low cost base and growing productivity mainly due to high levels of investment will boost export growth. Import growth is also expected to remain robust due to the increase of investment and intermediate goods. Although import growth is projected to slow somewhat, narrowing the trade deficit, the negative net contribution to GDP growth from trade is expected to widen again in both 2006 and 2007. Throughout the forecast period, the current account deficit is expected to narrow only marginally.

Labour market, costs and prices

High growth has contributed to boost employment and to reduce unemployment. In line with the projected expansion of construction output and strong performance of the service sector, employment gains are likely to remain robust in 2006 and 2007. Labour force growth, after taking account of significant outward migration (chiefly to the old EU Member States) and negative demographic trends, is projected to remain sluggish. The unemployment rate is estimated to decrease steadily. Active employment measures may provide some help in softening considerable regional development disparities. In line with the data for the first half of 2005, per capita compensation is estimated to pick up sharply in 2005. Wages are expected to continue growing rapidly over the next couple of years. Productivity growth in most industries will remain faster than that of wages.

Since July 2004 HICP inflation in Latvia has been the highest among the Member States; core inflation has also been progressively increasing. Throughout 2005 a sharp pick-up in inflation has been reflected in all indices, with that for producer prices outpacing consumer prices. Several external factors (e.g. high oil prices and the relatively high exchange rate peg) have contributed to price growth. Food prices continue to increase at a high rate. Administrative price changes were less important in the first half of 2005, though newly approved gas tariffs will intensify the pressure in the second half. 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, the current prospect is for HICP inflation for 2005 of around 6¾%, and only modestly lower in 2006.

Public finances

Generally, owing to the strong growth, fiscal targets have been met or even exceeded. In 2005, the latest figures confirm that the budget is so far strongly in surplus vis-à-vis a deficit target of 1.6% of GDP for the year as a whole. However, budgetary amendments adopted in August foresee increases in spending of about 1½% of GDP and will bring the deficit close to the official target. The authorities plan a significant increase in investment, largely based on higher levels of EU financial aid, which has been rising since 2004.

The 2006 budget law provides for a 17.6% increase in expenditure and a 19.2% increase in revenue. The attainment of the 1.5% of GDP deficit target seems plausible given the growth and inflation outlook. However, the 2006 budget will not allow a mid-year opening to increase expenditure as has been common in previous years. All together, the deficit is expected to remain at around 1.5% of GDP in 2006-2007. Government debt is projected to remain below 15% of GDP over the forecast period.

Table 3.12

Main features of country forecast - LATVIA

		2004		Annual percentage change						
	mio LVL	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		7335.1	100.0	4.8	6.4	7.2	8.3	9.1	7.7	7.1
Private consumption		4605.2	62.8	-	7.4	8.2	9.3	8.4	7.8	7.5
Public consumption		1476.3	20.1	-	2.2	1.9	2.1	2.4	2.6	2.6
Gross fixed capital formation		1908.3	26.0	-	13.0	10.9	17.3	16.5	10.0	9.5
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		522.8	7.1	0.2	0.9	4.0	5.5	3.4	3.2	3.0
Exports (goods and services)		3239.3	44.2	-	5.2	5.0	9.3	13.6	12.3	11.2
Final demand		11751.9	160.2	-	5.8	9.2	10.9	9.2	8.8	8.3
Imports (goods and services)		4416.8	60.2	-	4.6	13.0	15.6	9.5	10.5	10.3
GNI at constant prices (GDP deflator)		7187.2	98.0	5.0	6.3	6.4	6.8	10.2	7.7	7.1
Contribution to GDP growth :	Domestic demand			-	8.3	8.5	11.1	10.8	8.6	8.3
	Stockbuilding			-	-1.7	3.4	2.0	-1.7	0.0	0.0
	Foreign balance			-	-0.2	-4.6	-4.7	0.0	-0.9	-1.2
Employment				-1.6	1.6	1.7	1.1	0.9	0.7	0.6
Unemployment (a)				15.7	12.6	10.4	9.8	9.7	9.4	9.3
Compensation of employees/head				10.2	4.0	11.3	16.5	16.0	12.0	10.0
Unit labour costs				3.4	-0.8	5.6	8.8	7.3	4.7	3.3
Real unit labour costs				-3.7	-4.0	2.0	1.5	1.0	-2.1	-2.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				7.3	3.4	3.6	7.2	6.2	7.0	6.1
Private consumption deflator				-	2.2	3.0	6.0	6.5	6.0	4.8
Harmonised index of consumer prices				-	2.0	2.9	6.2	6.8	6.0	4.8
Trade balance (c)				-14.4	-16.0	-18.1	-20.5	-18.5	-17.4	-16.1
Current account balance (c)				-6.0	-6.7	-8.2	-12.6	-11.1	-10.5	-9.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-5.8	-6.5	-7.6	-11.6	-9.6	-8.5	-7.2
General government balance (c)(d)(e)				-1.7	-2.3	-1.2	-0.9	-1.2	-1.5	-1.5
General government gross debt (c)				-	14.2	14.6	14.7	12.8	13.0	13.2

(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) Excluding second pillar pension funds (see for more details note 11 on concepts and sources).

13. Lithuania

Slower, but still robust growth

Activity in 2005

Output is estimated to have grown by 6.4% in the first half of 2005, with domestic demand remaining as the main driver for growth. Preliminary data point that growth accelerated to 7.6% in the third quarter of 2005 year-on-year.

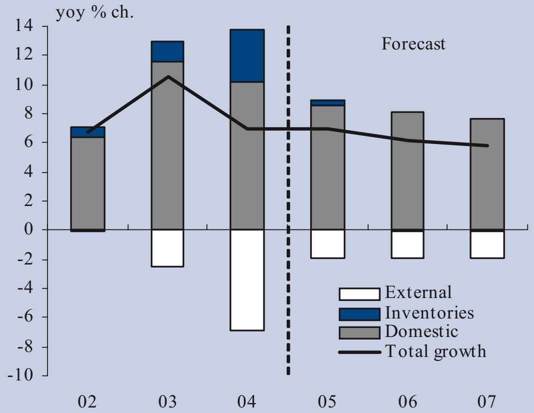
A deceleration of investment growth in the first half of 2005 is seen as temporary, and investment is expected to lead growth in the whole 2005. Consumer spending is forecast to remain strong, as suggested by high growth of retail sales and bank credit. A drag from net trade continued in the first half of 2005 as import growth remained strong. But exports increased significantly, stimulated by strong growth in the Commonwealth of Independent States (CIS) and despite a sharp drop in electricity exports from Ignalina Nuclear Power Plant (Lithuania's major power producer).

Growth prospects in 2006 and 2007

Output growth is expected to gradually weaken although remaining at around 6% and becoming more balanced. Domestic demand remains the main driver, despite a slowdown led by lower growth of private investment and consumption.

Investment is nevertheless expected to lead growth in 2005-2007, aided by EU funds and favourable financial conditions for private investment. In 2006-2007, the reduction of the personal income tax and higher disposable income growth are likely to stimulate consumption, though a weaker growth rate than in previous years is assumed as bank credit growth moderates.

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



Import growth is forecast to stabilise in 2006-2007 at around 11% after slowing down in 2005. Export growth is expected to pick up significantly in 2005 and maintain the impetus in 2006-2007, aided by high import growth in some of Lithuania's main trading partners (the CIS and neighbouring EU countries). The negative contribution of net trade to growth is expected to remain broadly unchanged, though an improvement in the terms of trade leads to a reduction of the current account deficit to about 7% of GDP by 2007. Lithuania's net borrowing position in the balance of payments is anticipated to fall to about 5.3% of GDP in 2007, due to the positive impact of increasing capital transfers from the EU.

Labour market, costs and prices

The 12-month average HICP inflation accelerated to 2.7% in September 2005, mostly reflecting rising energy, health-care, transport and some food prices. However, monthly y-o-y inflation in the period May–September 2005 turned out lower than expected in the Commission services 2005 spring forecast, as core inflation remained low and one-off effects that created inflation pressures in May 2004 started fading away more rapidly than foreseen. Thus, the annual average HICP inflation forecast for 2005 is revised down to 2.6% (from 2.9% in spring).

In 2006, inflation is projected to edge up to 2.8%. An initial slowdown, due to fading one-off effects that arose in the early months of 2005, is expected to be followed by an acceleration in the second half of the year. Inflation is foreseen to increase to 2.9% in 2007. Core inflation is expected to remain low and rapid productivity growth is likely to continue over the forecast period, but oil prices, several services prices and wage growth are assumed to remain high. Risks to the inflation projections are on the upside. High oil prices and a strong reaction of wages and prices to demand growth are the main threats, together with a potential increase in gas prices, which is being considered by Lithuania's single gas supplier.

Employment growth picked up in the first half of 2005, while the unemployment rate declined further to below 10%. The labour market continued tightening and earnings started accelerating rapidly. Some sectors are experiencing problems to balance supply and demand of labour, reinforced by emigration.

Structural unemployment is high and thus the high unemployment rate is not very indicative of available labour resources.

Employment growth is anticipated to peak in 2005 and remain positive over the forecast horizon. The labour market is likely to continue tightening. Nominal wage growth is expected to remain above the moderate trend of last years and surpass productivity growth. Current active labour market measures should improve labour availability, but are unlikely to offset labour market imbalances in the short term. A personal income tax cut in July 2006 is expected to slow down wage growth in 2006-2007, reducing the gap with productivity gains and moderating the impact on unit labour costs.

Public finances

Methodological changes regarding the classification of compensation for lost (rouble) savings and real estate restitutions resulted in a downward revision of the government deficits in previous years. A tax reform was approved last June. Personal income tax will be lowered in two steps from the present 33% to 24% in 2008. The corporate profit tax will be temporarily increased to 19% in 2006, but will fall back to the present 15% in 2008. A new tax on real estate was approved, but it is still unclear how it will be applied. The general government deficit is projected to increase from 1.4% of GDP in 2004 to 2% in 2005, mostly due to salary increases in the public sector, higher pension benefits and rising investment. The deficit is forecast to decrease gradually to about 1.6% of GDP in 2007, on the back of robust tax revenue growth. The impact of the tax reform is likely to be broadly neutral until 2007, due to the temporary increase of the corporate tax.

Table 3.13

Main features of country forecast - LITHUANIA

		2004		Annual percentage change						
	bn LTL	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		61.9	100.0	4.5	6.8	10.5	7.0	7.0	6.2	5.8
Private consumption		40.4	65.3	-	6.1	12.6	9.7	8.2	8.0	7.2
Public consumption		11.0	17.8	-	1.4	3.8	7.5	5.2	4.9	5.2
Gross fixed capital formation		13.6	21.9	10.0	11.1	14.0	12.3	10.1	8.2	8.0
of which : equipment		5.4	8.7	-	10.8	7.5	24.9	12.7	10.8	8.2
Change in stocks as % of GDP		0.8	1.2	0.8	2.1	3.2	6.4	6.3	5.9	5.5
Exports (goods and services)		32.6	52.7	-	19.5	6.9	4.2	10.7	10.9	10.0
Final demand		98.4	159.0	-	10.9	10.4	10.0	8.8	8.3	7.8
Imports (goods and services)		36.5	59.0	-	17.7	10.3	14.8	11.5	11.4	10.5
GNI at constant prices (GDP deflator)		60.4	97.6	-	7.0	8.9	6.9	7.1	6.1	5.8
Contribution to GDP growth :	Domestic demand			-	6.3	11.6	10.2	8.6	8.1	7.7
	Stockbuilding			-	0.7	1.4	3.6	0.3	0.0	-0.1
	Foreign balance			-	-0.1	-2.4	-6.8	-1.9	-1.9	-1.8
Employment				-1.5	4.0	2.3	-0.1	1.6	0.7	0.6
Unemployment (a)				14.1	13.5	12.7	10.9	9.0	8.1	7.5
Compensation of employees/head				20.2	0.9	8.8	8.1	9.1	8.1	6.8
Unit labour costs				13.3	-1.7	0.7	0.9	3.6	2.5	1.6
Real unit labour costs				1.8	-1.9	1.8	-1.8	0.3	-1.6	-2.4
Savings rate of households (b)				-	-	-2.9	-2.9	-2.6	-2.7	-2.8
GDP deflator				11.3	0.2	-1.1	2.8	3.2	4.1	4.0
Private consumption deflator				-	-0.1	-2.7	1.1	2.4	2.7	2.8
Harmonised index of consumer prices				-	0.4	-1.1	1.1	2.6	2.8	2.9
Trade balance (c)				-11.3	-9.4	-9.1	-10.6	-10.8	-10.7	-10.7
Current account balance (c)				-8.9	-5.3	-6.9	-8.0	-7.4	-7.1	-7.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-8.9	-4.7	-6.5	-7.3	-5.9	-5.5	-5.3
General government balance (c)(d)(e)				-3.8	-1.4	-1.2	-1.4	-2.0	-1.8	-1.6
General government gross debt (c)				-	22.4	21.4	19.6	20.7	20.2	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).
(e) Excluding second pillar pension funds (see for more details note 11 on concepts and sources).

14. Luxembourg

Healthy growth but some clouds on the horizon

The situation in 2005

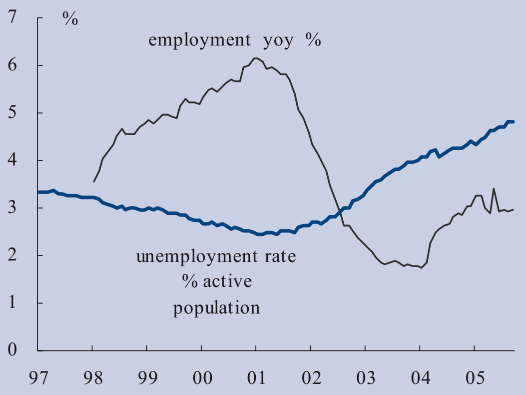
The Luxembourg economy has performed well in 2005 and real GDP growth should reach more than 4%, only slightly less than the 4.5% recorded in 2004. The financial sector value added has risen by more than 6%, thanks to the good health of financial markets. Industry has performed well too, even if the figures might be somewhat inflated by the strong growth of the energy sector. Hotels and restaurants benefited from the fact that Luxembourg held the EU presidency in the first half of the year. On the other hand, retail trade is stagnating, reflecting the weakness of private consumption.

Domestic demand has been rather subdued in 2005, with private consumption growing by hardly more than 1%. Although unemployment remains relatively low by EU standards, its rise in recent years is likely to negatively affect consumer confidence. Similarly, gross fixed capital formation grew by merely 1½%. Only housing showed some buoyancy, while investment by the government and enterprises was weak. Actually, growth in 2005 was chiefly supported by external trade, especially in services, with both exports and imports of services rising by about 10% in real terms.

Prospects for 2006 and 2007

GDP growth should slightly accelerate to about 4½% in 2006 and 2007: the external sector will probably be less supportive than in 2005 but domestic demand should be more dynamic. Private consumption should accelerate despite the projected rise in unemployment:

Graph 3.18: **Luxembourg - Employment and unemployment**



wage increases are projected between 2.5% and 3% and residents employment is forecast to rise by 1½% to 1¾% a year over the forecasting period.. Consequently, the increase in real households disposable income will not be negligible despite the relatively high inflation recorded in 2005 and projected for 2006 Similarly, investment by enterprises, which has been very subdued in 2004 and 2005 should accelerate appreciably in response to rapid output growth. The more dynamic domestic demand should also lead to a significant acceleration in imports, which explains for a part why external trade will be less supportive.

Labour market, costs and prices

Reflecting the strong growth in output, employment rose by about 3% this year. However, unemployment kept rising: with a 5.3 % unemployment rate this year, the Grand-Duchy no longer has the lowest unemployment in the EU. Once again, job creation mostly benefited non-residents, whose number rose by nearly 6% while residents employment only increased by about 1½%. This discrepancy probably reflects mismatches between the skills (or absence thereof) of unemployed residents and those required by the jobs created but it might also be the result of a significantly higher reservation wage in Luxembourg, related to the high level of wages and the generosity of the social security system. Due to this bias towards non-residents, it increasingly seems that employment has to rise by more than 3½% a year in Luxembourg for unemployment to stabilise. Employment growth is projected to accelerate over the forecast period but probably not enough to prevent unemployment from continuing to rise, albeit at a slower pace. Moreover, like in recent years, the rise in domestic employment should considerably outpace the increase in resident employment.

Inflation considerably accelerated in the course of 2005, mostly as a result of the surge in oil prices, with the yearly rise in the HICP reaching 5.0% in October. The national CPI, which excludes consumption by non-residents and especially their large purchases of car fuel, alcohol and tobacco products, neared 3%. In yearly averages, the HICP should increase by more than 4% and the national CPI by more than 2½% this year. However, underlying inflation remains moderate and is even decelerating. Inflation is also expected to slow down during the projection period. However, due to the large carry over effect, both the national CPI and the HICP could post higher annual increases in 2006 than in 2005. In 2007, on the contrary, both indexes are projected to decelerate significantly to the neighbourhood of 2%, as underlying inflation is expected to remain moderate.

Public finance

Since record surpluses were registered in 2000 and 2001 (6.1% and 6.5% of GDP respectively), the position of general government finance has continuously deteriorated. It posted a 1.2% of GDP deficit in 2004. This deficit probably deepened to about 2.3% of GDP in 2005 despite strong GDP and employment growth. Beside the rapid increase in expenditure (+8.0% for current expenditure and +8.6% for total expenditure), the main factor behind this deterioration was a very large shortfall in VAT revenues. According to the latest estimates, these VAT revenues should be about 540 millions euros (27% of total planned revenues and 2% of GDP) lower than projected in the 2005 budget. Clearly, the weakness in private consumption may have played a role in this shortfall but, according to the latest available information, it appears that the largest part is due to massive and unexpected VAT reimbursements.

Since this VAT shortfall is not expected to repeat itself in 2006, the rise in revenues should significantly accelerate next year and the deficit should improve somewhat despite a continuously rapid rise in expenditure. However, at unchanged policy, the deficit should deteriorate again in 2007, despite the strong growth in GDP and employment, as the increase in expenditure is projected to remain faster than the rise in revenues.

Table 3.14

Main features of country forecast - LUXEMBOURG

		2004		Annual percentage change						
mio Euro		Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		25664.0	100.0	5.0	2.5	2.9	4.5	4.2	4.4	4.5
Private consumption		10404.0	40.5	3.3	3.2	1.6	1.4	1.2	2.5	3.0
Public consumption		4708.0	18.3	4.3	3.2	5.0	6.0	4.5	2.6	3.0
Gross fixed capital formation		4959.0	19.3	4.9	-1.1	-6.3	3.5	1.5	4.0	7.3
of which : equipment		1385.0	5.4	5.8	-2.5	-20.0	2.9	1.5	5.0	6.0
Change in stocks as % of GDP		40.0	0.2	1.3	-0.8	1.4	0.3	0.2	0.4	0.4
Exports (goods and services)		37522.0	146.2	7.5	-0.6	1.8	8.2	7.7	7.8	7.8
Final demand		57633.0	224.6	5.9	-0.4	2.2	5.7	5.6	6.2	6.5
Imports (goods and services)		31970.0	124.6	6.8	-2.6	1.6	6.8	6.7	7.6	8.1
GNI at constant prices (GDP deflator)		22643.0	88.2	4.3	0.7	-0.5	4.2	3.4	3.7	3.8
Contribution to GDP growth :	Domestic demand			3.5	1.6	0.2	2.4	1.6	2.3	3.2
	Stockbuilding			0.3	-1.7	2.1	-1.1	-0.1	0.2	0.0
	Foreign balance			1.3	2.6	0.6	3.2	2.6	1.8	1.2
Employment				2.7	3.0	1.8	2.6	3.0	3.2	3.4
Unemployment (a)				2.5	2.8	3.7	4.8	5.3	5.6	5.8
Compensation of employees/head				4.8	3.7	2.1	2.6	3.5	3.2	3.0
Unit labour costs				2.5	4.2	1.0	0.6	2.3	2.0	1.9
Real unit labour costs				-1.0	3.1	-1.0	-1.8	0.7	-0.3	-0.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.5	1.1	2.1	2.5	1.6	2.3	2.5
Private consumption deflator				3.6	2.1	1.9	2.1	2.6	3.0	2.0
Harmonised index of consumer prices				-	2.1	2.5	3.2	4.1	4.4	2.2
Trade balance (c)				-11.6	-10.5	-10.6	-10.5	-12.3	-12.4	-12.1
Current account balance (c)				13.8	11.8	8.2	8.4	5.9	6.1	6.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	5.9	6.1	6.1
General government balance (c)(d)				-	2.1	0.2	-1.2	-2.3	-2.0	-2.2
General government gross debt (c)				8.1	6.8	6.7	6.6	6.8	7.0	7.3

(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).

15. Hungary

Repeatedly missed deficit target

Activity in 2005

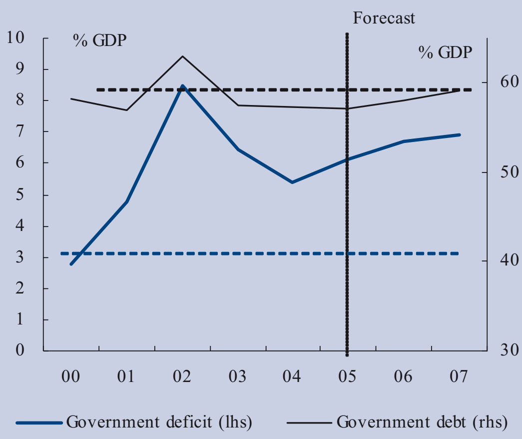
After a vigorous expansion in the second half of 2004, real GDP growth slowed down to 2.9% year-on-year in the first quarter of 2005. This was the weakest growth rate since the third quarter of 2003, reflecting the weakening of export demand largely explained by the deterioration of the growth outlook for the main EU trading partners. In the second quarter of 2005 GDP growth picked up again and grew by 4.1% year-on-year. The main driver behind GDP growth was the strong performance in gross fixed capital formation and net exports. Most of the increase in gross capital formation was realised in public infrastructure investment. Annual real GDP growth in 2005 is expected to remain around 3.7%.

The current account deficit is estimated to have remained close to 8% of GDP in 2005, increasingly financed by non-debt-creating inflows, mainly due to the larger share of EU funds in the capital account.

Prospects for 2006 and 2007

GDP growth is projected to remain firm in the forecast period due to stable demand and export conditions. The composition of growth continues to be favourable, supported by dynamic investment activity, improving external demand conditions and moderate consumption growth. Private consumption growth is projected to increase slightly in 2006, to about 3.5%, fuelled by fiscal measures, notably the reduction of the highest VAT rate of 25% to 20%, and to stabilise around this rate in 2007.

Graph 3.19: **Hungary - Government deficit and debt**



Export growth is expected to remain steady during the forecast period. Investments will continue to benefit from extensive highway constructions in 2006 and 2007. Military expenditure amounting to 0.5% of GDP will be reflected in increased imports in both 2006 and 2007.

Due to the fiscal expansion the current account deficit will decline only slightly.

Labour market, costs and prices

Employment, still stagnating in the first half of 2005, is expected to rise by about 0.5% in 2006 and somewhat less in 2007. Real wage growth will ease due to tighter labour market conditions. After a sharp increase in the final quarter of 2004 and the first quarter of 2005, the unemployment rate is projected to increase, partly due to the stagnating labour demand. The inflation trend remains favourable, backed by the slowdown of wage increases, the strong value of the forint and the intensifying competition following EU accession. Annual consumer price inflation is forecast to decelerate sharply to about 2% in 2006. This is supported by the cut in the VAT rate and benign inflation expectations. It is projected to return to about 3% in 2007, with faster consumption growth and the rise in the minimum wage posing a possible upside risk.

Public finances

Hungarian deficit figures have been characterised by their regular ex-post upward revision due to statistical reclassifications. Mainly as a result of the reclassification of 13th month public sector salary, the 2004 deficit has recently been revised from 4.5% to 5.4%[1] of GDP. Even taking into account the higher 2004 base level, the 2005 deficit is expanding.

In 2005, the original deficit target of 3.6% of GDP will be significantly missed for the fourth year in a row with an expected outcome of above 6% of GDP, despite some corrective measures taken in the first half of the year. The main reason for this marked deviation is a recent statistical clarification regarding the planned sale of motorways worth almost 2% of GDP, which does not reduce the general government deficit as previously assumed by the Hungarian authorities. In addition, a significant revenue shortfall based on overly optimistic budget assumptions and an expenditure overrun due to the underestimation of open ceiling expenditures, leading to an additional slippage of 0.5% of GDP was acknowledged by the Hungarian authorities, without deciding on corrective measures contrary to previous commitments.

For 2006, the authorities have submitted a draft budget of 4.7% of GDP which does not include the appropriate recording of military aircraft delivery in 2006. This is compared to a deficit target of 2.9% of GDP contained in the convergence programme update of December 2004. In this forecast the 2006 deficit is projected to be even higher, reaching 6.7% of GDP. The draft 2006 budget lacks significant structural reforms targeting expenditure reduction, while it includes relevant tax cuts worth of about 1% of GDP, mainly on VAT[2]. No significant changes are projected for the macroeconomic environment in 2007. Due to the second step of the tax cut programme the deficit increases even further to 6.9% of GDP. The forecast assumes that the accounting of military fighters will increase the deficit by ½ percentage point of GDP in both 2006 and 2007, while new public–private motorway investment projects worth about 1% of GDP will reduce the general government deficit. The latter assumption is subject to risk.

In the light of increasing yearly deficit levels, the debt-to-GDP ratio is expected to almost reach the 60% threshold by 2007.

[1] According to the decision of the Hungarian authorities to avail themselves of the possiblity of the temporary reclassification of second pillar pension funds inside the general government as permitted by Eurostat until the March 2007 notification, this forecast uses the official reclassified figures. This approach lowers the deficit figures by 1.2-1.4 pps between 2004 and 2007.

[2] The risk that large off-budget liabilities of up to 3% of GDP will be included at some point into the general government budget should be noted.

Table 3.15

Main features of country forecast - HUNGARY

		2004		Annual percentage change						
	bn HUF	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		20355.3	100.0	3.6	3.5	2.9	4.2	3.7	3.9	3.9
Private consumption		11187.8	55.0	-	10.3	7.7	3.0	2.9	3.9	3.4
Public consumption		4828.8	23.7	0.7	5.4	5.7	-1.9	0.2	0.5	0.2
Gross fixed capital formation		4616.0	22.7	6.2	9.3	2.5	7.9	7.0	6.8	6.6
of which : equipment		1943.3	9.5	-	-	-	-	4.1	-3.9	7.2
Change in stocks as % of GDP		324.2	1.6	5.3	0.4	0.1	-0.9	-2.5	-2.0	-1.5
Exports (goods and services)		13238.3	65.0	19.8	3.9	7.8	14.9	10.3	10.3	10.0
Final demand		34195.2	168.0	-	4.8	6.6	7.7	6.6	7.5	7.2
Imports (goods and services)		13839.9	68.0	16.6	6.5	11.0	11.6	8.6	10.5	9.8
GNI at constant prices (GDP deflator)		19115.2	93.9	3.3	3.4	3.5	3.1	3.5	3.9	3.9
Contribution to GDP growth :	Domestic demand			-	8.8	6.1	3.4	3.6	4.2	3.9
	Stockbuilding			0.6	-3.4	-0.3	-1.1	-0.4	0.4	0.4
	Foreign balance			0.8	-2.2	-3.0	2.3	1.4	-0.4	0.1
Employment				0.4	0.0	1.3	-0.7	0.4	0.6	0.3
Unemployment (a)				8.0	5.6	5.8	6.0	7.0	6.9	6.7
Compensation of employees/head				16.0	12.7	9.7	8.2	5.5	5.2	4.5
Unit labour costs				12.4	8.9	7.9	3.1	2.1	1.8	0.9
Real unit labour costs				-2.2	0.0	1.0	-2.8	-1.2	-0.9	-2.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				14.9	8.9	6.8	6.0	3.3	2.7	3.0
Private consumption deflator				-	3.6	4.5	7.5	3.6	2.1	3.0
Harmonised index of consumer prices				-	5.2	4.7	6.8	3.7	2.0	3.0
Trade balance (c)				-4.1	-3.2	-4.0	-3.0	-2.6	-2.7	-2.7
Current account balance (c)				-7.7	-7.1	-8.7	-8.8	-8.4	-8.4	-7.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-7.4	-6.8	-8.8	-8.4	-7.8	-7.3	-5.9
General government balance (c)(d)(e)				-	-8.5	-6.5	-5.4	-6.1	-6.7	-6.9
General government gross debt (c)				-	55.5	57.4	57.4	57.2	58.0	59.2

(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).

16. Malta

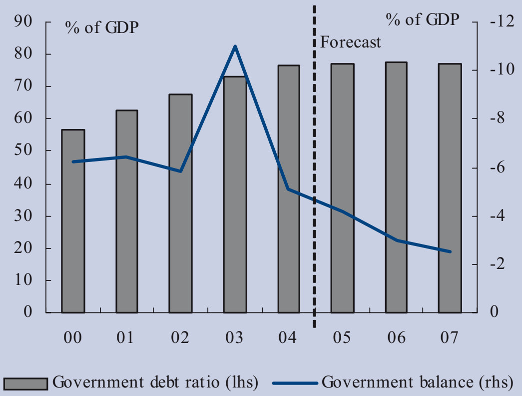
Capital transfers sustain growth

Activity in 2005

Sluggish growth continued in the first quarter of 2005, but the acceleration of public investment brought about a rebound in the second quarter. GDP is now projected to grow slightly below 1% for the year as a whole. Private and public consumption are expected to remain negative, falling by 0.8% and 1.9%, respectively. The contraction of public consumption is the consequence of ongoing fiscal consolidation. Investment will remain the most dynamic component of domestic demand, projected to grow by around 10%. The buoyant performance of investment in the midst of stagnation in the rest of the Maltese economy is due to the implementation of infrastructure projects financed by EU Structural Funds and public works funded through the Italian Protocol, which consists of grants from the Italian government for major infrastructure projects. As in previous years, the high level of public investment reflects the building of the Mater Dei Hospital, which is now in its final stages. This specific growth composition, which is particularly based on civil construction works, largely explains why high investment growth is unrelated to any other demand component. Overall, domestic demand is projected to contribute 1.2 pps to growth.

Exports are expected to drop by around 2½%. This contraction is partly explained by sluggish growth of Malta's main trade partners, having a particularly significant impact on the stagnation of the tourism sector. In addition, low productivity growth, especially in the production of semiconductors, is weighing on exports of goods. Imports are also projected to contract, by around 2%, due to weak consumption and private investment, and to the low import-intensity of infrastructure investment. As a result, the contribution of the external sector to growth is estimated at -0.3 of a percentage point.

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



Prospects for 2006 and 2007

GDP growth is projected to slightly decelerate to 0.7% in 2006 and, then, to accelerate to a still moderate rate of 1.1% in 2007. A modest recovery is projected for both private and public consumption. Specifically, private consumption is expected to gain momentum and increase by 0.6% in 2006 and 0.9% in 2007. This small recovery of private consumption can be explained by a slight rise in disposable income, in turn supported by a still-high-job-content of growth over the forecast horizon. After a period of strong fiscal consolidation, public consumption growth is projected to increase by 1.1% in 2006 and by 1.3% in 2007. While growing at lower rates than in 2005, investment growth should remain strong. However, this deceleration reflects the finalization of a number of infrastructure projects in the next two years. Overall, the contribution of domestic demand to GDP growth should be around 1½ pps in both years.

Exports are expected to rebound moderately in 2006 and accelerate in 2007. This rebound should largely be supported by better prospects for the semiconductor and tourism sectors. Imports are expected to be slightly more dynamic than exports, due to the recovery of consumption. Consequently, the negative contribution of the external sector would reach 0.7 pp in 2006 and 0.6 pp in 2007.

The current account deficit is set to attain 6.8% of GDP in 2006, slightly higher than in 2005 (6.7%), and to worsen to 7% in 2007. Current account developments mirror those of the trade deficit, which should reach 17% of GDP at the end of the forecast period, while the traditional surplus in the services balance should remain fairly stable at around 8½% of GDP. This deficit is set to be only partially financed by roughly constant capital transfers from the EU in nominal terms. Accordingly, the net borrowing position of the country is projected to widen from 4% in 2005 to around 6% of GDP in 2007.

Labour market, costs and prices

Despite slow GDP growth, employment is projected to keep rising, largely owing to the ongoing labourintensive infrastructure projects. In parallel, the unemployment rate should marginally fall to 6.8% in 2007. With sluggish growth, inflationary pressures come only from the energy prices increase: HICP inflation is projected to decline from 3.1% this year to 2.6% in 2006 and 2.2% at the end of the forecast period. Unit labour costs are expected to grow by 2.3% in 2006 (1.3% in 2005), reflecting oil prices increase, but should ease again to 1.3% in 2007, in line with more stable energy prices.

Public finances

After declining to 5.1% of GDP in 2004, the 2005 deficit is expected to fall to 4.2% of GDP. Although Malta is implementing the measures planned in the 2005 budget, including expenditure cuts and revenue enhancing measures, lower-than-expected GDP growth is an obstacle to the achievement of the deficit target set up in the Convergence Programme for 2005. Under a no-policy change scenario, the general government deficit is set to decrease to 3.0% of GDP in 2006 and to 2.5% of GDP in 2007. The projection for capital expenditures incorporates the fall associated with the finalization of the Italian protocol.

The general government gross debt in 2005 is expected to remain at around 77% of GDP, slightly above its 2004 level. This figure takes into account the effect of the privatization of the Malta International Airport, to be accomplished in November 2005. At unchanged legislation, the debt-to-GDP ratio is expected to rise slightly to around 77½% of GDP in 2006, but a growing primary balance should lead to slight decrease in 2007 (77%). These debt figures do not take on board the potential effects of additional privatisation projects.

Table 3.16

Main features of country forecast - MALTA

		2004		Annual percentage change						
mio MTL		Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1830.5	100.0	4.2	0.8	-1.9	0.4	0.8	0.7	1.1
Private consumption		1157.5	63.2	-	-1.0	2.0	-0.5	-0.8	0.6	0.9
Public consumption		412.0	22.5	-	4.0	2.9	0.7	-1.9	1.1	1.3
Gross fixed capital formation		374.3	20.4	-	-21.0	29.0	4.6	10.1	4.5	3.1
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		22.3	1.2	0.4	-1.2	-0.4	1.2	1.1	1.0	1.0
Exports (goods and services)		1388.9	75.9	-	2.9	-2.5	0.3	-2.5	1.3	2.6
Final demand		3355.0	183.3	-	-0.8	2.5	1.3	-0.6	1.3	2.0
Imports (goods and services)		1524.5	83.3	-	-2.3	7.1	2.2	-2.0	1.9	2.9
GNI at constant prices (GDP deflator)		1845.8	100.8	4.0	0.2	-2.6	-0.6	0.8	0.7	1.1
Contribution to GDP growth :	Domestic demand			-	-3.9	6.3	0.7	1.2	1.6	1.6
	Stockbuilding			-	-0.3	0.8	1.7	-0.1	-0.2	0.1
	Foreign balance			-	4.9	-8.9	-2.0	-0.3	-0.7	-0.6
Employment				1.3	-0.7	-0.7	1.4	0.6	0.8	0.8
Unemployment (a)				6.3	7.7	8.0	7.6	7.2	7.1	7.1
Compensation of employees/head				5.3	2.7	1.2	0.6	1.5	2.2	1.6
Unit labour costs				2.4	1.3	2.4	1.6	1.3	2.3	1.3
Real unit labour costs				0.1	-0.7	-2.1	-0.4	-1.4	-0.5	-1.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.2	2.0	4.6	2.0	2.8	2.8	2.3
Private consumption deflator				-	1.6	0.7	3.4	3.2	2.8	2.4
Harmonised index of consumer prices				-	2.6	1.9	2.7	3.1	2.6	2.2
Trade balance (c)				-19.4	-8.9	-14.5	-15.8	-15.8	-16.3	-16.8
Current account balance (c)				-7.9	0.3	-5.8	-10.5	-6.7	-6.8	-7.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-7.0	0.5	-5.6	-9.1	-4.0	-5.6	-5.8
General government balance (c)(d)				-	-5.8	-10.4	-5.1	-4.2	-3.0	-2.5
General government gross debt (c)				-	63.2	72.8	75.9	77.2	77.4	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

The end of the tunnel, at last?

Recent economic developments

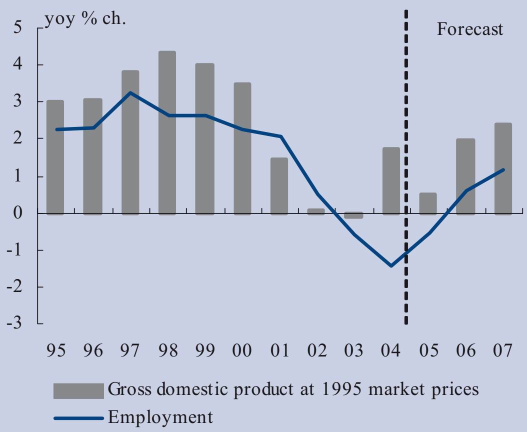
After a sharp and protracted slowdown from 2001 to 2003 and a short-lived recovery in 2004, 2005 was another gloomy year for the Netherlands. In the first quarter of the year real GDP fell by 0.8% quarter-on-quarter but it strongly recovered in the second quarter (+1.2% quarter-on-quarter) and this recovery should continue in the second half of the year. Nevertheless, on average, real GDP growth in 2005 will probably not exceed ½%, down from 1.7% in 2004.

Private consumption, which declined in 2003 and stagnated in 2004, is expected to decrease again this year, by about ¼%. The main reason was a further decline in households' disposable income, by nearly 1% in real terms, due to the continuing decline in employment, renewed wage moderation after the excessive wage increases of the late 1990s and early 2000s, and a fall in non-labour income. Public consumption stagnated and public investment declined by about ¾%, reflecting the continuing effort to further reduce the government deficit. Gross fixed capital formation by corporations was nearly flat but investment in dwellings still increased by 3%.

Prospects for 2006 and 2007

GDP growth is expected to accelerate in the course of 2005. It is projected to reach about 2% in 2006 and about 2½% in 2007, essentially because domestic demand should be significantly more dynamic than in recent years. Developments in both private and public consumption next year are blurred by the reform of the health care system on 1 January 2006, which will result in a shift from the former to the latter of about 1.7% of GDP. This institutional change is the main reason why private consumption is expected to decrease by about 3% in real terms and government consumption to rise by more than 9% next year. This shift apart, private consumption should rise by about ½% in 2006 as households' gross disposable income will broadly stabilise in real terms after several years of decline. In 2007, private consumption is set to accelerate to around 2%: households' disposable income should rise significantly, for the first time in years, essentially due to the recovery in employment; on the other hand, their saving rate, which dropped considerably in recent years and thereby supported consumption, is expected to rise again.

Graph 3.21: **The Netherlands - GDP growth and employment growth**



Government consumption should increase by nearly 2% in volume (without the effects of the health care reform) in 2006 and by about 3% in 2007. While government investment should still stagnate next year, gross fixed capital formation by corporations is forecast to begin to recover, rising by about 6½% in 2006, but this relatively high figure is inflated by some large projects in the transport sector. In 2007, both government and private investment are projected to speed up in line with the acceleration in growth.

Exports of goods and services are forecast to accelerate to more than 5% in 2006, but to remain below the expansion of export markets as the large loss in competitiveness recorded in recent years continues to take its toll. However, thanks to renewed wage moderation, unit labour costs should start declining again after a slight surge in 2005 and the gap between the growth in exports and the export market is expected to narrow markedly. Moreover, re-exports, which now represent nearly half of Dutch exports of goods, are forecast to remain very dynamic. In 2007, export growth should accelerate to about 6¾%, close to the rise in exports markets. In parallel, imports will accelerate too, pushed by the recovery in domestic demand and by buoyant re-exports. As a result, the contribution of foreign trade to GDP growth should be significantly more limited in 2006 and even more so in 2007 than it has been in recent years.

Labour markets, costs and prices

Employment decreased for the fourth consecutive year, by about ½% in 2004. As a result, unemployment continued to increase from 5.5% in 2004 to about 6%. With the recovery in output, employment is also projected to improve, rising by about ½% in 2006 and 1% in 2007. Unemployment should thus begin to decline marginally in 2006 and more markedly in 2007.

After surging in the late 1990s and early 2000s as a result of the overheating of the Dutch economy, inflation has considerably decelerated in recent years. The HICP rose by 1.4% in 2004. It should, however, accelerate this year to about 1.7%, mostly as a result of the surge in oil prices, since wage increases are very moderate. Inflation should accelerate to slightly above 2% in 2006, due to the remaining impact of oil prices, before sliding back somewhat in 2007.

Public finances

The general government deficit, which was brought back from 3.1% of GDP in 2003 to 2.1% of GDP in 2004, continued to decline, to 1.8% of GDP in 2005. In order to support activity, and to improve competitiveness and households' purchasing power, the 2006 budget provides for cuts in taxes as well as increases in spending for a total of half a percentage point of GDP. On the other hand, the recent rise in oil prices will lead to an increase in the price of natural gas, which will result in additional revenues. As a result, the general government deficit should stabilise in 2006 at around the 2005 level, despite the acceleration in GDP growth. However, in 2007, on the assumption of unchanged policy and with faster output and employment growth, the deficit should resume its decline and fall below 1½% of GDP.

Table 3.17

Main features of country forecast - NETHERLANDS

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		488.6	100.0	2.5	0.1	-0.1	1.7	0.5	2.0	2.4
Private consumption		239.2	48.9	2.0	0.9	-0.7	0.0	-0.2	-3.0	1.8
Public consumption		118.5	24.3	2.6	3.3	2.4	0.0	0.1	9.5	3.0
Gross fixed capital formation		94.6	19.4	2.5	-4.5	-3.5	2.9	1.4	4.5	6.3
of which : equipment		28.3	5.8	3.8	-4.9	4.1	5.7	0.3	7.7	9.0
Change in stocks as % of GDP		0.8	0.2	0.3	-0.3	-0.1	0.2	0.0	0.0	0.0
Exports (goods and services)		328.1	67.1	5.4	0.9	2.0	8.5	3.3	4.8	5.3
Final demand		781.3	159.9	3.3	0.1	0.6	3.9	1.5	3.2	4.0
Imports (goods and services)		292.6	59.9	4.8	0.3	2.0	7.8	3.0	5.0	6.4
GNI at previous year prices (GDP deflator)		489.8	100.2	2.4	0.2	-0.9	1.8	0.5	2.0	2.4
Contribution to GDP growth :	Domestic demand			2.1	0.2	-0.5	0.6	0.2	1.7	2.9
	Stockbuilding			-0.1	-0.6	0.2	0.2	-0.2	0.0	-0.1
	Foreign balance			0.5	0.5	0.1	0.9	0.5	0.3	-0.4
Employment				1.2	-0.3	-0.9	-1.6	-0.6	0.5	1.0
Unemployment (a)				6.4	2.8	3.7	4.6	5.1	4.9	4.2
Compensation of employees/head				2.9	5.2	4.0	3.3	1.4	1.0	1.3
Unit labour costs				1.6	4.8	3.3	-0.1	0.3	-0.5	-0.1
Real unit labour costs				-0.6	1.0	0.7	-0.9	-0.6	-1.4	-1.7
Savings rate of households (b)				-	-	13.9	14.0	12.2	12.5	14.0
GDP deflator				2.2	3.8	2.5	0.9	0.9	0.9	1.6
Private consumption deflator				2.5	3.0	2.2	1.1	1.7	2.0	1.8
Harmonised index of consumer prices				-	3.9	2.2	1.4	1.7	2.0	1.9
Trade balance (c)				4.1	6.7	6.8	7.3	7.4	6.8	6.2
Current account balance (c)				4.0	6.0	5.8	6.1	6.0	5.4	4.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				3.6	5.9	5.6	5.9	3.8	3.3	4.8
General government balance (c)(d)				-3.2	-2.0	-3.2	-2.1	-1.8	-1.9	-1.5
General government gross debt (c)				66.5	51.3	52.6	53.1	54.0	54.2	53.8

(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).

18. Austria

Waiting for private consumption to respond to the tax cuts

Activity in 2005

Economic growth slowed down from 0.4% quarter-on-quarter in late 2004 to 0.1% in the first three months of 2005, accelerating again to 0.4% in the following period. Private consumption had been expected to grow significantly due to the substantial cuts in personal income taxes introduced in early 2005. However, this scenario did not materialise, as household demand remained subdued in the first two quarters of the year. Up to now, the effects of rising oil prices seem to be outweighing the impact of the expansionary fiscal policy.

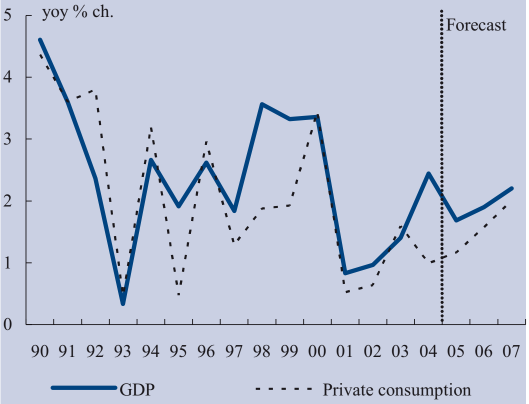
As expected, gross fixed capital formation slumped in the first half of 2005, confirming that the fiscal investment premium, which had expired in 2004, had given rise to a good deal of planned investment being carried forward rather than creating additional spending. With such weak domestic demand, net export was again the main contributor to GDP growth.

In the second half of the year, growth is supposed to be driven also by private consumption as the effects of rising oil prices ebb away and consumers realise the benefits of the tax reform. On an annual basis, real GDP growth is projected to decelerate to 1.7% in 2005.

Growth prospects for 2006 and 2007

Having slowed down significantly in 2005, GDP growth is expected to accelerate slightly in 2006 and again in 2007, narrowing the negative output gap over the forecast period.

Graph 3.22: **Austria - Growth profiles of GDP and private consumption**



The growth in private consumption is expected to gradually accelerate in 2006 and 2007. However, it will still be moderate compared with historical levels.

Investment in construction is projected to grow at a solid rate, supported by the government's measures aimed at improving Austria's infrastructure, undertaken mainly in order to address growing unemployment. Equipment investment, which is expected to slump in 2005 in the wake of the expiry of the fiscal investment premium, should grow at a solid rate in the near future on the back of rising replacement demand and healthy profits.

Export growth is expected to remain robust, but will not match the level of 2004, so that over the forecast horizon, there should be a shift from external to domestic demand forces as the main driver of growth.

Labour market, costs and prices

Employment is expected to grow throughout the forecast period but will be outpaced by the increase in labour supply. The government's special measures to combat unemployment are likely to rein in the rising trend in 2006, but they will not suffice to bring the record unemployment rate down from its peak. Due to the short-term nature of the measures, unemployment growth is bound to accelerate in 2007.

Consumer price inflation is projected to stay above 2% in 2005 and 2006. It should ease down toward the end of the forecast period as the effects of higher oil prices start disappearing. As wages are expected to develop in line with productivity, no inflationary pressures should arise from labour costs.

Public finance

The second stage of the 2004/2005 tax reform came into force in 2005. The burden on the budget incurred by the reform this year is estimated at 0.8% of GDP, but tax revenue has so far turned out to be higher than expected, mainly owing to higher proceeds from VAT, corporate tax, capital gains tax and energy tax.

Also in 2005, the government announced two packages of special measures aimed at fighting unemployment. The May package, which concentrated mainly on raising employment by renovating highways, bridges and railways, will be financed by the state-owned railway and motorway companies, and by the sale of assets. Therefore, according to ESA 95 accounting rules, it will be neutral for government accounts in the short term. The package adopted in September, worth approximately 0.1% of GDP, consists mainly of measures aimed at combating youth unemployment and helping women re-enter the job market. The cost of the package will be borne by the 2005 and 2006 budgets.

The 2005 budget will also be burdened with additional expenditure on social transfers as the number of unemployed turns out to be significantly higher than foreseen by the government.

However, the unexpectedly high tax revenue will more than compensate for the additional expenditure. Therefore, the deficit in 2005 should not surpass the 1.9% of GDP planned by the government.

2006 will see the peak of the revenue loss from previous tax reforms, estimated at 1.4% of GDP. In addition, the budget will have to bear a part of the cost of both the central government's job market package and those of regional authorities. Therefore, the deficit in 2006 is projected at 1.8% of GDP, which is slightly higher than the government's target in the November 2004 update of the stability programme.

As the impact of the tax reforms wears off and GDP growth rises, the deficit ratio should go down by ½ percentage point in 2007, which is still considerably higher than the stability programme target.

The debt ratio is expected to decrease slightly over the forecast period, but it will nevertheless remain above the 60% of GDP reference value.

Table 3.18

Main features of country forecast - AUSTRIA

	2004		Annual percentage change						
bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices	237.0	100.0	2.3	1.0	1.4	2.4	1.7	1.9	2.2
Private consumption	132.0	55.7	2.3	0.3	1.6	0.8	1.2	1.6	2.0
Public consumption	42.3	17.8	1.9	1.1	1.7	1.0	1.0	1.0	0.9
Gross fixed capital formation	49.7	21.0	2.1	-5.0	6.1	0.6	0.5	2.5	2.9
of which : equipment	19.7	8.3	2.8	-9.6	8.1	0.5	-1.0	3.5	3.7
Change in stocks as % of GDP	1.0	0.4	0.5	0.5	0.5	0.5	0.3	0.4	0.4
Exports (goods and services)	120.9	51.0	5.2	3.5	2.3	9.0	3.9	5.2	5.0
Final demand	345.9	145.9	3.0	0.7	2.5	3.6	1.9	3.0	3.1
Imports (goods and services)	109.3	46.1	4.4	0.2	5.6	6.2	2.0	5.2	5.0
GNI at previous year prices (GDP deflator)	234.2	98.8	2.3	2.2	1.5	2.3	1.7	1.9	2.2
Contribution to GDP growth : Domestic demand			2.1	-0.7	2.5	0.7	0.9	1.6	1.9
Stockbuilding			0.0	0.0	0.0	0.1	-0.1	0.1	0.1
Foreign balance			0.3	1.6	-1.4	1.6	1.1	0.3	0.3
Employment			0.4	-0.1	0.1	0.0	0.4	0.6	0.6
Unemployment (a)			3.4	4.2	4.3	4.8	5.0	5.0	5.1
Compensation of employees/head			4.1	2.1	1.9	2.3	2.2	2.7	2.3
Unit labour costs			2.2	1.0	0.6	-0.2	0.9	1.4	0.7
Real unit labour costs			-0.5	-0.2	-0.8	-2.1	-0.8	0.0	-0.6
Savings rate of households (b)			-	-	13.0	13.4	14.2	14.0	13.3
GDP deflator			2.7	1.3	1.4	1.9	1.6	1.4	1.3
Private consumption deflator			2.8	1.0	1.5	2.0	2.3	2.1	1.7
Harmonised index of consumer prices			-	1.7	1.3	2.0	2.2	2.1	1.7
Trade balance (c)			-3.3	1.7	0.5	1.5	1.8	1.4	1.3
Current account balance (c)			-1.5	0.4	-0.5	0.3	0.8	0.6	0.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.5	0.2	-0.5	0.2	0.7	0.4	0.5
General government balance (c)(d)			-2.9	-0.4	-1.2	-1.0	-1.9	-1.8	-1.4
General government gross debt (c)			57.0	66.7	65.1	64.3	64.3	64.2	63.6

(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).

19. Poland

Gradual recovery in the offing, but lack of fiscal reform

Activity in 2005

Economic activity in the first half of 2005 did not fully recover from the slowdown in late 2004. Real GDP growth in the second quarter of this year was 2.8% year-on-year, up from 2.1% in the first quarter. After a surprising drop to 1% year-on-year in the first quarter, investment growth rebounded in the second quarter (3.8% year-on-year). Polish companies seem to have postponed their investment decisions pending the results of the parliamentary and presidential elections. Moreover, there appears to be a lack of capacity to absorb EU funds. Domestic demand fell by 0.3% year-on-year in the second quarter for the first time since the first quarter of 2002, as large-scale de-stocking cancelled out the modest growth of consumption and investment. Overall, economic growth in the first half of 2005 was mainly driven by net exports, as was the case in the past two years. Net exports contributed to GDP growth by 2 percentage points, while the contribution to growth of domestic demand almost halved from the first quarter to the second. The contribution of inventories to GDP has been on a downward trend since the beginning of 2004 and reached -2.2 percentage points in the second quarter. Large de-stocking indicates that enterprises have adjusted their inventory levels to weaker demand.

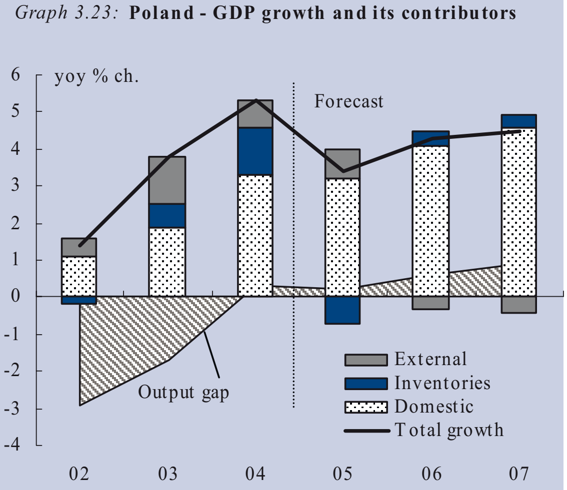
Short-term indicators do not show any sign of recovery, inter alia reflecting the uncertainty of the pre-election period. Higher growth is expected in the last quarter of the year as more EU funds are transferred to enterprises and political uncertainties dissipate. In 2005 as a whole, real GDP growth is projected to slow down to 3½%, down from 5.3% in 2004.

Prospects for 2006 and 2007

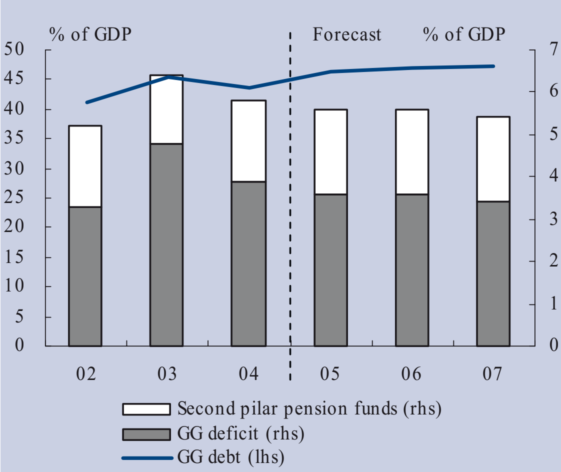
Domestic demand is expected to take over from net exports as the main driving force of GDP growth in 2006 and 2007. Both investment and private consumption growth are likely to pick up over the projection period. After the parliamentary and presidential elections and the formation of a new government in the autumn, the period of political and economic uncertainty will probably end, making companies more inclined to invest. Furthermore, companies are starting to face capacity constraints, while corporate profitability is strong and interest rates are at a record-low level. Private consumption is expected to increase as a result of the indexation of pensions, direct payments to farmers and moderate real wage growth. The administrative difficulties encountered in dealing with EU funds have so far limited Poland's absorption capacity, but the situation is likely to improve significantly in the coming months. Therefore, in 2006 and 2007, EU funds (up to 1.2% and 1.5% of GDP, respectively) will boost domestic demand and increase imports, which will translate into a negative contribution of net exports to GDP growth, despite the good performance by Polish exporters.

Exports started to grow again in the second quarter of 2005 after two quarters of decline, suggesting that

Graph 3.23: **Poland - GDP growth and its contributors**



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



despite the considerable appreciation of the zloty since May 2004 and the economic slowdown in the EU, Polish exporters are again gaining market shares, mainly in the countries on its eastern border (Russia and Ukraine). The current account deficit is expected to narrow to 3.2% in 2005. 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, 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 3.5% of GDP in 2006 and 3.9% in 2007, and will thus remain within sustainable bounds.

Labour market, costs and prices

Labour market conditions have been improving since the second quarter of 2004. Overall, employment started to grow in 2004 and is expected to stay on an upward trend over the forecast horizon, but the rate of employment still remains the lowest in the EU. As economic activity gains momentum again the foreseen employment growth should translate into a decline in the unemployment rate by more than 2 percentage points over 2005-07. This decline can be also partially explained by a falling participation rate, reflecting the extension of early retirement rights and a rapid growth of the number of students. However, unemployment will still be relatively high, at 16.5% 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 exacerbated by unfavourable demographic developments and the ongoing restructuring process in heavy industries and agriculture. Nevertheless, the fall in unemployment since 2004 has been quite significant compared to recent years, which bodes well for the near future.

After a sharp increase in 2004, annual HICP inflation decreased to a record low of 1.4% in mid-2005 from 3.6% on average in 2004. The one-off effects of EU accession on prices faded out in the first half of 2005, but the unfavourable developments in oil and energy prices are expected to push consumer price inflation up to 2¼% in 2005. A slightly negative output gap, which is not likely to close over the forecast horizon, and low inflationary expectations are expected to keep inflation in 2006 and 2007 below the central bank's medium-term target of 2.5%, despite moderate growth of wages and unit labour costs.

Unit labour costs are projected to expand by 1.7% in 2005, owing to a drop in productivity growth combined with modest compensation growth. In 2006 and 2007, unit labour cost growth is expected to ease to 1¼% as productivity growth recovers somewhat and compensation growth remains subdued. Although nominal wages are expected to increase in order to at least sustain growth in real earnings, high unemployment should exert a moderating influence on wage growth.

Public finances

Since the 2005 spring forecast, the picture of public finances has changed significantly in view of substantial data revisions following methodological changes. The most noticeable change concerns the 2004 general government deficit which was revised down to 3.9% of GDP from an earlier estimate of 4.8%. This significant reduction is mainly due to revisions to the method of calculation of accrued taxes and social contributions as well as revisions to the accounts payable.

The general government deficit is expected to reach 3.6% of GDP in 2005, in line with the target set in the December Convergence Programme (3.9%). However, there remains considerable uncertainty as regards the implementation of the 2005 budget. Higher revenues due to extra dividend contributions from state-owned enterprises, together with lower expenditure for debt servicing may not be sufficient to outweigh the effects of lower-than-expected GDP growth. Also an inflation rate below initial expectations and the non-implementation of an important part of the government's multi-annual plan for fiscal consolidation (Hausner plan) are weighing on the deficit.

Assuming that the new government does not significantly modify the draft budget, the general government deficit is expected to stabilise in 2006 despite an expected increase in revenues. In particular, the measures recently adopted by Parliament – early retirement entitlements for miners, the reimbursement of VAT increase for building materials and the indexation of pensions in 2006 – will weigh negatively on the 2006 budget. Under the no-policy-change assumption, the deficit is forecast to fall to 3.4% of GDP in 2007 as a result of stronger growth. The deficit projections for 2006 and 2007 are significantly higher than the targets set in the December 2004 update of the Convergence Programme. The forecast still includes the surplus of the second-pillar pension funds, which is expected to reach approximately 2% of GDP in 2005-07, within the general government sector.

The gross debt figure is projected to increase only moderately between 2005 and 2007. From 43.6% of GDP in 2004, the debt-to-GDP ratio will increase to some 46% in 2006, before stabilising in 2007.

Table 3.19

Main features of country forecast - POLAND

		2004		Annual percentage change						
	bn PLN	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		883.7	100.0	4.8	1.4	3.8	5.3	3.4	4.3	4.5
Private consumption		573.5	64.9	4.8	3.4	3.0	3.2	2.8	3.4	3.5
Public consumption		149.7	16.9	2.3	0.4	0.1	1.4	2.5	2.8	2.9
Gross fixed capital formation		160.8	18.2	9.9	-5.8	-0.5	5.1	5.5	8.2	10.4
of which : equipment		56.0	6.3	-	-9.6	-	-	4.7	7.2	9.0
Change in stocks as % of GDP		15.6	1.8	0.9	-0.1	0.6	1.9	1.0	1.3	1.5
Exports (goods and services)		345.6	39.1	11.8	4.8	14.7	11.4	4.1	4.9	6.0
Final demand		1245.3	140.9	6.5	1.7	5.2	6.2	2.9	4.7	5.2
Imports (goods and services)		361.6	40.9	14.2	2.6	9.3	8.7	1.9	5.6	7.1
GNI at previous year prices (GDP deflator)		842.1	95.3	4.8	1.1	3.1	2.2	3.2	4.1	4.3
Contribution to GDP growth :	Domestic demand			5.4	1.1	1.9	3.3	3.2	4.1	4.6
	Stockbuilding			0.1	-0.2	0.6	1.3	-0.7	0.4	0.3
	Foreign balance			-0.7	0.5	1.3	0.7	0.8	-0.3	-0.4
Employment				-0.4	-3.0	-1.2	0.0	1.0	1.2	1.2
Unemployment (a)				13.5	19.8	19.2	18.8	17.8	16.8	15.5
Compensation of employees/head				19.2	2.0	0.8	3.0	4.1	4.4	4.4
Unit labour costs				13.2	-2.4	-4.1	-2.2	1.7	1.3	1.1
Real unit labour costs				0.7	-3.7	-4.5	-5.0	-0.6	-0.8	-1.3
Savings rate of households (b)				-	-	8.1	5.2	5.7	5.6	4.3
GDP deflator				12.5	1.3	0.5	2.9	2.3	2.2	2.5
Private consumption deflator				13.0	1.6	0.7	3.3	1.9	2.1	2.3
Harmonised index of consumer prices				-	1.9	0.7	3.6	2.2	2.3	2.5
Trade balance (c)				-5.0	-3.8	-2.7	-1.1	-4.3	-4.4	-4.6
Current account balance (c)				-3.0	-2.6	-2.2	-4.2	-3.2	-3.5	-3.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.0	-2.6	-2.2	-4.2	-3.2	-3.6	-3.9
General government balance (c)(d)(e)				-2.7	-3.3	-4.8	-3.9	-3.6	-3.6	-3.4
General government gross debt (c)				-	41.2	45.3	43.6	46.3	47.0	47.3

(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) Including second pillar pension funds (see for more details note 11 on concepts and sources).

20. Portugal

Macro-economic imbalances looming large

Activity in 2005

Imbalances continue to persist in Portugal. Having recovered from recession in 2004, GDP is expected to grow by a modest ⅓% in 2005.

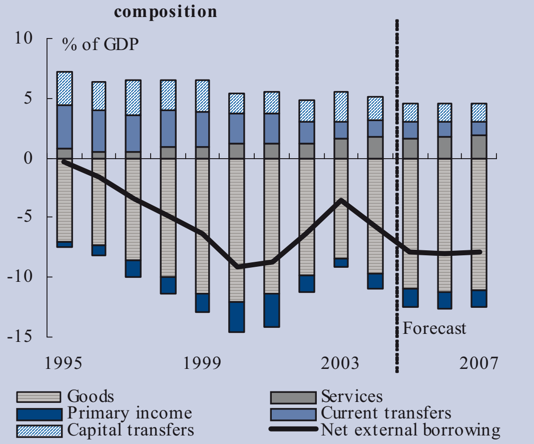
Activity was relatively lively up to mid-2005, driven by private consumption. Yet the recent expansion seems to have been largely the result of purchases carried forward against the announced VAT hike in July. According to recent indicators, the momentum of household spending is now abating. Investment continues to suffer from a shrinking construction sector and lacklustre business prospects.

Exports are hampered by a weak competitive position, although the external sector's contribution to GDP growth was less negative than in 2004, owing to decelerating imports. Nevertheless, the jump in oil prices has further exacerbated the imbalance in Portugal's net external position, which is forecast to climb to a negative gap close to 8% of GDP by the end of 2005, with the deterioration in the income and capital balances also playing a role.

Prospects for 2006 and 2007

Domestic demand is forecast to slow down over the forecast period. The cooling of private consumption is assumed to be stronger in 2006 with a re-assessment of income expectations by private households and a weaker labour market outlook. Investment is expected to recover in 2007 reflecting already more encouraging business prospects and a slowly improving construction sector. In addition, in 2006, both consumption and investment rates will be dampened by a negative carry-over from the second half of 2005. Public consumption will be held back by a tightening of general government expenditure.

Graph 3.25: **Portugal - Net external borrowing and its composition**



The contribution of the external sector to growth is projected to increase. Exports are expected to accelerate helped by less adverse cost developments in manufacturing and by a boost in car exports, yet foreign market shares will decline further. In fact, export performance is hampered by a relatively subdued demand and by increased competition from emerging economies. Sluggish domestic demand is forecast to hold import growth down.

In all, the projected demand pattern will yield GDP growth below 1% in 2006 and close to 1¼% in 2007, with the net external borrowing remaining high.

Labour market, costs and prices

Unemployment is projected to remain on an upward trend until 2007. Job cuts have been particularly marked in manufacturing, which should hold down unit labour costs and help boost competitiveness.

Inflation abated until mid-2005, but the July increase in the normal VAT rate from 19 to 21% is rekindling inflation. However, the hike has not been fully passed on to prices. In 2006, the carry-over of the VAT increase will be felt and some excise taxes will go up, but the large negative output gap should limit the scope for price increases. In 2007, the fading impact of the VAT hike on the annual rate of price increase and more stable import prices may pave the way for a deceleration of inflation.

Public finances

The 2005 general government deficit is projected to reach almost 6% of GDP after a deficit of 3% of GDP in 2004. This jump is largely due to the government's decision to no longer implement one-off measures.

In 2005, both current revenue and expenditure have increased as a share of GDP. Tax revenues have been growing in excess of what the relevant tax base would indicate, which suggests a further improvement in tax collection, as already observed in 2004. In addition, the VAT increase in July is adding to tax revenues. Overall, the tax burden is expected to jump by nearly 1 percentage point. Strong upward pressure on expenditure has persisted. Old-age pension spending grows strongly with a growing number of retirees and higher per capita benefits. Public consumption has been increasing due to wage increases above the 2003-04 average and rising health expenditure.

This forecast already includes a sizeable corrective package adopted in mid-2005. Measures on the revenue side comprise the increase in VAT, tax increases for petrol and tobacco and a curb on tax benefits. Regarding expenditure, efforts are being targeted at the reform of pension schemes and public administration, including career and wages scales. In the meantime, there will be a freeze on promotions in the public sector until the end of 2006[1].

A marked improvement of the government balance is projected on account of the corrective measures. However, there are some risks that may bound its success. First, economic conditions may be adverse with subdued domestic demand jeopardizing a stronger expansion of tax revenues. Second, some expenditure-curbing measures may yield limited short-term savings. Additionally, interest expenditure will increase with rising debt and interest rates.

In 2006, the general government deficit is forecast at close to 5% of GDP. Based on the no-policy-change assumption, the deficit will marginally improve in 2007. The trend in the primary deficit should be somewhat better. On the back of high deficits and low GDP growth, the government debt ratio will remain on an upward path.

[1] Since some measures have not been announced in sufficient detail for them to be properly assessed, they are not included in the current forecast, e.g., private sector pension reform and the government's new career and wage scales. According to the Portuguese authorities, these measures are still in preparation. Everything else being equal, this may imply a difference between this and other forecasts or policy targets.

Table 3.20

Main features of country forecast - PORTUGAL

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		141.1	100.0	3.0	0.5	-1.2	1.2	0.4	0.8	1.2
Private consumption		90.4	64.1	2.6	1.1	-0.3	2.3	2.2	1.0	1.5
Public consumption		29.2	20.7	4.1	2.3	0.3	1.2	1.0	-0.2	0.0
Gross fixed capital formation		30.5	21.6	3.7	-5.1	-9.9	1.3	-2.4	0.3	2.3
of which : equipment		9.6	6.8	3.7	-10.5	-6.5	6.2	-1.1	0.9	3.1
Change in stocks as % of GDP		1.2	0.8	0.5	0.7	0.6	0.8	0.7	0.7	0.7
Exports (goods and services)		40.8	28.9	6.3	2.0	5.0	5.1	0.9	4.7	4.6
Final demand		192.1	136.1	3.8	0.3	-0.7	2.9	0.9	1.5	2.1
Imports (goods and services)		52.1	36.9	6.9	-0.2	-0.1	7.0	1.7	3.0	4.1
GNI at previous year prices (GDP deflator)		139.3	98.7	3.0	1.8	-0.4	0.6	0.1	0.9	1.3
Contribution to GDP growth :	Domestic demand			3.3	-0.2	-2.6	2.0	1.1	0.7	1.5
	Stockbuilding			0.0	0.0	0.0	0.2	-0.1	0.0	0.0
	Foreign balance			-0.5	0.7	1.5	-1.0	-0.4	0.2	-0.2
Employment				0.5	0.4	-0.4	0.1	0.1	0.2	0.4
Unemployment (a)				6.3	5.0	6.3	6.7	7.4	7.7	7.8
Compensation of employees/head				13.1	4.4	2.6	3.0	3.0	2.9	3.0
Unit labour costs				10.4	4.2	3.4	1.9	2.7	2.4	2.2
Real unit labour costs				-0.5	0.2	0.7	-0.9	0.7	0.1	-0.3
Savings rate of households (b)				-	-	10.8	10.0	9.8	9.5	9.4
GDP deflator				10.9	4.0	2.7	2.8	2.0	2.2	2.5
Private consumption deflator				11.0	3.3	2.8	2.7	2.2	2.7	2.2
Harmonised index of consumer prices				-	3.7	3.3	2.5	2.2	2.7	2.2
Trade balance (c)				-11.8	-9.8	-8.4	-9.7	-10.9	-11.2	-11.1
Current account balance (c)				-4.8	-8.2	-6.1	-7.8	-9.5	-9.7	-9.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.4	-3.6	-5.8	-7.9	-8.1	-8.0
General government balance (c)(d)				-5.3	-2.8	-2.9	-3.0	-6.0	-5.0	-4.8
General government gross debt (c)				53.6	56.1	57.7	59.4	65.9	69.8	72.1

(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).

21. Slovenia

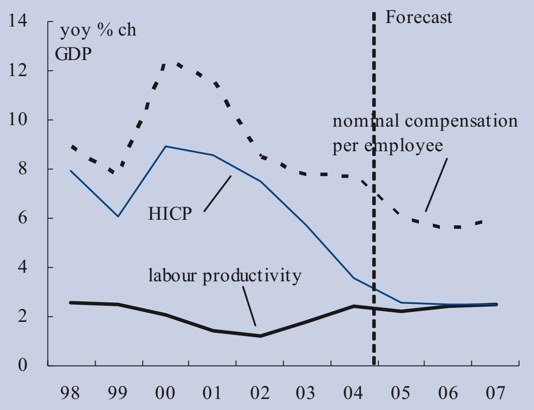
Exports supporting economic growth

Activity in 2005

In 2004, economic growth was lower than initially estimated; real GDP grew by 4.2% (instead of 4.6%)[1]. The stimulus was mainly internal. The considerable build-up of inventories took place before EU accession as imports surged in anticipation of changes in trade regimes with some countries of the former Yugoslavia. At the same time, exports rallied, which helped to narrow the negative contribution of foreign demand to GDP growth.

Despite the bleak circumstances in the international environment this year, GDP growth is likely to decelerate only slightly, to 3.8%. After relatively weak activity in the first quarter, the economy boomed in the second quarter. It seems, however, that this was mainly due to (temporary) effects in foreign trade linked to the substantial increase in exports of cars to France and Austria. Contrary to expectations, export performance was not seriously affected by the slowdown in the main European trading partners and remained remarkably resilient in the face of oil price increases. High commodity price levels, on the other hand, impinged on imports, and producers reacted by limiting their investment activity. As also de-stocking occurred capital formation plunged whereas household consumption strengthened with a sustained rise in employment, a marked increase of real wages and advantageous borrowing conditions (as of 2004, domestic banks are also allowed to offer loans in foreign currency to individuals). This year, the economy will continue to be driven by domestic demand while the external contribution turns positive.

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



Prospects for 2006 and 2007

In 2006, real GDP growth is forecast to accelerate to 4%. Investment expenditure is expected to pick up as production processes are adjusted in order to improve the competitiveness of Slovene industry, and investment spending related to construction activity should also stay high, as evidenced by strong growth in the number of construction permits issued. Private spending, particularly the purchase of durable goods, is likely to remain buoyant. Domestic demand should fuel the economy while foreign demand is also expected to contribute positively to GDP growth against the projections of healthy export growth to continue.

With export markets recovering as oil prices decrease, and expectations linked to the adoption of the euro that spur domestic consumption, GDP growth is projected to accelerate further to 4.2% in 2007. As imports are set to rise steadily in step with strong private and investment spending, the negative current account is likely to deteriorate further. According to the revised balance-of-payments statistics, which revealed a much bigger deficit for 2004, the current account is expected to linger around -2% of GDP.

Labour market, costs and prices

In 2005, the situation on the labour market improved with a marked rise in employment and a sustained fall in unemployment, together with a considerable increase of gross wages compared to the year before. Admittedly, this is estimated to result from the methodological adjustment in the calculation of the average wage to include enterprises with 1-2 employees. Furthermore, it also reflects the effect of the new tax regime, which ended favourable treatment for freelance fees and thus encouraged employers to pay salaries instead. Wage increases in 2005 are, therefore, likely to depart from the arrangement whereby wage rise should lag behind productivity growth by more than one percentage point. Although the wage negotiations for 2006-2007 are still ongoing, the immediate outlook for the labour market remains relatively positive as the unemployment rate is projected to drop below 6%, in step with the robust GDP growth.

In 2005, against the background of oil price fluctuations, consumer price inflation has become volatile but continued to decline on average. In

October, the 12-month moving average inflation rate stood at 2.7%. Regular adjustments of excise duties to temper the adverse effects of high oil prices helped in keeping the disinflation path smooth. Furthermore, the government has regulated administered price rises in such a way as not to exert inflationary pressures, while market prices have clearly been driven down by increased competition following EU entry. Moreover, inflation has been falling against the stable exchange rate ever since Slovenia joined ERM II.

Assuming the continuation of policy measures geared toward further disinflation, consumer prices will rise only slowly. The commitment to adopt the euro in January 2007 restricts the authorities' room for manoeuvre in setting prices while oil prices are considered a risk factor.

Public finances

After revision of the general government deficits for 2000-2004 to include the two extra-budgetary funds, further alignment with the Eurostat rules has caused an additional substantial upward revision of the 2001 and 2003 deficit. In 2005, however, the general government deficit is set to decline to 1.7% of GDP as the shortfall of the new direct tax regime will be smaller than expected. Given the uncertainties surrounding the future amendments to the tax legislation, the forecast for 2006 projects the deficit to increase again against the decision to index pensions to wages and the commitment of the new government to gradually abolish the payroll tax.

[1] Note that the methodological revision of the national accounts, based on previous year prices and the allocation of FISIM by user sectors, has slightly raised real GDP growth rates for 2000-2003.

Table 3.21

Main features of country forecast - SLOVENIA

	2004		Annual percentage change						
bn SIT	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices	6251.2	100.0	4.1	3.5	2.7	4.2	3.8	4.0	4.2
Private consumption	3461.5	55.4	3.8	1.3	3.4	3.1	3.5	3.4	3.3
Public consumption	1219.1	19.5	3.3	3.2	1.6	2.9	2.6	2.7	2.9
Gross fixed capital formation	1506.0	24.1	9.8	0.9	7.1	5.9	3.8	4.7	5.5
of which : equipment	653.7	10.5	12.3	-2.7	11.4	9.4	2.2	3.0	5.3
Change in stocks as % of GDP	140.2	2.2	1.0	0.7	1.6	2.5	1.1	1.1	1.5
Exports (goods and services)	3761.5	60.2	6.1	6.7	3.1	12.5	9.1	7.4	7.3
Final demand	10088.3	161.4	5.3	3.9	4.1	7.4	4.8	5.1	5.4
Imports (goods and services)	3837.0	61.4	7.4	4.8	6.7	13.2	6.3	6.8	7.3
GNI at previous year prices (GDP deflator)	6193.5	99.1	4.0	2.7	2.5	3.9	3.9	4.0	4.2
Contribution to GDP growth :	Domestic demand		5.0	1.6	3.8	3.7	3.3	3.6	3.8
	Stockbuilding		-0.1	0.8	0.8	0.9	-1.1	0.0	0.6
	Foreign balance		-0.7	1.1	-2.0	-0.4	1.6	0.4	-0.1
Employment			-	1.5	-0.2	0.4	0.3	0.2	0.3
Unemployment (a)			6.8	6.1	6.5	6.0	5.8	5.7	5.6
Compensation of employees/head			-	8.5	7.8	7.7	6.1	5.6	5.9
Unit labour costs			-	6.5	4.7	3.8	2.5	1.7	1.9
Real unit labour costs			-	-1.3	-1.0	0.6	0.0	-0.7	-0.6
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			9.8	7.9	5.8	3.2	2.5	2.5	2.5
Private consumption deflator			10.1	7.9	5.4	3.5	2.5	2.4	2.3
Harmonised index of consumer prices			-	7.5	5.7	3.6	2.6	2.5	2.5
Trade balance (c)			-4.5	-1.1	-2.2	-3.9	-3.4	-3.8	-4.0
Current account balance (c)			-0.9	1.5	-0.3	-2.0	-1.6	-1.8	-2.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.9	1.5	-0.3	-1.9	-1.5	-1.8	-1.9
General government balance (c)(d)			-	-2.7	-2.7	-2.1	-1.7	-1.9	-1.6
General government gross debt (c)			-	29.8	29.4	29.8	29.3	29.5	29.2

(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).

22. Slovakia

Domestic demand continues to drive growth

Activity in 2005

Thus far, the available data suggest that economic growth in 2005 remains strong at slightly above 5% and continues to be driven by domestic demand, particularly by investment and private consumption.

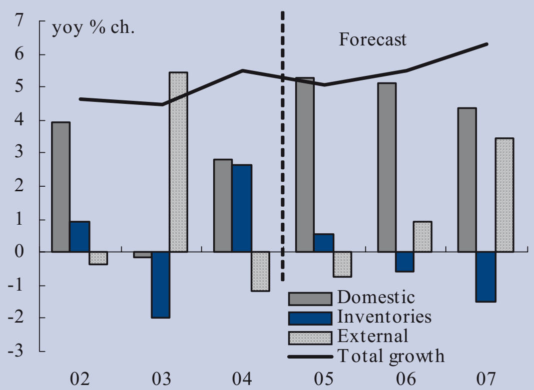
Robust employment and real wage growth are expected to lift private consumption growth above 5% in 2005. Gross fixed capital formation is estimated to grow by more than 8% supported by the realisation of some big investment projects as well as by an increase in public infrastructure investment. The contribution of net exports should remain in negative territory against the backdrop of lower growth of both exports and imports which can be partly attributed to interruptions in production caused by switches to new product lines in the car manufacturing industry.

Prospects for 2006 and 2007

The economic expansion is anticipated to accelerate to around 5½% in 2006 and to above 6% in 2007. Domestic demand is likely to remain the driving force while export growth should speed up in 2006 as new export capacity will gradually come on stream and the external contribution should thus become positive again.

Strong household credit growth is also likely to continue to support private consumption growth which should remain above 4% over the forecast horizon. Gross fixed capital formation is predicted to further accelerate in 2006 as already pledged green-field investments are realised while the government, supported by EU funds, continues to invest in large infrastructure projects. The investment boom should then decelerate in 2007, under the assumption of no new major foreign direct investments. As the increases of exports induced by the new production capacities are initially accompanied by imports of investment goods for these facilities, the external contribution will probably not increase significantly until 2007.

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



The current account deficit is expected to widen further to above 6% of GDP in 2005 as sharply increasing repatriated profits add to the negative trade balance. Accelerating exports should lead to a measured improvement in the current account balance in 2006 and 2007.

Labour market, costs and prices

In the second quarter of 2005 total employment (labour force sample survey) increased by more than 2% (y-o-y) and it has now been growing for a year. A similarly positive trend is expected to continue throughout the whole year leading to employment growth for 2005 at around 1¾% while the unemployment rate should decrease to below 17%. Similar, though slower, trends are also anticipated in 2006 and 2007.

Although the year-on-year consumer price inflation rate fell to 2% in August 2005 and averaged 2½% over the first 8 months of 2005, the adjustments in administered prices and indirect taxes are estimated to drive it up to about 4% towards the end of the year. As these one-off effects fade out, inflation should fall back to 2% in 2007 if the second-round effects and, in particular, nominal wage growth are kept in check.

Public finances

After the tax reforms were put in place in 2004, a pension reform was launched in 2005. This reform affects social contributions by redirecting 9 percent of gross wages to a funded (second) pension pillar. Due to a large public interest, revenue transfers to the second pension pillar are anticipated at about ¾%, 1¼% and 1½% of GDP in 2005, 2006 and 2007 respectively.

From autumn 2005 until the end of the transition period granted by Eurostat in spring 2007, the Commission services' forecasts will present the general government deficit net of the pension reform cost, that is, the second pillar pension scheme will be classified as government.

The general government deficit for 2005, net of the pension reform cost and net of the cancellation of some developing countries' debt amounting to about 0.8% of GDP, is anticipated at around 3¼% of GDP which is slightly lower than foreseen in the 2005 budget. This positive development is, however, mainly driven by a lower-than-expected interest cost of public debt. The primary deficit is estimated to be larger than originally planned as some of the financial resources that were freed are being used to cover other unplanned public expenditures.

The general government deficit net of the pension reform cost is for 2006 estimated at some 3% of GDP. Increases in public expenditure in the election year are anticipated to largely offset a favourable growth performance as well as the positive trend in the servicing costs of public debt preventing a more significant fiscal consolidation. In order to ensure sufficient public revenues the government adopted a number of measures, the most significant being the restriction of child tax allowances and increases in taxes on cigarettes and alcohol as well as in some administration fees.

Under the customary no policy change assumption the budget deficit net of the pension reform cost will in 2007 fall to about 2½% of GDP as a result of accelerating growth.

Gross public debt is estimated to decrease sharply to around 36¾% of GDP in 2005 as a part of the privatisation revenues from previous years has been used to pay-off some of the country's debts. In 2006 and 2007, government debt is projected to slightly increase but should remain below 40% of GDP.

Table 3.22

Main features of country forecast - SLOVAKIA

		2004		Annual percentage change						
	bn SKK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1325.5	100.0	4.0	4.6	4.5	5.5	5.1	5.5	6.3
Private consumption		750.6	56.6	4.6	5.5	-0.6	3.5	5.4	4.6	4.8
Public consumption		269.0	20.3	3.5	4.9	2.7	1.1	2.4	3.3	2.8
Gross fixed capital formation		327.2	24.7	5.0	-0.6	-1.5	2.5	8.4	8.5	5.3
of which : equipment		200.1	15.1	7.1	1.7	0.6	9.7	8.1	8.3	5.2
Change in stocks as % of GDP		14.2	1.1	0.0	1.7	-0.3	2.2	2.6	2.0	0.5
Exports (goods and services)		1018.0	76.8	8.2	5.6	22.5	11.4	7.3	10.4	14.1
Final demand		2379.1	179.5	6.6	5.0	8.6	8.4	6.7	7.6	8.7
Imports (goods and services)		1053.6	79.5	10.7	5.5	13.6	12.7	8.2	9.6	11.0
GNI at constant prices (GDP deflator)		1312.3	99.0	4.1	4.5	4.5	4.5	2.7	5.8	6.3
Contribution to GDP growth :	Domestic demand			4.7	4.0	-0.2	2.8	5.3	5.1	4.4
	Stockbuilding			1.0	1.0	-2.0	2.7	0.5	-0.6	-1.5
	Foreign balance			-1.9	-0.4	5.5	-1.2	-0.7	0.9	3.4
Employment				-0.5	-0.5	1.8	-0.3	1.8	0.9	0.8
Unemployment (a)				15.0	18.7	17.5	18.2	16.7	16.2	15.8
Compensation of employees/head				11.5	9.3	6.0	10.8	8.2	6.5	5.9
Unit labour costs				6.8	3.9	3.3	4.6	4.9	1.9	0.4
Real unit labour costs				0.3	-0.1	-1.3	0.0	2.1	-1.1	-2.3
Savings rate of households (b)				-	-	4.5	5.0	6.0	6.9	7.4
GDP deflator				6.4	4.0	4.7	4.6	2.7	3.1	2.8
Private consumption deflator				7.3	2.5	7.7	6.9	2.9	3.4	2.0
Harmonised index of consumer prices				-	3.5	8.4	7.5	2.9	3.6	2.1
Trade balance (c)				-7.8	-9.0	-2.3	-3.5	-4.9	-4.7	-2.2
Current account balance (c)				-5.3	-7.3	-0.5	-3.4	-6.6	-6.2	-3.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-5.2	-7.3	-0.8	-3.3	-6.2	-5.7	-3.3
General government balance (c)(d)(e)				-6.3	-7.8	-3.8	-3.1	-4.1	-3.0	-2.5
General government gross debt (c)				-	43.7	43.1	42.5	36.7	38.2	38.5

(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).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

23. Finland

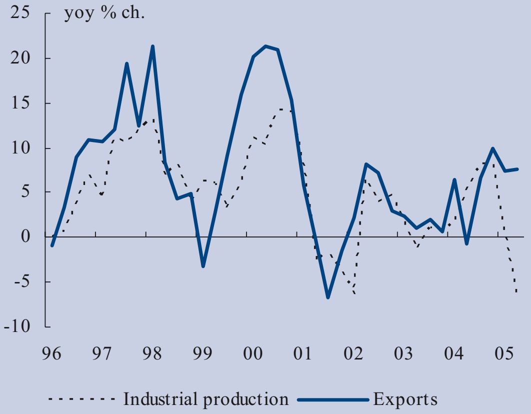
Growth to rebound from temporary reversal

Activity in 2005

Following a rate of 3.6% in 2004, real GDP growth slowed down to about 1% year-on-year in the first half of 2005. Output edged down in the first quarter by 0.1% from the previous period, owing mainly to a decline in gross fixed capital formation and sluggish industrial production. In the second quarter, GDP contracted by a further 1.6% from the previous quarter as the seven-week-long paper and pulp industry lockout that ended in late June weighed heavily on growth. The lockout is estimated to shave roughly 1 percentage point off GDP growth for 2005. This includes the direct and indirect effects on other parts of the economy, e.g. transport, forestry logging and the chemical industry.

Domestic demand was the driver of growth in the first part of 2005, while the contribution from net exports was more subdued than expected. Household consumption was fuelled by higher earnings, a pick-up in employment and low interest rates. The upward trend in total investment since summer 2003 was reversed in the first part of 2005, with investment down by around 2% from 2004. Residential construction edged down slightly, while equipment and machinery investment shrank markedly, by over 8%. In the first half of 2005, exports were surprisingly strong despite the paper industry labour conflict. However, part of the foreign trade was in transit exports, such as automobiles and telecommunications products, which were imported to Finland, then exported mainly to Russia. Consequently, import growth was robust in the first part of 2005. The weakening in the terms of trade continued as export prices fell somewhat, while import prices increased further.

Graph 3.28: **Finland - Industrial production and exports**



Prospects for 2006 and 2007

The economy is projected to return to and remain on a firm growth path throughout the forecast period. Survey indicators suggest that activity will pick up in the latter part of 2005, as industrial production and exports are strengthening while domestic demand remains solid. The paper industry labour dispute is deemed to have had only short-term temporary effects on the economy. Therefore, real GDP growth should rebound to close to 3½% in 2006, partly boosted by the base effect, and then abate to its potential growth rate of 2½%-3% in 2007.

Private consumption is expected to continue to give firm support to activity, underpinned by income tax cuts and healthy job creation. Public consumption is foreseen to increase modestly, given the efforts of the central government to control expenditure. Investment is projected to bounce back after a surprisingly weak performance in 2005 and provide a solid stimulus to growth in 2006-2007. Net exports should increasingly contribute to growth. Exports are anticipated to rebound and gain further momentum due to strong import demand from Russia. The electronics industry has remained competitive and the prospects for exports of telecommunications equipment appear rather promising. Imports are expected to grow at a firm pace on the back of lively domestic demand.

Labour market, costs and prices

Despite the slowdown of activity, employment has increased further this year, by over 1¼% year-on-year up to September. As labour supply has expanded less than employment, the unemployment rate fell to 8.3% in September.

Recently, higher energy prices have exerted upward pressures on HICP inflation, while tightening competition in services, especially in telecommunications, has kept price increases in check. During the forecast period, inflation is expected to stay at around 1½%.

The centralised wage agreement, settled in late 2004, provides for moderate wage increases up to September 2007. Assuming the usual positive wage drift of about 1 percentage point, per capita wages are expected to increase on average by 3.0% in 2006-

2007. However, higher growth in productivity appears likely to limit the rise in unit labour costs to around 1% over the forecast period.

Public finances

On the basis of the government's medium-term spending guidelines of spring 2005 and the budget proposal for 2006, the general government surplus is projected to fall slightly from over 2% of GDP in 2004 to 1¾% by 2007. The general government surplus will rest solely on the surplus of social security. Central government finances are expected to be roughly in balance in 2005 and then slip into deficit since the government has supplemented the collective wage agreement by sizeable income tax cuts of about 1% of GDP. Local government finances will stay in deficit due to higher operating expenditure, even with tax revenues projected to rise.

The government debt ratio is projected to steadily decline to below 41% of GDP by the end of the forecast period.

Table 3.23

Main features of country forecast - FINLAND

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		149.7	100.0	2.4	2.2	2.4	3.6	1.9	3.5	3.1
Private consumption		77.7	51.9	2.2	1.5	4.4	3.2	2.8	2.6	2.4
Public consumption		33.7	22.5	2.0	4.3	1.5	1.6	1.8	1.6	1.5
Gross fixed capital formation		28.2	18.8	1.1	-3.1	-1.5	5.0	1.3	3.2	3.3
of which : equipment		8.0	5.3	1.5	-9.8	-6.9	8.2	0.3	4.9	4.1
Change in stocks as % of GDP		2.0	1.4	0.2	0.5	0.4	0.7	0.3	0.4	0.4
Exports (goods and services)		56.6	37.8	5.5	5.0	1.4	5.6	4.5	5.8	5.3
Final demand		198.2	132.4	2.7	2.6	2.1	4.2	2.8	3.6	3.4
Imports (goods and services)		48.5	32.4	4.4	1.8	2.9	6.0	5.3	4.1	4.1
GNI at constant prices (GDP deflator)		149.2	99.6	2.4	2.9	0.8	4.7	1.8	3.5	3.1
Contribution to GDP growth :	Domestic demand			1.9	1.0	2.2	2.9	2.1	2.3	2.1
	Stockbuilding			-0.1	0.3	0.0	0.3	-0.3	0.1	0.0
	Foreign balance			0.5	1.5	-0.4	0.4	0.1	1.1	0.9
Employment				0.0	0.9	0.0	0.3	1.3	0.7	0.7
Unemployment (a)				8.6	9.1	9.0	8.8	8.4	7.8	7.2
Compensation of employees/head				6.3	1.8	2.6	4.1	3.0	2.9	2.8
Unit labour costs				3.8	0.6	0.2	0.8	2.4	0.1	0.4
Real unit labour costs				-0.7	-0.4	0.5	0.3	2.0	-0.4	-0.5
Savings rate of households (b)				-	-	7.8	9.6	8.9	9.3	9.4
GDP deflator				4.5	1.0	-0.3	0.5	0.5	0.5	0.9
Private consumption deflator				4.4	2.9	0.0	0.1	1.5	1.1	1.0
Harmonised index of consumer prices				-	2.0	1.3	0.1	1.0	1.4	1.3
Trade balance (c)				4.9	9.6	7.9	6.9	5.1	4.8	4.7
Current account balance (c)				0.2	7.3	3.8	4.1	2.2	2.0	2.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.4	7.4	4.4	5.0	2.3	2.0	2.2
General government balance (c)(d)				1.0	4.3	2.5	2.1	1.9	1.9	1.8
General government gross debt (c)				32.4	42.3	45.2	45.1	42.8	41.5	40.6

(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).

24. Sweden

Continued recovery after blip

Activity in 2005

The slowdown in growth that took place towards the end of 2004 continued in the first quarter of 2005. This slowdown affected exports and domestic consumption in particular while investments continued to expand strongly. However, national account figures for the second quarter indicate a recovery, mainly led by stronger private consumption and a recovery in exports. Overall, GDP growth was up around 2% on the year in the first half of 2005.

Recent indicators are generally positive. Consumer confidence has continued to show an increasingly positive picture both as regards household views on the economy as a whole and on their own economic situation. Industrial confidence has, however, fallen back somewhat to around its long-term average while there is more optimism in services, retail trade and in particular construction.

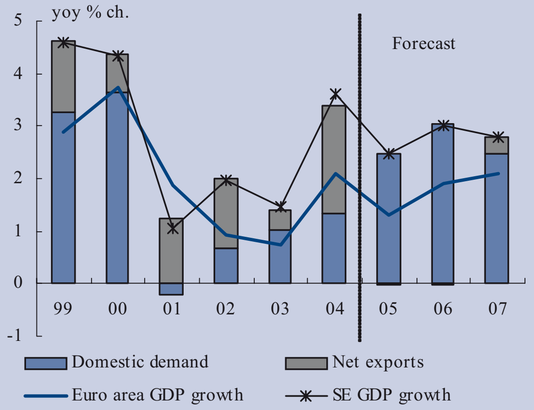
These prospects are expected to be confirmed in a steady continuation of the recovery in the remainder of 2005, with GDP growth of around 2½% led by domestic demand.

Prospects for 2006 and 2007

In 2006, economic growth is expected to be around 3% with domestic demand driving growth while in 2007 the economy is expected to grow somewhat less but close to the potential growth rate

A resumption of employment growth will contribute positively to household disposable income in 2006 and 2007, enabling continued steady growth in private consumption. While households have taken on more debt, financial wealth has benefited from rising equity and house prices, contributing to the maintenance of a relatively strong wealth position. A modest reduction of the saving rate is expected over the forecast period.

Graph 3.29: **Sweden - GDP growth compared with euro area and growth contributions**



Public consumption is expected to increase, reflecting more stable local government finances and a relatively expansionary 2006 central government budget. In investment, the conditions for a continued expansion, albeit at a decelerating pace, remain in place: a benign demand outlook, favourable financing conditions and a high capacity utilisation rate in manufacturing. A high rate of investment is therefore expected over the forecast period. Exports are expected to continue to grow relatively strongly both in 2006 and 2007, in line with world markets. Imports should also grow faster as final demand strengthens. Overall, net exports will only make a substantial contribution to growth again in 2007.

Labour market, costs and prices

Employment growth, after having been negative in 2004, is expected to turn positive in 2005 and remain so over the forecast period. The relatively strong rise in economic activity foreseen over the 2005-2007 period is expected to result in an improvement in the labour market given that the very high labour productivity growth seen over the last few years will moderate. Against this background and supported by a significant increase in the volume of active labour market measures in 2006, the unemployment rate will decrease over the period. It should be noted that a methodological change in the measurement of unemployment increases the level by around 0.4%-points from 2005 as compared to 2004 and earlier.

Inflation has continued to fall considerably, in spite of the significant recent rises in oil prices. The subdued outlook for inflation has enabled the Riksbank to continue reducing interest rates, with a further cut in the repo rate of 50 basis points in June 2005.

The relatively weak developments in the labour market have helped to contain wage demands and wages are expected to continue to rise relatively moderately, reflecting the current wage agreement for private sector and central government, reached in the spring of 2004 and covering a period including 2006. Recent wage agreements for local government employees have resulted in slightly lower negotiated wage rises than in the previous agreement. Against this background, inflationary pressures continue to be subdued. As demand and growth revive further in 2006 and 2007, inflation is expected to rise towards 2% during the course of 2007.

Public finances

In 2005, the surplus in public finances is expected to be around 1½% of GDP, similar to 2004. In both years, the budget has benefited from large one-off corporate tax receipts amounting roughly to a cumulative 1% of GDP.

Sweden will continue to show budget surpluses over the forecast period. Income tax cuts proposed in the 2006 Budget Bill, the last step of a phased income tax reform, as well as additional labour market measures, will contribute to an expansionary fiscal policy stance that will reduce the surplus ratio in the government finances in 2006 as compared to 2005. On current policies, a slight rise in the budget surplus is projected in 2007, as a result also of an improvement in the labour market. It should be noted that Swedish government accounts will include second pillar pension funds (contributing to improve the budget balance by about 1% of GDP per year) until spring 2007.

General government gross debt, mainly central government liabilities, 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 close to 48% of GDP in 2007.

Table 3.24

Main features of country forecast - SWEDEN

		2004		Annual percentage change						
	bn SEK	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		2545.8	100.0	2.0	2.0	1.5	3.6	2.5	3.0	2.8
Private consumption		1224.5	48.1	1.5	1.4	1.5	1.8	2.3	3.1	2.9
Public consumption		706.2	27.7	1.2	2.3	0.8	0.3	0.3	1.3	0.8
Gross fixed capital formation		407.2	16.0	2.0	-2.6	-1.5	5.5	8.2	6.1	4.9
of which : equipment		166.8	6.6	4.8	-3.6	-3.0	6.7	11.0	6.0	5.0
Change in stocks as % of GDP		3.6	0.1	0.2	0.1	0.4	0.1	0.2	0.3	0.3
Exports (goods and services)		1178.1	46.3	5.7	1.2	5.0	10.5	4.0	6.0	6.1
Final demand		3519.5	138.2	2.5	0.9	2.4	4.7	3.1	4.2	3.8
Imports (goods and services)		973.7	38.2	4.3	-1.9	4.9	6.9	4.8	7.2	6.4
GNI at constant prices (GDP deflator)		2575.1	101.2	2.0	2.6	1.7	4.8	2.5	3.1	2.7
Contribution to GDP growth :	Domestic demand			1.5	0.9	0.7	1.9	2.5	2.9	2.5
	Stockbuilding			-0.1	-0.2	0.4	-0.3	0.0	0.1	0.0
	Foreign balance			0.7	1.3	0.4	2.0	0.0	0.0	0.3
Employment				0.1	0.2	-0.2	-0.5	0.5	1.1	0.7
Unemployment (a)				5.1	4.9	5.6	6.3	6.8	5.9	5.6
Compensation of employees/head				6.4	2.9	3.0	3.4	3.5	3.5	4.0
Unit labour costs				4.4	1.1	1.3	-0.7	1.5	1.6	1.9
Real unit labour costs				-0.5	-0.6	-0.8	-1.5	0.4	-0.3	-0.3
Savings rate of households (b)				-	-	11.5	11.4	11.6	11.5	10.9
GDP deflator				4.9	1.7	2.1	0.8	1.2	1.8	2.2
Private consumption deflator				5.3	1.8	2.3	1.2	1.0	1.5	1.8
Harmonised index of consumer prices				-	2.0	2.3	1.0	0.7	1.4	1.8
Trade balance (c)				3.8	6.7	6.3	6.9	6.4	5.9	6.0
Current account balance (c)				1.0	5.4	5.9	7.8	7.0	6.3	6.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.2	5.3	5.9	7.8	7.0	6.3	6.1
General government balance (c)(d)(e)				-1.7	-0.3	0.2	1.6	1.4	0.8	1.1
General government gross debt (c)				59.8	52.4	52.0	51.1	50.6	49.4	47.8

(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).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

25. United Kingdom

Catching its breath

The economy in 2005

UK GDP growth has slowed markedly since the second half of 2004 and into 2005. Growth was 1.5% year-on-year in the second quarter of 2005, down from 1.7% in the first quarter. By comparison, year-on-year growth in the second quarter of 2004 was 3.7%. The slowdown in the first half of 2005 has been reflected by lower growth in the service sector than in previous quarters, while manufacturing output actually shrank over the period.

For 2005 as a whole, GDP growth is now projected at just above 1½%, compared to 3.2% in 2004. Faltering domestic demand is chiefly responsible for the sharp slowdown, in the second quarter of 2005 growing by only 1.3% over the previous year, down from 3.7% for the whole of 2004. Household consumption appears to have been hit by a cooler housing market and the impact of higher interest rates on highly-leveraged household balance sheets, and is expected to remain subdued for the rest of the year.

Total investment has also slowed compared to 2004. Although government investment has grown rapidly, in line with budgetary plans, business investment has not responded to favourable conditions (high profitability, robust equity markets and low real interest rates). Investment is expected to remain subdued throughout 2005.

Net trade evolved erratically in the first two quarters of 2005. Overall, however, data for the first half of 2005 show slower growth of imports compared to exports, consistent with the observed slowdown in domestic demand. For the year as a whole, net trade is expected to be neutral in terms of contribution to GDP growth, after the large negative contribution in 2004.

Prospects for 2006 and 2007

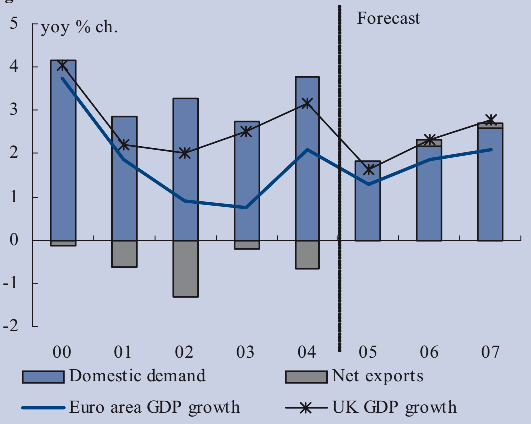
GDP growth is expected to pick up over the forecast period, rising to just above 2¼% in 2006 and around 2¾% in 2007, mainly thanks to expanding domestic demand driven principally by government consumption, investment and to a lesser extent private consumption.

Household consumption is expected to start to pick up a little in 2006, and then settle at a moderate but significant rate of growth by 2007. The private consumption pick-up is supported by a labour market expected to remain relatively firm. A projected increase in the saving rate from the very low levels in 2004 points to some balance sheet consolidation in the household sector.

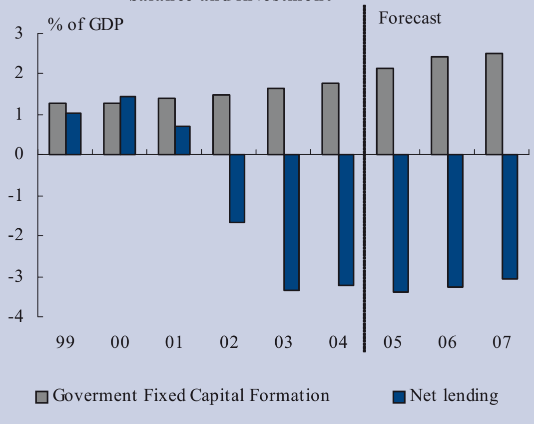
Business investment is restrained by uncertainties over the overall macroeconomic outlook, compounded by high oil prices. Against that background, business will probably hold back on expanding capacity in the short term. Nonetheless, business investment is expected to pick up in 2006 and 2007, eventually reacting to the favourable conditions and high levels of profitability projected to continue throughout the forecast period.

Growth in government consumption and investment is expected to play an important role in supporting domestic demand during the economic slowdown.

Graph 3.30: **United Kingdom - Contributions to GDP growth**



Graph 3.31: **United Kingdom - General government budget balance and investment**



Government gross fixed capital formation should grow strongly in 2005 and 2006, consistent with government plans to increase investment in public services. Beyond that, government investment growth is planned to slow significantly in 2007.

On the external side, the estimates project a smaller decline of the UK's share of world trade than in the recent past. Net trade contributes positively albeit modestly to growth.

In sum, the forecast shows the economy becoming slightly more balanced, with domestic demand playing a lesser role in driving growth and net exports becoming slightly positive for growth.

Labour market, costs and prices

Higher oil prices have heightened inflationary pressures through higher fuel pump prices and through the indirect effect on the cost of producing goods and services that use oil as an input. Moreover, demand pressure on capacity is feeding through to prices, including demand pressure in the rest of the world which has helped push up import prices.

Persistently high oil prices are expected to result in HICP[1] inflation in 2005 exceeding the Bank of England's 2% target. However, given the credibility of the monetary policy framework, inflationary expectations are expected to remain anchored around the target and HICP inflation to decline towards the 2% mark over the forecast period.

The labour market continues to perform well. The unemployment rate remains around a historical low, yet with earnings growth stable. Temporarily higher inflation is not expected to feed through into higher earnings growth, which is projected to remain consistent with achievement over time of the official inflation target. Moderate wage growth matches a slight weakening of the labour markets in 2006, in line with the slowdown of the economy.

Employment growth is expected to moderate, partly in response to lower growth and partly because of the already high UK employment rates. As the lagged impact of slower growth is felt in the labour market, unemployment is projected to rise slightly in 2006, only to decrease in the last year of the forecast as growth picks up.

[1] Referred to in the UK as the CPI.

Public finances

According to data released in August, the general government deficit reached 3.2% of GDP in the 2004/05 financial year[2] (running from April to March). Given the more subdued short-term prospects, the deficit is expected to widen to just below 3½% of GDP in 2005/06. The table below details the projections for general government deficit and debt on a financial year basis.

Public finances projections on a financial year basis (% GDP)

(Quarterly percentage change, seasonally adjusted)

	2004-05	2005-06	2006-07	2007-08*
General governemnt deficit	3.2	3.4	3.2	3.0
General governemnt gross debt	40.8	42.7	43.7	44.5

*The economic forecast for the first quarter of 2008 is produced on the basis of the last quarter of 2007

Growth of revenues from indirect taxes is subdued in 2005, reflecting the drop in output and consumption. This is partly offset by the positive impact of higher oil prices on offshore corporation tax revenues. Recent changes to the timing of offshore corporation tax receipts mean that most of the favourable impact is expected to accrue in the last two quarters of 2005/06. This should boost overall corporation tax receipts, which were already buoyant in the first half of 2005.

The projections assume primary non-cyclical expenditure in line with government plans throughout the forecast period, although outturn data for the first two quarters of 2005/06 point to the potential for under-spending this financial year, and thus the possibility of a lower deficit than the central forecast.

The budget deficit is projected to remain over 3% of GDP in 2006/07. Nevertheless, the projected trend is expected to be a gradual improvement to around 3% of GDP in 2007/08.

[2] The EDP applies to the United Kingdom on a UK financial year basis. Actual UK general government balance data reported here apply the Eurostat decision of 14 July 2000 on the allocation of UMTS receipts. The UK has not generally applied this decision in domestic publication of its deficit data, which results in the net lending balance on a Eurostat basis being approximately 0.1% points of GDP per annum lower than reported in UK national accounts from respectively 2001 and 2001/02 onwards.

The gradual improvement of the budget deficit hinges on three factors.

First, a cyclical improvement from the pick-up of growth over 2006 and 2007. The continued profitability of UK companies throughout the forecast period is also expected to sustain the corporation tax base, depressed in the recent past by losses carried forward from previous years;

Second, the projections include a structural improvement in the ratio between direct tax receipts and their respective tax bases in line with long term trends;

Third, reflecting the government's plans, overall expenditure growth is projected to moderate slightly in the 2007/08 financial year.

General government gross debt is projected to increase from just below 41%% of GDP in 2004/05 to around 44 ½ % of GDP in 2007/08.

Table 3.25

Main features of country forecast - UNITED KINGDOM

		2004		Annual percentage change						
	bn GBP	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1163.9	100.0	2.5	2.0	2.5	3.2	1.6	2.3	2.8
Private consumption		761.2	65.4	3.1	3.5	2.6	3.6	1.7	1.8	2.1
Public consumption		246.0	21.1	1.2	4.4	4.5	2.6	1.2	1.8	2.7
Gross fixed capital formation		190.1	16.3	3.5	3.0	0.0	4.9	2.7	3.9	4.2
of which : equipment		69.1	5.9	3.4	0.3	-5.1	3.6	2.2	3.7	4.0
Change in stocks as % of GDP		4.7	0.4	0.2	0.3	0.4	0.5	0.3	0.2	0.2
Exports (goods and services)		291.1	25.0	4.7	0.2	1.2	3.9	4.6	5.1	5.2
Final demand		1493.1	128.3	3.2	2.6	2.4	3.7	2.2	2.7	3.2
Imports (goods and services)		330.1	28.4	5.8	4.5	1.8	5.9	4.2	3.9	4.4
GNI at constant prices (GDP deflator)		1189.4	102.2	2.6	3.3	2.5	3.3	1.8	2.1	2.8
Contribution to GDP growth :	Domestic demand			2.8	3.6	2.6	3.7	1.8	2.2	2.7
	Stockbuilding			0.1	-0.3	0.1	0.0	-0.2	-0.1	0.0
	Foreign balance			-0.4	-1.3	-0.2	-0.7	0.0	0.2	0.1
Employment				0.5	0.8	1.0	1.0	0.6	0.4	0.6
Unemployment (a)				8.5	5.1	4.9	4.7	4.6	4.9	4.7
Compensation of employees/head				6.5	3.6	4.8	4.2	4.1	4.5	4.5
Unit labour costs				4.4	2.4	3.2	2.0	3.1	2.6	2.3
Real unit labour costs				-0.1	-0.7	0.3	0.0	0.8	0.0	-0.3
Savings rate of households (b)				-	-	5.3	4.4	4.7	5.1	5.9
GDP deflator				4.6	3.1	2.9	2.0	2.2	2.6	2.6
Private consumption deflator				4.6	1.5	2.0	1.3	2.4	2.4	2.0
Harmonised index of consumer prices				-	1.3	1.4	1.3	2.4	2.2	2.0
Trade balance (c)				-2.1	-4.5	-4.3	-5.2	-4.9	-4.7	-4.5
Current account balance (c)				-	-1.6	-1.5	-2.0	-2.1	-1.9	-1.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-1.5	-1.4	-1.8	-1.8	-1.7	-1.4
General government balance (c)(d)				-2.3	-1.7	-3.3	-3.2	-3.4	-3.3	-3.0
General government gross debt (c)				46.4	38.2	39.7	41.5	43.1	44.3	45.1

(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).

Chapter 4

Acceding Countries

1. Bulgaria

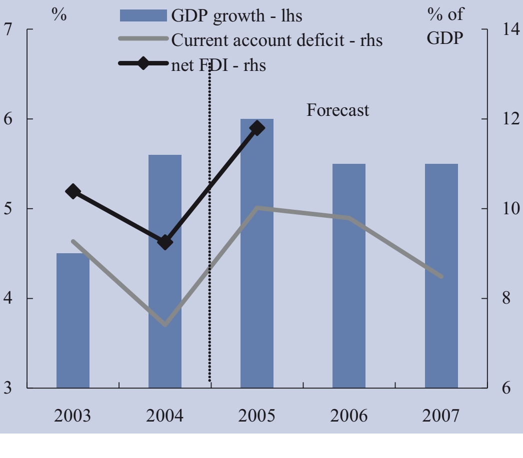
Strong growth with increasing external imbalances

Developments in 2005

After record growth of 5.6% in 2004, growth of real GDP accelerated further to 6.2% in the first half of 2005. Growth was again mainly driven by buoyant domestic demand fuelled by higher government expenditures in the run-up to the elections in June, higher real wage increases and continued strong credit growth especially in the first quarter. Gross fixed capital formation expanded most strongly. It is expected that growth will calm down slightly in the second half as additional measures to curb credit growth, which were introduced in April, start to have some effect. Floods during the summer have caused some disruptions in particular in agriculture which showed negative growth, but this is likely to be offset by additional flood-related expenditures in the further course of the year. Imports have again expanded more rapidly than exports, implying a strong negative contribution to growth from the external balance.

Consumer price inflation accelerated steadily during the year as a result of rising oil prices and is expected to reach an average 4.5%. Employment will continue to grow, although at a decelerating rate due to increasing bottlenecks in the labour market. High import growth and rising import prices are contributing to a substantial further deterioration of the current account deficit, which is expected to reach 12.2% of GDP in 2005. As in previous years, net inflows of foreign direct investment are likely to finance the current account deficit to a large extent.

Graph 4.1: **Bulgaria - Growth, current account deficit and net FDI**



Prospects for 2006 and 2007

The pattern of strong economic growth based on high domestic demand is expected to continue into 2006 and 2007. Some signs of overheating have become apparent in 2005 and both the trade and current account deficits have increased considerably, partly also as a result of substantial oil price increases. A certain correction in 2006 may result from a further dampening of credit growth, lower employment growth and a slight moderation in real wage growth, although pressures on wage increases will remain fairly strong. Higher excise duties in 2006 should help to contain private consumption, while a reduction in pension contributions and some adjustments in income taxation will at the same time increase disposable incomes. Therefore, GDP growth is expected to come down only slightly to around 5½%, which may be insufficient to prevent a further widening of the trade deficit.

This will probably be followed by a consolidation of growth at a high level in 2007 with investment growth remaining particularly strong as the catching-up process continues. Higher absorption of EU transfers and potentially higher government expenditures due to accession-related extra financing needs would also contribute to the continuation of strong growth.

Consumer price inflation is expected to remain high in 2006 in the wake of the substantial hike in oil prices in 2005. Increases in excise duties will also have a noticeable effect on consumer prices. Together with continuing wage pressures this will lead to an acceleration of inflation to above 5% in 2006. More favourable developments in import prices and the anticipation of excise duty increases in 2006 should, however, allow inflation to decelerate to 3.5% in 2007.

In line with the strong economic growth, the labour market situation should continue to improve. Further employment growth will however be hampered by a decline in the working-age population as well as increasing mismatches in the labour market. While employment growth will therefore probably decrease over time, the unemployment rate is expected to come down further and to drop below 10% in 2006.

Public finance

Government revenues have again been much higher in 2005 than planned, leading to the accumulation of a sizable budget surplus in the first half. Due to extra expenditures on flood relief and traditionally higher expenditures in the last quarter, this surplus will come down in the remainder of the year. But the planned surplus of at least 1% of GDP appears realistic. Planned cuts on pension contributions and income tax will imply lower revenues in 2006. At the same time, further expenditures on flood relief will be necessary. Given the budget over-performance in recent years, the objective of a balanced budget should nevertheless be achievable. This should also be the case in 2007, despite potential extra financing needs related to accession. In line with this fiscal stance and continued strong growth, gross public debt as a share of GDP will decline further to below 30% in 2007.

External balances

The trade deficit is expected to widen to more than 17% of GDP in 2005 as a result of strong import growth and higher import prices. While the gap in the growth rates of imports and exports should start declining next year, the trade deficit will still increase further. The continuation of this trend and improvements in the terms of trade should however lead to a narrowing of the trade deficit in 2007. Improvements in the services and transfer balances should allow for a slight reduction of the current account deficit already in 2006 before a smaller trade deficit will lead to a more significant reduction in 2007. Net foreign direct investments will continue to largely finance the current account deficit in 2005 but are likely to decline in the coming years as the privatisation process comes to an end.

Table 4.1

Main features of country forecast - BULGARIA

		2004		Annual percentage change						
	bn BGN	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		38.0	100.0	0.4	4.9	4.5	5.6	6.0	5.5	5.5
Private consumption		25.9	68.1	0.8	3.6	6.3	5.4	7.0	5.5	5.0
Public consumption		7.1	18.7	-2.2	4.1	7.6	3.6	7.5	5.0	5.0
Gross fixed capital formation		8.0	20.9	7.7	8.5	13.8	12.0	15.0	12.0	12.0
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		1.0	2.5	0.5	1.1	1.8	2.5	3.1	2.8	2.7
Exports (goods and services)		22.2	58.4	-	7.0	8.0	13.1	9.9	10.4	10.5
Final demand		64.1	168.6	-	4.9	8.3	9.0	9.0	7.8	7.9
Imports (goods and services)		26.1	68.7	-	4.9	15.3	14.1	13.3	10.8	10.9
GNI at constant prices (GDP deflator)		37.0	97.3	0.4	5.6	2.7	7.2	6.0	5.6	5.6
Contribution to GDP growth :	Domestic demand			1.6	4.7	8.2	6.8	9.4	7.6	7.4
	Stockbuilding			1.2	-0.6	0.7	0.8	0.2	-0.2	0.1
	Foreign balance			-	0.8	-4.9	-1.9	-3.6	-1.9	-2.0
Employment				-1.3	0.4	6.3	3.1	1.8	1.0	0.7
Unemployment (a)				12.8	17.8	13.6	11.9	10.7	9.9	9.4
Compensation of employees/head				-	4.7	1.0	8.4	9.5	9.2	8.7
Unit labour costs				-	0.2	2.7	5.9	5.2	4.6	3.8
Real unit labour costs				-	-3.4	0.4	1.6	1.9	-0.8	-0.9
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				77.2	3.8	2.3	4.2	3.3	5.4	4.7
Private consumption deflator				75.0	4.0	0.5	3.4	4.2	5.0	3.0
Index of consumer prices (e)				-	5.8	2.3	6.1	4.5	5.5	3.5
Trade balance (c)				-4.3	-10.2	-12.5	-14.0	-17.3	-17.7	-16.9
Current account balance (c)				-2.2	-4.7	-9.2	8.5	-12.2	-12.0	-10.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				0.4	-0.2	0.6	1.3	1.0	0.0	0.0
General government gross debt (c)				-	54	46.3	38.8	33.9	30.5	27.6

(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) interim HICP.

2. Romania

Pro-cyclical policies cause widening of external imbalances

Recent economic developments

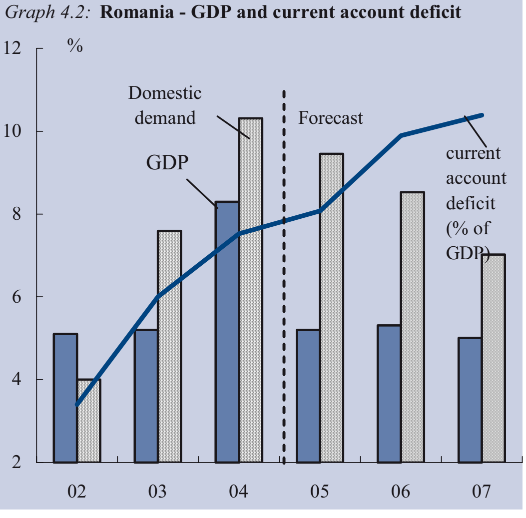
In 2004, real GDP grew by 8.3%. Household consumption rose strongly by 10.8% on the back of high real wage gains, strong consumer credit growth and the impact of a bumper harvest on rural incomes. The consumption binge was particularly pronounced in the second half of the year with a growth rate of close to 13%, partly caused by pre-election hikes in pensions and public sector wages. A solid expansion of gross fixed capital formation, by 10.1%, also sustained growth. Exports increased by 14.1%, but their growth slowed considerably over the year, and they continued to be outpaced by rapid import growth of both consumer and investment goods. As a result, net exports turned strongly negative, and the trade deficit widened to 9.0% of GDP.

The increasingly unbalanced growth continued in the first half of 2005. Household consumption expanded by 11.7%, while investment growth slowed to 7.6%, export growth dropped to 5.9% and import growth remained above 17%. Disinflation eased due to both demand-pull and cost-push factors, and the central bank was forced to raise its end-year inflation target to 7.5%. Pro-cyclical fiscal policy and slippage in public sector wage policy bear a responsibility for the widening of macroeconomic imbalances.

Prospects for 2005 to 2007

The outlook for Romania's economy points to continued strong growth, a gradual decline in inflation and a considerable current account deficit, which is caused by both high imports of goods and services and decelerating exports reflecting rising real unit labour costs and rapid appreciation of the exchange rate in 2005. In 2005, the buoyant household consumption will offset the lower momentum in export growth and the output loss caused by floods. In 2006, GDP growth will benefit from the repair and upgrading of damaged housing and infrastructure. Household consumption is expected to gradually moderate in 2006-07 in tandem with more subdued wage dynamics and the diminishing effects of the tax cuts undertaken.

Graph 4.2: **Romania - GDP and current account deficit**



GDP growth and components

In 2005, private consumption is expected to remain strong due to the effect of tax cuts on incomes and hikes in public sector wages. In 2006, the fiscal reform will be fully phased in and private consumption growth is likely to start to decline and reach a more sustainable level in 2007. Investment growth is expected to peak in 2006 due to floods repairs and will remain strong over the forecasting period on the back of the ongoing modernisation of production facilities, considerable FDI inflows and public investment projects in preparation for EU accession. The negative contribution to GDP growth from net exports is expected to diminish somewhat over the forecasting period.

Inflation

Inflation is expected to remain on a downward path, although disinflation is now expected to happen at a slower pace due to excess demand and persistently high energy prices. Consumer price inflation fell to 11.9% on average in 2004, and it is forecast to fall to 9.1% in 2005 with food prices increasing only slowly and import prices falling due to rapid appreciation of the currency. While high wage growth and the ongoing adjustment of administered prices in 2005 kept non-food and services inflation at its 2004 level, cost-push factors are seen to become progressively less important, which will help inflation to decline to 7.4% in 2006 and 6.0% in 2007. Productivity gains due to industrial restructuring will help keeping inflationary pressures down.

Labour market

The unemployment rate is expected to fall gradually over the forecast period due to declining working-age population and rising employment. Growth in private sector employment will continue to mitigate the effect of lay-offs in state-owned enterprises in 2005-06. Labour market trends should be interpreted with caution due to data revisions, changing methodology and the large informal sector, which the recent tax reform may help reduce.

Public finances

Against the background of strong revenue collection of VAT, excises and customs duties as well as lower than budgeted public investments, the general government deficit is expected to be contained to 0.9% of GDP in 2005. In 2006, public expenditure growth would continue to be affected by the slippage in public sector wages and increasing expenditures for floods repairs. As revenues are affected by lower GDP growth and the revenue-to-GDP ratio has declined as a result of the cuts in income and profit taxes, the general government deficit is expected to increase to 1.4% in 2006 and 2.2% in 2007.

External balances

Strong domestic demand will keep import growth high and, together with lower export growth, will result in a widening trade deficit. The significant improvement in the terms of trade in 2005, mainly due to strong appreciation of the currency, will be reversed. Increasing remittances and EU transfers will mitigate the impact on the current account deficit over the forecasting period, which would nevertheless still widen considerably. High FDI inflows, improved access to financial markets and large international reserves facilitate the financing of the growing deficit.

Table 4.2

Main features of country forecast - ROMANIA

		2004		Annual percentage change						
	bn ROL	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		2387914.3	100.0	0.9	5.0	4.9	8.3	5.2	5.3	5.0
Private consumption		1896936.6	79.4	3.1	4.7	7.0	10.8	10.0	7.5	6.0
Public consumption		163774.8	6.9	0.7	-8.9	6.1	4.6	4.0	4.5	5.5
Gross fixed capital formation		532549.2	22.3	2.6	7.3	9.1	10.1	8.5	11.0	9.0
of which : equipment		-	-	3.1	-	-	-	-	-	-
Change in stocks as % of GDP		17979.4	0.8	0.7	2.6	3.0	0.5	0.7	0.6	0.6
Exports (goods and services)		885604.8	37.1	10.4	17.6	11.1	14.1	7.5	7.9	9.3
Final demand		3496844.8	146.4	4.0	7.3	8.6	11.3	8.9	8.4	7.6
Imports (goods and services)		1108930.5	46.4	14.0	12.0	16.3	17.8	16.5	13.9	12.0
GNI at constant prices (GDP deflator)		2330318.3	97.6	0.8	4.6	3.4	8.2	5.4	5.5	5.1
Contribution to GDP growth :	Domestic demand			2.8	3.5	7.6	11.0	10.1	8.8	7.4
	Stockbuilding			-0.6	0.2	0.4	0.1	0.0	0.0	0.0
	Foreign balance			-1.8	0.9	-2.8	-2.8	-4.9	-3.5	-2.4
Employment				-2.2	-	-0.1	0.4	1.6	0.5	0.0
Unemployment (a)				5.6	7.5	6.8	7.1	6.5	6.1	5.9
Compensation of employees/head				68.9	23.5	25.0	24.0	18.0	15.4	13.7
Unit labour costs				63.7	14.4	19.1	15.0	14.0	10.1	8.3
Real unit labour costs				5.2	-	-0.7	-0.8	1.3	1.5	1.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				55.6	23.6	19.8	15.9	12.5	8.5	6.9
Private consumption deflator				54.3	21.6	16.9	15.4	9.0	7.5	6.0
Index of consumer prices (e)				-	22.5	15.3	11.9	9.1	7.4	6.0
Trade balance (c)				-7.1	-5.7	-7.9	-9.1	-10.0	-12.2	-12.9
Current account balance (c)				-	-5.6	-6.2	-7.6	-8.1	-9.9	-10.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	-2.0	-2.0	-1.4	-0.9	-1.4	-2.2
General government gross debt (c)				-	23.3	21.3	18.5	16.2	15.6	16.2

(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) interim HICP.

Chapter 5

Candidate Countries

1. Croatia

Modest rebound of growth after soft landing

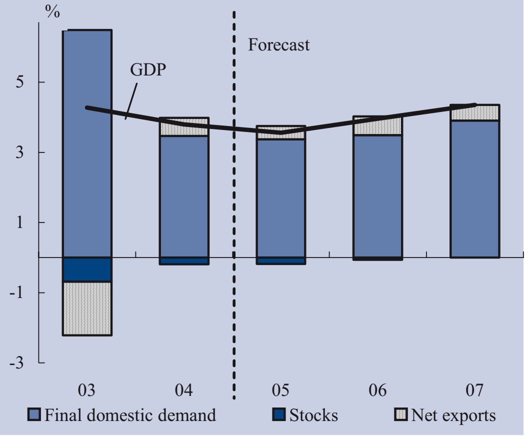
Recent economic developments

Economic growth continued to slow down to 3.5% year-on year-in the first half of 2005, as compared to 3.8% in 2004, due to a sharp decline of growth in the first quarter (1.9%), followed by an acceleration of growth in the second quarter (5.1%). In the first semester, gross fixed capital formation grew by 1.9%, significantly lower than in 2004 (4.4%). Private consumption growth slowed to 3.4% from 3.9% in 2004. Real export growth slowed to 4.2% as compared to a growth rate of 5.4% in 2004, while real import growth increased to 4.1% from 3.5% in 2004. As a result, net external demand posted a negative contribution to growth (-0.7 percentage points) in the first semester, after it added half a percentage point in 2004. Industrial performance remained strong during the third quarter (around 6% year on year), while construction activity decreased by 3.6% year on year during the same period. Growth of retail trade in real terms slowed to 2% in July, before it picked up to 5.1% in August.

As a result of higher energy, transport and food prices, annual average inflation increased to 3.0% in September 2005, up from 2% in 2004. Producer prices rose by 3.4% year-on-year during the first eight months, following an annual increase of 3.5% in 2004.

In the fist half of 2005, merchandise exports increased by 8% year on year, and services exports declined by 2.7%. Merchandise import growth picked up somewhat to 6.7% from around 5% in 2004. On a four quarter rolling basis, the trade deficit as a share of GDP remained unchanged during the last three quarters at a little above 24.3%. However, the current account deficit increased to around 7% of GDP in the twelve month to June, also as a result of a significant increase in re-invested earnings.

Graph 5.1: **Croatia - Contributions to growth**



Prospects for 2005 to 2007

In 2005, real GDP growth is expected to come down to 3.6%, slightly lower than in 2004, as a consequence of lower growth of private consumption (down to 3.7% from 3.9% in 2004) and gross fixed capital formation (down to 3.4% from 4.4% in 2004). Growth is forecast to accelerate to 4% in 2006 and 4.4% in 2007, based on stronger private investment in the context of ongoing privatisation and enterprise restructuring and a continued strong merchandise export and tourism performance.

Based on the assumption of a continuation of stability-oriented monetary policies moderate growth of private consumption of 3.7% is foreseen in both 2005 and 2006, before it will pick up somewhat in 2007 as further EU integration increases consumer's confidence. Growth of gross fixed capital formation is expected to accelerate over the forecast period from 3.6% in 2005 to 5.3% in 2007, as a result of stronger private investment following further improvements in the overall business environment. Real exports will continue to grow by around 6-7% annually, in particular backed by strong services exports. A rising stock of FDI will gradually improve the prospects for merchandise exports. Real imports are expected to expand more slowly than exports, but they will accelerate in line with growing GDP. Accordingly, net exports will contribute by almost around half a percentage point to GDP growth each year over the forecast period.

Annual average consumer price inflation is expected to rise to 3% in 2005, largely as a result of higher oil and food prices. Further adjustments of administrative prices and indirect taxes will slightly accelerate inflation further in 2006 and 2007 to 3.1% and 3.2%, respectively.

In line with accelerating GDP growth, employment growth is forecast to accelerate slightly from 0.9% in 2005 to 1.2% in 2007. This will lead to a gradual reduction of the unemployment rate from 13.3% in 2005 to 12.1% in 2007. Real wage growth is expected to accelerate in 2006 and 2007, slightly above average productivity gains, leading to an increase in real unit labour costs.

Public finances

The general government deficit is expected to be reduced from 4.9% of GDP in 2004 to 4.5% in 2005. The forecast assumes a further reduction of the deficit to 3.7% in 2006 and 3.4% in 2007. The share of current spending in GDP will be reduced, also as a result of some policy measures taken in 2005 (change in pension indexation, reduction of subsidies) and public investment growth will further slow down to more sustainable levels. Revenues as a share of GDP, in particular indirect taxes, will only slightly decline. The fiscal impact of the agreed repayment of old pensioners obligations starting in mid-2006 remains unclear and constitutes a potential downside risk to fiscal performance over the forecast period. The general government debt-to-GDP ratio is expected to be reduced to 43.1% by 2007.

External balances

The trade deficit is expected to come down only slightly in 2006 and 2007, as import growth remains strong, reflecting a rather high import content of exports and a stronger private consumption growth in 2007. As a result, the deficit as a percentage of GDP will only slightly decline from 24.3% in 2005 to 23.8% in 2006. The current account deficit is forecast to increase to 6.2% of GDP in 2005 (from 5.3% in 2004), due to a deterioration of the terms of trade, a higher income balance deficit and statistical revisions. The deficit will however be gradually reduced in 2006 and 2007 to 5.8% and 5.2%, respectively, primarily on the back of a higher surplus of the services balance.

Table 5.1

Main features of country forecast - CROATIA

		2004			Annual percentage change					
	mio HRK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		207082.0	100.0	-	5.2	4.3	3.8	3.6	4.0	4.4
Private consumption		120312.0	58.1	-	7.5	4.1	3.9	3.7	3.7	3.9
Public consumption		41188.0	19.9	-	-1.8	-0.3	-0.3	0.7	0.5	0.5
Gross fixed capital formation		57141.0	27.6	-	12.0	16.8	4.4	3.6	4.2	5.3
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		5384.0	2.6	-	3.8	3.0	2.7	2.4	2.3	2.2
Exports (goods and services)		98330.0	47.5	-	1.3	10.1	5.4	6.0	6.6	6.9
Final demand		322355.0	155.7	-	6.5	6.7	3.7	3.8	4.2	4.7
Imports (goods and services)		120065.0	58.0	-	8.8	10.9	3.5	4.3	4.6	5.1
GNI at constant prices (GDP deflator)		202377.0	97.7	-	-	-	-	3.6	3.9	4.3
Contribution to GDP growth :	Domestic demand			-	6.8	6.5	3.5	3.4	3.5	3.9
	Stockbuilding			-	2.7	-0.7	-0.2	-0.2	-0.1	0.0
	Foreign balance			-	-4.2	-1.5	0.5	0.4	0.5	0.4
Employment				-	0.8	2.5	1.6	0.9	1.0	1.2
Unemployment (a)				-	14.7	14.1	13.8	13.3	12.9	12.1
Compensation of employees/head				-	6	4.8	6.4	5.0	6.6	7.1
Unit labour costs				-	5.3	0.6	4.1	2.3	3.5	3.9
Real unit labour costs				-	3.4	-2.6	0.8	-0.2	0.6	0.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	2.9	3.2	3.3	2.5	2.9	3.3
Private consumption deflator				-	1.9	1.4	2.2	3.0	3.1	3.2
Index of consumer prices (d)				-	1.7	1.8	2.1	3.0	3.1	3.2
Trade balance (c)				-	-24.6	-27.3	-24.3	-24.3	-24.1	-23.8
Current account balance (c)				-	-8.6	-7.4	-5.3	-6.2	-5.8	-5.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance ©				-	-5	-6.3	-4.9	-4.5	-3.7	-3.4
General government gross debt (c)				-	40.5	42.2	44.8	45.2	44.4	43.1

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

2. Turkey

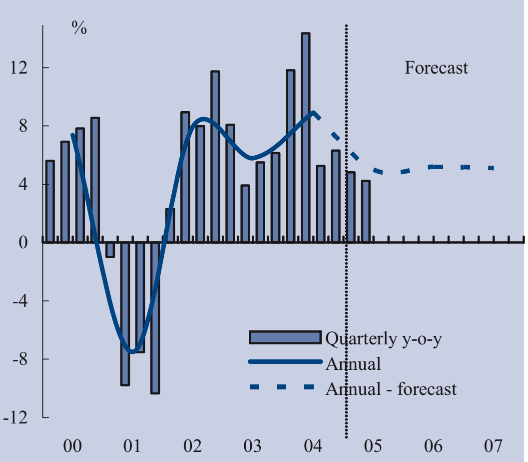
Economy growing close to potential

Recent economic developments

In 2004 and 2005, economic stabilisation has continued along with a better balancing of the sources of growth. During the first half year of 2005, strong investment led to an increase in output by 4½%. Favourable base-year effects and leading indicators, such as industrial production and capacity utilisation, point to continued strong growth in the second half, which most likely will bring output growth in 2005 to about 5%. Inflationary pressures continued to decline, reflecting the strength of the Turkish currency and the strict fiscal policy of the Turkish authorities. As a result, consumer price inflation fell to 7½% in October 2005, below the year-end target of 8%.

After almost three years of strong growth with almost no job creation, employment started to rise since mid-2004 by roughly 2% year-on-year. The labour force participation rate went slightly up to about 50%. These trends together led to a small fall in the unemployment rate to below 10%. Public finances remained largely on track, achieving a primary surplus of 6½% of GDP. This substantial surplus and strong GDP growth led to a sharp reduction in the debt ratio, from 87% of GDP in 2003 to 80% in 2004. The current account deficit widened considerably reflecting accelerating domestic demand and the strength of the currency, from just over 3% of GDP in 2003 to about 5 % of GDP in 2004.

Graph 5.2: **Turkey - GDP growth**



Prospects in 2005 to 2007

The overall picture for the forecasting period looks favourable. Turkey should be able to maintain strong export growth -in particular in tourism- while the tight fiscal policy stance will support the current disinflation process, in spite of pressures arising from high oil prices and rigidities in services prices.

The continued decline in inflationary pressures will improve predictability and allow for a fall in interest rates and improve the investment climate. Overall, economic growth is expected to increase by about 5% throughout the forecasting period. Output growth is expected to be increasingly balanced by domestic demand components, with private investment outpacing overall growth. Declining inflation will support disposable income and allow consumers to gradually increase consumption from 4¾% in 2005 to 5½% in 2007. Fixed investment will continue to benefit from reduced macroeconomic and political uncertainty and declining real interest rates. On the other hand, the build-up of stocks appears to have come to an end in 2005. The strong investment and consumption will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports should benefit from diversification and quality improvements resulting from earlier high investments. However, the relative strength of the Turkish currency might make it more difficult for exporters to benefit from new trade opportunities. Parliamentary and Presidential elections are due in 2007. This might have an important impact on public spending. Any possible impact stemming from policy changes in the context of political events has not been incorporated in the current forecast.

The trend in declining inflationary pressures is likely to continue. Fiscal discipline, improving credibility of the Central Bank's disinflation targets and the recent strength of the currency are important elements in this respect. Annual average consumer price inflation is expected to stay below 8% by the end of 2005. However, high oil and services prices might slowdown the disinflation process in 2006-2007.

In line with the strong growth performance, employment is forecast to increase by about 2% per year. This will lead to a slight reduction of the unemployment rate from 10% in 2005 to 9¾% in 2007.

Public finances

The public sector imbalances are likely to decline markedly during 2005-2007, benefiting from the sustained recovery, declining interest rates driven by improved market confidence and a prudent fiscal policy stance. The ongoing public finance reforms will help to widen the tax base and to increase the efficiency of tax collection. Non-interest expenditures are seen to remain largely constant as a percentage of GDP. The general government deficit is expected to fall from 3.9% of GDP in 2004 to 2.9% by 2007. General government debt is forecast to decline from 80% at the end of 2004 to 62% at the end of 2007.

External balances

Growth of imports remains strong, partially reflecting a rather high import content of exports. The current account deficit is forecast to increase to 6¼% of GDP in 2006, due to a deterioration of the terms of trade and a higher deficit of the income balance. Primarily due to a higher surplus of the services balance, the deficit is forecast to narrow to 5¾ in 2007.

Table 5.2

Main features of country forecast - TURKEY

		2004		Annual percentage change						
bn TRY		Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		429.7	100.0	2.7	7.9	5.8	8.9	5.0	5.2	5.1
Private consumption		287.2	66.8	2.1	1.9	7.2	10.6	4.8	5.0	5.5
Public consumption		56.8	13.2	4.5	5.4	-2.4	0.5	4.4	5.0	3.5
Gross fixed capital formation		76.7	17.9	-1.1	-1.1	10.0	32.4	13.3	10.6	8.3
of which : equipment		-	-	-0.3	9.1	43.7	61.7	12.2	10.0	8.0
Change in stocks as % of GDP		34.0	7.9	0.3	4.3	6.4	6.8	7.4	6.7	6.1
Exports (goods and services)		124.3	28.9	11.1	11.1	16.0	12.5	7.0	7.2	7.6
Final demand		579.0	134.7	3.7	9.5	10.4	12.8	6.3	6.2	6.1
Imports (goods and services)		149.3	34.7	8.6	15.8	27.1	24.7	9.0	8.0	8.0
GNI at constant prices (GDP deflator)		431.4	100.4	2.4	8.1	5.9	9.5	4.8	5.3	5.3
Contribution to GDP growth :	Domestic demand			2.3	1.9	6.0	12.3	6.6	6.3	6.0
	Stockbuilding			0.2	5.7	2.4	0.9	-0.4	-0.3	-0.3
	Foreign balance			0.3	-0.9	-2.8	-4.2	-1.2	-0.7	-0.6
Employment				0.8	-0.8	-1.0	2.6	2.0	2.1	2.0
Unemployment (a)				7.2	10.3	10.5	10.3	10.0	9.8	9.8
Compensation of employees/head				72.1	37.9	27.9	12.1	13.3	11.6	10.3
Unit labour costs				69.0	26.7	19.7	5.6	10.0	8.2	7.1
Real unit labour costs				0.4	-12.1	-2.3	-3.9	2.3	1.4	0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				68.4	44.1	22.5	9.9	7.6	6.8	6.4
Private consumption deflator				70.1	40.8	21.2	7.4	8.4	7.2	6.4
Index of consumer prices (e)				73.4	45.0	21.6	8.6	8.1	7.4	6.3
Trade balance (c)				-9.7	-7.8	-8.1	-9.0	-8.3	-8.6	-8.1
Current account balance (c)				-3.0	-2.4	-4.1	-6.2	-6.0	-6.2	-5.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	-12.3	-9.7	-3.9	-3.8	-3.6	-2.9
General government gross debt (c)				-	94.3	87.2	80.8	71.3	66.6	62.8

(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). (e) national indicator.

Chapter 6

Other non-EU Countries

1. United States of America

Expansion expected to slow down

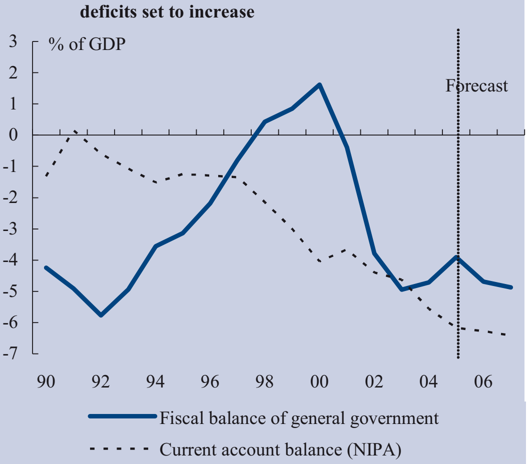
Growth and imbalances

The US economy continued to expand at a rate above long-term potential into the third quarter of 2005. Growth this year has again been led by buoyant consumer spending, supported by robust gains in housing and equipment investment. The advance GDP estimate for the third quarter showed an annualised growth rate of 3.8%. Towards the end of the quarter, Hurricanes Katrina and Rita struck the US Gulf Coast and caused widespread devastation and disruption to economic activity. The disaster, which was accompanied by a surge in energy prices, is likely to curb growth for some months.

The labour market has improved further in 2005, with the unemployment rate drifting down to around 5%. However, the absence of any wage acceleration seems to indicate that there is not yet any real labour market tightness. At the same time, the underlying growth of productivity has remained robust. Reflecting the sharp rise in energy prices, headline inflation surged to 4.7% year-on-year in September. Core inflation, however, has so far been relatively benign at around 2% year-on-year.

Serious macroeconomic imbalances provide a worrying background to the expansion. The current account deficit has increased from 5.6% of GDP last year to 6.2% in the first half of 2005 in national account terms, even though exports are now growing faster in real terms than imports. Rapidly declining net investment income is contributing to the widening external deficit. The fiscal deficit of general government declined from 4.7% of GDP last year to 3.5 in the first half of 2005 following a temporary surge in tax revenues based on last year's corporate and personal income. Personal saving as a share of disposable personal income declined from 1.8% last year to 0.3% in the first half of 2005. The advance estimate for the third quarter shows even a negative personal saving rate (-1.1%). Double-digit house price inflation has contributed to the falling saving rate via mortgage equity withdrawals. The housing market is increasingly displaying features of an asset price bubble.

Graph 6.1: **United States - Fiscal and current account deficits set to increase**



Higher energy prices and interest rates to take their toll

Looking forward, it can be expected that consumer spending will be curbed by the combined effects of higher energy prices and rising interest rates. The large increases in energy prices in the third quarter are, by and large, assumed to persist over the forecast period and will reduce real disposable incomes noticeably. At the same time, the Federal Reserve is poised to continue to remove monetary stimulus gradually, an approach which has so far raised the federal funds target rate from 1% in June 2004 to 4% in November 2005. Long-term rates have also increased recently and may rise further in view of growing concerns about inflationary pressures and a worsening fiscal outlook. As a corollary to rising interest rates, the housing market is expected to cool down which should lead to higher household saving.

Business investment is likely to soften in response to downward pressure on profit margins from somewhat higher unit labour costs. Also, the fact that industrial capacity utilisation is still below its long-term average suggests that there is no need for particularly high capital spending. Overall capital formation should also be held back by a fall in residential investment activity, which is particularly sensitive to higher interest rates. External trade should have a broadly neutral effect on growth over the forecast period, as the gains in international competitiveness from the dollar depreciation in 2002-04 have been somewhat reduced by the dollar's appreciation in real effective terms since the spring.

The disruptions caused by the hurricanes are likely to suppress GDP growth in the fourth quarter of this year. Subsequently, however, the additional economic activity needed to clean up and rebuild the Gulf Coast area should boost national output. The main weight of the rebuilding effect is expected to fall in the first half of 2006, when it may offset the growth-reducing effects from higher energy prices and interest rates. The federal government is committed to providing substantial funding for the reconstruction effort.

Prospects for 2006 and 2007

The forecast sees output growth at slightly above its long-term potential in the first half of 2006. As the post-hurricane rebuilding effect wanes from the middle of next year, GDP growth is projected to fall below potential, particularly in 2007. This profile will result in annual growth rates of 3.2% in 2006 and 2.7% in 2007. The anticipated slowdown in consumer spending should push personal saving back up to about 2% of disposable personal income by 2007. The slowing economy would result in a slight rise in the unemployment rate by 2007 when employment growth falls below the growth in labour supply. Headline inflation numbers should benefit from a stabilisation of energy prices, although core inflation can be expected to be under upward pressure for a while. The general government deficit is forecast to rise to the range of 4% - 5% of GDP again, driven by fiscal spending for hurricane relief. The current account deficit will continue to rise, although at a somewhat slower pace.

There are risks to the GDP forecast on both sides. On the upside, there is the possibility that continued strong gains in real estate values will keep household spending growth at recent levels. The downside risks may be somewhat less likely, but their effect more severe, should they materialise. A sharp rise in long-term rates, possibly in connection with a loss of confidence in the dollar, could result in large negative wealth effects followed by a recession.

Table 6.1

Main features of country forecast - UNITED STATES

		2004		Annual percentage change						
	bn USD	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		11734.3	100.0	3.1	1.6	2.7	4.2	3.5	3.2	2.7
Private consumption		8214.3	70.0	3.5	2.7	2.9	3.9	3.5	2.0	2.1
Public consumption		1843.4	15.7	2.0	4.7	3.3	2.5	1.9	4.0	2.4
Gross fixed capital formation		2245.1	19.1	4.1	-3.9	3.2	8.3	7.1	5.5	3.9
of which : equipment		1040.8	8.9	6.5	-5.5	3.1	11.4	10.0	7.3	6.2
Change in stocks as % of GDP		55.4	0.5	0.4	0.1	0.2	0.5	0.1	0.1	0.1
Exports (goods and services)		1173.9	10.0	5.7	-2.3	1.8	8.4	7.0	8.9	8.0
Final demand		13532.1	115.3	3.5	1.8	2.9	5.0	3.9	3.5	3.1
Imports (goods and services)		1797.8	15.3	7.6	3.4	4.6	10.7	6.0	5.7	5.1
GNI at constant prices (GDP deflator)		11788.1	100.5	3.1	1.5	3.1	4.1	3.3	2.8	2.4
Contribution to GDP growth :	Domestic demand			3.4	1.9	3.1	4.6	4.1	3.1	2.6
	Stockbuilding			0.0	0.4	0.0	0.3	-0.4	0.0	0.0
	Foreign balance			-0.3	-0.7	-0.5	-0.7	-0.2	0.0	0.1
Employment (*)				1.6	-0.3	0.9	1.1	1.7	1.2	0.6
Unemployment (a)				6.3	5.8	6.0	5.5	5.1	5.0	5.3
Compensation of employees/head				4.5	3.6	4.2	4.8	4.9	4.4	4.4
Unit labour costs				2.9	1.6	2.3	1.6	3.1	2.4	2.3
Real unit labour costs				-0.2	-0.1	0.3	-1.0	0.3	-0.5	-0.1
Savings rate of households (b)				-	-	2.2	1.8	-0.2	1.1	2.1
GDP deflator				3.1	1.8	2.0	2.6	2.7	2.9	2.4
Private consumption deflator				3.3	1.4	1.9	2.6	2.9	2.8	2.2
General index of consumer prices				-	1.6	2.3	2.7	3.3	2.9	2.2
Trade balance (c)				-2.5	-4.7	-5.1	-5.8	-6.3	-6.3	-6.2
Current account balance (c)				-1.7	-4.4	-4.6	-5.6	-6.2	-6.3	-6.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.8	-4.4	-4.7	-5.6	-6.2	-6.3	-6.4
General government balance (c)				-3.4	-3.8	-5.0	-4.7	-3.9	-4.7	-4.9
General government gross debt (c)				64.5	60.7	63.2	63.8	-	-	-

(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

On track for a continued recovery, albeit at a moderate pace

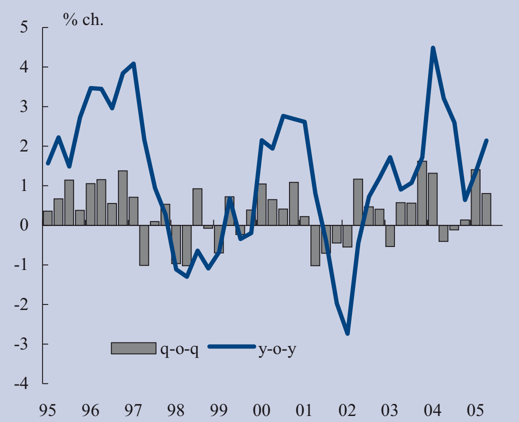
Economic activity improved in 2005

The Japanese economy is emerging from the technical recession that took place in mid-2004. GDP grew by 3.3% at an annualised rate in the second quarter of 2005 after growing by 5.8% in the first quarter of the year. While there was a noticeable slowdown in exports, the recovery was mainly fuelled by a rebound in domestic demand.

Private consumption improved considerably in the first half of 2005. Household income has been rising moderately as a result of an improving employment situation and the interruption of the decline in real wages. Non-residential investment was also a significant contributor to GDP growth in the first half of the year. Corporate profitability is high and business companies have significantly improved their balance sheets. On the external side, exports registered a slowdown over the first half of the year compared to 2004, mainly due to the loss of momentum of exports to the rest of Asia. Overall, the contribution of net exports to GDP growth in the first half of the year was neutral.

Recent indicators suggest that economic activity should continue to expand steadily in the coming quarters. On the domestic front, the gradual improvement of the situation in the labour market as well as positive confidence environment should enable household consumption to remain on its upward trend. On the corporate front, industrial production seems to have turned up in August, and orders are rising. Business investment is forecast to further increase as the business outlook becomes brighter and confidence continues to remain favourable on the whole. On the external side, exports, particularly to the rest of Asia, seem to be picking up again. At the same time, imports' growth should stabilise.

Graph 6.2: **Japan - Real GDP growth rates**



Given the negative growth overhang into the year, annual growth is forecast to marginally slow down from 2.7% in 2004 to 2.5% in 2005, in spite of these strong developments in the first half of 2005.

Prospects for 2006 and 2007

The current economic recovery appears sustainable during the forecast horizon as GDP growth is becoming more balanced. The global economic environment is expected to remain supportive to growth, while domestic demand should maintain its current momentum. In particular, strong projected profit growth, continued reduction in corporate indebtedness and high capacity utilisation suggest that capital expenditures should continue to expand. Increasing wages, asset prices and confidence should support consumption. Moreover, the recent election results should further boost structural reforms and might stimulate household and business confidence.

On the external side, despite an acceleration of imports associated with stronger domestic demand, net exports are not projected to be an important drag on GDP growth, as export growth should remain resilient.

Overall, economic growth is expected to moderate in pace over the coming years but should continue to be close to potential. GDP growth is forecast to slow down to 2.2% in 2006 and 1.8% in 2007.

An improving situation in the labour market

The situation in the labour market has been improving markedly since the beginning of 2005, with the number of full-time employees increasing for the first time in more than five years. Although the growth of part-time employment is gradually slowing down – in line with the progress made in corporate restructuring – total employment is now on an upward trend. The unemployment rate stood at a low of 4.2% in September 2005. In the light of these developments, real wages have started to rise, albeit with some fluctuations.

Core deflation eases gradually

Deflationary pressures continue to ease, although slowly. In September, the headline CPI decreased by 0.3% year-on-year, while the core index fell by 0.1%. The end of asset price deflation also seems on track with signs of land prices increasing in some regions.

Bank lending growth was positive in August and September 2005 (+0.4%) for the first time since 1998, indicating that the functioning of the monetary policy transmission mechanism might be improving. Core inflation is projected to turn positive around the beginning of 2006. However, it should remain relatively low in 2006, despite the narrowing of the output gap and high oil prices.

Economic policy challenges

Given the core inflation profile, an official interest rate hike in 2006 might not yet be warranted. The current monetary policy stance of quantitative easing is likely to be maintained for the major part of next year, though on a reduced scale. A gradual and cautious monetary tightening could be expected in the course of 2007, however.

As for fiscal policy, the government has taken a very cautious attitude towards fiscal consolidation for a long time, fearing that any sizeable package might bring the economy back into recession. So far, cautious measures of expenditure cuts have been preferred to raising revenues. The government has stated the objective of reducing the primary balance by around 0.5 of a percentage point annually. So far, however, there is no medium-term fiscal consolidation plan to achieve this.

Table 6.2

Main features of country forecast - JAPAN

		2004			Annual percentage change					
	bn YEN	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		505159.8	100.0	2.5	-0.3	1.4	2.7	2.5	2.2	1.8
Private consumption		285533.1	56.5	2.5	0.5	0.2	1.5	1.9	2.0	1.6
Public consumption		89175.6	17.7	3.4	2.6	1.2	2.7	1.8	1.1	1.0
Gross fixed capital formation		120340.3	23.8	2.3	-5.7	0.9	1.6	4.2	5.0	3.8
of which : equipment		-	-	4.5	-9.5	9.2	-	-	-	-
Change in stocks as % of GDP		484.8	0.1	0.3	-0.2	0.0	0.2	0.2	0.0	0.1
Exports (goods and services)		66286.3	13.1	4.0	7.3	9.1	14.4	5.7	5.5	6.2
Final demand		561820.1	111.2	2.7	-0.2	1.6	3.3	2.9	2.8	2.6
Imports (goods and services)		56660.3	11.2	4.8	1.3	3.8	8.9	6.4	8.2	9.4
GNI at constant prices (GDP deflator)		514779.7	101.9	2.6	-0.3	1.4	2.9	2.6	2.1	1.8
Contribution to GDP growth :	Domestic demand			2.5	-0.7	0.6	1.7	2.4	2.5	2.0
	Stockbuilding			0.0	-0.2	0.2	0.2	0.1	-0.2	0.0
	Foreign balance			0.0	0.6	0.6	0.8	0.1	-0.1	-0.2
Employment				0.6	-1.4	-0.3	0.2	0.3	0.2	0.0
Unemployment (a)				3.0	5.4	5.3	4.7	4.5	4.2	4.2
Compensation of employees/head				2.3	-1.5	-0.6	-1.1	-0.2	0.1	0.3
Unit labour costs				0.4	-2.6	-2.2	-3.5	-2.4	-1.8	-1.5
Real unit labour costs				-0.6	-1.4	-0.8	-2.3	-1.4	-1.6	-2.4
Savings rate of households (b)				-	-	13.9	12.9	11.9	10.8	9.2
GDP deflator				1.0	-1.3	-1.4	-1.2	-1.0	-0.3	0.9
Private consumption deflator				1.2	-1.2	-0.7	-0.5	-0.5	0.0	1.2
General index of consumer prices				-	-0.9	-0.3	0.0	-0.2	0.3	2.0
Trade balance (c)				2.8	2.4	2.5	2.8	2.6	2.6	2.9
Current account balance (c)				2.4	2.8	3.2	3.7	3.5	3.2	3.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.3	2.8	3.1	3.6	3.4	3.1	3.2
General government balance (c)				-2.5	-7.9	-7.7	-7.0	-6.5	-6.1	-5.8
General government gross debt (c)				85.1	149.4	154.6	157.6	161.9	165.2	166.9

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

Statistical Annex

Contents

General Government

Saving

Trade and international payments

World economy

STATISTICAL ANNEX : AUTUMN 2005 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	3.4	1.6	2.7	1.0	1.5	0.9	2.6	*2.2*	1.4	*2.3*	2.1	*:*	2.0
Germany	3.2	2.2	2.0	1.2	0.1	-0.2	1.6	*0.8*	0.8	*1.6*	1.2	*:*	1.6
Greece	4.5	1.2	3.4	4.6	3.8	4.6	4.7	*2.9*	3.5	*3.1*	3.4	*:*	3.4
Spain	4.6	1.5	4.1	3.5	2.7	3.0	3.1	*2.7*	3.4	*2.7*	3.2	*:*	3.0
France	3.8	1.3	2.9	2.1	1.2	0.8	2.3	*2.0*	1.5	*2.2*	1.8	*:*	2.3
Ireland	4.2	4.7	9.7	6.2	6.1	4.4	4.5	*4.9*	4.4	*5.1*	4.8	*:*	5.0
Italy	3.9	1.3	1.9	1.8	0.4	0.3	1.2	*1.2*	0.2	*1.7*	1.5	*:*	1.4
Luxembourg	3.7	4.0	7.1	1.5	2.5	2.9	4.5	*3.8*	4.2	*4.0*	4.4	*:*	4.5
Netherlands	3.4	2.1	3.7	1.4	0.1	-0.1	1.7	*1.0*	0.5	*2.0*	2.0	*:*	2.4
Austria	3.5	2.2	2.9	0.8	1.0	1.4	2.4	*2.1*	1.7	*2.1*	1.9	*:*	2.2
Portugal	4.8	1.7	4.0	2.0	0.5	-1.2	1.2	*1.1*	0.4	*1.7*	0.8	*:*	1.2
Finland	3.9	-0.9	4.7	1.0	2.2	2.4	3.6	*3.3*	1.9	*2.9*	3.5	*:*	3.1
Euro area	3.6	1.6	2.7	1.9	0.9	0.7	2.1	*1.6*	1.3	*2.1*	1.9	*:*	2.1
Czech Republic	:	-1.0	1.5	2.6	1.5	3.2	4.4	*4.0*	4.8	*4.2*	4.4	*:*	4.3
Denmark	2.7	2.3	2.9	0.7	0.5	0.6	2.1	*2.3*	2.7	*2.1*	2.3	*:*	2.1
Estonia	:	:	5.6	6.5	7.2	6.7	7.8	*6.0*	8.4	*6.2*	7.2	*:*	7.4
Cyprus	:	5.3	3.8	4.1	2.1	1.9	3.8	*3.9*	3.9	*4.2*	4.0	*:*	4.2
Latvia	:	-11.8	5.4	8.0	6.4	7.2	8.3	*7.2*	9.1	*6.9*	7.7	*:*	7.1
Lithuania	:	-10.3	4.2	7.2	6.8	10.5	7.0	*6.4*	7.0	*5.9*	6.2	*:*	5.8
Hungary	:	:	4.0	3.8	3.5	2.9	4.2	*3.9*	3.7	*3.8*	3.9	*:*	3.9
Malta	:	:	4.5	0.2	0.8	-1.9	0.4	*1.7*	0.8	*1.9*	0.7	*:*	1.1
Poland	:	2.2	5.1	1.0	1.4	3.8	5.3	*4.4*	3.4	*4.5*	4.3	*:*	4.5
Slovenia	:	-0.6	4.4	2.7	3.5	2.7	4.2	*3.7*	3.8	*4.0*	4.0	*:*	4.2
Slovakia	:	:	3.7	3.8	4.6	4.5	5.5	*4.9*	5.1	*5.2*	5.5	*:*	6.3
Sweden	2.9	0.8	3.2	1.0	2.0	1.5	3.6	*3.0*	2.5	*2.8*	3.0	*:*	2.8
United Kingdom	2.5	1.7	3.2	2.2	2.0	2.5	3.2	*2.8*	1.6	*2.8*	2.3	*:*	2.8
EU-25	:	:	2.9	1.9	1.2	1.2	2.4	*2.0*	1.5	*2.3*	2.1	*:*	2.4
EU-15	3.4	1.6	2.8	1.9	1.1	1.1	2.3	*1.9*	1.4	*2.2*	2.0	*:*	2.2
USA	3.5	2.5	4.1	0.8	1.6	2.7	4.2	*3.6*	3.5	*3.0*	3.2	*:*	2.7
Japan	6.1	1.5	1.3	0.2	-0.3	1.4	2.7	*1.1*	2.5	*1.7*	2.2	*:*	1.8

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2005-2007)

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	0.0	0.3	0.4	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.5	0.6
Germany	0.8	0.0	0.5	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.4	0.5
Greece	2.4	-0.3	:	:	:	:	:	:	:	:	:	:
Spain	0.9	0.9	0.7	0.7	0.8	0.9	0.8	0.7	0.8	0.7	0.6	0.6
France	0.4	0.1	0.5	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.7
Ireland	0.3	1.6	1.6	1.7	0.9	0.8	1.0	1.1	1.2	1.3	1.5	1.6
Italy	-0.5	0.7	0.5	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	-0.8	1.2	0.8	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Austria	0.1	0.4	0.1	0.9	0.7	0.2	0.2	0.2	0.8	0.8	0.8	0.8
Portugal	0.3	1.0	-0.7	0.0	0.3	0.5	0.5	0.4	0.2	0.3	0.2	0.3
Finland	-0.1	-1.6	2.7	2.0	0.1	0.8	0.8	0.7	0.7	0.8	0.8	0.8
Euro area	0.4	0.3	0.6	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Czech Republic	1.3	1.3	0.9	1.0	0.9	1.3	1.1	1.2	1.0	1.0	0.9	1.0
Denmark	0.4	1.6	0.4	0.6	0.3	0.6	0.5	0.5	0.4	0.6	0.7	0.7
Estonia	2.2	3.9	:	:	:	:	:	:	:	:	:	:
Cyprus	1.3	0.7	0.7	2.1	0.6	1.0	1.0	1.0	1.3	1.0	1.0	1.0
Latvia	2.5	3.2	:	:	:	:	:	:	:	:	:	:
Lithuania	0.7	2.8	2.3	:	:	:	:	:	:	:	:	:
Hungary	0.9	1.2	:	:	:	:	:	:	:	:	:	:
Malta	-1.2	2.3	:	:	:	:	:	:	:	:	:	:
Poland	1.4	-0.2	:	:	:	:	:	:	:	:	:	:
Slovenia	1.2	2.6	:	:	:	:	:	:	:	:	:	:
Slovakia	1.2	1.3	1.0	1.4	1.6	1.3	1.1	1.7	2.1	1.3	1.1	1.2
Sweden	0.5	0.6	0.7	0.7	0.8	0.9	0.8	0.7	0.7	0.7	0.8	0.7
United Kingdom	0.3	0.5	0.4	0.5	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.8
EU-25	0.4	0.4	0.6	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
EU-15	0.4	0.3	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
USA	0.9	0.8	0.9	0.7	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6
Japan	1.4	1.1	0.6	0.8	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2005-2007) 07.11.2005

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	1.8	1.4	1.0	1.0	1.6	1.9	2.2	2.5	2.6	2.7	2.5	2.4
Germany	0.8	0.6	1.2	1.5	1.0	1.4	1.3	1.5	1.7	1.8	1.8	1.9
Greece	3.5	3.7	3.9	4.6	3.5	3.5	3.4	3.5	3.5	3.4	3.6	3.6
Spain	3.3	3.4	3.4	3.3	3.1	3.2	3.3	3.3	3.3	3.0	2.9	2.8
France	1.9	1.3	1.6	1.3	1.3	1.8	1.9	2.1	2.3	2.3	2.3	2.4
Ireland	2.2	4.0	6.0	5.2	5.9	5.0	4.4	3.9	4.2	4.7	5.2	5.7
Italy	-0.2	0.1	0.3	0.9	1.7	1.4	1.3	1.5	1.5	1.4	1.3	1.2
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.1	1.0	1.2	1.7	2.9	2.2	1.9	1.9	2.2	2.3	2.4	2.5
Austria	2.4	1.8	1.0	1.5	2.0	1.8	1.9	1.3	1.4	1.9	2.6	3.2
Portugal	0.1	0.5	0.4	0.6	0.5	0.1	1.3	1.6	1.6	1.3	1.1	1.0
Finland	2.1	-0.3	1.1	3.0	3.3	5.8	3.7	2.5	3.1	3.1	3.2	3.3
Euro area	1.3	1.1	1.5	1.7	1.8	1.9	1.9	2.0	2.1	2.2	2.2	2.2
Czech Republic	4.7	5.1	4.8	4.7	4.3	4.3	4.4	4.6	4.7	4.4	4.2	3.9
Denmark	2.1	3.0	3.2	3.0	2.9	1.9	2.0	1.9	2.0	2.0	2.1	2.3
Estonia	6.9	10.2	8.9	7.8	6.9	7.7	7.2	7.0	6.8	8.7	7.3	6.7
Cyprus	3.8	3.5	3.4	4.9	4.2	4.5	4.8	3.7	4.3	4.3	4.3	4.3
Latvia	8.6	10.8	8.7	9.3	7.6	7.5	7.6	8.0	6.8	7.0	7.0	7.4
Lithuania	6.0	7.2	8.2	7.4	6.0	6.0	6.3	6.2	5.9	5.7	6.0	5.8
Hungary	3.8	4.0	3.7	3.8	4.3	3.2	3.5	4.8	3.8	4.0	4.2	3.5
Malta	-1.3	2.3	:	:	:	:	:	:	:	:	:	:
Poland	4.0	2.7	3.9	4.5	3.7	4.1	4.5	4.9	4.5	4.3	4.6	4.7
Slovenia	2.8	4.7	3.3	3.6	4.5	3.2	4.3	4.0	3.8	4.1	4.6	4.2
Slovakia	5.3	5.2	1.0	1.4	1.6	1.3	1.1	1.7	2.1	1.3	1.1	1.2
Sweden	2.2	2.1	2.1	2.6	2.9	3.2	3.3	3.3	3.1	2.9	2.9	2.9
United Kingdom	1.7	1.5	1.6	1.7	2.0	2.2	2.4	2.6	2.7	2.7	2.8	3.0
EU-25	1.5	1.3	1.7	1.8	1.9	2.1	2.1	2.2	2.3	2.4	2.4	2.4
EU-15	1.4	1.2	1.5	1.7	1.8	2.0	2.0	2.1	2.3	2.3	2.3	2.4
USA	3.6	3.6	3.6	3.3	3.3	3.4	3.2	3.2	3.0	2.7	2.6	2.5
Japan	1.6	2.9	3.5	4.0	3.0	2.3	2.1	1.7	1.7	1.8	1.9	2.0

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	3.1	1.3	2.4	0.7	1.0	0.5	2.2	*1.9*	1.1	*2.1*	1.9	*:*	1.8
Germany	2.7	1.5	1.9	1.1	-0.1	-0.2	1.7	*0.7*	0.8	*1.5*	1.2	*:*	1.6
Greece	3.9	0.3	2.9	4.3	3.5	4.3	4.5	*2.7*	3.2	*2.9*	3.1	*:*	3.1
Spain	3.7	1.3	3.6	2.3	1.2	2.3	1.4	*2.1*	1.8	*2.0*	1.8	*:*	1.6
France	3.1	0.9	2.5	1.5	0.7	0.3	1.9	*1.7*	1.0	*1.9*	1.3	*:*	1.8
Ireland	3.4	4.1	8.5	4.6	4.3	2.7	2.7	*3.4*	2.2	*3.5*	2.9	*:*	3.3
Italy	3.4	1.2	1.9	1.7	0.1	-0.5	0.2	*0.8*	-0.4	*1.6*	1.4	*:*	1.2
Luxembourg	3.0	2.5	5.6	0.9	1.4	2.1	3.7	*2.9*	3.4	*3.1*	3.7	*:*	3.8
Netherlands	2.5	1.4	3.1	0.7	-0.6	-0.6	1.4	*0.8*	0.2	*1.8*	1.8	*:*	2.2
Austria	3.2	1.5	2.8	0.4	0.5	1.0	1.7	*1.7*	1.1	*1.7*	1.4	*:*	1.8
Portugal	4.4	1.5	3.6	1.3	-0.2	-1.9	0.6	*0.6*	-0.2	*1.2*	0.2	*:*	0.6
Finland	3.5	-1.4	4.4	0.8	1.9	2.2	3.3	*3.1*	1.7	*2.7*	3.3	*:*	2.9
Euro area	3.1	1.3	2.4	1.4	0.4	0.2	1.5	*1.3*	0.8	*1.8*	1.5	*:*	1.7
Czech Republic	:	-0.9	1.6	3.1	1.7	3.2	4.4	*3.8*	4.7	*4.1*	4.3	*:*	4.2
Denmark	2.3	2.0	2.4	0.3	0.1	0.6	1.6	*2.1*	2.5	*2.0*	2.2	*:*	2.0
Estonia	:	:	6.6	6.9	7.7	7.1	8.2	*6.4*	8.7	*6.6*	7.6	*:*	7.7
Cyprus	:	2.9	2.5	3.0	0.8	0.2	1.4	*2.8*	2.7	*3.0*	2.9	*:*	3.0
Latvia	:	-10.6	6.4	8.8	7.2	7.8	8.3	*7.4*	9.3	*7.1*	8.0	*:*	7.3
Lithuania	:	-10.0	4.9	7.8	7.1	11.0	7.5	*6.7*	7.5	*6.1*	6.4	*:*	5.9
Hungary	:	:	4.3	4.1	3.8	3.2	4.5	*4.1*	3.9	*4.1*	4.2	*:*	4.1
Malta	:	:	3.9	-0.6	0.0	-2.5	-0.4	*1.2*	0.3	*1.4*	0.2	*:*	0.6
Poland	:	1.9	5.3	1.0	1.4	3.9	5.4	*4.5*	3.5	*4.6*	4.4	*:*	4.6
Slovenia	:	-0.5	4.4	2.5	3.3	2.6	4.1	*3.6*	3.8	*4.0*	4.0	*:*	4.2
Slovakia	:	:	3.5	3.7	4.8	4.7	5.4	*4.9*	5.0	*5.2*	5.4	*:*	6.2
Sweden	2.5	0.1	3.1	0.8	1.6	1.1	3.2	*2.6*	2.1	*2.3*	2.6	*:*	2.4
United Kingdom	2.2	1.4	2.9	1.8	1.6	2.1	2.8	*2.6*	1.0	*2.6*	1.8	*:*	2.3
EU-25	:	:	2.7	1.5	0.7	0.7	1.9	*1.8*	1.1	*2.1*	1.8	*:*	2.0
EU-15	2.9	1.3	2.5	1.4	0.6	0.5	1.7	*1.6*	0.9	*2.0*	1.6	*:*	1.8
USA	2.4	1.2	2.9	-0.3	0.6	1.7	3.2	*2.6*	2.6	*2.0*	2.2	*:*	1.7
Japan	5.2	1.2	1.1	-0.1	-0.4	1.2	2.6	*1.1*	2.6	*1.8*	2.2	*:*	1.9

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of III-2005	2005 estimate of XI-2005	2006 forecast of III-2005	2006 forecast of XI-2005	2007 forecast of III-2005	2007 forecast of XI-2005
Belgium	3.3	1.4	2.5	0.5	0.7	1.0	2.6	*2.4*	1.9	*2.4*	1.8	:	1.8
Germany	3.1	2.1	1.7	-0.5	-1.9	0.6	0.5	*0.6*	-0.3	*1.6*	0.5	:	0.9
Greece	4.7	1.3	4.1	2.7	4.5	5.5	4.7	*2.7*	2.4	*3.0*	3.0	:	3.1
Spain	4.9	1.0	4.7	3.6	3.3	3.7	4.8	*3.9*	5.0	*3.6*	4.5	:	3.9
France	3.8	0.9	2.9	2.0	1.3	1.5	3.4	*2.3*	2.4	*2.4*	2.1	:	2.7
Ireland	3.6	2.6	8.9	4.1	4.3	4.7	4.3	*3.5*	5.4	*4.5*	4.3	:	4.7
Italy	3.8	0.3	2.4	1.4	1.2	1.2	1.0	*1.3*	0.7	*2.0*	1.6	:	1.5
Luxembourg	3.5	2.3	6.1	4.3	-0.1	2.8	1.8	*3.5*	1.9	*3.5*	3.2	:	4.1
Netherlands	3.3	1.5	3.7	1.8	-0.4	-0.3	0.8	*0.8*	0.2	*1.6*	1.9	:	3.1
Austria	3.4	2.4	2.3	-0.3	-0.7	2.9	0.9	*1.7*	0.9	*2.0*	1.7	:	2.0
Portugal	4.9	2.5	5.0	1.0	-0.2	-2.7	2.2	*1.3*	0.9	*1.8*	0.6	:	1.4
Finland	4.1	-2.5	3.7	1.7	0.8	3.1	3.5	*2.4*	1.9	*2.2*	2.6	:	2.4
Euro area	3.6	1.2	2.7	1.2	0.4	1.4	2.1	*1.8*	1.5	*2.2*	1.9	:	2.1
Czech Republic	:	-0.2	1.9	3.9	3.4	3.5	2.7	*4.6*	1.4	*4.0*	3.4	:	3.9
Denmark	2.5	2.4	2.7	0.0	0.9	1.0	3.4	*2.9*	3.0	*2.1*	2.4	:	2.0
Estonia	:	:	6.0	8.1	9.4	10.9	7.8	*3.5*	6.5	*5.3*	3.7	:	5.3
Cyprus	:	:	3.8	3.3	4.7	2.8	6.0	*2.2*	2.8	*3.6*	3.6	:	3.7
Latvia	:	:	6.2	11.2	6.0	10.8	11.5	*6.5*	7.7	*7.0*	7.5	:	7.2
Lithuania	:	:	5.2	6.3	6.5	12.3	12.9	*7.9*	7.9	*6.1*	7.1	:	6.6
Hungary	:	:	4.5	1.7	5.7	5.8	1.8	*3.0*	3.1	*3.5*	4.5	:	4.2
Malta	:	:	3.6	-6.8	-4.1	7.2	2.2	*1.7*	1.0	*1.3*	1.3	:	1.5
Poland	:	3.9	6.5	-1.8	0.7	2.1	4.3	*4.6*	2.5	*4.9*	4.6	:	4.9
Slovenia	:	2.7	4.7	0.8	2.3	4.9	4.8	*4.0*	2.2	*4.2*	3.6	:	4.2
Slovakia	:	:	4.3	7.4	4.6	-2.0	6.5	*6.0*	6.0	*5.7*	4.6	:	3.0
Sweden	2.7	-0.5	2.8	-0.2	0.7	1.1	1.4	*3.1*	2.7	*2.9*	3.3	:	2.7
United Kingdom	2.6	1.2	4.0	2.8	3.2	2.7	3.7	*2.9*	1.6	*2.8*	2.1	:	2.6
EU-25	:	:	3.0	1.4	1.0	1.7	2.4	*2.1*	1.6	*2.5*	2.1	:	2.4
EU-15	3.4	1.2	2.9	1.4	0.9	1.6	2.4	*2.0*	1.6	*2.3*	1.9	:	2.2
USA	3.4	2.5	4.7	0.9	2.2	3.0	4.7	*3.8*	3.6	*2.6*	3.0	:	2.5
Japan	6.1	1.5	1.0	0.8	-1.0	0.7	1.9	*0.7*	2.5	*1.3*	2.4	:	2.1

TABLE 6 : Final demand, volume (percentage change on preceding year, 1961-2007)

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of III-2005	2005 estimate of XI-2005	2006 forecast of III-2005	2006 forecast of XI-2005	2007 forecast of III-2005	2007 forecast of XI-2005
Belgium	4.2	2.4	3.9	0.7	0.9	1.9	4.3	*3.7*	2.0	*4.0*	3.1	:	3.2
Germany	3.6	2.7	3.2	1.2	-0.3	1.1	2.9	*2.3*	1.6	*3.1*	2.3	:	2.6
Greece	5.0	1.7	5.3	2.0	2.3	4.7	5.7	*3.3*	2.9	*3.6*	3.6	:	3.7
Spain	5.2	2.4	5.7	3.7	3.0	3.7	4.5	*4.1*	4.2	*3.9*	3.9	:	3.6
France	4.2	1.6	3.9	2.1	1.3	0.8	3.2	*2.9*	2.4	*3.3*	2.5	:	3.1
Ireland	4.9	6.7	13.2	6.9	4.2	2.6	5.6	*5.2*	3.8	*5.6*	4.7	:	5.1
Italy	4.3	1.6	2.8	1.5	0.2	0.5	1.5	*2.1*	0.6	*2.6*	2.1	:	1.9
Luxembourg	4.2	4.1	10.3	2.8	-0.4	2.2	5.7	*5.1*	5.6	*5.0*	6.2	:	6.5
Netherlands	4.1	3.1	5.1	1.7	0.1	0.6	3.9	*2.2*	1.5	*3.4*	3.2	:	4.0
Austria	4.2	2.4	3.9	2.2	0.7	2.5	3.6	*3.3*	1.9	*3.6*	3.0	:	3.1
Portugal	5.5	2.6	5.3	-1.7	0.3	-0.7	2.9	*2.1*	0.9	*3.1*	1.5	:	2.1
Finland	4.1	-0.5	5.7	0.9	2.6	2.1	4.2	*3.3*	2.8	*3.1*	3.6	:	3.4
Euro area	4.1	2.2	4.0	1.8	0.8	1.3	3.2	*2.8*	2.0	*3.3*	2.7	:	3.0
Czech Republic	:	1.9	4.4	6.8	2.9	5.0	9.9	*8.2*	4.6	*7.2*	6.2	:	6.5
Denmark	3.1	2.8	4.1	1.0	2.2	0.3	3.3	*3.4*	3.8	*3.1*	3.2	:	2.9
Estonia	:	:	9.1	3.8	7.4	6.9	9.6	*8.0*	12.0	*7.8*	9.6	:	9.6
Cyprus	:	:	4.3	4.3	1.2	1.1	5.8	*3.0*	3.6	*4.3*	4.3	:	4.4
Latvia	:	:	6.7	10.2	5.8	9.2	10.9	*7.3*	9.2	*7.7*	8.8	:	8.3
Lithuania	:	:	5.6	10.0	10.9	10.4	10.0	*8.2*	8.8	*6.7*	8.3	:	7.8
Hungary	:	:	8.9	4.5	4.8	6.6	7.7	*7.6*	6.6	*7.3*	7.5	:	7.2
Malta	:	:	3.5	-4.3	-0.8	2.5	1.3	*2.4*	-0.6	*2.3*	1.3	:	2.0
Poland	:	4.7	7.4	-0.6	1.7	5.2	6.2	*6.2*	2.9	*6.6*	4.7	:	5.2
Slovenia	:	-1.1	5.5	2.8	3.9	4.1	7.4	*5.6*	4.8	*5.6*	5.1	:	5.4
Slovakia	:	:	6.3	6.9	5.0	8.6	8.4	*8.8*	6.7	*9.1*	7.6	:	8.7
Sweden	3.1	1.1	4.5	0.0	0.9	2.4	4.7	*4.3*	3.1	*3.9*	4.2	:	3.8
United Kingdom	2.9	2.0	4.6	2.8	2.6	2.4	3.7	*3.6*	2.2	*3.3*	2.7	:	3.2
EU-25	:	:	4.2	1.9	1.2	1.7	3.6	*3.2*	2.3	*3.5*	3.0	:	3.2
EU-15	3.8	2.1	4.1	1.9	1.1	1.5	3.4	*3.0*	2.1	*3.3*	2.8	:	3.0
USA	3.6	2.9	5.0	0.3	1.8	2.9	5.0	*4.1*	3.9	*3.2*	3.5	:	3.1
Japan	6.3	1.7	1.4	0.1	-0.2	1.6	3.3	*1.6*	2.9	*2.1*	2.8	:	2.6

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	3.2	1.7	2.3	1.1	0.8	0.9	1.5	*2.0*	1.3	*2.1*	1.5	*:*	1.8
Germany	3.6	2.4	1.8	1.9	-0.5	0.1	0.6	*0.7*	-0.1	*1.4*	0.3	*:*	0.8
Greece	4.8	1.9	2.6	3.1	3.3	4.5	4.4	*2.9*	3.2	*3.1*	3.0	*:*	2.9
Spain	4.5	1.2	4.1	3.2	2.9	2.6	4.3	*3.2*	4.3	*3.0*	3.9	*:*	3.3
France	3.8	0.9	2.6	2.6	2.3	1.4	2.1	*2.0*	2.0	*2.1*	1.8	*:*	2.5
Ireland	3.1	3.1	7.6	5.6	3.5	3.4	3.8	*3.9*	4.9	*4.9*	5.3	*:*	6.0
Italy	4.4	0.9	2.6	0.8	0.4	1.4	1.0	*1.4*	1.0	*1.9*	1.4	*:*	1.6
Luxembourg	3.8	2.5	4.4	5.1	3.2	1.6	1.4	*2.6*	1.2	*3.0*	2.5	*:*	3.0
Netherlands	3.5	1.6	4.0	1.4	0.9	-0.7	0.0	*-0.2*	-0.2	*-2.4*	-3.0	*:*	1.8
Austria	3.5	2.1	2.2	1.0	0.3	1.6	0.8	*1.7*	1.2	*2.0*	1.6	*:*	2.0
Portugal	4.0	2.3	4.1	-5.8	1.1	-0.3	2.3	*1.7*	2.2	*1.9*	1.0	*:*	1.5
Finland	3.9	-1.1	3.5	1.9	1.5	4.4	3.2	*2.6*	2.8	*2.4*	2.6	*:*	2.4
Euro area	3.8	1.5	2.6	1.8	0.9	1.1	1.6	*1.6*	1.4	*1.8*	1.4	*:*	1.9
Czech Republic	:	-0.4	2.7	2.6	2.8	4.6	2.1	*3.1*	2.4	*3.6*	3.5	*:*	3.9
Denmark	2.1	2.3	1.5	0.1	0.8	1.4	3.8	*3.9*	4.1	*2.5*	2.6	*:*	2.1
Estonia	:	:	6.5	6.5	10.7	7.6	4.4	*5.5*	6.5	*5.6*	6.5	*:*	6.2
Cyprus	:	:	4.2	3.8	1.5	1.9	6.1	*3.0*	4.3	*4.0*	4.0	*:*	3.8
Latvia	:	:	5.3	7.3	7.4	8.2	9.3	*6.6*	8.4	*5.3*	7.8	*:*	7.5
Lithuania	:	:	5.4	3.7	6.1	12.6	9.7	*6.7*	8.2	*6.5*	8.0	*:*	7.2
Hungary	:	:	2.8	5.8	10.3	7.7	3.0	*2.9*	2.9	*3.0*	3.9	*:*	3.4
Malta	:	:	4.9	-0.2	-1.0	2.0	-0.5	*1.0*	-0.8	*1.5*	0.6	*:*	0.9
Poland	:	4.4	5.6	2.0	3.4	3.0	3.2	*3.8*	2.8	*3.9*	3.4	*:*	3.5
Slovenia	:	2.1	3.1	2.3	1.3	3.4	3.1	*3.5*	3.5	*3.3*	3.4	*:*	3.3
Slovakia	:	:	4.4	4.7	5.5	-0.6	3.5	*4.6*	5.4	*4.9*	4.6	*:*	4.8
Sweden	2.4	-0.2	3.2	0.4	1.4	1.5	1.8	*2.6*	2.3	*2.8*	3.1	*:*	2.9
United Kingdom	2.8	1.4	4.0	3.0	3.5	2.6	3.6	*2.2*	1.7	*2.3*	1.8	*:*	2.1
EU-25	:	:	2.9	2.0	1.6	1.6	2.1	*1.9*	1.6	*2.0*	1.6	*:*	2.1
EU-15	3.5	1.4	2.8	2.0	1.5	1.4	2.0	*1.8*	1.5	*1.9*	1.5	*:*	2.0
USA	3.7	2.6	4.4	2.5	2.7	2.9	3.9	*3.5*	3.5	*2.5*	2.0	*:*	2.1
Japan	5.8	2.3	0.7	1.1	0.5	0.2	1.5	*0.7*	1.9	*1.2*	2.0	*:*	1.6

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1961-2007)

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	3.5	1.6	1.9	2.7	2.9	2.5	2.0	*2.0*	1.1	*1.9*	1.5	*:*	1.6
Germany	3.2	2.4	1.4	0.5	1.4	0.1	-1.6	*-0.1*	-0.4	*0.6*	0.0	*:*	0.0
Greece	4.6	0.5	4.4	-1.5	7.3	-2.1	3.9	*1.9*	2.7	*1.3*	1.3	*:*	2.1
Spain	4.9	3.0	3.3	3.9	4.5	4.8	6.0	*4.5*	5.3	*4.2*	5.3	*:*	5.3
France	3.4	2.4	1.6	2.0	2.9	2.0	2.6	*2.0*	1.7	*2.0*	1.7	*:*	1.6
Ireland	3.6	2.7	5.7	10.6	7.4	3.5	2.4	*2.7*	3.0	*2.7*	3.0	*:*	3.0
Italy	3.4	-0.2	0.9	3.9	1.9	2.3	0.6	*1.0*	1.1	*0.5*	0.6	*:*	0.6
Luxembourg	3.6	3.6	4.4	6.5	3.2	5.0	6.0	*2.6*	4.5	*3.0*	2.6	*:*	3.0
Netherlands	3.1	2.1	2.2	4.8	3.3	2.4	0.0	*1.5*	0.1	*7.9*	9.5	*:*	3.0
Austria	2.7	2.8	2.0	-1.2	1.1	1.7	1.0	*0.3*	1.0	*0.2*	1.0	*:*	0.9
Portugal	7.6	2.7	3.8	4.3	2.3	0.3	1.2	*0.6*	1.0	*0.0*	-0.2	*:*	0.0
Finland	4.4	-0.4	1.8	2.5	4.3	1.5	1.6	*2.3*	1.8	*1.9*	1.6	*:*	1.5
Euro area	3.5	1.9	1.7	2.3	2.6	1.7	1.2	*1.4*	1.3	*2.0*	2.0	*:*	1.5
Czech Republic	:	-4.1	1.5	3.8	4.5	3.8	-2.0	*2.7*	0.3	*2.9*	1.9	*:*	1.4
Denmark	3.6	2.1	2.5	2.2	2.2	0.4	2.0	*0.6*	0.9	*0.5*	0.5	*:*	0.5
Estonia	:	:	0.5	1.6	6.2	5.9	6.9	*5.2*	5.7	*4.7*	5.9	*:*	6.0
Cyprus	:	:	6.1	12.6	7.3	5.1	-4.8	*1.7*	2.0	*1.5*	2.7	*:*	2.1
Latvia	:	:	0.7	2.8	2.2	1.9	2.1	*2.5*	2.4	*2.5*	2.6	*:*	2.6
Lithuania	:	:	2.0	0.7	1.4	3.8	7.5	*5.9*	5.2	*3.8*	4.9	*:*	5.2
Hungary	:	:	1.2	6.2	5.4	5.7	-1.9	*0.5*	0.2	*2.0*	0.5	*:*	0.2
Malta	:	:	1.5	-0.2	4.0	2.9	0.7	*0.2*	-1.9	*0.2*	1.1	*:*	1.3
Poland	:	4.7	2.2	0.6	0.4	0.1	1.4	*1.1*	2.5	*1.3*	2.8	*:*	2.9
Slovenia	:	1.5	3.4	3.9	3.2	1.6	2.9	*3.0*	2.6	*3.2*	2.7	*:*	2.9
Slovakia	:	:	3.3	4.6	4.9	2.7	1.1	*4.7*	2.4	*4.6*	3.3	*:*	2.8
Sweden	3.5	0.9	0.7	0.9	2.3	0.8	0.3	*1.2*	0.3	*1.0*	1.3	*:*	0.8
United Kingdom	1.8	1.1	1.8	1.7	4.4	4.5	2.6	*3.4*	1.2	*3.2*	1.8	*:*	2.7
EU-25	:	:	1.8	2.1	2.9	2.1	1.3	*1.7*	1.2	*2.1*	1.9	*:*	1.7
EU-15	3.2	1.7	1.8	2.1	2.9	2.1	1.4	*1.7*	1.2	*2.1*	1.9	*:*	1.7
USA	2.5	0.0	1.8	3.3	4.7	3.3	2.5	*1.8*	1.9	*2.2*	4.0	*:*	2.4
Japan	4.4	3.4	3.2	3.0	2.6	1.2	2.7	*1.7*	1.8	*1.2*	1.1	*:*	1.0

TABLE 9 : Total investment, volume (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	3.4	-0.4	4.0	0.2	-2.3	-0.7	4.2	4.5	4.9	5.0	3.9	:	2.2
Germany	2.3	1.9	2.4	-3.6	-6.1	-0.8	-0.2	2.0	-0.5	3.5	1.6	:	2.0
Greece	2.9	-0.4	9.0	6.8	5.7	13.7	5.7	3.1	1.1	3.8	4.2	:	4.3
Spain	6.0	-0.5	7.2	4.5	3.4	5.5	4.9	5.3	6.5	4.3	5.3	:	4.5
France	4.5	-1.0	4.7	2.4	-1.7	2.7	2.5	3.0	2.6	3.5	3.0	:	3.4
Ireland	5.2	2.6	14.5	-0.2	3.6	5.7	7.9	3.3	7.9	4.7	3.2	:	3.3
Italy	2.9	-1.2	4.3	1.9	1.2	-1.8	2.1	1.6	-0.8	3.3	2.8	:	2.2
Luxembourg	3.3	3.2	7.7	10.0	-1.1	-6.3	3.5	7.3	1.5	6.7	4.0	:	7.3
Netherlands	3.0	0.8	5.2	0.2	-4.5	-3.5	2.9	2.1	1.4	3.9	4.5	:	6.3
Austria	3.9	2.2	3.2	-1.5	-5.0	6.1	0.6	2.4	0.5	2.7	2.5	:	2.9
Portugal	4.6	2.2	8.2	-2.9	-5.1	-9.9	1.3	1.4	-2.4	3.2	0.3	:	2.3
Finland	3.3	-9.1	7.0	3.9	-3.1	-1.5	5.0	4.3	1.3	3.3	3.2	:	3.3
Euro area	3.4	0.0	4.3	0.3	-2.0	0.9	2.3	2.8	1.7	3.7	3.1	:	3.2
Czech Republic	:	2.1	0.8	5.4	3.4	4.7	7.6	7.9	3.9	6.9	4.2	:	5.4
Denmark	2.7	2.5	6.3	-1.4	0.5	1.6	3.3	4.5	3.8	3.1	4.0	:	3.3
Estonia	:	:	7.6	13.0	17.2	8.5	6.0	8.3	8.3	6.9	6.5	:	6.1
Cyprus	:	:	2.6	3.2	8.1	0.7	11.6	6.0	4.5	6.0	4.8	:	4.8
Latvia	:	:	19.6	11.4	13.0	10.9	17.3	16.3	16.5	14.6	10.0	:	9.5
Lithuania	:	:	8.3	13.5	11.1	14.0	12.3	14.4	10.1	9.5	8.2	:	8.0
Hungary	:	:	8.5	5.9	9.3	2.5	7.9	6.3	7.0	6.4	6.8	:	6.6
Malta	:	:	0.6	-13.5	-21.0	29.0	4.6	6.6	10.1	1.9	4.5	:	3.1
Poland	:	5.1	12.8	-8.8	-5.8	-0.5	5.1	10.0	5.5	11.0	8.2	:	10.4
Slovenia	:	2.6	10.5	0.4	0.9	7.1	5.9	5.9	3.8	6.3	4.7	:	5.5
Slovakia	:	:	4.2	13.9	-0.6	-1.5	2.5	9.9	8.4	8.8	8.5	:	5.3
Sweden	3.1	-4.1	5.1	-1.0	-2.6	-1.5	5.5	7.0	8.2	6.2	6.1	:	4.9
United Kingdom	3.3	-0.3	6.1	2.4	3.0	0.0	4.9	5.2	2.7	4.2	3.9	:	4.2
EU-25	:	:	4.7	0.5	-1.2	0.8	3.0	3.6	2.3	4.1	3.5	:	3.6
EU-15	3.4	-0.2	4.6	0.5	-1.3	0.7	2.8	3.3	2.1	3.8	3.3	:	3.4
USA	3.6	4.2	8.2	-1.9	-3.9	3.2	8.3	6.4	7.1	3.6	5.5	:	3.9
Japan	7.9	-0.7	0.8	-1.4	-5.7	0.9	1.6	0.3	4.2	1.6	5.0	:	3.8

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	1.0	1.7	1.4	-6.3	-2.5	-0.5	5.5	4.3	4.3	5.4	3.4	:	-0.6
Germany	0.7	4.0	-1.2	-4.6	-5.8	-1.6	-2.3	-1.7	-4.4	-1.2	-1.2	:	-0.4
Greece	0.2	-2.8	5.4	7.0	3.6	11.0	3.7	1.5	-0.3	2.6	3.7	:	3.7
Spain	3.1	0.1	5.6	6.8	6.2	6.3	5.5	4.8	7.0	3.9	4.7	:	3.8
France	1.1	-2.2	1.9	1.3	-1.5	3.3	1.8	2.1	2.4	2.0	2.9	:	3.1
Ireland	2.3	3.7	13.2	4.5	5.1	6.2	8.1	3.1	4.9	3.2	3.0	:	1.9
Italy	0.4	-2.4	1.9	3.0	3.2	1.7	3.1	2.2	1.9	2.0	2.8	:	1.5
Luxembourg	2.3	4.4	5.9	13.4	1.1	4.2	3.6	7.0	1.3	6.0	3.3	:	4.2
Netherlands	0.0	0.8	3.9	1.9	-5.0	-4.9	0.8	0.9	1.1	2.4	2.5	:	4.2
Austria	2.3	3.5	0.7	-4.2	-2.3	4.8	0.5	1.8	1.5	2.2	1.9	:	2.2
Portugal	:	3.5	6.7	-4.6	-2.9	-12.0	-1.6	-1.0	-3.6	1.5	-0.5	:	1.5
Finland	2.2	-9.9	8.7	-0.7	-1.9	0.7	4.6	3.5	1.7	3.3	2.7	:	3.3
Euro area [1]	1.4	0.5	1.5	-0.2	-1.3	1.3	1.7	1.5	1.2	1.8	2.2	:	2.2
Czech Republic	:	-0.7	-6.5	6.2	-0.8	6.8	11.3	12.1	2.3	7.6	3.9	:	5.3
Denmark	-1.2	-1.3	4.6	-2.1	-3.8	1.2	2.3	3.7	3.5	2.4	2.7	:	2.7
Estonia	:	:	:	:	:	:	:	6.3	6.5	6.2	6.5	:	6.1
Cyprus	:	:	-0.7	3.8	6.1	9.6	8.4	6.0	3.5	6.0	4.5	:	4.0
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	:	2.8	8.7	11.3	19.7	4.2	16.4	8.7	10.9	6.5	:	8.1
Hungary	:	:	:	:	:	:	:	7.9	9.6	5.7	13.6	:	6.0
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Poland	:	:	10.0	-8.5	-2.2	:	:	:	6.5	:	9.5	:	12.0
Slovenia	:	-4.2	9.3	-5.5	4.1	5.3	2.7	6.3	5.1	6.5	6.0	:	5.7
Slovakia	:	:	-5.4	40.5	-7.9	-4.5	-9.1	:	8.9	:	9.0	:	5.6
Sweden	0.3	-8.3	-0.2	5.9	2.4	-1.3	3.8	5.5	6.6	5.6	6.3	:	4.8
United Kingdom	1.1	-0.4	5.5	2.3	4.4	6.7	5.1	6.2	2.9	4.8	4.1	:	4.3
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15 [1]	1.3	0.2	1.9	0.2	-0.5	2.0	2.2	2.5	1.6	2.4	2.6	:	2.6
USA	1.7	1.0	4.7	0.4	-2.3	3.2	5.8	1.7	3.9	-0.1	3.5	:	1.2
Japan	3.3	-1.6	-1.2	-3.1	-3.4	-2.2	:	:	:	:	:	:	:

[1] Excluding Portugal up to 1985.

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1971-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	3.8	-3.2	6.7	5.7	-2.8	-2.5	2.3	*4.5*	5.4	*4.5*	4.2	*:*	4.1
Germany	2.2	-1.8	7.7	-3.7	-7.5	-0.2	2.6	*5.7*	4.2	*8.1*	4.7	*:*	4.6
Greece	3.5	4.6	15.9	4.9	6.8	18.3	8.2	*3.7*	1.1	*4.6*	5.0	*:*	5.3
Spain	4.3	-2.5	11.6	0.1	-2.9	2.5	3.7	*6.7*	6.2	*5.7*	6.6	*:*	6.3
France	5.4	0.4	8.0	2.7	-4.0	1.3	2.9	*4.5*	4.7	*5.5*	3.8	*:*	4.3
Ireland	4.5	2.9	16.2	-10.4	2.3	0.4	5.3	*3.4*	16.8	*7.0*	3.5	*:*	6.5
Italy	3.9	-0.1	6.5	0.8	-1.0	-5.2	1.4	*1.1*	-3.1	*4.4*	2.7	*:*	2.6
Luxembourg	4.2	2.1	9.4	8.6	-2.5	-20.0	2.9	*8.0*	1.5	*8.0*	5.0	*:*	6.0
Netherlands	2.9	1.3	5.5	-1.3	-4.9	4.1	5.7	*3.4*	0.3	*5.6*	7.7	*:*	9.0
Austria	3.5	0.1	6.3	0.8	-9.6	8.1	0.5	*3.0*	-1.0	*3.3*	3.5	*:*	3.7
Portugal	:	0.0	11.1	-2.7	-10.5	-6.5	6.2	*5.0*	-1.1	*5.7*	0.9	*:*	3.1
Finland	3.7	-9.8	4.4	12.0	-9.8	-6.9	8.2	*6.9*	0.3	*4.1*	4.9	*:*	4.1
Euro area [1]	3.8	-0.6	7.8	-0.3	-4.4	-0.2	2.9	*4.2*	2.5	*5.9*	4.3	*:*	4.4
Czech Republic	:	3.6	8.9	4.5	7.7	3.3	5.1	*5.2*	5.8	*6.4*	4.8	*:*	5.7
Denmark	2.6	5.3	6.3	-0.3	2.8	2.1	5.4	*5.3*	4.8	*3.5*	4.9	*:*	4.0
Estonia	:	:	:	:	:	:	:	*6.4*	13.0	*6.5*	6.5	*:*	6.1
Cyprus	:	:	9.7	1.8	11.8	-12.7	18.0	*6.0*	6.0	*6.0*	5.3	*:*	6.0
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Lithuania	:	:	18.7	22.3	10.8	7.5	24.9	*12.0*	12.7	*7.6*	10.8	*:*	8.2
Hungary	:	:	:	:	:	:	:	*3.0*	4.1	*5.4*	-3.9	*:*	7.2
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Poland	:	:	14.9	-10.4	-9.6	:	:	*:*	4.7	*:*	7.2	*:*	9.0
Slovenia	:	8.0	12.1	6.4	-2.7	11.4	9.4	*5.6*	2.2	*6.0*	3.0	*:*	5.3
Slovakia	:	:	10.3	-2.0	1.7	0.6	9.7	*:*	8.1	*:*	8.3	*:*	5.2
Sweden	4.8	0.5	8.2	-4.4	-3.6	-3.0	6.7	*8.2*	11.0	*6.5*	6.0	*:*	5.0
United Kingdom	3.2	0.0	4.6	3.1	0.3	-5.1	3.6	*3.9*	2.2	*3.4*	3.7	*:*	4.0
EU-25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
EU-15 [1]	3.7	-0.2	7.4	0.2	-3.4	-1.1	3.2	*4.3*	2.7	*5.5*	4.3	*:*	4.4
USA	5.3	7.7	11.7	-4.2	-5.5	3.1	11.4	*10.6*	10.0	*6.6*	7.3	*:*	6.2
Japan	5.8	-0.7	3.3	1.6	-9.5	9.2	:	*:*	:	*:*	:	*:*	:

[1] Excluding Portugal up to 1985.

TABLE 12 : Public investment (as a percentage of GDP, 1971-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	3.4	1.5	1.8	1.7	1.7	1.7	1.6	*1.8*	1.8	*2.0*	2.0	*:*	1.7
Germany	3.1	2.5	1.9	1.8	1.7	1.5	1.4	*1.4*	1.3	*1.4*	1.3	*:*	1.3
Greece	2.8	3.2	3.5	4.0	3.6	4.0	4.1	*3.3*	3.1	*3.1*	3.2	*:*	3.2
Spain	2.8	4.0	3.2	3.4	3.6	3.6	3.5	*3.7*	3.5	*3.7*	3.5	*:*	3.6
France	3.3	3.2	3.0	3.1	3.1	3.2	3.3	*3.4*	3.2	*3.4*	3.2	*:*	3.3
Ireland	3.9	2.2	2.9	4.3	4.2	3.9	3.7	*3.9*	3.8	*3.9*	4.0	*:*	3.8
Italy	3.2	2.7	2.3	2.5	1.9	2.6	2.6	*2.4*	2.7	*2.9*	2.7	*:*	2.8
Luxembourg	:	4.6	4.4	4.4	5.1	5.0	4.7	*5.1*	5.0	*5.1*	5.0	*:*	5.1
Netherlands	2.7	2.1	2.9	3.3	3.6	3.4	3.1	*3.5*	3.0	*3.4*	3.0	*:*	3.0
Austria	4.2	3.1	2.0	1.2	1.3	1.2	1.1	*1.2*	1.1	*1.1*	1.1	*:*	1.0
Portugal	3.0	3.4	4.0	3.9	3.6	3.4	3.1	*3.2*	2.9	*3.0*	2.9	*:*	3.1
Finland	3.8	3.1	2.9	2.8	2.9	3.0	3.0	*2.8*	3.0	*2.7*	2.9	*:*	2.8
Euro area	3.2	2.8	2.5	2.6	2.5	2.6	2.5	*2.6*	2.5	*2.7*	2.5	*:*	2.6
Czech Republic	:	:	3.7	3.2	3.7	4.4	5.0	*3.9*	6.0	*3.9*	6.5	*:*	6.8
Denmark	3.0	1.7	1.8	1.9	1.8	1.6	1.9	*1.8*	1.9	*1.7*	2.0	*:*	2.0
Estonia	:	:	4.4	4.1	4.7	4.3	3.0	*4.3*	3.2	*4.2*	3.7	*:*	3.5
Cyprus	:	:	:	3.0	3.0	3.4	4.1	*3.6*	4.1	*3.5*	4.1	*:*	4.1
Latvia	:	2.3	1.8	1.1	1.3	1.5	1.5	*2.6*	2.3	*3.1*	2.7	*:*	3.2
Lithuania	:	:	2.5	2.2	2.9	3.0	3.5	*3.4*	3.7	*3.4*	3.6	*:*	3.5
Hungary	:	:	:	3.8	5.0	3.5	3.6	*2.3*	3.4	*3.1*	2.4	*:*	2.6
Malta	:	:	:	3.8	4.6	5.3	4.4	*3.9*	4.8	*3.7*	4.5	*:*	4.4
Poland	:	3.2	3.5	3.5	3.6	3.4	3.5	*4.2*	4.0	*4.7*	4.3	*:*	4.1
Slovenia	:	:	:	3.2	3.0	3.4	3.4	*2.9*	3.4	*2.9*	3.4	*:*	3.4
Slovakia	:	:	3.8	3.1	3.3	2.6	2.5	*2.6*	2.6	*2.4*	2.4	*:*	2.2
Sweden	3.9	2.5	3.2	3.1	3.2	3.1	3.1	*3.0*	3.1	*3.0*	3.2	*:*	3.1
United Kingdom	3.0	2.0	1.4	1.4	1.5	1.6	1.8	*2.0*	2.1	*2.1*	2.4	*:*	2.5
EU-25	:	:	:	2.4	2.4	2.5	2.5	*2.5*	2.5	*2.6*	2.6	*:*	2.6
EU-15	3.2	2.7	2.3	2.4	2.3	2.4	2.4	*2.5*	2.4	*2.5*	2.5	*:*	2.6
USA	2.7	2.5	2.5	2.7	2.8	2.7	2.6	*3.2*	3.2	*3.2*	3.3	*:*	3.3
Japan	5.3	5.9	5.6	4.9	4.7	4.2	3.7	*3.3*	3.4	*3.1*	3.2	*:*	3.1

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1986-2007) [1] 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1965-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	-0.4	-0.4	-0.2	0.7	0.3	-0.7	-0.1	*-0.7*	-0.8	*-0.6*	-0.8	*:*	-1.0
Germany	-0.4	1.2	-0.5	1.1	0.1	-1.1	-0.6	*-1.2*	-0.9	*-1.0*	-0.8	*:*	-0.4
Greece	0.2	-1.5	-2.2	-0.2	0.1	0.6	2.0	*2.2*	2.0	*2.2*	2.0	*:*	2.2
Spain	0.0	-0.8	-0.3	2.4	1.5	0.8	0.2	*:*	0.0	*:*	-0.2	*:*	-0.5
France	-0.1	-0.5	-0.2	1.9	1.1	-0.2	-0.2	*-0.6*	-0.5	*-0.7*	-0.9	*:*	-1.0
Ireland	-0.1	-2.6	1.8	3.7	3.1	1.4	0.1	*-1.5*	-1.6	*-2.0*	-2.2	*:*	-2.6
Italy	0.1	-0.6	0.7	1.8	0.6	-0.4	-0.5	*-1.6*	-1.5	*-1.4*	-1.2	*:*	-1.2
Luxembourg	:	1.3	0.2	1.2	-1.0	-2.2	-1.8	*-1.6*	-1.6	*-2.0*	-1.3	*:*	-1.2
Netherlands	-0.5	-0.7	1.2	2.2	0.2	-1.5	-1.3	*-2.5*	-2.2	*-2.4*	-1.9	*:*	-1.4
Austria	-0.2	0.3	0.4	0.7	-0.2	-0.8	-0.2	*-0.6*	-0.7	*-0.4*	-1.0	*:*	-0.9
Portugal	-0.1	-0.4	0.7	2.7	1.3	-1.2	-1.3	*-2.8*	-2.0	*-2.7*	-2.4	*:*	-2.6
Finland	0.2	-5.3	1.3	0.9	-0.2	-0.8	-0.2	*-0.3*	-1.2	*-0.4*	-0.7	*:*	-0.5
Euro area	:	-0.1	0.0	1.6	0.6	-0.6	-0.4	*-1.2*	-0.9	*-1.2*	-0.9	*:*	-0.8
Czech Republic	:	:	:	-1.2	-2.3	-2.3	-1.4	*0.4*	-0.2	*1.4*	0.6	*:*	1.2
Denmark	-0.3	-2.0	1.2	1.2	-0.3	-1.4	-1.3	*-0.4*	-0.6	*-0.3*	-0.4	*:*	-0.4
Estonia	:	:	-2.8	-0.8	-0.2	-0.6	-0.2	*-0.5*	0.5	*-0.5*	0.1	*:*	-0.1
Cyprus	:	:	-0.3	2.0	0.3	-0.9	-1.1	*-0.6*	-0.7	*0.2*	-0.2	*:*	0.4
Latvia	:	:	-1.2	0.0	-0.5	-0.3	0.1	*0.5*	0.8	*-0.7*	0.3	*:*	-0.7
Lithuania	:	:	-3.9	-2.5	-1.6	2.1	2.1	*1.7*	2.2	*0.8*	1.4	*:*	0.2
Hungary	:	:	-0.6	0.0	-0.6	-1.3	-0.9	*-0.6*	-0.7	*-0.5*	-0.3	*:*	0.2
Malta	:	:	0.5	1.8	2.1	-1.1	-2.0	*-2.2*	-3.1	*-2.2*	-4.3	*:*	-5.1
Poland	:	:	-0.7	-1.8	-2.8	-1.6	0.4	*0.8*	0.2	*1.5*	0.4	*:*	0.6
Slovenia	:	:	:	-0.3	-0.5	-1.6	-1.2	*-0.4*	-0.9	*0.2*	-0.5	*:*	0.2
Slovakia	:	:	0.0	-1.1	-1.1	-2.1	-1.5	*0.3*	-1.3	*1.3*	-0.9	*:*	0.2
Sweden	-0.3	-3.2	-0.7	0.2	-0.4	-1.4	-0.3	*0.0*	-0.4	*0.1*	-0.1	*:*	0.0
United Kingdom	0.2	-2.1	0.3	0.8	0.2	0.1	0.6	*-0.3*	-0.5	*-0.3*	-0.9	*:*	-0.8
EU-25	:	:	:	1.3	0.4	-0.6	-0.3	*-1.0*	-0.8	*-0.9*	-0.8	*:*	-0.7
EU-15	:	-0.5	0.0	1.4	0.5	-0.5	-0.3	*-1.0*	-0.8	*-1.0*	-0.9	*:*	-0.8

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.
This is particularly the case for the recently-acceded Member States, where the calculations are based on shorter time series.

TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	4.9	2.7	1.2	1.8	1.8	1.7	2.3	*1.8*	2.6	*2.1*	2.3	*:*	1.9
Germany	3.9	3.3	0.2	1.2	1.5	1.0	0.8	*0.6*	0.6	*0.7*	0.4	*:*	0.5
Greece	12.2	13.9	5.1	3.5	4.0	3.5	3.6	*3.3*	3.7	*3.3*	3.1	*:*	3.1
Spain	10.3	5.4	2.9	4.2	4.4	4.0	4.0	*3.9*	4.3	*3.7*	3.8	*:*	2.9
France	6.7	1.7	0.9	1.8	2.2	1.6	1.6	*1.7*	1.4	*1.7*	1.7	*:*	1.9
Ireland	8.7	2.9	4.4	5.7	5.0	2.0	2.2	*2.6*	3.2	*2.6*	2.5	*:*	2.6
Italy	9.9	4.9	2.8	2.6	3.1	2.9	2.6	*2.3*	2.4	*2.1*	2.2	*:*	2.2
Luxembourg	4.9	3.5	2.7	1.9	1.1	2.1	2.5	*3.2*	1.6	*2.4*	2.3	*:*	2.5
Netherlands	4.9	2.3	2.1	5.2	3.8	2.5	0.9	*0.9*	0.9	*0.9*	0.9	*:*	1.6
Austria	4.6	3.0	0.7	1.8	1.3	1.4	1.9	*1.6*	1.6	*1.5*	1.4	*:*	1.3
Portugal	11.9	7.9	3.3	3.5	4.0	2.7	2.8	*2.3*	2.0	*2.4*	2.2	*:*	2.5
Finland	8.0	2.5	1.6	3.2	1.0	-0.3	0.5	*0.7*	0.5	*1.2*	0.5	*:*	0.9
Euro area	6.6	3.6	1.4	2.4	2.5	2.0	1.8	*1.7*	1.8	*1.7*	1.7	*:*	1.7
Czech Republic	:	18.3	6.4	4.9	2.8	2.6	3.0	*3.8*	2.7	*3.2*	2.5	*:*	2.2
Denmark	7.5	1.6	2.0	2.5	1.5	2.2	2.1	*1.7*	2.3	*1.8*	2.0	*:*	1.9
Estonia	:	:	10.5	5.6	4.4	2.1	3.1	*3.5*	4.7	*2.9*	3.2	*:*	2.9
Cyprus	:	3.9	2.6	3.2	2.2	5.3	2.8	*2.9*	2.5	*2.4*	2.2	*:*	2.1
Latvia	:	133.9	6.9	2.1	3.4	3.6	7.2	*4.1*	6.2	*3.8*	7.0	*:*	6.1
Lithuania	:	218.7	7.9	-1.2	0.2	-1.1	2.8	*3.0*	3.2	*3.5*	4.1	*:*	4.0
Hungary	:	:	14.0	8.6	8.9	6.8	6.0	*4.8*	3.3	*4.1*	2.7	*:*	3.0
Malta	:	:	1.8	1.8	2.0	4.6	2.0	*2.6*	2.8	*1.2*	2.8	*:*	2.3
Poland	:	37.6	11.3	4.0	1.3	0.5	2.9	*1.8*	2.3	*2.0*	2.2	*:*	2.5
Slovenia	:	65.5	7.6	8.7	7.9	5.8	3.2	*3.1*	2.5	*2.7*	2.5	*:*	2.5
Slovakia	:	:	6.2	4.2	4.0	4.7	4.6	*2.9*	2.7	*2.6*	3.1	*:*	2.8
Sweden	7.2	3.7	1.1	2.3	1.7	2.1	0.8	*1.3*	1.2	*2.0*	1.8	*:*	2.2
United Kingdom	8.1	3.4	2.5	2.3	3.1	2.9	2.0	*2.2*	2.2	*2.5*	2.6	*:*	2.6
EU-25	:	:	1.9	2.4	2.6	2.2	1.9	*1.9*	1.9	*1.9*	1.9	*:*	1.9
EU-15	6.9	3.5	1.6	2.3	2.6	2.2	1.8	*1.8*	1.8	*1.9*	1.9	*:*	1.9
USA	4.7	2.5	1.7	2.4	1.8	2.0	2.6	*2.3*	2.7	*2.2*	2.9	*:*	2.4
Japan	5.2	0.9	-0.7	-1.3	-1.3	-1.4	-1.2	*-0.8*	-1.0	*-0.2*	-0.3	*:*	0.9

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average 1961-90	5-year average 1991-95	1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	XI-2005	2006 forecast of *III-2005*	XI-2005	2007 forecast of *III-2005*	XI-2005
Belgium	4.7	2.2	1.5	2.3	1.3	1.6	2.5	*2.2*	2.9	*1.8*	2.7	*:*	2.0
Germany	3.4	3.0	0.8	1.8	1.2	1.5	1.4	*1.3*	1.7	*1.1*	1.6	*:*	1.1
Greece	11.5	13.8	4.8	3.3	3.7	3.4	2.9	*3.1*	3.7	*3.1*	3.3	*:*	3.0
Spain	10.0	5.6	2.8	3.4	2.9	2.8	3.4	*2.9*	3.7	*2.7*	3.4	*:*	2.9
France	6.8	1.9	0.9	1.7	1.0	1.4	1.7	*2.0*	1.3	*1.8*	1.7	*:*	1.6
Ireland	8.7	2.7	3.4	3.6	5.4	3.9	1.0	*2.2*	1.8	*2.5*	2.4	*:*	2.3
Italy	9.4	5.8	2.8	2.8	3.1	2.5	2.2	*2.0*	2.0	*1.9*	2.1	*:*	1.9
Luxembourg	4.6	3.2	1.6	3.2	2.1	1.9	2.1	*2.0*	2.6	*1.8*	3.0	*:*	2.0
Netherlands	4.6	2.6	2.1	4.6	3.0	2.2	1.1	*1.4*	1.7	*1.2*	2.0	*:*	1.8
Austria	4.4	3.1	1.4	1.9	1.0	1.5	2.0	*2.3*	2.3	*1.7*	2.1	*:*	1.7
Portugal	12.2	7.5	2.9	11.0	3.3	2.8	2.7	*2.3*	2.2	*2.1*	2.7	*:*	2.2
Finland	7.4	3.1	2.0	3.6	2.9	0.0	0.1	*1.6*	1.5	*1.8*	1.1	*:*	1.0
Euro area	6.4	3.8	1.6	2.5	1.9	1.9	1.9	*1.9*	2.0	*1.7*	2.1	*:*	1.7
Czech Republic	:	18.3	6.0	3.5	0.7	1.8	2.7	*2.1*	2.1	*2.5*	2.3	*:*	2.3
Denmark	7.4	1.9	1.9	2.3	2.3	2.0	1.6	*1.7*	1.7	*1.7*	2.0	*:*	1.9
Estonia	:	:	10.0	6.1	3.2	0.7	2.6	*3.2*	4.1	*2.7*	3.3	*:*	2.6
Cyprus	:	:	2.4	1.9	2.5	3.6	2.2	*2.5*	2.6	*2.3*	2.3	*:*	2.2
Latvia	:	:	6.9	2.6	2.2	3.0	6.0	*5.0*	6.5	*3.6*	6.0	*:*	4.8
Lithuania	:	:	6.0	2.4	-0.1	-2.7	1.1	*2.8*	2.4	*2.5*	2.7	*:*	2.8
Hungary	:	:	14.7	8.1	3.6	4.5	7.5	*4.8*	3.6	*4.3*	2.1	*:*	3.0
Malta	:	:	1.7	1.6	1.6	0.7	3.4	*2.1*	3.2	*2.2*	2.8	*:*	2.4
Poland	:	41.1	12.0	4.7	1.6	0.7	3.3	*2.1*	1.9	*2.3*	2.1	*:*	2.3
Slovenia	:	64.9	8.1	7.6	7.9	5.4	3.5	*2.5*	2.5	*2.5*	2.4	*:*	2.3
Slovakia	:	:	7.2	5.9	2.5	7.7	6.9	*3.6*	2.9	*2.8*	3.4	*:*	2.0
Sweden	7.2	4.8	1.3	2.4	1.8	2.3	1.2	*0.7*	1.0	*1.5*	1.5	*:*	1.8
United Kingdom	7.7	4.2	2.3	2.3	1.5	2.0	1.3	*1.9*	2.4	*2.0*	2.4	*:*	2.0
EU-25	:	:	2.0	2.6	1.9	2.0	1.9	*1.9*	2.1	*1.8*	2.1	*:*	1.8
EU-15	6.6	3.8	1.7	2.5	1.9	1.9	1.8	*1.9*	2.1	*1.8*	2.1	*:*	1.8
USA	4.6	2.6	1.8	2.1	1.4	1.9	2.6	*2.4*	2.9	*2.3*	2.8	*:*	2.2
Japan	5.5	1.1	-0.1	-1.0	-1.2	-0.7	-0.5	*-0.4*	-0.5	*-0.1*	0.0	*:*	1.2

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2007)

	long-term average 1961-90	5-year average 1991-95	1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	XI-2005	2006 forecast of *III-2005*	XI-2005	2007 forecast of *III-2005*	XI-2005
Belgium	5.1	2.4	1.6	2.4	1.6	1.5	1.9	*2.0*	2.7	*1.8*	2.6	*:*	1.9
Germany	3.5	3.1	1.1	1.9	1.3	1.0	1.8	*1.3*	2.0	*1.1*	1.6	*:*	1.1
Greece	11.6	13.9	4.6	3.7	3.9	3.4	3.0	*3.2*	3.5	*3.2*	3.1	*:*	3.0
Spain	10.1	5.2	2.6	2.8	3.6	3.1	3.1	*2.9*	3.6	*2.7*	3.3	*:*	2.6
France	6.7	2.2	1.3	1.8	1.9	2.2	2.3	*1.9*	2.0	*1.8*	2.1	*:*	1.9
Ireland	8.6	2.5	2.6	4.0	4.7	4.0	2.3	*2.1*	2.2	*2.4*	2.5	*:*	2.4
Italy	9.1	5.0	2.4	2.3	2.6	2.8	2.3	*2.0*	2.2	*1.9*	2.1	*:*	1.9
Luxembourg	4.6	2.8	1.7	2.4	2.1	2.5	3.2	*3.1*	4.1	*1.9*	4.4	*:*	2.2
Netherlands	4.7	2.9	1.9	5.1	3.9	2.2	1.4	*1.3*	1.7	*-3.0*	2.0	*:*	1.9
Austria	4.5	3.2	1.2	2.3	1.7	1.3	2.0	*2.3*	2.2	*1.7*	2.1	*:*	1.7
Portugal	13.2	7.1	2.4	4.4	3.7	3.3	2.5	*2.3*	2.2	*2.1*	2.7	*:*	2.2
Finland	7.6	2.3	1.6	2.7	2.0	1.3	0.1	*1.1*	1.0	*1.4*	1.4	*:*	1.3
Euro area	6.9	3.5	1.7	2.4	2.3	2.1	2.1	*1.9*	2.3	*1.5*	2.2	*:*	1.8
Czech Republic	:	:	6.5	4.5	1.4	-0.1	2.6	*1.9*	1.7	*2.6*	2.9	*:*	2.6
Denmark	7.2	2.0	2.0	2.3	2.4	2.0	0.9	*1.4*	1.7	*1.7*	2.0	*:*	1.9
Estonia	:	:	8.8	5.6	3.6	1.4	3.0	*3.3*	4.1	*2.7*	3.3	*:*	2.6
Cyprus	:	:	:	2.0	2.8	4.0	1.9	*2.3*	2.3	*2.1*	2.1	*:*	2.1
Latvia	:	:	:	2.5	2.0	2.9	6.2	*5.0*	6.8	*3.6*	6.0	*:*	4.8
Lithuania	:	:	7.7	1.3	0.4	-1.1	1.1	*2.9*	2.6	*2.6*	2.8	*:*	2.9
Hungary	:	:	15.1	9.1	5.2	4.7	6.8	*3.8*	3.7	*3.6*	2.0	*:*	3.0
Malta	:	:	:	2.5	2.6	1.9	2.7	*2.4*	3.1	*2.1*	2.6	*:*	2.2
Poland	:	:	:	5.3	1.9	0.7	3.6	*2.1*	2.2	*2.3*	2.3	*:*	2.5
Slovenia	:	:	8.2	8.6	7.5	5.7	3.6	*2.6*	2.6	*2.6*	2.5	*:*	2.5
Slovakia	:	:	8.2	7.2	3.5	8.4	7.5	*3.7*	2.9	*2.9*	3.6	*:*	2.1
Sweden	6.9	4.2	1.1	2.7	2.0	2.3	1.0	*0.4*	0.7	*1.4*	1.4	*:*	1.8
United Kingdom	8.0	3.4	1.6	1.2	1.3	1.4	1.3	*1.7*	2.4	*2.0*	2.2	*:*	2.0
EU-25	:	:	2.4	2.5	2.1	1.9	2.1	*1.9*	2.3	*1.7*	2.2	*:*	1.9
EU-15	7.1	3.7	1.7	2.2	2.1	2.0	2.0	*1.8*	2.3	*1.6*	2.2	*:*	1.9
USA	5.1	3.1	2.5	2.8	1.6	2.3	2.7	*2.6*	3.3	*2.3*	2.9	*:*	2.2
Japan	5.6	1.4	0.3	-0.6	-0.9	-0.3	0.0	*-0.1*	-0.2	*0.2*	0.3	*:*	2.0

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 200:07.11.2005

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	2.4	2.5	2.8	3.1	3.5	2.6	2.5	1.8	1.9	1.9	1.9	2.0
Germany	1.7	1.6	2.1	2.5	2.3	1.9	1.3	1.1	1.1	1.1	1.1	1.0
Greece	3.4	3.2	3.7	3.6	2.9	2.8	3.3	3.1	3.0	2.9	3.2	3.2
Spain	3.3	3.2	3.7	4.0	3.6	3.6	3.0	2.9	2.9	2.8	2.4	2.4
France	1.9	1.8	2.2	2.2	2.6	2.2	1.9	1.7	1.7	2.0	2.0	2.0
Ireland	2.0	2.1	2.3	2.5	2.9	2.6	2.3	2.2	2.2	2.2	2.4	2.5
Italy	2.0	2.2	2.2	2.4	2.3	2.2	2.1	2.0	2.0	2.0	1.9	1.8
Luxembourg	3.2	3.6	4.3	5.2	5.9	4.7	4.3	3.0	2.7	2.4	2.0	1.6
Netherlands	1.4	1.3	1.6	2.5	2.3	1.9	2.3	1.6	1.6	1.8	1.9	2.1
Austria	2.3	2.1	2.2	2.3	2.3	2.2	2.2	1.7	1.6	1.7	1.7	1.8
Portugal	2.1	1.8	2.4	2.7	3.6	3.0	2.5	2.1	2.1	2.1	2.3	2.4
Finland	0.2	0.9	1.4	1.3	1.7	1.5	1.4	1.3	1.3	1.3	1.2	1.4
Euro area	2.0	2.0	2.4	2.6	2.6	2.3	2.0	1.8	1.8	1.8	1.8	1.8
Czech Republic	1.4	1.2	1.7	2.5	3.7	3.0	2.6	2.5	2.6	2.5	2.8	2.6
Denmark	1.0	1.6	2.2	2.0	1.9	2.1	2.0	2.0	1.9	1.6	2.0	2.1
Estonia	4.5	3.6	4.0	4.3	4.0	3.4	3.1	2.7	2.6	2.5	2.5	2.7
Cyprus	2.5	2.1	1.5	3.2	3.2	2.2	1.6	1.4	1.8	1.9	2.0	2.6
Latvia	6.8	6.7	6.6	7.2	6.8	5.9	5.6	5.6	5.2	4.1	4.9	4.9
Lithuania	3.1	2.4	2.2	2.6	2.6	2.8	3.1	2.8	3.1	2.8	2.9	2.9
Hungary	3.5	3.6	3.9	3.7	1.8	1.9	2.1	2.3	2.8	3.0	3.1	3.1
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Poland	3.6	2.2	1.4	1.7	2.5	2.3	2.0	2.4	2.7	2.6	2.5	2.4
Slovenia	2.8	2.2	2.3	3.1	2.6	2.5	2.5	2.4	2.6	2.5	2.4	2.4
Slovakia	2.8	2.6	2.2	4.1	4.2	3.9	3.9	2.6	2.3	2.1	2.0	2.0
Sweden	0.7	0.5	0.8	0.8	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
United Kingdom	1.7	2.0	2.8	2.9	2.5	2.3	2.1	2.0	2.1	2.0	2.0	1.9
EU-25	2.0	2.0	2.4	2.6	2.5	2.3	2.0	1.8	1.9	1.9	1.9	1.9
EU-15	2.0	2.0	2.4	2.6	2.5	2.3	2.0	1.8	1.9	1.9	1.9	1.9
USA	3.0	2.9	3.7	3.5	3.6	3.2	2.5	2.4	2.3	2.3	2.2	2.2
Japan	-0.2	-0.1	-0.3	-0.2	0.3	0.4	0.5	0.1	0.4	2.5	2.6	2.6

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	4.1	0.5	3.0	2.2	-0.9	-2.9	1.9	*1.5*	5.8	*1.6*	2.2	*:*	1.9
Germany	2.7	0.7	0.3	0.5	-0.9	-1.0	0.0	*0.5*	0.7	*0.6*	0.3	*:*	0.2
Greece	10.0	8.7	5.0	0.5	2.0	0.3	2.8	*1.8*	2.5	*1.3*	1.4	*:*	1.0
Spain	:	3.1	2.2	0.6	-0.6	-1.3	1.7	*0.9*	2.8	*0.8*	2.6	*:*	2.0
France	5.0	-1.5	0.5	-0.9	-2.5	-1.9	2.0	*0.5*	1.2	*0.3*	1.7	*:*	1.9
Ireland	7.4	1.1	2.4	3.8	-1.5	-8.8	-2.4	*0.4*	1.9	*0.8*	1.9	*:*	1.2
Italy	7.5	5.5	1.6	3.2	1.4	0.5	4.1	*2.3*	5.3	*1.6*	3.1	*:*	2.3
Luxembourg	:	-0.4	-0.1	-0.9	0.2	0.0	6.0	*1.5*	1.0	*1.5*	1.5	*:*	2.0
Netherlands	2.8	-0.8	1.8	1.1	-3.2	-1.8	0.1	*1.6*	2.8	*0.3*	1.1	*:*	2.0
Austria	:	-0.1	0.8	0.2	-0.1	-0.6	0.9	*0.6*	1.0	*0.7*	0.4	*:*	0.4
Portugal	:	1.4	1.3	0.5	-0.5	-3.9	0.4	*0.6*	1.2	*0.0*	1.7	*:*	1.7
Finland	:	3.7	-1.4	-3.1	-5.2	-3.7	0.1	*0.4*	-0.7	*0.2*	0.4	*:*	0.1
Euro area	4.3	1.0	1.1	0.8	-1.2	-1.6	1.1	*1.0*	2.2	*0.7*	1.4	*:*	1.3
Czech Republic	:	:	3.0	-1.0	-6.8	-0.8	1.8	*-1.1*	-0.1	*1.5*	2.3	*:*	2.4
Denmark	:	0.1	1.3	1.3	-1.9	-1.3	1.6	*2.0*	5.6	*0.3*	3.6	*:*	0.6
Estonia	:	:	5.8	10.2	-4.3	2.9	0.5	*3.1*	4.2	*2.6*	3.2	*:*	2.9
Cyprus	:	:	2.8	3.5	-4.0	-0.8	1.2	*1.8*	2.8	*2.5*	2.6	*:*	1.0
Latvia	:	:	0.5	2.6	2.8	7.9	16.6	*8.5*	14.9	*2.5*	6.0	*:*	2.2
Lithuania	:	:	3.0	-3.1	-6.3	-0.9	7.7	*2.3*	8.2	*1.1*	5.7	*:*	4.2
Hungary	:	:	11.8	2.2	-5.0	-0.3	-1.5	*-0.1*	-1.6	*-0.2*	1.6	*:*	1.0
Malta	:	:	6.0	-22.3	3.1	-3.0	-6.1	*0.8*	1.1	*1.6*	1.6	*:*	1.3
Poland	:	:	7.1	1.3	4.8	5.8	1.8	*-10.0*	1.0	*2.3*	1.8	*:*	2.3
Slovenia	:	57.1	6.1	8.0	3.7	2.0	2.6	*1.0*	1.5	*0.9*	0.9	*:*	0.7
Slovakia	:	:	4.6	5.3	1.0	-4.0	-1.9	*-1.9*	0.5	*0.4*	2.4	*:*	2.3
Sweden	:	3.2	-1.6	2.3	-2.3	-2.7	-0.2	*0.3*	3.8	*0.1*	1.1	*:*	0.6
United Kingdom	6.7	2.9	-2.2	-1.5	-0.2	1.4	-0.5	*3.6*	3.4	*1.7*	2.9	*:*	2.2
EU-25	:	:	1.1	0.7	-1.2	-1.2	0.9	*0.9*	2.3	*0.9*	1.6	*:*	1.4
EU-15	4.6	1.2	0.7	0.7	-1.2	-1.4	0.9	*1.3*	2.5	*0.8*	1.6	*:*	1.3
USA	3.9	0.2	-1.8	-0.7	-0.6	2.0	3.7	*3.4*	3.1	*2.2*	2.1	*:*	2.0
Japan	:	:	:	:	:	:	:	*-1.2*	3.4	*-0.8*	5.4	*:*	6.1

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	4.3	-0.7	4.0	2.4	-1.8	-2.4	2.7	*1.5*	6.2	*1.0*	2.4	*:*	2.0
Germany	2.2	-0.7	1.1	0.2	-3.4	-3.0	0.0	*1.2*	3.5	*0.8*	2.7	*:*	1.4
Greece	10.6	8.5	4.7	2.0	0.9	1.3	0.9	*1.7*	3.5	*0.4*	2.5	*:*	0.8
Spain	:	2.3	2.4	-1.5	-3.2	-1.5	1.8	*1.5*	3.6	*1.1*	2.7	*:*	2.1
France	5.6	-1.6	0.9	-1.2	-4.2	-2.0	1.7	*2.0*	2.4	*0.5*	1.5	*:*	1.1
Ireland	7.2	2.4	2.6	3.0	-3.8	-8.4	-2.3	*1.1*	3.2	*0.4*	2.9	*:*	1.1
Italy	7.8	4.9	2.1	2.4	-0.2	-0.4	5.1	*2.5*	7.5	*0.2*	3.1	*:*	1.0
Luxembourg	:	0.4	0.9	0.7	-0.3	-0.7	7.8	*1.0*	4.5	*1.0*	2.0	*:*	2.0
Netherlands	2.8	-1.2	2.2	-0.2	-4.6	-3.2	0.6	*2.1*	3.7	*0.2*	2.5	*:*	2.0
Austria	:	0.1	1.2	-0.4	-2.3	-1.4	1.0	*1.4*	2.7	*1.3*	1.8	*:*	1.0
Portugal	:	0.3	2.0	-0.2	-2.6	-3.1	1.9	*0.8*	4.2	*-0.1*	3.2	*:*	1.1
Finland	:	3.7	-0.1	-3.7	-2.7	-0.1	3.4	*2.5*	4.4	*1.1*	3.4	*:*	1.3
Euro area	4.6	0.4	1.8	0.2	-3.0	-2.3	1.5	*1.7*	4.1	*0.7*	2.5	*:*	1.5
Czech Republic	:	:	2.7	-2.6	-8.6	-0.2	1.6	*-3.0*	0.5	*1.1*	2.2	*:*	2.5
Denmark	:	-0.4	0.1	0.3	-0.9	-1.2	1.5	*2.1*	3.9	*0.4*	2.9	*:*	0.9
Estonia	:	:	5.9	4.0	0.1	-1.5	1.7	*2.7*	5.2	*2.2*	4.1	*:*	3.1
Cyprus	:	:	2.7	0.5	-0.6	-1.5	3.7	*3.1*	5.3	*2.0*	3.7	*:*	0.5
Latvia	:	:	4.3	1.5	6.0	6.9	9.6	*8.0*	13.8	*2.0*	5.0	*:*	1.1
Lithuania	:	:	-0.1	-3.0	-4.7	-3.4	-0.5	*1.6*	6.1	*0.8*	3.7	*:*	3.0
Hungary	:	:	12.7	2.5	-5.4	0.1	-0.9	*-0.3*	-0.5	*0.2*	1.3	*:*	1.0
Malta	:	:	5.5	-10.2	2.5	-5.7	-3.0	*2.9*	1.8	*2.1*	1.5	*:*	1.4
Poland	:	:	8.6	1.3	5.2	6.9	15.2	*-9.3*	-1.2	*1.8*	1.5	*:*	1.8
Slovenia	:	55.0	6.5	5.8	1.7	1.5	4.1	*1.9*	3.6	*0.7*	2.1	*:*	1.1
Slovakia	:	:	5.3	8.2	-0.2	-3.2	-1.8	*-1.4*	1.5	*0.1*	2.6	*:*	1.6
Sweden	:	3.5	0.0	3.5	-0.5	-2.8	0.8	*0.3*	5.3	*-0.7*	1.7	*:*	0.2
United Kingdom	6.8	3.4	-2.6	-0.9	-2.9	-0.7	-0.5	*3.5*	3.3	*1.6*	2.4	*:*	1.7
EU-25	:	:	1.6	0.3	-2.7	-1.8	1.5	*1.5*	3.7	*0.8*	2.4	*:*	1.5
EU-15	5.0	0.9	1.1	0.2	-2.9	-2.1	1.2	*1.9*	4.0	*0.7*	2.4	*:*	1.4
USA	5.3	0.1	-1.6	-3.0	-1.8	2.9	5.0	*3.8*	6.1	*2.6*	3.4	*:*	2.1
Japan	:	:	:	:	:	:	:	*0.0*	7.5	*-2.5*	6.5	*:*	3.0

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	-0.2	1.2	-0.9	-0.2	0.9	-0.5	-0.8	*0.0*	-0.4	*0.6*	-0.2	*:*	-0.1
Germany	0.5	1.4	-0.8	0.3	2.5	2.0	0.0	*-0.7*	-2.7	*-0.2*	-2.3	*:*	-1.3
Greece	-0.5	0.2	0.3	-1.4	1.1	-1.0	1.9	*0.2*	-1.0	*0.9*	-1.1	*:*	0.2
Spain	:	0.8	-0.2	2.1	2.7	0.2	-0.1	*-0.6*	-0.7	*-0.3*	-0.1	*:*	-0.1
France	-0.5	0.2	-0.5	0.3	1.9	0.1	0.3	*-1.4*	-1.2	*-0.2*	0.3	*:*	0.8
Ireland	0.1	-1.2	-0.2	0.8	2.4	-0.5	-0.1	*-0.7*	-1.3	*0.5*	-1.0	*:*	0.1
Italy	-0.3	0.5	-0.5	0.8	1.6	0.9	-0.9	*-0.2*	-2.0	*1.4*	0.0	*:*	1.3
Luxembourg	:	-0.8	-1.1	-1.6	0.5	0.7	-1.7	*0.5*	-3.4	*0.5*	-0.5	*:*	0.0
Netherlands	-0.1	0.5	-0.4	1.2	1.5	1.4	-0.4	*-0.5*	-0.9	*0.1*	-1.4	*:*	0.0
Austria	:	-0.1	-0.4	0.7	2.3	0.8	-0.1	*-0.8*	-1.7	*-0.6*	-1.4	*:*	-0.6
Portugal	:	1.2	-0.7	0.7	2.2	-0.8	-1.5	*-0.2*	-2.9	*0.2*	-1.5	*:*	0.6
Finland	:	-0.1	-1.3	0.5	-2.5	-3.6	-3.2	*-2.1*	-4.9	*-1.0*	-2.9	*:*	-1.1
Euro area	-0.3	0.6	-0.7	0.6	1.8	0.7	-0.4	*-0.7*	-1.8	*0.1*	-1.1	*:*	-0.2
Czech Republic	:	:	0.2	1.6	2.0	-0.6	0.2	*2.0*	-0.6	*0.4*	0.1	*:*	-0.1
Denmark	:	0.5	1.2	1.0	-1.0	-0.1	0.0	*-0.2*	1.6	*-0.1*	0.7	*:*	-0.3
Estonia	:	:	0.0	6.0	-4.4	4.5	-1.2	*0.4*	-1.0	*0.4*	-0.9	*:*	-0.2
Cyprus	:	:	0.1	3.0	-3.4	0.7	-2.4	*-1.3*	-2.4	*0.5*	-1.1	*:*	0.5
Latvia	:	:	-3.7	1.1	-3.0	1.0	6.5	*0.5*	1.0	*0.5*	1.0	*:*	1.0
Lithuania	:	:	3.1	0.0	-1.6	2.6	8.3	*0.7*	2.0	*0.3*	1.9	*:*	1.2
Hungary	:	:	-0.8	-0.3	0.4	-0.4	-0.6	*0.1*	-1.0	*-0.3*	0.4	*:*	0.0
Malta	:	:	0.5	-13.5	0.6	2.9	-3.2	*-2.0*	-0.7	*-0.5*	0.1	*:*	-0.1
Poland	:	:	-1.3	0.0	-0.4	-1.1	-11.7	*-0.8*	2.2	*0.5*	0.3	*:*	0.5
Slovenia	:	1.4	-0.4	2.1	2.0	0.5	-1.4	*-0.9*	-2.0	*0.2*	-1.2	*:*	-0.4
Slovakia	:	:	-0.6	-2.7	1.3	-0.8	-0.1	*-0.5*	-1.0	*0.2*	-0.2	*:*	0.7
Sweden	:	-0.2	-1.6	-1.2	-1.8	0.1	-0.9	*0.0*	-1.4	*0.8*	-0.6	*:*	0.4
United Kingdom	-0.1	-0.4	0.5	-0.5	2.8	2.1	0.0	*0.1*	0.1	*0.1*	0.5	*:*	0.5
EU-25	:	:	-0.5	0.5	1.6	0.6	-0.6	*-0.5*	-1.3	*0.1*	-0.7	*:*	-0.1
EU-15	-0.3	0.3	-0.4	0.5	1.7	0.7	-0.3	*-0.6*	-1.5	*0.1*	-0.8	*:*	-0.1
USA	-1.3	0.2	-0.1	2.4	1.1	-0.9	-1.2	*-0.3*	-2.8	*-0.4*	-1.2	*:*	-0.1
Japan	:	:	:	:	:	:	:	*-1.2*	-3.8	*1.7*	-1.0	*:*	3.0

TABLE 21 : Compensation of employees per head (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	8.4	4.8	2.2	3.5	4.1	1.6	2.1	*2.2*	2.6	*2.2*	2.7	*:*	2.4
Germany	6.7	6.1	2.4	2.3	2.0	2.4	1.4	*0.5*	-0.1	*1.4*	0.2	*:*	1.2
Greece	15.7	12.1	8.0	5.7	10.1	4.6	6.2	*5.9*	6.2	*6.1*	5.6	*:*	5.0
Spain	14.9	7.2	2.6	3.6	3.3	3.4	3.3	*3.7*	3.1	*3.7*	3.9	*:*	3.5
France	10.1	3.1	2.3	2.3	3.0	2.4	3.1	*2.8*	2.9	*2.9*	2.7	*:*	3.0
Ireland	12.4	4.6	5.3	7.4	5.1	5.6	5.5	*5.0*	4.9	*4.7*	4.5	*:*	4.5
Italy	13.6	5.3	2.8	3.2	2.5	3.8	2.9	*3.0*	2.9	*2.9*	2.6	*:*	2.7
Luxembourg	7.7	4.6	2.9	3.9	3.7	2.1	2.6	*3.0*	3.5	*2.5*	3.2	*:*	3.0
Netherlands	7.9	3.5	3.0	5.5	5.2	4.0	3.3	*0.7*	1.4	*0.0*	1.0	*:*	1.3
Austria	7.9	4.9	1.9	1.4	2.1	1.9	2.3	*2.5*	2.2	*2.6*	2.7	*:*	2.3
Portugal	17.0	10.6	7.3	-1.5	4.4	2.6	3.0	*3.1*	3.0	*3.3*	2.9	*:*	3.0
Finland	11.5	3.2	2.9	4.7	1.8	2.6	4.1	*4.1*	3.0	*3.8*	2.9	*:*	2.8
Euro area	9.8	5.2	2.4	2.7	2.7	2.6	2.4	*2.2*	1.8	*2.4*	2.0	*:*	2.4
Czech Republic	:	:	10.2	7.6	6.2	4.9	5.9	*6.5*	4.6	*6.4*	5.6	*:*	5.4
Denmark	9.8	3.1	3.8	4.4	3.8	3.5	3.2	*3.3*	3.3	*3.6*	3.6	*:*	3.8
Estonia	:	:	16.8	7.6	10.3	10.9	10.8	*6.1*	12.8	*6.4*	10.0	*:*	8.3
Cyprus	:	:	4.1	1.0	4.1	9.3	4.2	*4.5*	4.5	*4.0*	4.0	*:*	4.0
Latvia	:	:	11.9	3.4	4.0	11.3	16.5	*8.0*	16.0	*7.0*	12.0	*:*	10.0
Lithuania	:	:	15.6	3.6	0.9	8.8	8.1	*7.9*	9.1	*7.5*	8.1	*:*	6.8
Hungary	:	:	15.0	15.9	12.7	9.7	8.2	*7.0*	5.5	*6.2*	5.2	*:*	4.5
Malta	:	8.3	4.6	5.1	2.7	1.2	0.6	*1.4*	1.5	*1.6*	2.2	*:*	1.6
Poland	:	:	17.6	13.1	2.0	0.8	3.0	*4.1*	4.1	*4.4*	4.4	*:*	4.4
Slovenia	:	:	11.0	11.6	8.5	7.8	7.7	*5.0*	6.1	*5.2*	5.6	*:*	5.9
Slovakia	:	:	10.9	6.3	9.3	6.0	10.8	*7.1*	8.2	*6.1*	6.5	*:*	5.9
Sweden	9.4	4.7	4.7	4.5	2.9	3.0	3.4	*3.5*	3.5	*3.9*	3.5	*:*	4.0
United Kingdom	10.4	4.9	4.6	5.0	3.6	4.8	4.2	*4.7*	4.1	*5.1*	4.5	*:*	4.5
EU-25	:	:	3.5	3.8	3.1	3.1	2.9	*2.8*	2.4	*3.1*	2.7	*:*	3.0
EU-15	9.8	5.1	2.9	3.2	2.9	3.1	2.8	*2.7*	2.3	*3.0*	2.5	*:*	2.9
USA	6.2	3.5	4.2	2.4	3.6	4.2	4.8	*4.8*	4.9	*4.6*	4.4	*:*	4.4
Japan	10.1	2.0	0.2	-0.5	-1.5	-0.6	-1.1	*0.0*	-0.2	*-0.1*	0.1	*:*	0.3

TABLE 22 : Real compensation of employees per head [1] (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	3.6	2.5	0.6	1.3	2.8	0.0	-0.4	*0.0*	-0.3	*0.4*	0.0	*:*	0.4
Germany	3.2	3.0	1.5	0.5	0.8	0.9	0.0	*-0.8*	-1.8	*0.3*	-1.3	*:*	0.1
Greece	3.7	-1.5	3.1	2.3	6.1	1.1	3.3	*2.7*	2.4	*2.9*	2.3	*:*	1.9
Spain	4.5	1.5	-0.1	0.2	0.4	0.5	-0.1	*0.8*	-0.6	*1.0*	0.4	*:*	0.6
France	3.2	1.2	1.4	0.5	1.9	1.0	1.3	*0.8*	1.6	*1.0*	1.0	*:*	1.4
Ireland	3.5	1.9	1.8	3.7	-0.3	1.6	4.5	*2.7*	3.0	*2.1*	2.1	*:*	2.2
Italy	3.8	-0.5	0.1	0.4	-0.5	1.2	0.6	*0.9*	0.9	*1.0*	0.4	*:*	0.8
Luxembourg	3.0	1.3	1.3	0.7	1.5	0.2	0.5	*0.9*	0.9	*0.7*	0.2	*:*	1.0
Netherlands	3.2	0.9	0.9	0.8	2.1	1.8	2.2	*-0.7*	-0.3	*-1.2*	-0.9	*:*	-0.5
Austria	3.4	1.8	0.6	-0.5	1.1	0.4	0.3	*0.2*	-0.1	*0.9*	0.6	*:*	0.6
Portugal	4.2	2.8	4.4	-11.2	1.1	-0.3	0.2	*0.8*	0.8	*1.2*	0.2	*:*	0.8
Finland	3.8	0.1	0.8	1.0	-1.0	2.7	3.9	*2.5*	1.5	*2.0*	1.8	*:*	1.8
Euro area	3.2	1.4	0.8	0.1	0.8	0.7	0.5	*0.2*	-0.3	*0.7*	-0.1	*:*	0.6
Czech Republic	:	:	:	:	:	:	:	*4.3*	2.4	*3.8*	3.2	*:*	3.0
Denmark	2.2	1.1	1.8	2.0	1.4	1.5	1.5	*1.6*	1.5	*1.8*	1.6	*:*	1.9
Estonia	:	:	:	:	:	:	:	*2.8*	8.4	*3.6*	6.5	*:*	5.6
Cyprus	:	:	:	:	:	:	:	*2.0*	1.9	*1.7*	1.7	*:*	1.8
Latvia	:	:	:	:	:	:	:	*2.9*	8.9	*3.3*	5.7	*:*	5.0
Lithuania	:	:	:	:	:	:	:	*5.0*	6.5	*4.9*	5.3	*:*	3.9
Hungary	:	:	:	:	:	:	:	*2.1*	1.8	*1.8*	3.0	*:*	1.5
Malta	:	:	:	:	:	:	:	*-0.7*	-1.6	*-0.6*	-0.6	*:*	-0.8
Poland	:	:	5.0	8.1	0.3	0.1	-0.3	*2.0*	2.2	*2.1*	2.3	*:*	2.1
Slovenia	:	:	:	:	:	:	:	*2.4*	3.5	*2.6*	3.1	*:*	3.5
Slovakia	:	:	:	:	:	:	:	*3.4*	5.2	*3.2*	3.0	*:*	3.8
Sweden	2.0	-0.1	3.4	2.1	1.1	0.7	2.2	*2.8*	2.5	*2.4*	2.0	*:*	2.2
United Kingdom	2.5	0.6	2.3	2.6	2.1	2.8	2.9	*2.8*	1.6	*3.0*	2.0	*:*	2.5
EU-25	:	:	:	:	:	:	:	*0.9*	0.3	*1.2*	0.5	*:*	1.2
EU-15	3.0	1.2	1.1	0.7	1.1	1.1	1.0	*0.8*	0.2	*1.2*	0.4	*:*	1.1
USA	1.5	0.8	2.4	0.3	2.1	2.2	2.2	*2.3*	2.0	*2.2*	1.6	*:*	2.1
Japan	4.3	0.9	0.2	0.5	-0.4	0.2	-0.5	*0.4*	0.3	*0.0*	0.1	*:*	-0.9

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

TABLE 23 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	3.1	1.6	1.4	-0.4	1.8	0.9	1.9	*1.4*	0.8	*1.5*	1.4	*:*	1.3
Germany	2.7	2.2	1.2	0.8	0.6	0.8	1.3	*0.1*	0.5	*0.8*	0.7	*:*	1.2
Greece	4.2	0.7	2.8	5.0	3.7	3.2	1.7	*2.3*	2.2	*2.3*	2.1	*:*	2.1
Spain	4.2	1.9	0.3	0.3	0.3	0.4	0.5	*0.6*	0.4	*0.7*	0.8	*:*	0.8
France	3.4	1.8	1.7	0.2	0.3	0.7	2.5	*1.5*	1.5	*1.4*	1.3	*:*	1.4
Ireland	3.9	2.9	3.7	3.1	4.3	2.4	1.3	*3.1*	0.6	*3.5*	2.6	*:*	2.9
Italy	3.5	2.1	1.1	0.1	-0.9	-0.2	0.4	*0.8*	-0.3	*1.2*	0.9	*:*	0.8
Luxembourg	2.5	1.1	2.8	-3.9	-0.5	1.1	1.9	*1.2*	1.2	*1.1*	1.2	*:*	1.1
Netherlands	2.7	1.3	1.2	0.1	0.3	0.7	3.4	*0.7*	1.1	*0.7*	1.5	*:*	1.4
Austria	3.3	1.9	1.9	0.2	1.1	1.3	2.5	*1.8*	1.3	*1.4*	1.3	*:*	1.6
Portugal	4.7	2.3	2.1	0.3	0.1	-0.8	1.1	*0.8*	0.3	*1.3*	0.6	*:*	0.8
Finland	3.5	2.9	2.3	-0.5	1.3	2.4	3.3	*2.6*	0.5	*2.1*	2.8	*:*	2.4
Euro area	3.2	1.8	1.2	0.3	0.3	0.5	1.4	*0.9*	0.3	*1.2*	0.7	*:*	0.9
Czech Republic	:	:	2.9	2.2	0.0	4.6	4.4	*4.1*	4.3	*4.2*	4.0	*:*	3.9
Denmark	2.1	2.5	1.8	-0.1	0.6	1.9	2.0	*1.8*	2.1	*1.7*	1.8	*:*	1.7
Estonia	:	:	8.2	5.6	5.6	5.8	7.7	*5.3*	7.9	*5.4*	6.6	*:*	6.5
Cyprus	:	:	2.4	1.9	1.0	0.9	2.2	*2.6*	2.3	*2.9*	2.7	*:*	2.8
Latvia	:	-5.0	5.9	5.7	4.8	5.4	7.1	*6.3*	8.1	*6.3*	7.0	*:*	6.5
Lithuania	:	-8.2	5.4	10.8	2.6	8.0	7.1	*5.9*	5.3	*5.4*	5.5	*:*	5.2
Hungary	:	:	2.8	3.6	3.5	1.6	4.9	*3.3*	3.3	*2.9*	3.3	*:*	3.5
Malta	:	:	3.8	-1.8	1.4	-1.2	-1.0	*1.1*	0.2	*1.1*	-0.1	*:*	0.3
Poland	:	:	5.5	3.3	4.5	5.1	5.3	*3.3*	2.3	*3.3*	3.0	*:*	3.2
Slovenia	:	:	4.8	2.2	1.9	2.9	3.7	*3.6*	3.5	*3.9*	3.8	*:*	3.9
Slovakia	:	:	4.5	3.2	5.2	2.6	5.9	*4.3*	3.2	*4.2*	4.5	*:*	5.4
Sweden	2.2	3.0	2.5	-0.8	1.8	1.6	4.1	*2.6*	1.9	*1.8*	1.9	*:*	2.1
United Kingdom	2.1	2.5	2.0	1.4	1.2	1.6	2.2	*2.3*	1.0	*2.3*	1.9	*:*	2.2
EU-25	:	:	1.7	0.9	0.8	0.9	1.8	*1.3*	0.6	*1.5*	1.1	*:*	1.4
EU-15	2.9	1.9	1.3	0.5	0.5	0.7	1.6	*1.2*	0.5	*1.4*	1.0	*:*	1.2
USA	1.6	1.4	2.0	0.7	1.9	1.8	3.1	*2.5*	1.8	*2.1*	1.9	*:*	2.1
Japan	5.1	0.8	1.3	0.8	1.1	1.7	2.5	*1.0*	2.2	*1.7*	2.0	*:*	1.8

TABLE 24 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	5.1	3.1	0.8	4.0	2.2	0.8	0.2	*0.8*	1.8	*0.7*	1.3	*:*	1.1
Germany	3.9	3.8	1.2	1.5	1.3	1.6	0.1	*0.4*	-0.5	*0.6*	-0.5	*:*	0.1
Greece	11.0	11.3	5.1	0.7	6.1	1.3	4.5	*3.5*	3.9	*3.7*	3.4	*:*	2.9
Spain	10.2	5.2	2.3	3.3	3.0	2.9	2.8	*3.1*	2.7	*3.1*	3.0	*:*	2.7
France	6.6	1.3	0.6	2.1	2.7	1.7	0.6	*1.3*	1.5	*1.5*	1.4	*:*	1.6
Ireland	8.2	1.6	1.5	4.2	0.8	3.1	4.1	*1.9*	4.3	*1.2*	1.9	*:*	1.6
Italy	9.8	3.1	1.7	3.1	3.4	3.9	2.4	*2.2*	3.3	*1.6*	1.6	*:*	1.9
Luxembourg	5.1	3.4	0.1	8.1	4.2	1.0	0.6	*1.8*	2.3	*1.4*	2.0	*:*	1.9
Netherlands	5.1	2.2	1.9	5.4	4.8	3.3	-0.1	*0.0*	0.3	*-0.6*	-0.5	*:*	-0.1
Austria	4.4	3.0	0.1	1.1	1.0	0.6	-0.2	*0.6*	0.9	*1.2*	1.4	*:*	0.7
Portugal	11.8	8.1	5.1	-1.8	4.2	3.4	1.9	*2.2*	2.7	*1.9*	2.4	*:*	2.2
Finland	7.8	0.3	0.6	5.1	0.6	0.2	0.8	*1.4*	2.4	*1.7*	0.1	*:*	0.4
Euro area	6.4	3.3	1.2	2.3	2.5	2.1	0.9	*1.3*	1.5	*1.2*	1.3	*:*	1.4
Czech Republic	:	:	7.1	5.2	6.3	0.2	1.4	*2.3*	0.3	*2.1*	1.6	*:*	1.4
Denmark	7.5	0.6	1.9	4.5	3.1	1.6	1.1	*1.5*	1.1	*1.8*	1.7	*:*	2.0
Estonia	:	:	8.0	1.9	4.5	4.7	2.8	*0.7*	4.5	*1.0*	3.2	*:*	1.7
Cyprus	:	:	1.6	-0.8	3.1	8.3	1.9	*1.9*	2.1	*1.0*	1.3	*:*	1.2
Latvia	:	:	5.6	-2.2	-0.8	5.6	8.8	*1.6*	7.3	*0.7*	4.7	*:*	3.3
Lithuania	:	:	9.7	-6.5	-1.7	0.7	0.9	*1.9*	3.6	*2.0*	2.5	*:*	1.6
Hungary	:	:	11.9	11.9	8.9	7.9	3.1	*3.5*	2.1	*3.2*	1.8	*:*	0.9
Malta	:	:	0.8	7.0	1.3	2.4	1.6	*0.3*	1.3	*0.5*	2.3	*:*	1.3
Poland	:	:	11.5	9.5	-2.4	-4.1	-2.2	*0.7*	1.7	*1.1*	1.3	*:*	1.1
Slovenia	:	:	5.9	9.2	6.5	4.7	3.8	*1.4*	2.5	*1.3*	1.7	*:*	1.9
Slovakia	:	:	6.1	3.0	3.9	3.3	4.6	*2.7*	4.9	*1.8*	1.9	*:*	0.4
Sweden	7.1	1.7	2.2	5.4	1.1	1.3	-0.7	*0.9*	1.5	*2.1*	1.6	*:*	1.9
United Kingdom	8.2	2.4	2.6	3.6	2.4	3.2	2.0	*2.3*	3.1	*2.7*	2.6	*:*	2.3
EU-25	:	:	1.8	2.9	2.3	2.1	1.1	*1.5*	1.8	*1.6*	1.5	*:*	1.6
EU-15	6.7	3.1	1.5	2.7	2.4	2.3	1.1	*1.5*	1.8	*1.6*	1.6	*:*	1.7
USA	4.6	2.0	2.2	1.7	1.6	2.3	1.6	*2.2*	3.1	*2.4*	2.4	*:*	2.3
Japan	4.8	1.2	-1.1	-1.3	-2.6	-2.2	-3.5	*-1.0*	-2.4	*-1.7*	-1.8	*:*	-1.5

[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, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	0.3	0.4	-0.4	2.2	0.4	-0.9	-2.1	*-1.0*	-0.8	*-1.4*	-1.0	:	-0.7
Germany	0.0	0.5	1.0	0.3	-0.1	0.6	-0.6	*-0.2*	-1.2	*-0.1*	-0.9	:	-0.4
Greece	-1.1	-2.3	-0.1	-2.7	2.0	-2.1	0.8	*0.3*	0.2	*0.3*	0.2	:	-0.2
Spain	-0.1	-0.2	-0.6	-0.9	-1.4	-1.0	-1.2	*-0.8*	-1.5	*-0.6*	-0.7	:	-0.2
France	-0.1	-0.3	-0.3	0.3	0.5	0.1	-1.0	*-0.4*	0.1	*-0.3*	-0.4	:	-0.3
Ireland	-0.4	-1.2	-2.7	-1.4	-4.1	1.0	1.8	*-0.7*	1.0	*-1.4*	-0.6	:	-1.0
Italy	-0.1	-1.7	-1.1	0.4	0.4	1.0	-0.2	*-0.1*	0.9	*-0.5*	-0.6	:	-0.3
Luxembourg	0.2	-0.1	-2.5	6.1	3.1	-1.0	-1.8	*-1.3*	0.7	*-1.0*	-0.3	:	-0.6
Netherlands	0.2	0.0	-0.2	0.1	1.0	0.7	-0.9	*-0.9*	-0.6	*-1.5*	-1.4	:	-1.7
Austria	-0.2	0.0	-0.7	-0.6	-0.2	-0.8	-2.1	*-1.0*	-0.8	*-0.3*	0.0	:	-0.6
Portugal	-0.1	0.2	1.8	-5.1	0.2	0.7	-0.9	*0.0*	0.7	*-0.4*	0.1	:	-0.3
Finland	-0.2	-2.1	-1.0	1.9	-0.4	0.5	0.3	*0.7*	2.0	*0.5*	-0.4	:	-0.5
Euro area	-0.2	-0.2	-0.2	0.0	0.0	0.1	-0.9	*-0.5*	-0.3	*-0.5*	-0.4	:	-0.2
Czech Republic	:	:	0.7	0.3	3.4	-2.3	-1.6	*-1.4*	-2.3	*-1.1*	-0.9	:	-0.8
Denmark	0.0	-1.0	0.0	1.9	1.5	-0.6	-0.9	*-0.2*	-1.1	*0.1*	-0.3	:	0.1
Estonia	:	:	-2.3	-3.5	0.1	2.6	-0.2	*-2.7*	-0.2	*-1.9*	0.0	:	-1.1
Cyprus	:	:	-1.0	-3.9	0.8	2.9	-0.8	*-1.0*	-0.3	*-1.3*	-0.9	:	-0.9
Latvia	:	:	-1.2	-4.2	-4.0	2.0	1.5	*-2.4*	1.0	*-3.0*	-2.1	:	-2.6
Lithuania	:	:	1.7	-5.4	-1.9	1.8	-1.8	*-1.1*	0.3	*-1.5*	-1.6	:	-2.4
Hungary	:	:	-1.9	3.1	0.0	1.0	-2.8	*-1.2*	-1.2	*-0.9*	-0.9	:	-2.0
Malta	:	:	-1.0	5.1	-0.7	-2.1	-0.4	*-2.2*	-1.4	*-0.8*	-0.5	:	-1.0
Poland	:	:	0.1	5.3	-3.7	-4.5	-5.0	*-1.0*	-0.6	*-0.9*	-0.8	:	-1.3
Slovenia	:	:	-1.6	0.4	-1.3	-1.0	0.6	*-1.7*	0.0	*-1.3*	-0.7	:	-0.6
Slovakia	:	:	-0.1	-1.1	-0.1	-1.3	0.0	*-0.2*	2.1	*-0.8*	-1.1	:	-2.3
Sweden	-0.1	-1.9	1.0	3.0	-0.6	-0.8	-1.5	*-0.4*	0.4	*0.0*	-0.3	:	-0.3
United Kingdom	0.1	-1.0	0.1	1.3	-0.7	0.3	0.0	*0.1*	0.8	*0.2*	0.0	:	-0.3
EU-25	:	:	-0.1	0.5	-0.2	-0.1	-0.8	*-0.4*	-0.1	*-0.3*	-0.3	:	-0.3
EU-15	-0.2	-0.4	-0.1	0.4	-0.1	0.2	-0.7	*-0.3*	0.0	*-0.3*	-0.3	:	-0.2
USA	-0.1	-0.4	0.5	-0.7	-0.1	0.3	-1.0	*-0.1*	0.3	*0.2*	-0.5	:	-0.1
Japan	-0.4	0.3	-0.4	0.0	-1.4	-0.8	-2.3	*-0.2*	-1.4	*-1.5*	-1.6	:	-2.4

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

TABLE 26 : Total population (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	0.3	0.3	0.2	0.3	0.5	0.4	0.4	*0.3*	0.3	*0.2*	0.2	:	0.2
Germany	0.4	0.7	0.1	0.2	0.2	0.0	0.0	*0.0*	0.0	*0.1*	0.0	:	0.0
Greece	0.7	0.9	0.5	0.3	0.3	0.3	0.2	*0.2*	0.3	*0.2*	0.3	:	0.3
Spain	0.8	0.2	0.5	1.1	1.5	0.6	1.6	*0.6*	1.5	*0.6*	1.4	:	1.4
France	0.7	0.4	0.4	0.5	0.5	0.5	0.4	*0.3*	0.5	*0.3*	0.5	:	0.5
Ireland	0.7	0.5	1.1	1.5	1.7	1.6	1.7	*1.5*	2.1	*1.5*	1.8	:	1.6
Italy	0.4	0.0	0.0	0.1	0.3	0.8	1.0	*0.4*	0.6	*0.1*	0.1	:	0.1
Luxembourg	0.7	1.4	1.4	0.7	1.1	0.9	0.8	*0.9*	0.7	*0.9*	0.6	:	0.6
Netherlands	0.9	0.7	0.6	0.8	0.6	0.5	0.3	*0.2*	0.3	*0.2*	0.2	:	0.2
Austria	0.3	0.7	0.2	0.4	0.5	0.4	0.7	*0.4*	0.6	*0.4*	0.5	:	0.4
Portugal	0.4	0.2	0.4	0.7	0.7	0.7	0.6	*0.5*	0.6	*0.5*	0.6	:	0.6
Finland	0.4	0.5	0.3	0.2	0.3	0.2	0.3	*0.2*	0.2	*0.2*	0.2	:	0.2
Euro area	0.6	0.4	0.3	0.4	0.5	0.5	0.6	*0.3*	0.5	*0.3*	0.4	:	0.4
Czech Republic	0.2	-0.1	-0.1	-0.5	-0.2	0.0	0.0	*0.2*	0.1	*0.1*	0.1	:	0.1
Denmark	0.4	0.3	0.4	0.4	0.4	0.0	0.5	*0.2*	0.2	*0.1*	0.1	:	0.1
Estonia	0.9	-1.7	-1.0	-0.4	-0.4	-0.4	-0.3	*-0.4*	-0.3	*-0.4*	-0.3	:	-0.3
Cyprus	:	2.3	1.3	1.1	1.3	1.8	2.4	*1.1*	1.1	*1.1*	1.1	:	1.1
Latvia	0.8	-1.4	-0.9	-0.8	-0.7	-0.6	0.0	*-0.2*	-0.2	*-0.2*	-0.2	:	-0.2
Lithuania	1.0	-0.4	-0.7	-0.5	-0.3	-0.4	-0.5	*-0.3*	-0.5	*-0.2*	-0.2	:	-0.1
Hungary	0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.2	*-0.2*	-0.2	*-0.2*	-0.2	:	-0.2
Malta	0.3	1.0	0.6	0.8	0.7	0.6	0.8	*0.5*	0.5	*0.5*	0.5	:	0.5
Poland	0.9	0.2	-0.2	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	0.1	0.2	0.1	0.0	*0.0*	0.0	*0.0*	0.0	:	0.0
Slovakia	0.9	0.3	0.1	0.0	-0.2	-0.2	0.1	*0.0*	0.0	*0.0*	0.1	:	0.1
Sweden	0.5	0.6	0.1	0.3	0.3	0.4	0.4	*0.5*	0.4	*0.5*	0.4	:	0.4
United Kingdom	0.3	0.3	0.3	0.4	0.4	0.4	0.4	*0.2*	0.6	*0.1*	0.5	:	0.5
EU-25	0.5	0.3	0.2	0.3	0.4	0.3	0.5	*0.2*	0.4	*0.2*	0.3	:	0.3
EU-15	0.5	0.4	0.3	0.4	0.5	0.4	0.6	*0.3*	0.5	*0.2*	0.4	:	0.4
USA	1.1	1.3	1.2	1.0	1.0	1.0	1.0	*1.0*	0.9	*1.0*	1.0	:	1.0
Japan	0.9	0.3	0.2	0.3	0.1	0.1	0.1	*0.0*	0.0	*0.0*	0.0	:	0.0

TABLE 27 : Total employment (percentage change on preceding year, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	0.3	0.0	1.3	1.5	-0.3	0.1	0.7	*0.8*	0.7	*0.8*	0.6	*:*	0.7
Germany	0.5	0.0	0.8	0.4	-0.6	-1.0	0.4	*0.7*	0.3	*0.8*	0.5	*:*	0.4
Greece	0.3	0.6	0.6	-0.3	0.1	1.3	2.9	*0.6*	1.2	*0.7*	1.3	*:*	1.3
Spain	0.3	-0.4	3.8	3.2	2.4	2.5	2.6	*2.1*	3.0	*2.0*	2.4	*:*	2.2
France	0.4	-0.4	1.2	1.9	0.9	0.1	-0.1	*0.5*	0.1	*0.8*	0.5	*:*	0.9
Ireland	0.2	1.7	5.7	3.0	1.8	2.0	3.1	*1.8*	3.8	*1.5*	2.2	*:*	2.0
Italy	0.4	-0.8	0.8	1.6	1.3	0.4	0.8	*0.4*	0.5	*0.5*	0.6	*:*	0.6
Luxembourg	1.2	2.8	4.2	5.7	3.0	1.8	2.6	*2.6*	3.0	*2.9*	3.2	*:*	3.4
Netherlands	0.7	0.8	2.6	1.3	-0.3	-0.9	-1.6	*0.3*	-0.6	*1.3*	0.5	*:*	1.0
Austria	0.2	0.2	1.0	0.6	-0.1	0.1	0.0	*0.2*	0.4	*0.7*	0.6	*:*	0.6
Portugal	0.1	-0.6	1.9	1.7	0.4	-0.4	0.1	*0.3*	0.1	*0.3*	0.2	*:*	0.4
Finland	0.4	-3.7	2.3	1.5	0.9	0.0	0.3	*0.6*	1.3	*0.8*	0.7	*:*	0.7
Euro area	0.4	-0.2	1.6	1.5	0.7	0.3	0.7	*0.7*	1.0	*0.9*	1.2	*:*	1.1
Czech Republic	:	:	-1.4	0.4	1.5	-1.4	0.1	*-0.1*	0.5	*0.0*	0.4	*:*	0.3
Denmark	0.6	-0.1	1.0	0.8	-0.2	-1.2	0.0	*0.5*	0.6	*0.4*	0.5	*:*	0.4
Estonia	:	-5.3	-2.4	0.8	1.6	0.8	0.1	*0.6*	0.4	*0.8*	0.6	*:*	0.8
Cyprus	:	:	1.3	2.2	1.1	1.1	1.5	*1.2*	1.5	*1.2*	1.3	*:*	1.3
Latvia	:	-7.2	-0.5	2.2	1.6	1.7	1.1	*0.8*	0.9	*0.6*	0.7	*:*	0.6
Lithuania	:	-2.4	-1.1	-3.3	4.0	2.3	-0.1	*0.5*	1.6	*0.4*	0.7	*:*	0.6
Hungary	:	:	1.2	0.3	0.0	1.3	-0.7	*0.5*	0.4	*0.9*	0.6	*:*	0.3
Malta	:	1.5	0.8	2.1	-0.7	-0.7	1.4	*0.6*	0.6	*0.8*	0.8	*:*	0.8
Poland	:	:	-0.4	-2.2	-3.0	-1.2	0.0	*1.0*	1.0	*1.2*	1.2	*:*	1.2
Slovenia	:	:	-0.4	0.5	1.5	-0.2	0.4	*0.1*	0.3	*0.2*	0.2	*:*	0.3
Slovakia	:	:	-0.8	0.6	-0.5	1.8	-0.3	*0.6*	1.8	*0.9*	0.9	*:*	0.8
Sweden	0.7	-2.1	0.8	1.9	0.2	-0.2	-0.5	*0.5*	0.5	*1.0*	1.1	*:*	0.7
United Kingdom	0.4	-0.8	1.3	0.8	0.8	1.0	1.0	*0.4*	0.6	*0.5*	0.4	*:*	0.6
EU-25	:	:	1.2	1.0	0.4	0.2	0.6	*0.7*	0.9	*0.8*	1.0	*:*	1.0
EU-15	0.4	-0.3	1.5	1.4	0.7	0.3	0.7	*0.7*	0.9	*0.8*	1.0	*:*	1.0
USA	1.9	1.0	2.1	0.0	-0.3	0.9	1.1	*1.1*	1.7	*0.8*	1.2	*:*	0.6
Japan	1.0	0.8	0.0	-0.6	-1.4	-0.3	0.2	*0.1*	0.3	*0.0*	0.2	*:*	0.0

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1964-2007) [1]

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1964-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	5.7	8.3	8.7	6.7	7.3	8.0	7.9	*7.7*	8.0	*7.5*	7.9	*:*	7.8
Germany	3.2	7.2	8.3	7.4	8.2	9.0	9.5	*9.7*	9.5	*9.3*	9.3	*:*	9.1
Greece	4.5	8.3	10.7	10.8	10.3	9.7	10.5	*10.5*	10.4	*10.3*	10.0	*:*	9.7
Spain	6.8	17.1	15.0	10.8	11.5	11.5	11.0	*10.4*	9.2	*10.3*	8.5	*:*	8.1
France	5.3	10.6	10.8	8.4	8.9	9.5	9.6	*9.4*	9.6	*9.1*	9.3	*:*	8.9
Ireland	9.7	14.5	7.8	3.8	4.3	4.6	4.5	*4.6*	4.3	*4.6*	4.4	*:*	4.5
Italy	6.7	9.8	11.0	9.1	8.6	8.4	8.0	*7.9*	7.7	*7.7*	7.6	*:*	7.5
Luxembourg	1.1	2.5	2.6	2.1	2.8	3.7	4.8	*4.6*	5.3	*4.3*	5.6	*:*	5.8
Netherlands	4.9	6.1	4.1	2.2	2.8	3.7	4.6	*5.2*	5.1	*5.0*	4.9	*:*	4.2
Austria	2.1	3.7	4.1	3.6	4.2	4.3	4.8	*4.1*	5.0	*3.9*	5.0	*:*	5.1
Portugal	5.2	5.7	5.6	4.0	5.0	6.3	6.7	*7.0*	7.4	*7.0*	7.7	*:*	7.8
Finland	3.9	13.3	11.7	9.1	9.1	9.0	8.8	*8.4*	8.4	*8.0*	7.8	*:*	7.2
Euro area	5.1	9.5	9.8	7.9	8.3	8.7	8.9	*8.8*	8.6	*8.5*	8.4	*:*	8.1
Czech Republic	:	:	6.4	8.0	7.3	7.8	8.3	*8.3*	7.9	*8.2*	7.5	*:*	7.4
Denmark	4.1	8.1	5.1	4.3	4.6	5.6	5.4	*4.9*	4.6	*4.6*	4.2	*:*	4.0
Estonia	:	5.8	10.5	11.8	9.5	10.2	9.2	*8.7*	7.2	*8.2*	6.0	*:*	5.4
Cyprus	:	:	5.0	4.4	3.9	4.5	5.2	*4.8*	4.9	*4.6*	4.8	*:*	4.6
Latvia	:	9.8	15.6	12.9	12.6	10.4	9.8	*9.4*	9.7	*9.2*	9.4	*:*	9.3
Lithuania	:	9.1	13.9	16.4	13.5	12.7	10.9	*10.2*	9.0	*9.7*	8.1	*:*	7.5
Hungary	:	:	8.0	5.6	5.6	5.8	6.0	*6.3*	7.0	*6.2*	6.9	*:*	6.7
Malta	:	5.0	6.4	7.6	7.7	8.0	7.6	*7.1*	7.2	*7.0*	7.1	*:*	7.1
Poland	:	:	12.6	18.5	19.8	19.2	18.8	*18.3*	17.8	*17.6*	16.8	*:*	15.5
Slovenia	:	:	7.0	5.8	6.1	6.5	6.0	*5.9*	5.8	*5.6*	5.7	*:*	5.6
Slovakia	:	:	14.5	19.4	18.7	17.5	18.2	*17.6*	16.7	*16.8*	16.2	*:*	15.8
Sweden	2.2	7.2	8.0	4.9	4.9	5.6	6.3	*5.9*	6.8	*5.3*	5.9	*:*	5.6
United Kingdom	5.4	9.3	6.4	5.0	5.1	4.9	4.7	*4.7*	4.6	*4.7*	4.9	*:*	4.7
EU-25	:	:	9.5	8.4	8.7	9.0	9.0	*9.0*	8.7	*8.7*	8.5	*:*	8.1
EU-15	5.1	9.3	9.0	7.2	7.6	7.9	8.1	*8.0*	7.9	*7.8*	7.7	*:*	7.4
USA	6.1	6.5	4.6	4.8	5.8	6.0	5.5	*5.2*	5.1	*5.0*	5.0	*:*	5.3
Japan	1.9	2.6	4.1	5.0	5.4	5.3	4.7	*4.4*	4.5	*4.1*	4.2	*:*	4.2

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

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1970-2007) 07.11.2005

	long-term average	5-year average						2005		2006		2007	
								estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	44.45	40.50	40.23	40.34	:	:	:	*:*	:	*:*	:	*:*	:
Germany	2.64	1.96	1.95	1.96	:	:	:	*:*	:	*:*	:	*:*	:
Greece	80.44	266.37	321.61	340.75	:	:	:	*:*	:	*:*	:	*:*	:
Spain	102.29	146.41	165.32	166.39	:	:	:	*:*	:	*:*	:	*:*	:
France	6.17	6.71	6.57	6.56	:	:	:	*:*	:	*:*	:	*:*	:
Ireland	0.64	0.79	0.78	0.79	:	:	:	*:*	:	*:*	:	*:*	:
Italy	1137.90	1803.04	1940.89	1936.27	:	:	:	*:*	:	*:*	:	*:*	:
Luxembourg	44.45	40.50	40.23	40.34	:	:	:	*:*	:	*:*	:	*:*	:
Netherlands	2.83	2.20	2.20	2.20	:	:	:	*:*	:	*:*	:	*:*	:
Austria	18.83	13.80	13.73	13.76	:	:	:	*:*	:	*:*	:	*:*	:
Portugal	84.58	186.94	199.40	200.48	:	:	:	*:*	:	*:*	:	*:*	:
Finland	4.77	5.88	5.92	5.95	:	:	:	*:*	:	*:*	:	*:*	:
Euro area	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Czech Republic	:	34.89	35.78	34.07	30.80	31.85	31.89	*30.19*	29.88	*30.67*	29.83	*:*	30.03
Denmark	7.65	7.64	7.45	7.45	7.43	7.43	7.44	*7.46*	7.45	*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
Cyprus	0.48	0.58	0.58	0.58	0.58	0.58	0.58	*0.58*	0.58	*0.58*	0.59	*:*	0.59
Latvia	:	:	0.64	0.56	0.58	0.64	0.67	*0.69*	0.70	*0.69*	0.70	*:*	0.70
Lithuania	:	:	4.41	3.58	3.46	3.45	3.45	*3.45*	3.45	*3.45*	3.45	*:*	3.45
Hungary	:	142.43	231.76	256.59	242.96	253.62	251.66	*244.11*	248.09	*244.11*	252.84	*:*	256.16
Malta	0.43	0.43	0.43	0.40	0.41	0.43	0.43	*0.43*	0.43	*0.43*	0.43	*:*	0.43
Poland	:	2.60	3.86	3.67	3.86	4.40	4.53	*4.02*	4.03	*4.08*	3.95	*:*	3.98
Slovenia	:	116.46	187.96	217.98	225.98	233.85	239.09	*239.74*	239.57	*239.74*	239.64	*:*	239.64
Slovakia	:	:	40.66	43.30	42.69	41.49	40.02	*38.29*	38.71	*38.66*	39.41	*:*	40.07
Sweden	6.05	8.53	8.67	9.26	9.16	9.12	9.12	*9.06*	9.28	*9.06*	9.50	*:*	9.53
United Kingdom	0.59	0.76	0.69	0.62	0.63	0.69	0.68	*0.69*	0.68	*0.70*	0.68	*:*	0.69
EU-25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
EU-15	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
USA	1.11	1.24	1.10	0.90	0.95	1.13	1.24	*1.31*	1.25	*1.32*	1.21	*:*	1.22
Japan	262.44	141.04	128.47	108.68	118.06	130.97	134.44	*135.40*	136.72	*132.32*	137.33	*:*	135.71

TABLE 30 : Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1970-2007)

	long-term average	5-year average						2005		2006		2007	
								estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	:	:	-1.6	1.2	1.2	4.5	1.1	*0.6*	-0.2	*0.1*	-0.4	*:*	0.3
Germany	:	:	-1.5	1.3	1.7	5.9	1.7	*0.5*	-0.5	*0.2*	-0.5	*:*	0.4
Greece	:	:	0.3	3.1	2.5	5.0	1.4	*0.3*	-0.7	*0.5*	-0.2	*:*	0.5
Spain	:	:	-1.1	1.4	1.4	4.4	1.1	*0.6*	-0.3	*0.2*	-0.4	*:*	0.3
France	:	:	-1.1	1.3	1.7	5.3	1.4	*0.7*	-0.2	*0.1*	-0.4	*:*	0.3
Ireland	:	:	-1.5	1.0	2.0	7.3	2.3	*1.6*	0.0	*0.1*	-0.8	*:*	0.4
Italy	:	:	1.9	1.7	2.1	5.7	1.7	*0.6*	-0.5	*0.2*	-0.5	*:*	0.4
Luxembourg	:	:	-1.6	1.2	1.2	4.5	1.1	*0.6*	-0.2	*0.1*	-0.4	*:*	0.3
Netherlands	:	:	-1.5	1.1	1.1	3.9	0.9	*0.5*	-0.2	*0.1*	-0.3	*:*	0.3
Austria	:	:	-0.4	0.8	1.0	3.7	1.0	*0.1*	-0.6	*0.2*	-0.2	*:*	0.3
Portugal	:	:	-1.1	0.7	0.9	3.5	0.8	*0.6*	-0.1	*0.1*	-0.3	*:*	0.2
Finland	:	:	-1.8	2.0	1.6	5.4	1.6	*0.6*	-0.3	*0.1*	-0.4	*:*	0.3
Euro area	:	:	-1.3	2.9	3.2	10.8	2.9	*0.9*	-1.0	*0.4*	-0.8	*:*	0.7
Czech Republic	:	:	0.4	5.2	11.6	-0.3	0.4	*5.3*	6.0	*-1.4*	0.0	*:*	-0.4
Denmark	:	:	-1.3	1.7	1.4	4.7	1.4	*0.2*	-0.5	*0.0*	-0.5	*:*	0.2
Estonia	:	:	-0.8	1.7	0.6	3.2	0.9	*0.2*	-0.1	*0.1*	0.0	*:*	0.2
Cyprus	:	:	6.8	2.2	1.9	4.2	0.9	*0.3*	0.5	*0.2*	-1.7	*:*	0.4
Latvia	:	:	4.2	1.0	-3.0	-5.9	-2.7	*-2.9*	-4.5	*0.6*	-1.3	*:*	0.4
Lithuania	:	:	8.7	4.6	5.1	5.0	1.1	*0.1*	-0.3	*0.2*	-0.2	*:*	0.2
Hungary	:	:	-7.8	2.4	6.9	-1.2	1.8	*3.2*	0.8	*0.3*	-2.1	*:*	-1.0
Malta	:	:	-0.1	0.7	1.1	3.1	2.1	*0.6*	-0.5	*-0.2*	-0.5	*:*	0.3
Poland	:	:	-4.2	10.3	-4.3	-10.1	-2.2	*12.9*	12.0	*-1.3*	1.9	*:*	-0.6
Slovenia	:	:	-4.9	-4.3	-2.7	-0.6	-1.4	*-0.5*	-0.9	*0.2*	-0.2	*:*	0.3
Slovakia	:	:	-0.7	-1.6	1.5	5.8	4.6	*4.0*	2.3	*-0.7*	-2.0	*:*	-1.4
Sweden	:	:	1.1	-7.7	2.4	6.2	2.0	*1.6*	-2.3	*0.0*	-3.0	*:*	-0.2
United Kingdom	:	:	5.4	-1.0	0.9	-3.9	4.5	*-1.1*	-1.1	*-0.4*	-0.7	*:*	-0.7
EU-25	:	:	1.2	3.8	5.8	12.6	6.1	*2.4*	-0.8	*0.2*	-1.7	*:*	0.5
EU-15	:	:	1.0	2.1	4.1	11.2	5.0	*0.5*	-1.9	*0.3*	-1.4	*:*	0.6
USA	:	:	5.2	5.5	-0.9	-9.0	-6.8	*-4.5*	-2.2	*-0.3*	1.5	*:*	-0.4
Japan	:	:	0.7	-9.1	-5.1	-0.3	1.6	*1.8*	-2.1	*2.7*	-2.1	*:*	1.8

[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 07.11.2005

	long-term average 1963-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of III-2005	2005 estimate of XI-2005	2006 forecast of III-2005	2006 forecast of XI-2005	2007 forecast of III-2005	2007 forecast of XI-2005
Belgium	:	:	-1.2	0.9	0.0	-1.2	-0.5	*-0.7*	0.2	*-0.7*	0.1	*:*	:
Germany	:	:	-3.0	-2.8	-1.6	-1.2	-1.8	*-1.4*	-2.7	*-1.0*	-2.3	*:*	:
Greece	:	:	-0.7	-4.8	3.0	-1.7	2.9	*1.2*	1.4	*1.8*	1.5	*:*	:
Spain	:	:	-0.2	0.2	0.5	0.7	1.8	*1.4*	0.8	*1.5*	1.6	*:*	:
France	:	:	-1.8	-1.1	0.5	-0.4	-0.4	*-0.4*	-0.5	*0.0*	-0.1	*:*	:
Ireland	:	:	-0.5	1.4	-1.0	1.2	3.2	*0.2*	2.3	*-0.4*	0.3	*:*	:
Italy	:	:	-1.4	-0.4	1.1	1.9	1.5	*0.4*	1.3	*0.0*	0.0	*:*	:
Luxembourg	:	:	-1.2	0.9	0.0	-1.2	-0.5	*-0.7*	0.2	*-0.7*	0.1	*:*	:
Netherlands	:	:	-0.1	2.5	2.8	1.4	-0.8	*-1.5*	-1.4	*-2.1*	-1.7	*:*	:
Austria	:	:	-2.9	-2.2	-1.3	-1.3	-0.7	*-1.0*	-0.5	*-0.2*	0.4	*:*	:
Portugal	:	:	3.3	-4.6	2.0	1.3	0.7	*0.5*	0.8	*0.2*	0.7	*:*	:
Finland	:	:	-2.1	1.7	-1.3	-1.6	0.1	*0.0*	0.7	*0.2*	-1.3	*:*	:
Euro area	:	:	-4.2	-2.3	-0.1	-0.4	-0.6	*-1.2*	-1.5	*-1.0*	-1.6	*:*	:
Czech Republic	:	:	4.3	2.2	4.2	2.9	0.7	*1.0*	-1.1	*0.9*	0.6	*:*	:
Denmark	:	:	-0.2	1.4	1.3	-0.1	0.6	*0.1*	-0.4	*0.4*	0.5	*:*	:
Estonia	:	:	4.3	-1.5	3.0	3.0	1.9	*-0.7*	2.5	*-0.5*	1.9	*:*	:
Cyprus	:	:	-8.2	-4.5	0.3	6.2	0.8	*0.1*	0.0	*-0.7*	-0.4	*:*	:
Latvia	:	:	1.6	-5.0	-2.5	3.7	7.9	*0.1*	5.3	*-0.9*	3.2	*:*	:
Lithuania	:	:	4.8	-9.9	-3.7	-1.7	-0.2	*0.1*	1.2	*0.6*	0.7	*:*	:
Hungary	:	:	8.1	8.7	6.6	5.3	2.5	*2.1*	0.5	*1.8*	0.5	*:*	:
Malta	:	:	-1.1	4.8	-0.3	0.9	1.1	*-1.1*	-0.3	*-0.8*	1.0	*:*	:
Poland	:	:	8.7	6.4	-4.6	-6.1	-3.0	*-0.7*	0.3	*-0.3*	0.2	*:*	:
Slovenia	:	:	2.9	5.5	4.1	2.6	3.0	*-0.2*	0.8	*-0.1*	0.5	*:*	:
Slovakia	:	:	2.0	-0.5	1.5	1.2	4.1	*1.3*	3.6	*0.5*	0.9	*:*	:
Sweden	:	:	-0.4	2.1	-0.9	-0.5	-1.6	*-0.6*	-0.2	*0.6*	0.1	*:*	:
United Kingdom	:	:	0.4	0.6	0.4	1.4	1.2	*0.8*	1.2	*1.3*	1.2	*:*	:
EU-25	:	:	-5.1	-1.8	0.1	-0.1	-0.3	*-1.3*	-1.4	*-0.5*	-1.4	*:*	:
EU-15	:	:	-4.9	-2.2	-0.1	0.0	-0.4	*-1.1*	-1.3	*-0.5*	-1.3	*:*	:
USA	:	:	-0.6	-1.2	-0.9	-0.4	0.9	*0.8*	1.7	*1.4*	1.3	*:*	:
Japan	:	:	-3.4	-3.8	-4.3	-3.8	-4.8	*-2.8*	-4.8	*-3.5*	-3.7	*:*	:

[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, 1963-2007)

	long-term average 1963-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of III-2005	2005 estimate of XI-2005	2006 forecast of III-2005	2006 forecast of XI-2005	2007 forecast of III-2005	2007 forecast of XI-2005
Belgium	:	:	-2.8	2.1	1.2	3.2	0.6	*0.0*	0.0	*-0.6*	-0.3	*:*	:
Germany	:	:	-4.4	-1.5	0.2	4.6	-0.1	*-0.9*	-3.2	*-0.9*	-2.8	*:*	:
Greece	:	:	-0.5	-1.9	5.5	3.2	4.3	*1.6*	0.6	*2.2*	1.3	*:*	:
Spain	:	:	-1.3	1.7	1.9	5.1	2.9	*2.0*	0.5	*1.7*	1.2	*:*	:
France	:	:	-2.9	0.2	2.3	4.8	1.0	*0.3*	-0.7	*0.1*	-0.6	*:*	:
Ireland	:	:	-2.0	2.4	0.9	8.5	5.6	*1.9*	2.3	*-0.3*	-0.5	*:*	:
Italy	:	:	0.5	1.2	3.2	7.7	3.2	*1.0*	0.8	*0.2*	-0.5	*:*	:
Luxembourg	:	:	-2.8	2.1	1.2	3.2	0.6	*0.0*	0.0	*-0.6*	-0.3	*:*	:
Netherlands	:	:	-1.6	3.6	3.9	5.4	0.1	*-1.0*	-1.6	*-2.0*	-2.0	*:*	:
Austria	:	:	-3.3	-1.3	-0.3	2.3	0.3	*-0.9*	-1.1	*0.0*	0.1	*:*	:
Portugal	:	:	2.2	-3.9	2.9	4.8	1.6	*1.1*	0.7	*0.3*	0.4	*:*	:
Finland	:	:	-3.9	3.8	0.2	3.7	1.7	*0.5*	0.4	*0.3*	-1.7	*:*	:
Euro area	:	:	-5.5	0.6	3.1	10.4	2.2	*-0.3*	-2.5	*-0.6*	-2.4	*:*	:
Czech Republic	:	:	4.7	7.5	16.3	2.6	1.1	*6.4*	4.9	*-0.5*	0.6	*:*	:
Denmark	:	:	-1.5	3.2	2.7	4.5	2.0	*0.4*	-0.9	*0.4*	0.0	*:*	:
Estonia	:	:	3.4	0.1	3.6	6.3	2.8	*-0.5*	2.4	*-0.4*	1.9	*:*	:
Cyprus	:	:	-1.9	-2.4	2.2	10.7	1.6	*0.4*	0.5	*-0.5*	-2.1	*:*	:
Latvia	:	:	5.9	-4.1	-5.4	-2.4	5.0	*-2.8*	0.5	*-0.4*	1.9	*:*	:
Lithuania	:	:	13.9	-5.7	1.2	3.2	1.0	*0.2*	0.9	*0.7*	0.5	*:*	:
Hungary	:	:	-0.3	11.3	13.9	4.0	4.4	*5.3*	1.3	*2.1*	-1.6	*:*	:
Malta	:	:	-1.2	5.5	0.8	4.1	3.3	*-0.5*	-0.7	*-1.0*	0.5	*:*	:
Poland	:	:	4.1	17.4	-8.7	-15.6	-5.1	*12.1*	12.3	*-1.6*	2.1	*:*	:
Slovenia	:	:	-2.1	1.0	1.3	2.0	1.6	*-0.7*	-0.1	*0.1*	0.2	*:*	:
Slovakia	:	:	1.3	-2.1	3.1	7.1	8.9	*5.3*	6.0	*-0.2*	-1.1	*:*	:
Sweden	:	:	0.7	-5.8	1.6	5.7	0.4	*1.0*	-2.5	*0.6*	-2.9	*:*	:
United Kingdom	:	:	5.8	-0.4	1.4	-2.6	5.7	*-0.3*	0.1	*0.9*	0.5	*:*	:
EU-25	:	:	-4.0	1.9	6.0	12.5	5.8	*1.1*	-2.2	*-0.3*	-3.1	*:*	:
EU-15	:	:	-4.0	-0.2	4.1	11.1	4.5	*-0.6*	-3.2	*-0.2*	-2.7	*:*	:
USA	:	:	4.5	4.3	-1.8	-9.4	-6.0	*-3.8*	-0.5	*1.1*	2.8	*:*	:
Japan	:	:	-2.7	-12.5	-9.2	-4.2	-3.3	*-1.1*	-6.8	*-1.0*	-5.7	*:*	:

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

TABLE 33 : Short term interest rates (1961-2005) 07.11.2005

	long-term average	5-year average											
	1961-90	1991-95	1996-00	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	7.9	7.4	3.5	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Germany	6.2	7.1	3.5	3.3	3.3	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Greece	:	22.1	11.7	13.8	12.8	14.0	10.1	7.7	4.3	3.3	2.3	2.1	2.2
Spain	:	11.1	4.9	7.5	5.4	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2
France	8.3	8.2	3.7	3.9	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Ireland	:	8.8	4.9	5.4	6.1	5.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Italy	10.0	11.0	5.5	8.7	6.8	4.9	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Luxembourg	7.9	7.4	3.5	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Netherlands	5.9	7.0	3.4	3.0	3.3	3.4	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Austria	:	7.0	3.6	3.3	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Portugal	:	13.6	5.0	7.4	5.7	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Finland	:	9.0	3.6	3.6	3.2	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Euro area	8.0	9.0	4.3	5.2	4.5	4.2	3.1	4.5	4.3	3.3	2.3	2.1	2.2
Czech Republic	:	:	10.9	12.0	16.0	14.3	6.9	5.4	5.2	3.5	2.3	2.4	1.9
Denmark	9.7	9.0	4.1	4.0	3.7	4.3	3.4	5.0	4.7	3.5	2.4	2.2	2.2
Estonia	:	:	8.8	8.1	8.6	13.9	7.8	5.7	5.3	3.9	2.9	2.5	2.4
Cyprus	:	:	:	:	:	:	6.3	6.4	5.9	4.4	3.9	4.7	4.4
Latvia	:	:	:	:	6.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2	3.1
Lithuania	:	:	:	:	:	:	13.9	8.6	5.9	3.7	2.8	2.7	2.4
Hungary	:	:	17.8	24.3	20.4	17.9	15.1	11.4	10.9	9.2	8.5	11.5	7.0
Malta	:	:	5.1	5.0	5.1	5.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2
Poland	:	:	19.8	21.4	23.7	20.4	14.7	18.8	16.1	9.0	5.7	6.2	5.2
Slovenia	:	:	:	:	:	10.3	8.6	10.9	10.9	8.0	6.8	4.7	4.1
Slovakia	:	:	15.8	11.9	21.8	21.1	15.7	8.6	7.8	7.8	6.2	4.7	2.9
Sweden	:	10.1	4.4	6.0	4.4	4.4	3.3	4.1	4.1	4.3	3.2	2.3	1.9
United Kingdom	9.7	7.9	6.4	6.1	6.9	7.4	5.6	6.2	5.0	4.1	3.7	4.6	4.8
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	8.4	8.9	4.6	5.4	4.9	4.7	3.5	4.7	4.4	3.5	2.6	2.5	2.6
USA	6.6	4.6	5.7	5.5	5.7	5.5	5.4	6.5	3.8	1.8	1.2	1.6	3.6
Japan	:	3.6	0.5	0.6	0.6	0.8	0.2	0.3	0.2	0.1	0.1	0.1	0.1

TABLE 34 : Long term interest rates (1961-2005)

	long-term average	5-year average											
	1961-90	1991-95	1996-00	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	8.5	8.1	5.5	6.5	5.8	4.8	4.8	5.6	5.1	5.0	4.2	4.2	3.4
Germany	7.5	7.3	5.2	6.2	5.6	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.3
Greece	:	:	9.1	14.5	9.9	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6
Spain	:	11.1	6.0	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4
France	9.4	7.8	5.3	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4
Ireland	:	8.4	5.7	7.3	6.3	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3
Italy	11.0	12.1	6.3	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.5
Luxembourg	:	7.5	5.4	6.3	5.6	4.7	4.7	5.5	4.9	4.7	4.0	4.2	3.3
Netherlands	7.5	7.4	5.3	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4
Austria	:	7.5	5.4	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4
Portugal	:	12.3	6.0	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4
Finland	9.9	10.1	5.6	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3
Euro area	9.1	9.1	5.7	7.4	6.1	4.8	4.7	5.4	5.0	4.9	4.1	4.1	3.3
Czech Republic	:	:	:	:	:	:	:	6.9	6.3	4.9	4.1	4.8	3.5
Denmark	12.0	8.3	5.8	7.2	6.3	4.9	4.9	5.6	5.1	5.1	4.3	4.3	3.4
Estonia	:	:	:	:	:	13.2	11.4	10.5	10.2	8.4	5.3	4.4	4.0
Cyprus	:	:	:	:	6.9	6.7	7.4	7.6	7.6	5.7	4.7	5.8	5.2
Latvia	:	:	:	:	:	:	:	:	7.6	5.4	4.9	4.9	3.9
Lithuania	:	:	:	:	:	:	:	:	8.2	6.1	5.3	4.5	3.7
Hungary	:	:	:	:	:	:	9.9	8.6	8.0	7.1	6.8	8.2	6.4
Malta	:	:	:	:	:	:	:	5.8	6.2	5.8	5.0	4.7	4.6
Poland	:	:	:	:	:	:	9.5	11.8	10.7	7.4	5.8	6.9	5.2
Slovenia	:	:	:	:	:	:	:	:	:	:	6.4	4.7	3.8
Slovakia	:	:	:	:	:	:	:	8.3	8.0	6.9	5.0	5.0	3.5
Sweden	9.1	9.8	6.0	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4
United Kingdom	10.2	8.6	6.2	7.9	7.1	5.6	5.0	5.3	5.0	4.9	4.6	4.9	4.5
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	9.3	9.1	5.8	7.5	6.3	4.9	4.7	5.4	5.0	4.9	4.2	4.3	3.6
USA	7.4	7.0	6.0	6.5	6.5	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.3
Japan	:	4.7	2.0	3.0	2.2	1.3	1.8	1.8	1.3	1.3	1.0	1.5	1.4

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1970-2007) [1] 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	51.4	53.1	51.4	49.9	51.0	52.0	50.2	*49.3*	49.8	*49.0*	49.3	*:*	48.8
Germany	44.8	47.3	48.5	48.2	48.8	49.1	47.5	*47.0*	47.6	*46.2*	47.0	*:*	46.3
Greece	33.2	47.6	50.1	50.2	49.6	49.8	49.9	*48.8*	47.4	*48.7*	45.4	*:*	43.4
Spain	31.0	44.6	41.0	38.9	39.0	38.6	39.0	*40.4*	38.8	*40.4*	39.1	*:*	39.6
France	44.5	52.5	53.8	52.3	53.2	53.9	54.0	*54.5*	54.2	*54.4*	54.2	*:*	53.9
Ireland	42.1	39.3	35.6	33.8	33.8	34.0	34.2	*35.1*	35.8	*34.6*	35.0	*:*	34.4
Italy	44.1	54.6	49.9	49.2	48.3	49.3	48.6	*48.2*	49.2	*48.5*	48.8	*:*	48.9
Luxembourg	:	:	42.3	38.7	43.7	45.0	45.6	*46.0*	46.3	*46.0*	46.1	*:*	45.9
Netherlands	49.3	51.0	46.2	46.1	46.9	47.6	47.1	*47.9*	48.8	*49.2*	49.5	*:*	49.5
Austria	45.2	52.3	53.8	51.3	51.1	51.0	50.4	*50.1*	50.0	*49.2*	49.4	*:*	48.7
Portugal	31.1	40.3	43.4	44.8	44.6	46.1	46.5	*47.4*	47.7	*47.8*	47.8	*:*	48.0
Finland	38.9	58.3	54.1	49.2	50.0	51.2	51.5	*50.3*	51.8	*49.8*	51.2	*:*	50.7
Euro area	43.7	50.1	49.2	48.1	48.4	48.8	48.2	*48.2*	48.3	*48.0*	48.0	*:*	47.7
Czech Republic	:	:	42.8	45.0	46.9	53.5	44.7	*46.3*	45.0	*45.1*	45.2	*:*	44.7
Denmark	49.4	58.5	56.6	54.7	55.2	55.2	55.1	*54.3*	54.6	*53.5*	54.1	*:*	53.6
Estonia	:	:	40.7	37.6	37.7	37.4	37.0	*40.0*	39.6	*38.7*	40.8	*:*	38.8
Cyprus	:	:	:	38.9	40.6	45.4	44.1	*42.3*	44.1	*40.7*	43.3	*:*	42.9
Latvia	:	:	39.2	36.2	36.1	35.0	36.1	*37.0*	36.4	*36.8*	36.8	*:*	36.8
Lithuania	:	:	40.9	35.1	34.4	33.4	33.5	*34.8*	34.8	*33.6*	34.0	*:*	32.7
Hungary	:	:	:	48.5	52.6	50.4	49.9	*47.8*	49.5	*47.1*	48.3	*:*	47.6
Malta	:	:	:	44.5	45.8	50.4	48.3	*52.6*	50.7	*51.4*	49.2	*:*	47.8
Poland	:	:	48.1	44.7	45.6	45.8	44.7	*48.6*	45.0	*48.0*	45.0	*:*	44.6
Slovenia	:	:	:	49.0	48.4	48.5	47.9	*47.6*	47.2	*47.2*	47.0	*:*	46.3
Slovakia	:	:	60.8	43.6	43.7	39.7	40.5	*39.9*	41.2	*38.8*	39.3	*:*	38.3
Sweden	54.9	64.9	61.3	57.0	58.1	58.4	57.1	*57.0*	56.9	*56.6*	56.8	*:*	56.3
United Kingdom	41.5	42.3	40.2	40.8	41.8	43.5	44.1	*44.0*	44.8	*44.1*	45.1	*:*	45.3
EU-25	:	:	:	47.0	47.5	48.3	47.7	*47.8*	47.9	*47.6*	47.7	*:*	47.5
EU-15	43.9	49.6	48.3	47.2	47.6	48.3	47.9	*47.9*	48.1	*47.7*	47.9	*:*	47.7
USA	34.1	36.2	33.4	33.5	34.4	34.8	34.3	*33.3*	34.5	*33.1*	34.6	*:*	34.5
Japan	28.6	33.3	38.9	39.2	39.8	39.3	38.6	*38.4*	38.0	*37.9*	37.5	*:*	36.9

[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, 1970-2007) [1]

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	44.8	47.3	50.0	50.6	51.0	52.1	50.2	*49.1*	49.8	*48.5*	49.0	*:*	48.2
Germany	43.0	44.3	46.8	45.4	45.0	45.0	43.8	*43.6*	43.7	*43.4*	43.2	*:*	43.0
Greece	27.5	36.1	44.9	44.1	44.7	44.1	43.3	*44.3*	43.7	*44.3*	41.6	*:*	39.6
Spain	28.8	39.1	38.4	38.4	38.7	38.5	38.9	*40.4*	39.0	*40.5*	39.2	*:*	39.2
France	43.3	48.0	51.3	50.8	50.0	49.8	50.4	*51.5*	50.9	*51.1*	50.8	*:*	50.3
Ireland	34.5	37.2	37.7	34.5	33.4	34.1	35.7	*34.5*	35.4	*34.0*	34.6	*:*	34.2
Italy	34.8	45.5	46.9	46.0	45.6	46.1	45.3	*44.6*	44.9	*44.0*	44.6	*:*	44.4
Luxembourg	:	:	45.9	45.2	45.8	45.2	44.5	*44.4*	44.0	*44.2*	44.1	*:*	43.7
Netherlands	46.5	47.6	46.1	45.8	44.9	44.5	45.0	*45.8*	47.0	*47.6*	47.6	*:*	48.0
Austria	43.4	48.4	51.5	51.4	50.7	49.8	49.4	*48.1*	48.2	*47.4*	47.5	*:*	47.3
Portugal	26.8	35.4	40.0	40.5	41.8	43.3	43.5	*42.5*	41.7	*43.1*	42.8	*:*	43.2
Finland	42.7	53.3	55.4	54.4	54.3	53.4	53.2	*51.9*	53.7	*51.3*	53.0	*:*	52.6
Euro area	40.4	45.1	47.2	46.2	45.8	45.9	45.4	*45.6*	45.5	*45.4*	45.2	*:*	44.9
Czech Republic	:	:	39.2	39.1	40.2	41.0	41.6	*41.8*	41.8	*41.0*	41.5	*:*	41.4
Denmark	49.6	56.2	57.7	56.6	56.3	56.0	57.6	*56.5*	58.2	*55.7*	57.1	*:*	56.3
Estonia	:	:	39.8	37.9	38.3	39.6	38.4	*40.8*	40.7	*39.2*	41.4	*:*	39.2
Cyprus	:	:	:	36.6	36.1	39.1	39.9	*39.4*	41.4	*38.9*	40.5	*:*	40.4
Latvia	:	33.7	37.6	34.1	33.8	33.8	35.2	*35.4*	35.2	*35.3*	35.3	*:*	35.3
Lithuania	:	:	36.3	33.2	33.0	32.2	32.1	*32.3*	32.8	*31.6*	32.2	*:*	31.2
Hungary	:	:	:	44.9	44.1	43.9	44.5	*43.9*	43.4	*43.0*	41.6	*:*	40.7
Malta	:	:	:	37.9	40.0	40.0	43.2	*48.8*	46.5	*48.6*	46.1	*:*	45.4
Poland	:	:	44.8	40.9	42.3	40.9	40.8	*44.2*	41.4	*44.2*	41.4	*:*	41.2
Slovenia	:	:	:	45.1	45.7	45.8	45.8	*45.4*	45.4	*45.1*	45.1	*:*	44.7
Slovakia	:	:	53.5	37.1	36.0	35.9	37.3	*36.1*	37.0	*34.8*	36.3	*:*	35.8
Sweden	55.4	57.6	62.4	59.5	57.8	58.6	58.7	*57.8*	58.2	*57.4*	57.6	*:*	57.4
United Kingdom	39.3	36.6	39.9	41.5	40.1	40.2	41.0	*40.9*	41.4	*41.4*	41.8	*:*	42.2
EU-25	:	:	:	45.7	45.2	45.2	45.1	*45.2*	45.2	*45.1*	45.0	*:*	44.8
EU-15	41.0	44.6	46.7	46.0	45.4	45.5	45.3	*45.4*	45.4	*45.2*	45.2	*:*	45.0
USA	30.7	31.4	33.4	33.1	30.6	29.8	29.6	*29.3*	30.6	*29.3*	29.9	*:*	29.6
Japan	27.7	32.5	32.0	33.1	31.9	31.6	31.6	*31.8*	31.5	*31.8*	31.3	*:*	31.1

[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, 1970-2007) [1] 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	-6.6	-5.8	-1.4	0.6	0.0	0.1	0.0	*-0.2*	0.0	*-0.6*	-0.3	:	-0.5
Germany	-1.9	-3.0	-1.7	-2.9	-3.8	-4.1	-3.7	*-3.3*	-3.9	*-2.8*	-3.7	:	-3.3
Greece	-5.7	-11.5	-5.2	-6.1	-4.9	-5.7	-6.6	*-4.5*	-3.7	*-4.4*	-3.8	:	-3.8
Spain	-2.3	-5.5	-2.6	-0.5	-0.3	0.0	-0.1	*0.0*	0.2	*0.1*	0.1	:	-0.4
France	-1.2	-4.5	-2.6	-1.5	-3.2	-4.1	-3.7	*-3.0*	-3.2	*-3.4*	-3.5	:	-3.5
Ireland	-7.6	-2.1	2.1	0.8	-0.4	0.2	1.4	*-0.6*	-0.4	*-0.6*	-0.3	:	-0.1
Italy	-9.1	-9.1	-3.0	-3.2	-2.7	-3.2	-3.2	*-3.6*	-4.3	*-4.6*	-4.2	:	-4.6
Luxembourg	:	1.9	3.6	6.5	2.1	0.2	-1.2	*-1.5*	-2.3	*-1.9*	-2.0	:	-2.2
Netherlands	-3.1	-3.4	-0.2	-0.2	-2.0	-3.2	-2.1	*-2.0*	-1.8	*-1.6*	-1.9	:	-1.5
Austria	-1.7	-3.9	-2.3	0.1	-0.4	-1.2	-1.0	*-2.0*	-1.9	*-1.7*	-1.8	:	-1.4
Portugal	-4.3	-4.9	-3.3	-4.2	-2.8	-2.9	-3.0	*-4.9*	-6.0	*-4.7*	-5.0	:	-4.8
Finland	3.9	-5.0	1.3	5.2	4.3	2.5	2.1	*1.7*	1.9	*1.6*	1.9	:	1.8
Euro area	-3.3	-5.0	-2.1	-1.8	-2.5	-3.0	-2.7	*-2.6*	-2.9	*-2.7*	-2.8	:	-2.8
Czech Republic	:	:	-3.6	-5.9	-6.8	-12.5	-3.0	*-4.5*	-3.2	*-4.0*	-3.7	:	-3.3
Denmark	-0.4	-2.4	1.2	2.6	1.4	1.2	2.9	*2.1*	3.7	*2.2*	3.0	:	2.7
Estonia	:	:	-1.0	0.3	1.5	2.6	1.7	*0.9*	1.1	*0.5*	0.6	:	0.4
Cyprus	:	:	:	-2.3	-4.5	-6.3	-4.1	*-2.9*	-2.8	*-1.9*	-2.8	:	-2.4
Latvia	:	0.8	-1.6	-2.1	-2.3	-1.2	-0.9	*-1.6*	-1.2	*-1.5*	-1.5	:	-1.5
Lithuania	:	:	-4.5	-2.0	-1.4	-1.2	-1.4	*-2.4*	-2.0	*-1.9*	-1.8	:	-1.6
Hungary	:	:	:	-3.5	-8.5	-6.5	-5.4	*-3.9*	-6.1	*-4.1*	-6.7	:	-6.9
Malta	:	:	:	-6.6	-5.8	-10.4	-5.1	*-3.9*	-4.2	*-2.8*	-3.0	:	-2.5
Poland	:	-3.2	-2.5	-3.7	-3.3	-4.8	-3.9	*-4.4*	-3.6	*-3.8*	-3.6	:	-3.4
Slovenia	:	:	:	-3.9	-2.7	-2.7	-2.1	*-2.2*	-1.7	*-2.1*	-1.9	:	-1.6
Slovakia	:	:	-7.4	-6.6	-7.8	-3.8	-3.1	*-3.8*	-4.1	*-4.0*	-3.0	:	-2.5
Sweden	0.6	-7.3	1.2	2.5	-0.3	0.2	1.6	*0.8*	1.4	*0.8*	0.8	:	1.1
United Kingdom	-2.2	-5.7	-0.3	0.7	-1.7	-3.3	-3.2	*-3.0*	-3.4	*-2.7*	-3.3	:	-3.0
EU-25	:	:	:	-1.3	-2.4	-3.0	-2.6	*-2.6*	-2.7	*-2.5*	-2.7	:	-2.7
EU-15	-2.9	-5.1	-1.6	-1.2	-2.2	-2.9	-2.6	*-2.5*	-2.7	*-2.5*	-2.7	:	-2.6
USA	-3.4	-4.8	0.0	-0.4	-3.8	-5.0	-4.7	*-3.9*	-3.9	*-3.8*	-4.7	:	-4.9
Japan	-1.4	-0.9	-6.9	-6.1	-7.9	-7.7	-7.0	*-6.6*	-6.5	*-6.1*	-6.1	:	-5.8

[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, 1970-2007) [1]

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	6.4	9.8	7.5	6.6	5.9	5.4	4.8	*4.5*	4.5	*4.2*	4.2	:	3.9
Germany	2.0	3.1	3.4	3.1	3.0	3.0	2.9	*3.0*	3.0	*3.0*	2.9	:	2.9
Greece	3.2	12.0	10.0	7.3	6.3	5.7	5.7	*5.5*	5.4	*5.5*	5.0	:	4.7
Spain	1.3	4.5	4.2	3.1	2.7	2.4	2.1	*2.1*	1.9	*2.0*	1.8	:	1.7
France	1.7	3.3	3.4	3.1	3.0	2.9	2.8	*2.9*	2.7	*3.0*	2.8	:	2.8
Ireland	6.1	6.2	3.3	1.5	1.4	1.3	1.2	*1.1*	1.2	*1.0*	1.1	:	1.1
Italy	5.6	11.2	8.4	6.5	5.8	5.3	5.1	*4.9*	4.9	*5.0*	4.7	:	4.8
Luxembourg	:	0.4	0.4	0.4	0.3	0.3	0.2	*0.2*	0.2	*0.2*	0.2	:	0.2
Netherlands	4.1	5.7	4.7	3.2	2.8	2.7	2.6	*2.8*	2.5	*2.8*	2.5	:	2.4
Austria	2.4	4.0	3.6	3.5	3.2	2.9	2.9	*2.9*	2.9	*2.8*	2.9	:	2.8
Portugal	3.5	6.3	3.7	3.0	2.9	2.8	2.7	*2.9*	2.8	*3.1*	3.0	:	3.2
Finland	1.1	3.6	3.6	2.7	2.2	1.8	1.6	*1.6*	1.9	*1.5*	1.8	:	1.7
Euro area	2.9	5.3	4.7	3.9	3.6	3.4	3.2	*3.3*	3.2	*3.3*	3.1	:	3.1
Czech Republic	:	:	1.1	1.1	1.5	1.2	1.3	*1.3*	1.3	*1.4*	1.4	:	1.4
Denmark	4.4	6.7	4.6	3.4	3.1	2.7	2.3	*2.2*	2.2	*2.0*	1.8	:	1.7
Estonia	:	:	0.3	0.2	0.3	0.3	0.2	*0.2*	0.2	*0.2*	0.2	:	0.2
Cyprus	:	:	:	3.4	3.2	3.4	3.2	*3.3*	3.3	*3.2*	3.2	:	3.1
Latvia	:	:	1.0	1.0	0.8	0.8	0.7	*0.8*	0.7	*0.8*	0.7	:	0.7
Lithuania	:	:	1.2	1.6	1.4	1.3	1.0	*0.9*	0.9	*0.9*	0.8	:	0.8
Hungary	:	:	:	4.7	4.0	4.1	4.3	*3.8*	3.9	*3.4*	3.7	:	3.5
Malta	:	:	:	3.7	4.0	3.8	4.1	*4.3*	4.4	*4.3*	4.4	:	4.3
Poland	:	6.0	3.2	3.2	2.9	2.9	2.7	*2.6*	2.6	*2.5*	2.5	:	2.4
Slovenia	:	:	:	2.5	2.4	2.2	1.9	*1.7*	1.7	*1.6*	1.5	:	1.4
Slovakia	:	:	2.9	4.1	3.6	2.6	2.2	*2.4*	2.3	*2.2*	2.2	:	2.2
Sweden	4.2	5.8	5.4	3.2	3.0	2.1	1.8	*2.0*	1.8	*2.1*	1.8	:	1.9
United Kingdom	4.2	2.9	2.7	1.9	1.6	1.6	1.6	*2.1*	2.1	*2.1*	2.1	:	2.2
EU-25	:	:	:	3.5	3.2	3.0	2.9	*3.0*	2.9	*3.0*	2.8	:	2.8
EU-15	3.2	5.0	4.4	3.5	3.2	3.0	2.9	*3.0*	2.9	*3.0*	2.8	:	2.8
USA	3.6	4.9	4.2	3.4	3.0	2.8	2.7	*2.6*	2.7	*2.6*	2.8	:	3.0
Japan	2.7	3.6	3.4	3.2	3.0	2.8	3.0	*3.1*	3.1	*3.3*	3.3	:	3.4

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

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1970-2007) [1] [2] 07.11.2005

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	-0.1	4.1	6.1	7.2	5.9	5.5	4.8	*4.3*	4.4	*3.6*	3.8	*:*	3.4
Germany	0.2	0.1	1.7	0.2	-0.8	-1.0	-0.8	*-0.3*	-0.9	*0.2*	-0.9	*:*	-0.4
Greece	-2.4	0.5	4.8	1.2	1.3	0.0	-0.9	*1.0*	1.7	*1.0*	1.2	*:*	0.9
Spain	-1.1	-1.0	1.6	2.6	2.5	2.4	1.9	*2.1*	2.1	*2.1*	1.9	*:*	1.3
France	0.5	-1.2	0.8	1.6	-0.2	-1.2	-0.8	*-0.1*	-0.5	*-0.4*	-0.7	*:*	-0.7
Ireland	-1.5	4.1	5.4	2.3	0.9	1.4	2.7	*0.5*	0.8	*0.5*	0.8	*:*	0.9
Italy	-3.5	2.1	5.4	3.4	3.0	2.1	1.8	*1.3*	0.6	*0.4*	0.6	*:*	0.3
Luxembourg	:	2.2	4.1	6.9	2.5	0.5	-0.9	*-1.3*	-2.1	*-1.7*	-1.8	*:*	-2.0
Netherlands	1.1	2.3	4.5	3.0	0.8	-0.5	0.5	*0.8*	0.7	*1.2*	0.6	*:*	1.0
Austria	0.6	0.1	1.3	3.6	2.7	1.7	1.9	*0.9*	1.0	*1.1*	1.0	*:*	1.4
Portugal	-0.8	1.3	0.4	-1.2	0.1	-0.1	-0.3	*-2.0*	-3.1	*-1.6*	-2.0	*:*	-1.6
Finland	5.0	-1.4	5.0	7.9	6.5	4.3	3.8	*3.3*	3.8	*3.1*	3.7	*:*	3.6
Euro area	-0.4	0.4	2.6	2.0	1.0	0.4	0.5	*0.6*	0.3	*0.6*	0.2	*:*	0.2
Czech Republic	:	:	-2.5	-4.8	-5.2	-11.3	-1.8	*-3.2*	-1.9	*-2.6*	-2.3	*:*	-1.9
Denmark	4.0	4.3	5.8	5.9	4.4	3.9	5.3	*4.3*	5.8	*4.2*	4.9	*:*	4.4
Estonia	:	:	-0.7	0.5	1.7	2.9	2.0	*1.1*	1.3	*0.7*	0.8	*:*	0.5
Cyprus	:	:	:	1.1	-1.3	-2.8	-0.9	*0.4*	0.5	*1.4*	0.3	*:*	0.7
Latvia	:	:	-0.5	-1.1	-1.5	-0.4	-0.2	*-0.8*	-0.5	*-0.7*	-0.8	*:*	-0.8
Lithuania	:	:	-3.3	-0.4	0.0	0.1	-0.4	*-1.5*	-1.1	*-1.1*	-1.0	*:*	-0.8
Hungary	:	:	:	1.2	-4.5	-2.4	-1.1	*0.0*	-2.2	*-0.7*	-3.0	*:*	-3.4
Malta	:	:	:	-2.9	-1.8	-6.5	-1.0	*0.5*	0.2	*1.5*	1.3	*:*	1.9
Poland	:	2.8	0.6	-0.6	-0.4	-1.9	-1.2	*-1.9*	-1.0	*-1.3*	-1.1	*:*	-1.0
Slovenia	:	:	:	-1.4	-0.2	-0.6	-0.2	*-0.5*	-0.1	*-0.5*	-0.4	*:*	-0.2
Slovakia	:	:	-4.5	-2.5	-4.1	-1.2	-0.9	*-1.4*	-1.9	*-1.7*	-0.8	*:*	-0.2
Sweden	4.8	-1.5	6.5	5.7	2.8	2.3	3.4	*2.9*	3.2	*2.9*	2.6	*:*	2.9
United Kingdom	2.0	-2.9	2.4	2.6	-0.1	-1.8	-1.5	*-1.0*	-1.3	*-0.7*	-1.1	*:*	-0.8
EU-25	:	:	:	2.2	0.8	0.0	0.2	*0.4*	0.1	*0.4*	0.1	*:*	0.1
EU-15	0.3	0.0	2.8	2.3	1.0	0.2	0.3	*0.5*	0.2	*0.5*	0.1	*:*	0.2
USA	0.1	0.0	4.2	3.0	-0.8	-2.2	-2.1	*-1.3*	-1.2	*-1.2*	-1.9	*:*	-1.9
Japan	1.3	2.7	-3.5	-3.0	-4.9	-4.9	-4.0	*-3.4*	-3.4	*-2.8*	-2.9	*:*	-2.4

[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, 1970-2007) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	-9.0	-7.7	-1.3	0.1	-0.2	0.5	0.1	*0.3*	0.4	*-0.2*	0.1	*:*	0.0
Germany	-1.7	-3.8	-1.9	-3.4	-3.8	-3.5	-3.4	*-2.8*	-3.4	*-2.3*	-3.3	*:*	-3.0
Greece	-5.8	-10.9	-4.2	-6.5	-5.0	-6.0	-7.5	*-5.5*	-4.5	*-5.3*	-4.6	*:*	-4.8
Spain	-6.1	-9.1	-2.5	-1.5	-0.9	-0.4	-0.2	*0.0*	0.2	*0.2*	0.2	*:*	-0.2
France	-2.9	-5.7	-2.5	-2.5	-3.8	-4.0	-3.6	*-2.8*	-3.0	*-3.1*	-3.0	*:*	-3.1
Ireland	-7.5	-0.6	1.4	-0.7	-1.8	-0.4	1.4	*-0.1*	0.2	*0.1*	0.6	*:*	0.9
Italy	-9.2	-8.8	-3.6	-4.1	-3.0	-3.0	-3.0	*-2.9*	-3.5	*-4.0*	-3.6	*:*	-4.0
Luxembourg	:	:	3.6	6.0	2.5	1.2	-0.3	*-0.6*	-1.5	*-0.6*	-1.4	*:*	-1.6
Netherlands	-8.6	-7.7	-0.9	-1.4	-2.1	-2.3	-1.4	*-0.4*	-0.6	*0.0*	-0.8	*:*	-0.7
Austria	-1.8	-4.0	-2.6	-0.3	-0.3	-0.8	-0.9	*-1.9*	-1.5	*-1.6*	-1.4	*:*	-1.0
Portugal	-3.8	-4.2	-3.7	-5.4	-3.4	-2.3	-2.4	*-3.9*	-5.1	*-3.7*	-3.9	*:*	-3.6
Finland	0.7	-4.2	0.7	4.8	4.4	2.9	2.3	*1.9*	2.5	*1.8*	2.2	*:*	2.1
Euro area	:	-6.0	-2.3	-2.7	-2.8	-2.7	-2.5	*-2.1*	-2.4	*-2.2*	-2.4	*:*	-2.4
Czech Republic	:	:	-2.7	-5.8	-5.9	-11.6	-2.5	*:*	-3.1	*:*	-3.9	*:*	-3.8
Denmark	-4.4	-4.5	0.4	1.5	1.5	2.2	3.8	*2.5*	4.1	*2.4*	3.3	*:*	3.0
Estonia	:	:	0.0	0.5	1.5	2.7	1.8	*:*	1.0	*:*	0.6	*:*	0.4
Cyprus	:	:	:	-3.0	-4.6	-6.0	-3.9	*:*	-2.5	*:*	-2.7	*:*	-2.6
Latvia	:	:	-1.2	-2.1	-2.3	-1.1	-1.0	*:*	-1.5	*:*	-1.6	*:*	-1.3
Lithuania	:	:	-3.4	-1.3	-1.0	-1.8	-2.0	*:*	-2.6	*:*	-2.2	*:*	-1.6
Hungary	:	:	:	-3.5	-8.2	-5.9	-5.3	*:*	-5.8	*:*	-6.6	*:*	-7.0
Malta	:	:	:	-7.2	-6.5	-10.0	-4.3	*:*	-3.0	*:*	-1.4	*:*	-0.5
Poland	:	:	-2.5	-3.0	-2.2	-4.2	-4.1	*:*	-3.7	*:*	-3.7	*:*	-3.6
Slovenia	:	:	:	-4.2	-2.4	-2.0	-1.5	*:*	-1.5	*:*	-1.7	*:*	-1.7
Slovakia	:	:	-7.4	-6.2	-7.7	-3.2	-2.7	*:*	-3.8	*:*	-2.7	*:*	-2.5
Sweden	-1.9	-7.2	1.6	2.4	-0.1	1.0	1.8	*0.8*	1.6	*0.7*	0.9	*:*	1.1
United Kingdom	-8.2	-9.5	-0.9	0.4	-1.7	-3.4	-3.4	*-2.9*	-3.2	*-2.6*	-2.9	*:*	-2.7
EU-25	:	:	:	-2.0	-2.5	-2.7	-2.5	*:*	-2.4	*:*	-2.3	*:*	-2.3
EU-15	:	-6.5	-1.9	-1.9	-2.5	-2.6	-2.5	*-2.1*	-2.3	*-2.1*	-2.3	*:*	-2.2

[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.

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2007) [1] 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	-2.5	2.1	6.2	6.6	5.7	5.9	4.9	4.7	4.9	4.0	4.2	:	3.9
Germany	0.3	-0.6	1.4	-0.3	-0.8	-0.5	-0.5	0.3	-0.4	0.7	-0.4	:	-0.1
Greece	-2.6	1.1	5.7	0.8	1.3	-0.3	-1.8	0.0	0.8	0.1	0.4	:	0.0
Spain	-4.6	-4.6	1.7	1.6	1.8	2.0	1.8	2.1	2.1	2.2	2.0	:	1.5
France	-1.2	-2.4	1.0	0.6	-0.8	-1.1	-0.8	0.2	-0.3	-0.1	-0.3	:	-0.3
Ireland	-1.4	5.6	4.7	0.9	-0.4	0.9	2.6	1.0	1.4	1.1	1.7	:	2.0
Italy	-3.6	2.4	4.8	2.5	2.7	2.3	2.1	2.0	1.4	1.0	1.2	:	0.9
Luxembourg	:	:	4.0	6.3	2.9	1.5	-0.1	-0.3	-1.3	-0.5	-1.2	:	-1.4
Netherlands	-4.5	-2.0	3.7	1.8	0.7	0.4	1.2	2.5	1.9	2.8	1.7	:	1.8
Austria	0.6	0.0	1.0	3.2	2.8	2.1	2.0	1.1	1.4	1.2	1.5	:	1.8
Portugal	-0.3	2.1	0.1	-2.4	-0.5	0.5	0.3	-1.0	-2.2	-0.7	-0.8	:	-0.4
Finland	1.9	-0.6	4.3	7.5	6.6	4.7	3.9	3.5	4.4	3.4	4.1	:	3.8
Euro area	:	-0.7	2.4	1.2	0.7	0.7	0.7	1.1	0.8	1.0	0.7	:	0.7
Czech Republic	:	:	-1.6	-4.7	-4.4	-10.4	-1.2	:	-1.8	:	-2.5	:	-2.4
Denmark	0.1	2.2	5.0	4.9	4.6	4.8	6.1	4.7	6.2	4.4	5.1	:	4.6
Estonia	:	:	0.3	0.8	1.8	2.9	2.0	:	1.2	:	0.8	:	0.6
Cyprus	:	:	:	0.4	-1.4	-2.5	-0.7	:	0.7	:	0.4	:	0.5
Latvia	:	:	-0.2	-1.1	-1.5	-0.3	-0.2	:	-0.8	:	-0.9	:	-0.6
Lithuania	:	:	-2.2	0.3	0.4	-0.5	-1.0	:	-1.7	:	-1.4	:	-0.9
Hungary	:	:	:	1.2	-4.2	-1.8	-0.9	:	-1.8	:	-2.8	:	-3.5
Malta	:	:	:	-3.5	-2.6	-6.2	-0.2	:	1.4	:	3.0	:	3.8
Poland	:	:	0.7	0.2	0.7	-1.3	-1.3	:	-1.0	:	-1.2	:	-1.2
Slovenia	:	:	:	-1.8	0.0	0.2	0.4	:	0.2	:	-0.2	:	-0.3
Slovakia	:	:	-4.5	-2.1	-4.0	-0.6	-0.5	:	-1.5	:	-0.5	:	-0.3
Sweden	2.3	-1.5	7.0	5.5	3.0	3.1	3.5	2.9	3.4	2.8	2.7	:	2.9
United Kingdom	-4.0	-6.7	1.8	2.3	-0.1	-1.8	-1.8	-0.8	-1.1	-0.5	-0.8	:	-0.5
EU-25	:	:	:	1.5	0.6	0.3	0.4	:	0.5	:	0.5	:	0.5
EU-15	:	-1.5	2.5	1.6	0.7	0.4	0.4	0.9	0.6	0.9	0.6	:	0.6

[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.

TABLE 42 : Gross debt, general government (as a percentage of GDP, 1980-2007) [1]

								2005 estimate of		2006 forecast of		2007 forecast of	
	1980	1985	1990	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	74.1	115.2	125.7	108.3	105.8	100.4	96.2	94.9	94.9	91.7	91.1	:	88.1
Germany	31.2	40.7	42.3	59.6	61.2	64.8	66.4	68.0	68.6	68.9	70.0	:	71.4
Greece	25.0	53.6	79.6	114.4	111.6	108.8	109.3	110.5	107.9	108.9	106.8	:	106.0
Spain	16.4	41.4	42.6	56.3	53.2	49.4	46.9	46.5	44.2	44.2	41.9	:	40.7
France	20.8	30.3	35.3	56.8	58.8	63.2	65.1	66.2	66.5	67.1	67.1	:	68.0
Ireland	69.0	100.5	93.1	35.9	32.4	31.5	29.8	29.8	29.0	29.6	28.7	:	28.2
Italy	58.2	82.3	97.2	110.9	108.3	106.8	106.5	105.6	108.6	106.3	108.3	:	107.9
Luxembourg	11.3	11.7	5.4	6.7	6.8	6.7	6.6	7.8	6.8	7.9	7.0	:	7.3
Netherlands	44.0	67.5	73.7	51.5	51.3	52.6	53.1	57.6	54.0	57.9	54.2	:	53.8
Austria	35.4	48.1	56.1	67.0	66.7	65.1	64.3	64.4	64.3	64.1	64.2	:	63.6
Portugal	30.6	58.4	55.3	53.6	56.1	57.7	59.4	66.2	65.9	68.5	69.8	:	72.1
Finland	11.4	16.1	14.1	43.6	42.3	45.2	45.1	44.3	42.8	43.7	41.5	:	40.6
Euro area	33.9	50.8	57.3	69.3	69.2	70.4	70.8	71.7	71.7	71.9	71.7	:	71.8
Czech Republic	:	:	:	26.3	29.8	36.8	36.8	36.4	36.2	37.0	36.6	:	36.9
Denmark	39.1	75.0	62.0	48.0	47.6	45.0	43.2	40.5	36.0	38.2	33.0	:	31.5
Estonia	:	:	:	4.7	5.8	6.0	5.5	4.3	5.1	4.0	4.0	:	3.1
Cyprus	:	:	:	61.9	65.2	69.8	72.0	69.1	70.4	66.6	69.1	:	67.4
Latvia	:	:	:	15.0	14.2	14.6	14.7	14.0	12.8	14.3	13.0	:	13.2
Lithuania	:	:	:	22.9	22.4	21.4	19.6	21.2	20.7	20.9	20.2	:	19.6
Hungary	:	:	:	52.2	55.5	57.4	57.4	57.8	57.2	57.9	58.0	:	59.2
Malta	:	:	:	63.5	63.2	72.8	75.9	76.4	77.2	77.1	77.4	:	77.1
Poland	:	:	:	36.7	41.2	45.3	43.6	46.8	46.3	47.6	47.0	:	47.3
Slovenia	:	:	:	28.4	29.8	29.4	29.8	30.2	29.3	30.4	29.5	:	29.2
Slovakia	:	:	:	49.2	43.7	43.1	42.5	44.2	36.7	44.9	38.2	:	38.5
Sweden	40.0	61.9	42.0	54.3	52.4	52.0	51.1	50.3	50.6	49.2	49.4	:	47.8
United Kingdom	53.2	52.7	34.0	38.7	38.2	39.7	41.5	41.9	43.1	42.5	44.3	:	45.1
EU-25	:	:	:	62.0	61.4	63.0	63.4	64.1	64.1	64.2	64.2	:	64.3
EU-15	38.0	51.6	53.5	63.1	62.5	64.0	64.3	65.0	65.1	65.1	65.2	:	65.3

[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, 1970-2007) 07.11.2005

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	22.7	24.5	25.7	24.6	24.2	23.6	23.5	*23.4*	23.5	*23.8*	23.8	*:*	23.8
Germany	24.3	21.6	20.5	19.5	19.4	19.3	20.9	*21.7*	21.0	*22.2*	21.2	*:*	21.7
Greece	27.5	20.1	17.1	16.6	15.9	16.9	17.2	*19.1*	17.3	*19.7*	18.2	*:*	18.6
Spain	23.5	20.9	22.2	21.8	22.7	23.3	22.4	*23.2*	22.1	*23.5*	22.0	*:*	21.5
France	22.4	19.0	20.6	21.3	19.8	19.2	19.1	*20.1*	19.7	*20.2*	19.8	*:*	20.2
Ireland	18.6	17.9	24.2	23.2	21.9	23.3	23.6	*23.5*	23.8	*23.4*	23.5	*:*	23.0
Italy	24.2	19.7	21.1	20.0	19.7	18.6	19.4	*19.5*	18.7	*19.9*	19.0	*:*	19.3
Luxembourg	39.4	37.4	34.4	32.8	32.9	29.3	25.5	*28.4*	25.1	*28.9*	25.1	*:*	25.6
Netherlands	25.3	25.6	26.7	26.6	25.7	24.9	25.6	*24.1*	25.4	*25.0*	25.2	*:*	25.2
Austria	24.6	21.8	20.4	20.6	21.1	21.3	21.9	*23.8*	22.0	*24.1*	21.9	*:*	22.1
Portugal	23.3	21.3	19.1	16.7	17.1	16.8	15.0	*15.6*	13.2	*16.0*	13.1	*:*	13.5
Finland	26.4	17.6	24.8	27.3	26.6	23.1	24.3	*24.0*	22.6	*23.8*	22.6	*:*	23.0
Euro area	23.7	20.8	21.5	21.0	20.6	20.3	20.8	*21.3*	20.7	*21.7*	20.8	*:*	21.1
Czech Republic	:	:	25.0	23.5	22.2	20.9	22.4	*23.7*	24.1	*24.0*	24.2	*:*	24.8
Denmark	19.6	19.7	21.4	23.5	22.5	22.8	22.2	*22.6*	22.5	*22.9*	22.9	*:*	23.3
Estonia	:	:	19.6	21.2	19.4	18.1	20.0	*18.1*	22.3	*18.8*	22.6	*:*	22.3
Cyprus	:	:	16.3	13.2	14.3	14.8	15.0	*15.9*	15.1	*16.4*	15.3	*:*	15.8
Latvia	:	:	14.7	18.9	19.6	20.1	20.5	*20.6*	22.2	*22.2*	23.1	*:*	24.1
Lithuania	:	:	13.1	15.7	16.6	16.0	16.1	*16.2*	15.9	*17.0*	16.1	*:*	16.2
Hungary	:	:	19.8	20.7	18.1	16.3	15.4	*16.3*	16.1	*17.4*	17.1	*:*	18.9
Malta	:	:	16.5	15.6	14.7	13.1	11.3	*14.4*	16.6	*15.2*	17.0	*:*	17.3
Poland	:	15.9	19.6	17.9	16.2	16.7	15.8	*18.9*	15.6	*19.4*	16.1	*:*	17.0
Slovenia	:	23.8	24.0	24.3	24.8	24.4	24.4	*26.6*	24.6	*27.2*	25.1	*:*	26.0
Slovakia	:	:	24.8	22.6	22.1	24.6	23.3	*22.8*	21.0	*23.5*	22.1	*:*	23.9
Sweden	21.1	17.3	21.3	22.3	22.1	22.1	23.9	*24.3*	24.0	*24.4*	24.0	*:*	24.1
United Kingdom	:	14.9	16.1	15.1	15.2	14.8	14.8	*15.4*	14.3	*15.7*	14.5	*:*	15.0
EU-25	:	:	20.6	20.0	19.7	19.4	19.8	*20.3*	19.7	*20.6*	19.8	*:*	20.1
EU-15	:	19.8	20.6	20.2	19.8	19.5	20.0	*20.4*	19.7	*20.7*	19.9	*:*	20.1
USA	18.9	16.3	17.3	15.1	13.6	13.4	13.5	*14.3*	13.7	*14.5*	14.3	*:*	14.5
Japan	33.6	32.4	29.7	27.9	26.8	27.1	27.6	*27.5*	27.9	*27.8*	28.0	*:*	28.2

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1970-2007) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	2001	2002	2003	2004	2005 estimate of *III-2005*	2005 estimate of XI-2005	2006 forecast of *III-2005*	2006 forecast of XI-2005	2007 forecast of *III-2005*	2007 forecast of XI-2005
Belgium	25.3	28.3	24.6	22.2	22.3	22.8	22.1	*21.3*	21.8	*21.9*	22.3	*:*	22.4
Germany	21.5	20.8	20.0	19.3	20.3	20.6	22.2	*22.6*	22.4	*22.6*	22.6	*:*	22.7
Greece	29.5	27.2	18.7	16.7	15.9	17.5	18.7	*20.7*	18.1	*21.5*	19.2	*:*	19.7
Spain	21.9	21.5	20.9	18.3	18.8	19.3	18.2	*18.6*	17.9	*18.9*	17.9	*:*	17.8
France	19.9	19.9	19.6	19.0	19.4	19.8	19.2	*20.0*	19.7	*20.2*	19.8	*:*	20.1
Ireland	21.5	18.5	19.5	18.1	18.6	19.7	19.0	*20.5*	20.8	*20.4*	20.1	*:*	19.5
Italy	29.4	25.1	21.3	19.1	19.1	19.2	19.5	*19.7*	19.1	*20.3*	19.3	*:*	19.7
Luxembourg	:	:	25.5	22.5	24.6	23.0	20.4	*23.2*	20.8	*24.0*	20.5	*:*	21.1
Netherlands	24.0	26.2	24.4	23.2	23.9	24.2	24.3	*22.6*	22.3	*23.3*	23.7	*:*	23.2
Austria	20.5	21.0	18.9	17.2	18.5	19.6	19.7	*22.8*	20.6	*23.3*	21.0	*:*	20.7
Portugal	24.1	22.9	18.5	17.3	17.3	17.9	17.3	*18.4*	16.6	*18.5*	15.5	*:*	15.5
Finland	18.6	19.1	20.5	19.4	19.6	18.0	19.5	*19.9*	18.1	*19.9*	18.3	*:*	18.6
Euro area	22.8	22.0	20.6	19.3	19.8	20.2	20.4	*20.8*	20.3	*21.1*	20.5	*:*	20.6
Czech Republic	:	:	21.3	21.0	20.3	19.4	18.3	*20.9*	20.2	*21.7*	20.2	*:*	20.1
Denmark	16.5	20.3	18.5	19.6	19.7	20.3	18.1	*19.1*	17.6	*19.3*	18.0	*:*	18.7
Estonia	:	:	14.4	15.4	12.7	11.5	15.2	*13.0*	18.2	*14.2*	18.5	*:*	18.7
Cyprus	:	:	:	12.1	15.2	17.1	15.6	*14.7*	14.3	*14.3*	13.7	*:*	13.9
Latvia	:	:	13.7	17.7	18.6	18.5	18.0	*20.2*	19.4	*22.0*	20.6	*:*	21.1
Lithuania	:	:	12.0	14.8	15.0	14.2	14.2	*15.1*	14.3	*15.6*	14.3	*:*	14.3
Hungary	:	:	:	18.0	17.9	17.5	16.1	*16.0*	17.4	*16.6*	20.2	*:*	21.8
Malta	:	:	:	17.9	16.1	15.5	13.5	*14.8*	17.5	*15.4*	17.0	*:*	16.7
Poland	:	16.6	18.2	17.6	15.4	17.2	15.7	*19.3*	15.3	*18.5*	15.1	*:*	16.2
Slovenia	:	:	:	24.0	23.4	22.5	22.1	*24.8*	21.9	*25.4*	22.6	*:*	23.5
Slovakia	:	:	22.3	23.2	22.8	24.9	22.9	*23.1*	20.6	*24.0*	21.5	*:*	23.0
Sweden	16.4	20.8	17.1	16.8	19.4	19.1	19.6	*20.5*	19.9	*20.7*	20.3	*:*	20.2
United Kingdom	:	17.8	15.1	12.6	15.1	16.0	15.9	*16.1*	14.9	*16.0*	14.7	*:*	15.0
EU-25	:	:	:	18.1	18.9	19.4	19.4	*19.8*	19.2	*20.0*	19.4	*:*	19.5
EU-15	:	21.3	19.6	18.2	19.1	19.5	19.6	*20.0*	19.3	*20.2*	19.4	*:*	19.6
USA	19.9	18.8	15.1	13.0	14.8	15.7	15.7	*15.0*	14.5	*15.1*	15.7	*:*	16.1
Japan	28.6	26.1	28.4	27.8	29.0	29.6	30.0	*30.0*	30.3	*30.1*	30.3	*:*	30.5

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

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1970-2007) [1] 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	-2.6	-3.8	1.1	2.5	2.0	0.8	1.4	2.2	1.8	1.9	1.6	:	1.4
Germany	2.8	0.8	0.5	0.1	-0.9	-1.3	-1.3	-0.9	-1.4	-0.4	-1.4	:	-1.0
Greece	-2.1	-7.1	-1.5	-0.1	0.1	-0.5	-1.6	-1.6	-0.9	-1.8	-1.2	:	-1.1
Spain	1.7	-0.6	1.3	3.6	4.0	4.0	4.2	4.6	4.2	4.6	4.1	:	3.7
France	2.4	-0.9	1.0	2.2	0.3	-0.7	-0.1	0.0	0.0	0.0	0.1	:	0.2
Ireland	-3.0	-0.6	4.8	5.1	3.3	3.6	4.6	3.0	3.1	3.0	3.4	:	3.5
Italy	-5.1	-5.5	-0.2	0.9	0.7	-0.5	-0.1	-0.2	-0.3	-0.4	-0.3	:	-0.3
Luxembourg	:	:	8.9	10.3	8.3	6.4	5.0	5.2	4.3	4.9	4.7	:	4.5
Netherlands	1.3	-0.6	2.3	3.5	1.8	0.7	1.3	1.5	3.1	1.9	1.5	:	1.9
Austria	4.1	0.8	1.6	3.6	2.9	1.8	2.3	1.1	1.5	1.0	1.1	:	1.5
Portugal	-0.8	-1.6	0.6	-0.5	-0.2	-1.1	-2.2	-2.8	-3.4	-2.5	-2.4	:	-2.0
Finland	7.9	-1.6	4.3	8.0	7.0	5.0	4.6	4.3	4.7	4.1	4.5	:	4.4
Euro area	0.9	-1.2	0.9	1.7	0.8	0.1	0.4	0.5	0.4	0.6	0.3	:	0.5
Czech Republic	:	:	3.8	2.5	2.0	1.4	4.0	2.8	3.8	2.2	3.9	:	4.7
Denmark	3.1	-0.6	2.9	3.7	2.7	2.3	4.0	3.7	5.1	3.7	5.0	:	4.7
Estonia	:	:	5.3	6.0	6.3	6.4	4.7	5.1	4.1	4.6	4.1	:	3.6
Cyprus	:	:	:	1.1	-0.9	-2.3	-0.6	1.2	0.8	2.0	1.6	:	1.9
Latvia	:	3.8	1.1	1.2	1.0	1.6	2.5	0.5	2.8	0.2	2.6	:	3.0
Lithuania	:	:	1.1	0.8	1.7	1.8	1.9	1.1	1.7	1.4	1.7	:	1.9
Hungary	:	:	:	2.7	0.3	-1.3	-0.8	0.3	-1.3	0.8	-3.1	:	-2.9
Malta	:	:	:	-2.3	-1.4	-2.4	-2.1	-0.3	-0.6	-0.2	0.3	:	0.9
Poland	:	-0.7	1.6	0.3	0.8	-0.5	0.1	-0.4	0.3	0.8	1.0	:	0.8
Slovenia	:	:	:	0.4	1.5	1.9	2.2	1.7	2.5	1.8	2.4	:	2.4
Slovakia	:	:	2.6	-0.6	-0.7	-0.3	0.4	-0.3	0.4	-0.5	0.6	:	0.9
Sweden	4.8	-3.5	4.2	5.5	2.9	3.2	4.5	3.7	4.4	3.6	3.8	:	4.1
United Kingdom	1.2	-2.9	1.0	2.4	0.1	-1.3	-1.1	-0.7	-0.6	-0.3	-0.2	:	0.1
EU-25	:	:	:	1.9	0.8	0.0	0.4	0.5	0.5	0.7	0.5	:	0.6
EU-15	1.2	-1.5	1.0	2.0	0.8	0.0	0.3	0.5	0.4	0.6	0.4	:	0.6
USA	-1.1	-2.5	2.2	2.1	-1.2	-2.3	-2.2	-0.7	-0.7	-0.6	-1.4	:	-1.6
Japan	5.0	6.3	1.3	0.0	-2.2	-2.5	-2.4	-2.5	-2.4	-2.3	-2.3	:	-2.2

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

TABLE 46 : Exports of goods, volume (percentage change on preceding year, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	6.2	4.8	5.0	0.2	1.3	4.1	6.9	5.7	2.2	6.0	4.9	:	5.2
Germany	6.2	3.9	8.9	6.3	3.5	3.0	10.0	6.9	6.2	6.4	6.5	:	6.3
Greece	8.0	4.1	4.0	-1.6	-7.1	4.2	-2.5	5.6	6.6	5.6	6.9	:	6.9
Spain	:	11.9	10.0	3.9	3.3	5.0	4.4	6.3	1.1	6.1	2.1	:	2.6
France	7.1	6.0	8.2	2.9	2.0	-0.9	3.9	5.3	2.5	6.4	4.5	:	4.8
Ireland	8.5	13.2	15.2	4.6	4.2	-4.0	5.0	6.1	2.5	6.3	5.3	:	5.5
Italy	8.1	7.3	4.1	1.5	-2.9	-2.1	3.3	5.1	0.0	4.6	4.2	:	3.3
Luxembourg	3.8	4.0	8.5	9.8	-0.3	-4.3	3.3	6.2	2.5	6.4	5.5	:	5.8
Netherlands	6.6	6.0	7.3	1.3	1.3	2.7	9.4	4.4	3.8	6.2	5.0	:	5.3
Austria	:	4.6	9.7	6.8	4.6	2.2	11.8	6.9	4.4	7.0	6.0	:	5.7
Portugal	:	6.1	6.7	2.0	1.9	5.6	4.5	4.7	1.4	6.9	4.9	:	4.8
Finland	:	7.7	12.4	-0.2	4.2	2.0	5.5	5.5	4.3	5.2	5.9	:	5.4
Euro area [1]	6.9	6.0	8.1	3.7	2.1	1.7	7.2	5.9	3.5	6.1	5.2	:	5.2
Czech Republic	:	:	11.8	14.4	6.0	10.1	23.5	12.7	9.5	11.0	10.1	:	9.9
Denmark	5.8	4.7	6.0	2.5	6.0	-1.7	4.1	4.2	5.3	5.2	4.7	:	4.4
Estonia	:	:	16.9	-5.5	3.9	6.0	17.5	13.4	19.8	10.8	16.2	:	13.3
Cyprus	:	:	-1.5	2.5	-13.5	-4.5	9.9	4.0	15.0	4.0	3.8	:	3.8
Latvia	:	:	11.3	8.8	8.4	6.8	8.0	11.4	13.1	11.2	13.2	:	12.8
Lithuania	:	:	5.2	24.6	20.1	7.2	2.5	8.9	9.8	7.9	10.3	:	9.7
Hungary	:	:	20.3	6.9	5.7	9.2	16.7	13.3	10.7	11.6	10.6	:	10.1
Malta	:	:	4.0	9.0	5.1	-2.8	3.3	3.5	-3.5	3.5	0.8	:	2.6
Poland	:	:	10.6	7.8	6.6	17.7	28.0	11.0	4.2	11.3	5.0	:	6.0
Slovenia	:	-7.8	8.1	7.0	6.4	4.4	12.8	8.2	9.9	7.9	7.8	:	7.5
Slovakia	:	:	11.3	5.7	5.7	28.0	13.3	12.5	7.1	13.1	10.3	:	14.9
Sweden	:	7.5	8.6	-2.1	2.0	4.9	9.8	6.5	4.0	5.5	5.9	:	6.1
United Kingdom	4.6	5.4	6.4	2.7	-1.7	-0.3	1.7	6.5	6.3	5.4	5.8	:	5.3
EU-25 [2]	:	:	8.3	3.8	2.2	2.4	7.8	6.4	4.2	6.4	5.5	:	5.5
EU-15 [2]	6.6	6.0	7.9	3.3	1.8	1.6	6.8	5.9	3.9	6.0	5.3	:	5.2
USA	6.2	7.8	8.0	-6.1	-4.0	1.8	8.9	7.4	7.5	9.8	10.0	:	8.3
Japan	:	1.9	3.8	-6.2	8.1	9.1	14.2	8.0	5.6	8.2	5.9	:	6.5

[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, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	5.8	3.8	5.0	-1.0	0.4	3.9	7.5	*6.0*	2.8	*6.4*	4.6	*:*	5.1
Germany	6.7	4.4	8.4	0.3	-0.3	6.6	8.2	*7.2*	4.4	*7.3*	5.3	*:*	5.1
Greece	8.0	3.9	9.4	-6.3	3.7	7.1	9.0	*4.1*	1.0	*4.4*	4.4	*:*	4.7
Spain	:	7.5	11.9	3.8	4.4	6.4	10.1	*9.1*	7.0	*8.2*	6.8	*:*	5.9
France	7.3	3.7	8.8	1.7	2.0	0.8	7.4	*6.6*	5.7	*6.9*	5.2	*:*	5.7
Ireland	6.7	9.0	13.7	3.6	-0.1	-7.7	8.4	*6.4*	4.7	*7.7*	5.7	*:*	6.8
Italy	7.2	3.6	6.7	0.0	-1.0	0.9	3.2	*5.4*	0.8	*5.6*	4.4	*:*	3.7
Luxembourg	4.6	3.4	8.3	8.7	-2.6	-1.8	1.1	*6.3*	3.0	*6.1*	5.0	*:*	5.0
Netherlands	6.0	5.8	7.8	1.6	0.4	3.6	9.0	*4.5*	3.5	*5.7*	5.3	*:*	7.0
Austria	:	3.7	7.9	4.5	0.2	6.6	8.8	*6.2*	2.0	*7.1*	5.8	*:*	5.5
Portugal	:	6.7	9.2	1.9	-0.1	0.0	7.2	*4.6*	1.8	*6.2*	3.2	*:*	4.2
Finland	:	0.6	11.3	1.0	3.0	3.7	6.9	*3.8*	6.1	*4.2*	4.5	*:*	4.5
Euro area [1]	6.9	4.7	8.4	1.1	0.8	3.8	7.7	*6.4*	4.0	*6.7*	5.2	*:*	5.3
Czech Republic	:	:	10.4	14.7	4.6	8.9	19.4	*13.3*	4.5	*10.8*	8.7	*:*	9.4
Denmark	4.8	4.9	7.3	1.6	5.3	-2.2	7.0	*6.1*	7.1	*5.3*	5.6	*:*	4.8
Estonia	:	:	14.1	0.3	5.2	13.2	15.4	*9.9*	14.2	*9.1*	11.8	*:*	11.5
Cyprus	:	:	4.6	6.0	-0.9	-4.9	10.6	*0.5*	2.6	*4.6*	4.8	*:*	5.0
Latvia	:	:	8.3	16.7	4.0	11.3	17.0	*7.5*	5.5	*9.7*	10.5	*:*	10.6
Lithuania	:	:	8.8	20.0	17.6	9.9	14.4	*11.2*	11.1	*7.8*	11.2	*:*	10.2
Hungary	:	:	19.5	3.8	4.9	10.4	13.6	*11.8*	8.9	*10.9*	10.9	*:*	9.9
Malta	:	:	3.1	-9.4	-2.6	10.5	3.3	*3.1*	-2.7	*2.7*	1.9	*:*	3.2
Poland	:	:	17.6	-5.0	3.6	10.3	6.5	*12.3*	1.5	*12.8*	5.5	*:*	6.9
Slovenia	:	-1.1	8.0	3.2	4.4	7.3	14.5	*8.5*	6.5	*7.8*	7.0	*:*	7.5
Slovakia	:	:	11.7	11.7	5.0	14.1	15.1	*13.8*	8.1	*13.5*	9.6	*:*	11.5
Sweden	:	3.7	7.8	-5.1	-0.2	6.1	7.7	*8.1*	5.3	*7.0*	7.4	*:*	6.5
United Kingdom	4.7	3.0	8.8	5.4	4.3	2.0	6.8	*6.8*	3.9	*5.0*	4.4	*:*	4.6
EU-25 [2]	:	:	8.9	1.7	1.6	4.1	8.0	*7.0*	4.2	*6.8*	5.4	*:*	5.6
EU-15 [2]	6.5	4.5	8.4	1.4	1.3	3.5	7.5	*6.5*	4.1	*6.4*	5.2	*:*	5.2
USA	6.8	8.2	12.3	-3.2	3.7	4.9	11.0	*7.5*	6.4	*4.6*	5.8	*:*	5.1
Japan	:	5.1	3.5	0.1	1.1	3.8	7.7	*7.1*	6.4	*6.2*	7.8	*:*	9.1

[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, 1974-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1974-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	-2.9	2.9	3.4	2.8	3.8	3.5	2.7	*2.3*	2.1	*2.6*	2.2	*:*	2.4
Germany	4.1	1.8	3.2	4.8	6.4	6.1	7.0	*7.4*	7.1	*7.5*	7.1	*:*	7.4
Greece	-9.9	-12.6	-15.2	-16.2	-16.6	-16.9	-17.9	*-17.5*	-17.1	*-17.1*	-17.1	*:*	-16.7
Spain	-5.2	-3.8	-4.0	-5.6	-5.0	-5.1	-6.3	*-7.7*	-7.6	*-8.3*	-8.5	*:*	-9.3
France	-1.4	0.2	1.1	0.2	0.5	0.2	-0.4	*-1.3*	-1.8	*-1.5*	-2.0	*:*	-2.0
Ireland	-4.8	14.6	21.2	24.0	25.1	21.8	19.8	*20.5*	18.0	*20.1*	17.5	*:*	17.0
Italy	-1.1	2.2	3.1	1.8	1.6	1.2	1.0	*1.0*	0.5	*1.1*	0.4	*:*	0.6
Luxembourg	-8.5	-11.2	-12.0	-12.5	-10.5	-10.6	-10.5	*-10.7*	-12.3	*-10.4*	-12.4	*:*	-12.1
Netherlands	1.2	5.2	5.0	6.0	6.7	6.8	7.3	*5.3*	7.4	*5.7*	6.8	*:*	6.2
Austria	-4.9	-3.7	-1.9	-0.6	1.7	0.5	1.5	*1.8*	1.8	*1.6*	1.4	*:*	1.3
Portugal	:	-9.6	-9.8	-11.4	-9.8	-8.4	-9.7	*-9.8*	-10.9	*-9.8*	-11.2	*:*	-11.1
Finland	0.2	6.1	9.8	10.4	9.6	7.9	6.9	*7.2*	5.1	*7.3*	4.8	*:*	4.7
Euro area	-0.4	0.8	1.8	1.8	2.5	2.1	1.9	*1.6*	1.3	*1.5*	1.0	*:*	0.9
Euro area, adjusted [1]				1.0	1.8	1.4	1.3	*1.1*	0.8	*1.1*	0.5	*:*	0.5
Czech Republic	:	-2.5	-6.2	-5.0	-3.0	-2.7	-0.8	*0.1*	1.7	*0.5*	2.7	*:*	3.1
Denmark	-2.6	3.6	2.6	3.7	3.7	3.6	2.9	*2.1*	3.0	*2.1*	3.1	*:*	2.9
Estonia	:	:	-18.8	-13.2	-15.4	-16.9	-17.5	*-14.8*	-16.4	*-14.0*	-15.3	*:*	-15.0
Cyprus	:	:	-24.3	-27.2	-27.2	-23.7	-25.7	*-24.5*	-25.9	*-24.5*	-26.7	*:*	-26.5
Latvia	:	:	-14.6	-16.2	-16.0	-18.1	-20.5	*-19.8*	-18.5	*-19.3*	-17.4	*:*	-16.1
Lithuania	:	:	-11.8	-9.1	-9.4	-9.1	-10.6	*-11.1*	-10.8	*-10.9*	-10.7	*:*	-10.7
Hungary	:	:	-4.3	-4.3	-3.2	-4.0	-3.0	*-2.0*	-2.6	*-1.9*	-2.7	*:*	-2.7
Malta	:	-23.0	-19.7	-13.8	-8.9	-14.5	-15.8	*-17.2*	-15.8	*-17.3*	-16.3	*:*	-16.8
Poland	:	0.1	-6.5	-4.1	-3.8	-2.7	-1.1	*-3.0*	-4.3	*-3.6*	-4.4	*:*	-4.6
Slovenia	:	1.7	-4.7	-3.1	-1.1	-2.2	-3.9	*-3.9*	-3.4	*-3.8*	-3.8	*:*	-4.0
Slovakia	:	:	-8.5	-10.6	-9.0	-2.3	-3.5	*-4.8*	-4.9	*-5.1*	-4.7	*:*	-2.2
Sweden	:	3.9	7.0	6.9	6.7	6.3	6.9	*6.7*	6.4	*6.6*	5.9	*:*	6.0
United Kingdom	-2.1	-1.8	-2.5	-4.1	-4.5	-4.3	-5.2	*-5.3*	-4.9	*-5.2*	-4.7	*:*	-4.5
EU-25	:	:	1.0	0.6	1.1	0.9	0.7	*0.2*	0.2	*0.1*	0.0	*:*	-0.1
EU-25, adjusted [1]				-0.5	0.1	0.0	-0.3	*-0.5*	-0.6	*-0.5*	-0.8	*:*	-0.8
EU-15	-0.6	0.6	1.3	0.9	1.4	1.2	0.9	*0.4*	0.4	*0.3*	0.2	*:*	0.2
USA	-1.6	-1.9	-3.2	-4.3	-4.7	-5.1	-5.8	*-6.0*	-6.3	*-5.8*	-6.3	*:*	-6.2
Japan	2.2	2.9	2.5	1.7	2.4	2.5	2.8	*3.2*	2.6	*3.7*	2.6	*:*	2.9

[1] See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1961-2007) 07.11.2005

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	0.5	4.0	5.0	4.1	5.0	4.5	3.5	*3.7*	3.0	*4.0*	3.1	*:*	3.3
Germany	1.3	-1.2	-0.9	0.0	2.2	2.1	3.7	*4.1*	3.8	*4.4*	3.9	*:*	4.5
Greece	-0.9	-0.5	-4.4	-7.1	-7.8	-8.5	-8.2	*-6.3*	-7.4	*-5.6*	-6.6	*:*	-6.1
Spain	-1.1	-2.0	-1.6	-4.5	-3.9	-4.2	-5.9	*-5.7*	-7.4	*-6.2*	-8.3	*:*	-9.1
France	-0.6	-0.2	1.9	1.2	0.8	0.2	-0.7	*-0.5*	-0.8	*-0.6*	-0.9	*:*	-0.8
Ireland	-4.4	1.9	1.4	-0.6	-1.0	0.0	-0.8	*-1.1*	-2.2	*-1.4*	-2.5	*:*	-2.8
Italy	0.2	-0.1	1.7	0.3	-0.3	-0.8	-0.4	*-0.5*	-1.2	*-0.4*	-1.2	*:*	-1.0
Luxembourg	12.5	13.3	11.1	9.0	11.8	8.2	8.4	*7.0*	5.9	*7.3*	6.1	*:*	6.1
Netherlands	1.8	4.4	4.7	5.2	6.0	5.8	6.1	*3.3*	6.0	*3.9*	5.4	*:*	4.8
Austria	-0.8	-1.4	-2.7	-1.9	0.4	-0.5	0.3	*2.2*	0.8	*2.2*	0.6	*:*	0.6
Portugal	-2.5	-2.7	-7.6	-10.5	-8.2	-6.1	-7.8	*-7.7*	-9.5	*-7.5*	-9.7	*:*	-9.4
Finland	-2.1	-1.3	5.7	6.9	7.3	3.8	4.1	*4.0*	2.2	*4.1*	2.0	*:*	2.1
Euro area	0.1	-0.3	0.6	0.0	0.8	0.5	0.6	*0.6*	0.0	*0.6*	-0.1	*:*	-0.1
Euro area, adjusted [1]				0.0	0.9	0.3	0.6	*0.5*	0.1	*0.5*	-0.1	*:*	0.0
Czech Republic	:	:	-4.5	-5.4	-5.6	-6.3	-5.2	*-4.7*	-2.9	*-4.6*	-2.6	*:*	-2.3
Denmark	-2.6	1.7	0.9	3.1	2.5	3.3	2.5	*2.1*	2.9	*2.2*	3.2	*:*	3.4
Estonia	:	:	-7.7	-5.6	-10.2	-12.0	-12.7	*-12.1*	-9.9	*-11.2*	-7.7	*:*	-7.1
Cyprus	:	:	-2.8	-3.3	-4.5	-3.0	-5.7	*-4.9*	-5.8	*-4.5*	-5.5	*:*	-4.7
Latvia	:	:	-6.8	-7.6	-6.7	-8.2	-12.6	*-10.5*	-11.1	*-10.0*	-10.5	*:*	-9.8
Lithuania	:	:	-9.5	-4.9	-5.3	-6.9	-8.0	*-8.8*	-7.4	*-8.5*	-7.1	*:*	-7.0
Hungary	:	:	-8.3	-6.1	-7.1	-8.7	-8.8	*-8.7*	-8.4	*-8.2*	-8.4	*:*	-7.7
Malta	:	:	-8.0	-4.3	0.3	-5.8	-10.5	*-9.9*	-6.7	*-9.3*	-6.8	*:*	-7.0
Poland	:	0.1	-3.9	-2.9	-2.6	-2.2	-4.2	*-2.4*	-3.2	*-3.0*	-3.5	*:*	-3.9
Slovenia	:	4.3	-1.2	0.2	1.5	-0.3	-2.0	*-1.0*	-1.6	*-0.8*	-1.8	*:*	-2.0
Slovakia	:	:	-6.6	-7.4	-7.3	-0.5	-3.4	*-5.0*	-6.6	*-4.9*	-6.2	*:*	-3.7
Sweden	-0.4	-0.1	4.1	4.6	5.4	5.9	7.8	*7.5*	7.0	*7.3*	6.3	*:*	6.1
United Kingdom	:	-1.6	-1.4	-2.2	-1.6	-1.5	-2.0	*-2.2*	-2.1	*-2.2*	-1.9	*:*	-1.6
EU-25	:	:	0.2	-0.3	0.3	0.1	0.0	*0.0*	-0.3	*0.0*	-0.4	*:*	-0.3
EU-25, adjusted [1]				-0.8	0.0	-0.1	-0.2	*-0.4*	-0.5	*-0.4*	-0.7	*:*	-0.6
EU-15	:	-0.4	0.4	-0.1	0.6	0.4	0.5	*0.2*	-0.1	*0.3*	-0.2	*:*	-0.1
USA	-0.3	-0.8	-2.4	-3.7	-4.4	-4.6	-5.6	*-5.9*	-6.2	*-5.8*	-6.3	*:*	-6.4
Japan	1.0	2.6	2.4	2.1	2.8	3.2	3.7	*3.8*	3.5	*4.2*	3.2	*:*	3.3

[1] See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1961-2007)

	long-term average	5-year average						2005 estimate of		2006 forecast of		2007 forecast of	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	0.3	3.8	5.0	4.0	4.8	4.4	3.4	*3.3*	3.0	*3.6*	3.1	*:*	3.2
Germany	1.2	-1.3	-0.9	0.0	2.2	2.1	3.7	*4.1*	3.9	*4.4*	3.9	*:*	4.4
Greece	:	:	-2.5	-7.0	-7.0	-7.2	-6.5	*-3.9*	-6.1	*-3.3*	-4.9	*:*	-4.6
Spain	:	-1.4	-0.6	-3.7	-2.8	-3.1	-4.8	*-4.7*	-6.3	*-5.2*	-7.3	*:*	-8.2
France	:	-0.2	2.0	1.1	0.8	-0.3	-0.6	*-0.6*	-0.8	*-0.8*	-0.9	*:*	-0.8
Ireland	:	3.1	2.4	0.0	-0.6	0.1	-0.5	*-0.9*	-2.0	*-1.2*	-2.3	*:*	-2.6
Italy	:	0.0	1.9	0.4	-0.3	-0.7	-0.3	*-0.3*	-1.1	*-0.2*	-1.1	*:*	-0.9
Luxembourg	:	:	:	:	:	:	:	*7.0*	5.9	*7.3*	6.1	*:*	6.1
Netherlands	:	4.0	4.2	5.0	5.9	5.6	5.9	*2.0*	3.8	*2.3*	3.3	*:*	4.8
Austria	:	-1.5	-2.8	-2.1	0.2	-0.5	0.2	*2.1*	0.7	*2.0*	0.4	*:*	0.5
Portugal	:	-0.3	-5.1	-8.7	-6.4	-3.6	-5.8	*-6.1*	-7.9	*-6.0*	-8.1	*:*	-8.0
Finland	-1.8	-0.9	5.7	6.9	7.4	4.4	5.0	*4.0*	2.3	*4.2*	2.0	*:*	2.2
Euro area	:	-0.2	0.8	0.2	1.0	0.6	0.8	*0.7*	0.1	*0.7*	-0.1	*:*	0.1
Euro area, adjusted [1]				0.1	1.0	0.4	0.8	*0.6*	0.2	*0.6*	0.0	*:*	0.2
Czech Republic	:	:	-4.5	-5.4	-5.7	-6.3	-5.7	*-4.5*	-2.7	*-4.3*	-2.4	*:*	-2.1
Denmark	:	1.7	1.1	3.1	2.6	3.3	2.5	*2.0*	2.9	*2.1*	3.1	*:*	3.3
Estonia	:	:	-8.4	-7.8	-12.1	-13.4	-10.5	*-11.2*	-9.0	*-9.9*	-6.8	*:*	-6.2
Cyprus	:	:	:	:	:	:	:	*-4.8*	-5.7	*-4.4*	-5.4	*:*	-4.6
Latvia	:	17.1	-6.6	-7.1	-6.5	-7.6	-11.6	*-7.9*	-9.6	*-6.9*	-8.5	*:*	-7.2
Lithuania	:	:	-9.5	-4.7	-4.7	-6.5	-7.3	*-7.7*	-5.9	*-7.4*	-5.5	*:*	-5.3
Hungary	:	:	-8.0	-5.5	-6.8	-8.8	-8.4	*-8.0*	-7.8	*-7.0*	-7.3	*:*	-5.9
Malta	:	:	-7.0	-4.3	0.5	-5.6	-9.1	*-9.1*	-4.0	*-8.5*	-5.6	*:*	-5.8
Poland	:	1.9	-3.9	-2.8	-2.6	-2.2	-4.2	*-1.9*	-3.2	*-2.4*	-3.6	*:*	-3.9
Slovenia	:	4.2	-1.2	0.2	1.5	-0.3	-1.9	*-1.6*	-1.5	*-1.3*	-1.8	*:*	-1.9
Slovakia	:	:	-6.5	-7.4	-7.3	-0.8	-3.3	*-4.5*	-6.2	*-4.4*	-5.7	*:*	-3.3
Sweden	:	-0.5	3.6	4.5	5.3	5.9	7.8	*7.5*	7.0	*7.3*	6.3	*:*	6.1
United Kingdom	:	-1.6	-1.3	-2.1	-1.5	-1.4	-1.8	*-2.1*	-1.8	*-2.1*	-1.7	*:*	-1.4
EU-25	:	:	:	:	:	:	:	*0.1*	-0.2	*0.1*	-0.3	*:*	-0.1
EU-25, adjusted [1]				:	:	:	:	*-0.3*	-0.4	*-0.3*	-0.6	*:*	-0.4
EU-15	:	-0.4	0.6	0.0	0.8	0.5	0.7	*0.3*	0.0	*0.3*	-0.1	*:*	0.1
USA	-0.3	-0.9	-2.4	-3.7	-4.4	-4.7	-5.6	*-6.0*	-6.2	*-5.8*	-6.3	*:*	-6.4
Japan	1.0	2.5	2.1	2.0	2.8	3.1	3.6	*3.7*	3.4	*4.1*	3.1	*:*	3.2

[1] See note 8 on concepts and sources.

TABLE 51 : Trade balance (fob-fob, in billions of Ecu/euro, 1999-2007) 07.11.2005

							2005 estimate of		2006 forecast of		2007 forecast of	
	1999	2000	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	8.9	5.3	7.1	10.2	9.7	7.9	6.9	6.4	7.9	7.0	:	7.7
Germany	66.2	62.6	100.7	136.6	132.0	154.4	163.7	158.7	168.3	161.8	:	172.0
Greece	-18.4	-23.0	-21.3	-23.6	-26.0	-29.9	-30.8	-30.6	-32.0	-32.6	:	-34.1
Spain	-29.0	-39.9	-38.0	-36.2	-39.5	-52.5	-65.5	-68.3	-75.5	-82.5	:	-94.9
France	15.6	-2.5	2.4	8.4	-3.1	-13.8	-22.3	-30.7	-26.8	-34.3	:	-36.6
Ireland	20.4	24.9	28.1	32.7	30.3	29.4	32.4	28.8	34.2	30.1	:	31.5
Italy	26.1	15.1	21.7	20.5	15.0	13.8	13.4	6.2	15.5	6.1	:	9.3
Luxembourg	-2.6	-2.5	-2.8	-2.4	-2.5	-2.7	-2.9	-3.4	-3.0	-3.6	:	-3.7
Netherlands	14.7	19.7	27.0	31.2	32.5	35.4	25.0	36.6	28.0	34.7	:	32.7
Austria	-3.1	-3.1	-1.2	3.8	1.2	3.7	4.3	4.4	4.0	3.5	:	3.3
Portugal	-12.9	-14.7	-14.7	-13.2	-11.5	-13.8	-13.7	-15.7	-14.2	-16.7	:	-17.2
Finland	11.5	14.9	14.1	13.5	11.4	10.3	11.2	7.9	11.8	7.6	:	7.9
Euro area	97.3	56.7	123.2	181.5	149.5	142.1	121.6	100.4	118.2	81.2	:	77.8
Euro area, adjusted [1]	56.2	7.6	73.3	128.5	102.7	102.8	88.9	61.1	85.5	41.9	:	38.5
Czech Republic	-1.8	-3.4	-3.4	-2.3	-2.2	-0.7	0.1	1.7	0.5	2.9	:	3.5
Denmark	4.8	5.5	6.7	6.7	6.8	5.7	4.3	6.2	4.4	6.6	:	6.5
Estonia	-0.8	-0.8	-0.9	-1.2	-1.4	-1.6	-1.4	-1.7	-1.5	-1.7	:	-1.9
Cyprus	-2.1	-2.7	-2.9	-3.0	-2.8	-3.3	-3.3	-3.4	-3.5	-3.7	:	-3.9
Latvia	-1.0	-1.1	-1.5	-1.6	-1.8	-2.3	-2.4	-2.3	-2.5	-2.4	:	-2.6
Lithuania	-1.3	-1.2	-1.2	-1.4	-1.5	-1.9	-2.2	-2.1	-2.3	-2.3	:	-2.6
Hungary	-2.0	-3.2	-2.5	-2.2	-2.9	-2.4	-1.8	-2.3	-1.9	-2.5	:	-2.6
Malta	-0.6	-0.8	-0.6	-0.4	-0.6	-0.7	-0.8	-0.7	-0.8	-0.7	:	-0.8
Poland	-10.6	-13.3	-8.5	-7.7	-12.8	-11.8	-7.1	-10.0	-8.7	-11.0	:	-12.2
Slovenia	-1.2	-1.2	-0.7	-0.3	-0.5	-1.0	-1.1	-1.0	-1.1	-1.1	:	-1.3
Slovakia	-1.1	-1.0	-2.5	-2.3	-0.7	-1.2	-1.8	-1.8	-2.0	-1.9	:	-0.9
Sweden	15.7	16.9	16.8	17.2	16.9	19.3	19.6	18.2	20.2	17.3	:	18.4
United Kingdom	-44.1	-54.1	-65.4	-74.9	-69.2	-88.8	-93.1	-87.6	-96.1	-87.5	:	-87.2
EU-25	51.5	-3.9	56.6	108.2	76.8	52.9	20.9	16.3	10.7	-3.5	:	-7.5
EU-25, adjusted [1]	:	:	-47.4	6.1	-4.7	-27.2	-50.2	-63.8	-60.5	-83.7	:	-87.6
EU-15	73.8	25.0	81.3	130.5	103.9	78.3	52.3	37.2	46.7	17.6	:	15.4
USA	-326.7	-497.7	-487.8	-521.2	-495.4	-545.4	-574.2	-625.2	-578.7	-684.7	:	-703.0
Japan	115.8	126.4	78.4	99.4	93.7	107.0	120.4	99.0	145.5	99.0	:	115.7

[1] See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 1999-2007)

							2005 estimate of		2006 forecast of		2007 forecast of	
	1999	2000	2001	2002	2003	2004	III-2005	XI-2005	III-2005	XI-2005	III-2005	XI-2005
Belgium	12.4	10.5	10.6	13.3	12.3	10.0	11.0	9.0	12.5	9.7	:	10.6
Germany	-23.8	-33.6	-0.6	47.9	45.4	82.4	90.9	86.0	98.8	90.0	:	104.2
Greece	-6.8	-10.1	-9.3	-11.2	-13.1	-13.7	-11.1	-13.3	-10.5	-12.5	:	-12.4
Spain	-16.4	-23.7	-30.5	-28.2	-28.8	-45.3	-48.7	-66.5	-55.9	-79.9	:	-93.5
France	33.9	15.9	17.6	12.2	3.3	-11.3	-8.4	-14.4	-11.1	-15.7	:	-14.6
Ireland	0.3	-0.4	-0.7	-1.3	0.0	-1.2	-1.7	-3.5	-2.4	-4.3	:	-5.1
Italy	11.1	-2.0	3.4	-3.9	-11.0	-5.7	-6.8	-16.8	-5.3	-17.9	:	-15.6
Luxembourg	1.7	2.9	2.0	2.7	1.3	1.5	1.9	1.6	2.1	1.8	:	1.9
Netherlands	15.0	19.6	23.1	28.0	27.8	29.8	15.8	29.9	19.1	27.5	:	25.4
Austria	-6.3	-5.7	-4.1	0.8	-1.0	0.7	5.4	2.0	5.5	1.4	:	1.6
Portugal	-10.2	-13.2	-13.5	-11.1	-8.7	-11.2	-10.7	-13.7	-10.9	-14.5	:	-14.5
Finland	7.4	9.4	9.4	10.3	5.5	6.2	6.2	3.4	6.7	3.1	:	3.5
Euro area	16.5	-33.2	5.3	57.0	32.9	42.2	43.7	3.6	48.6	-11.3	:	-8.5
Euro area, adjusted [1]	-30.5	-82.1	-3.3	64.6	20.4	46.7	37.0	8.1	41.8	-6.7	:	-4.0
Czech Republic	-1.4	-2.9	-3.7	-4.4	-5.0	-4.5	-4.6	-2.9	-4.7	-2.7	:	-2.6
Denmark	3.1	2.4	5.6	4.6	6.2	4.8	4.3	6.0	4.7	6.8	:	7.6
Estonia	-0.2	-0.3	-0.4	-0.8	-1.0	-1.2	-1.2	-1.0	-1.2	-0.9	:	-0.9
Cyprus	-0.2	-0.5	-0.4	-0.5	-0.4	-0.7	-0.7	-0.8	-0.6	-0.8	:	-0.7
Latvia	-0.6	-0.4	-0.7	-0.7	-0.8	-1.4	-1.3	-1.4	-1.3	-1.5	:	-1.6
Lithuania	-1.1	-0.7	-0.7	-0.8	-1.1	-1.3	-1.7	-1.5	-1.8	-1.6	:	-1.7
Hungary	-4.3	-4.3	-3.5	-4.9	-6.3	-7.1	-7.8	-7.4	-8.0	-7.7	:	-7.5
Malta	-0.1	-0.5	-0.2	0.0	-0.2	-0.3	-0.4	-0.3	-0.4	-0.3	:	-0.3
Poland	-8.0	-10.8	-6.0	-5.3	-4.1	-8.2	-5.5	-7.4	-7.4	-8.9	:	-10.4
Slovenia	-0.7	-0.6	0.0	0.3	-0.1	-0.5	-0.3	-0.4	-0.2	-0.5	:	-0.6
Slovakia	-0.7	-0.6	-1.7	-1.9	-0.3	-1.1	-1.9	-2.4	-1.9	-2.4	:	-1.6
Sweden	10.0	10.8	11.3	13.8	15.6	21.7	21.9	19.9	22.4	18.4	:	18.6
United Kingdom	-36.8	-40.1	-35.7	-26.2	-24.2	-34.4	-39.3	-36.5	-40.8	-35.9	:	-31.2
EU-25	-22.8	-78.8	-28.6	33.0	11.3	8.9	-1.8	-31.2	-1.5	-47.4	:	-40.1
EU-25, adjusted [1]	:	:	-73.2	0.5	-7.1	-18.5	-43.8	-58.6	-43.5	-74.8	:	-67.5
EU-15	-7.2	-60.0	-13.5	49.2	30.5	34.3	30.6	-7.0	34.9	-22.0	:	-13.5
USA	-256.9	-429.9	-413.8	-485.8	-446.5	-524.4	-564.1	-614.2	-574.5	-685.9	:	-730.5
Japan	107.8	129.5	98.0	119.8	120.5	138.5	143.4	131.5	162.9	121.4	:	129.5

[1] See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 1999-2007) 07.11.2005

							2005		2006		2007	
							estimate of		forecast of		forecast of	
	1999	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	6.9	11.9	1.1	2.4	4.0	8.5	*7.1*	5.3	*6.8*	6.0	*:*	6.1
Germany	5.9	12.3	0.6	3.8	4.0	9.7	*8.0*	5.8	*7.4*	7.0	*:*	6.9
Greece	5.6	9.7	1.6	3.2	4.5	9.5	*8.1*	6.6	*7.5*	7.3	*:*	7.0
Spain	6.0	10.8	0.6	1.9	3.1	8.5	*6.9*	5.0	*6.8*	5.8	*:*	5.9
France	7.2	10.7	0.6	2.9	4.6	8.7	*7.5*	5.5	*7.0*	6.4	*:*	6.2
Ireland	6.9	11.5	0.1	3.2	3.6	8.5	*7.1*	5.1	*6.2*	5.7	*:*	5.7
Italy	6.4	12.3	0.5	3.6	5.1	9.9	*8.1*	6.4	*7.4*	6.9	*:*	6.8
Luxembourg (b)	:	:	:	:	:	8.1	*7.1*	4.8	*7.0*	5.7	*:*	5.7
Netherlands	4.8	9.6	0.3	2.3	4.2	8.3	*7.3*	5.1	*6.9*	6.0	*:*	5.9
Austria	6.6	12.5	1.2	2.0	4.6	9.3	*8.2*	5.6	*7.7*	6.8	*:*	6.6
Portugal	8.2	12.5	0.7	1.4	3.9	8.5	*7.6*	5.6	*7.0*	6.1	*:*	5.9
Finland	3.8	11.6	0.6	4.0	5.3	9.8	*8.3*	7.5	*7.4*	8.9	*:*	8.3
Euro area (c)	6.2	11.5	0.6	3.1	4.3	9.1	*7.7*	5.6	*7.2*	6.6	*:*	6.5
Czech Republic		:	:	:	:	9.2	*8.2*	5.5	*8.1*	6.8	*:*	6.9
Denmark	5.0	9.5	0.1	2.6	4.5	8.7	*7.6*	5.9	*7.0*	6.7	*:*	6.5
Estonia	:	:	:	:	:	9.7	*7.7*	7.3	*7.1*	8.6	*:*	8.1
Cyprus	:	:	:	:	:	7.6	*6.9*	5.9	*6.0*	6.5	*:*	6.5
Latvia	:	:	:	:	:	9.2	*8.3*	7.3	*7.1*	7.8	*:*	7.5
Lithuania	:	:	:	:	:	10.6	*8.7*	7.8	*8.0*	9.4	*:*	8.9
Hungary	:	:	:	:	:	8.9	*7.9*	5.5	*7.6*	6.8	*:*	6.6
Malta	:	:	:	:	:	11.0	*8.6*	6.9	*8.1*	7.2	*:*	7.3
Poland	:	:	:	:	:	9.6	*8.2*	6.5	*7.6*	7.8	*:*	7.6
Slovenia	:	:	:	:	:	8.4	*7.8*	5.2	*7.6*	7.0	*:*	6.8
Slovakia	:	:	:	:	:	10.3	*8.7*	5.0	*8.2*	7.0	*:*	6.9
Sweden	6.0	11.3	-0.4	3.5	3.9	9.3	*7.6*	6.4	*6.9*	6.6	*:*	6.3
United Kingdom	6.5	11.4	0.0	3.0	4.1	9.0	*7.3*	6.0	*6.8*	6.5	*:*	6.5
EU-25 (c)	:	:	:	:	:	:	*7.7*	5.7	*7.2*	6.6	*:*	6.5
EU-15 (c)	6.2	11.5	0.5	3.1	4.2	:	*:*	:	*:*	:	*:*	:
USA	6.7	10.8	-2.2	6.5	5.2	10.8	*8.0*	7.0	*7.4*	7.2	*:*	7.4
Japan	9.1	12.5	-2.3	7.9	6.6	12.8	*9.1*	8.1	*8.2*	8.6	*:*	8.5

(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, 1999-2007)

							2005		2006		2007	
							estimate of		forecast of		forecast of	
	1999	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Belgium	-1.6	-4.0	-0.9	-1.1	0.1	-1.5	*-1.3*	-2.9	*-0.7*	-1.0	*:*	-0.8
Germany	-0.6	1.1	5.6	-0.3	-0.9	0.3	*-1.0*	0.4	*-0.9*	-0.5	*:*	-0.6
Greece	-3.1	-0.9	-3.1	-10.0	-0.3	-10.9	*-2.3*	0.0	*-1.8*	-0.4	*:*	-0.1
Spain	-0.9	-0.7	3.3	1.4	1.8	-3.8	*-0.6*	-3.7	*-0.7*	-3.5	*:*	-3.1
France	-3.3	1.4	2.3	-0.9	-5.2	-4.4	*-2.0*	-2.8	*-0.6*	-1.8	*:*	-1.3
Ireland	4.5	6.2	4.5	1.0	-7.3	-3.2	*-0.9*	-2.5	*0.1*	-0.4	*:*	-0.2
Italy	-5.0	-2.6	1.0	-6.3	-6.8	-6.0	*-2.8*	-6.0	*-2.6*	-2.5	*:*	-3.3
Luxembourg (b)	:	:	:	:	:	-4.4	*:*	:	*:*	:	*:*	:
Netherlands	0.8	2.1	1.0	-1.0	-1.4	1.0	*-2.7*	-1.2	*-0.7*	-0.9	*:*	-0.6
Austria	1.2	0.5	5.5	2.6	-2.3	2.3	*-1.2*	-1.1	*-0.6*	-0.7	*:*	-0.8
Portugal	:	:	1.3	0.4	1.6	-3.7	*-2.7*	-4.0	*-0.1*	-1.1	*:*	-1.0
Finland	3.7	9.9	-0.8	0.2	-3.2	-4.0	*-2.6*	-3.0	*-2.0*	-2.8	*:*	-2.7
Euro area (c)	-1.5	0.7	3.1	-1.0	-2.5	-1.7	*-1.7*	-2.0	*-1.0*	-1.3	*:*	-1.2
Czech Republic		:	:	:	:	13.1	*4.2*	3.8	*2.7*	3.1	*:*	2.8
Denmark	2.3	0.4	2.4	3.3	-5.9	-4.2	*-3.2*	-0.6	*-1.7*	-1.9	*:*	-2.0
Estonia	:	:	:	:	:	7.1	*5.3*	11.6	*3.5*	7.0	*:*	4.8
Cyprus	:	:	:	:	:	2.1	*-2.7*	8.6	*-1.9*	-2.5	*:*	-2.5
Latvia	:	:	:	:	:	-1.1	*2.9*	5.4	*3.8*	5.0	*:*	4.9
Lithuania	:	:	:	:	:	-7.3	*0.2*	1.9	*-0.1*	0.8	*:*	0.7
Hungary	:	:	:	:	:	7.2	*5.0*	4.9	*3.7*	3.6	*:*	3.3
Malta	:	:	:	:	:	-6.9	*-4.7*	-9.7	*-4.3*	-6.0	*:*	-4.4
Poland	:	:	:	:	:	16.7	*2.6*	-2.2	*3.4*	-2.6	*:*	-1.5
Slovenia	:	:	:	:	:	4.1	*0.4*	4.5	*0.3*	0.7	*:*	0.7
Slovakia	:	:	:	:	:	2.7	*3.5*	2.0	*4.5*	3.1	*:*	7.5
Sweden	-1.0	0.7	-1.7	-1.5	1.0	0.5	*-1.0*	-2.3	*-1.3*	-0.7	*:*	-0.2
United Kingdom	-2.8	0.7	2.7	-4.6	-4.2	-6.7	*-0.7*	0.3	*-1.3*	-0.7	*:*	-1.1
EU-25 (c)	:	:	:	:	:	:	*-1.2*	-1.4	*-0.7*	-1.0	*:*	-0.9
EU-15 (c)	-1.6	0.6	2.8	-1.2	-2.5	:	*:*	:	*:*	:	*:*	:
USA	-2.5	0.4	-4.0	-9.8	-3.2	-1.7	*-0.6*	0.5	*2.2*	2.6	*:*	0.8
Japan	-13.4	-0.1	-4.0	0.1	2.4	1.2	*-1.0*	-2.3	*0.0*	-2.5	*:*	-1.8

(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, 2000-2007) 07.11.2005

							2005 estimate of		2006 forecast of		2007 forecast of	
	(a)	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
EU-25	21.3	3.8	1.9	1.2	1.2	2.4	*2.0*	1.5	*2.3*	2.1	*:*	2.4
Euro area	15.5	3.8	1.9	0.9	0.7	2.1	*1.6*	1.3	*2.1*	1.9	*:*	2.1
Belgium	0.6	3.9	1.0	1.5	0.9	2.6	*2.2*	1.4	*2.3*	2.1	*:*	2.0
Czech Republic	0.2	3.9	2.6	1.5	3.2	4.4	*4.0*	4.8	*4.2*	4.4	*:*	4.3
Denmark	0.4	3.5	0.7	0.5	0.6	2.1	*2.3*	2.7	*2.1*	2.3	*:*	2.1
Germany	4.6	3.2	1.2	0.1	-0.2	1.6	*0.8*	0.8	*1.6*	1.2	*:*	1.6
Estonia	0.0	7.9	6.5	7.2	6.7	7.8	*6.0*	8.4	*6.2*	7.2	*:*	7.4
Greece	0.3	4.5	4.6	3.8	4.6	4.7	*2.9*	3.5	*3.1*	3.4	*:*	3.4
Spain	1.7	5.1	3.5	2.7	3.0	3.1	*2.7*	3.4	*2.7*	3.2	*:*	3.0
France	3.4	4.1	2.1	1.2	0.8	2.3	*2.0*	1.5	*2.2*	1.8	*:*	2.3
Ireland	0.3	9.2	6.2	6.1	4.4	4.5	*4.9*	4.4	*5.1*	4.8	*:*	5.0
Italy	2.8	3.0	1.8	0.4	0.3	1.2	*1.2*	0.2	*1.7*	1.5	*:*	1.4
Cyprus	0.0	5.0	4.1	2.1	1.9	3.8	*3.9*	3.9	*4.2*	4.0	*:*	4.2
Latvia	0.0	6.9	8.0	6.4	7.2	8.3	*7.2*	9.1	*6.9*	7.7	*:*	7.1
Lithuania	0.0	3.9	7.2	6.8	10.5	7.0	*6.4*	7.0	*5.9*	6.2	*:*	5.8
Luxembourg	0.1	9.0	1.5	2.5	2.9	4.5	*3.8*	4.2	*4.0*	4.4	*:*	4.5
Hungary	0.2	5.2	3.8	3.5	2.9	4.2	*3.9*	3.7	*3.8*	3.9	*:*	3.9
Malta	0.0	6.4	0.2	0.8	-1.9	0.4	*1.7*	0.8	*1.9*	0.7	*:*	1.1
Netherlands	1.0	3.5	1.4	0.1	-0.1	1.7	*1.0*	0.5	*2.0*	2.0	*:*	2.4
Austria	0.5	3.4	0.8	1.0	1.4	2.4	*2.1*	1.7	*2.1*	1.9	*:*	2.2
Poland	0.4	4.0	1.0	1.4	3.8	5.3	*4.4*	3.4	*4.5*	4.3	*:*	4.5
Portugal	0.3	3.8	2.0	0.5	-1.2	1.2	*1.1*	0.4	*1.7*	0.8	*:*	1.2
Slovenia	0.1	4.1	2.7	3.5	2.7	4.2	*3.7*	3.8	*4.0*	4.0	*:*	4.2
Slovakia	0.1	2.0	3.8	4.6	4.5	5.5	*4.9*	5.1	*5.2*	5.5	*:*	6.3
Finland	0.3	5.0	1.0	2.2	2.4	3.6	*3.3*	1.9	*2.9*	3.5	*:*	3.1
Sweden	0.6	4.3	1.0	2.0	1.5	3.6	*3.0*	2.5	*2.8*	3.0	*:*	2.8
United Kingdom	3.5	4.0	2.2	2.0	2.5	3.2	*2.8*	1.6	*2.8*	2.3	*:*	2.8
Acc/Cand Countries	1.5	6.2	-4.3	7.0	5.4	8.2	*5.1*	5.0	*5.0*	5.2	*:*	5.1
- Bulgaria	0.1	5.4	4.1	4.9	4.5	5.6	*6.0*	6.0	*4.5*	5.5	*:*	5.5
- Croatia	0.1	2.9	4.4	5.2	4.3	3.8	*4.0*	3.6	*4.3*	4.0	*:*	4.4
- Romania	0.3	2.1	5.7	5.0	4.9	8.3	*5.5*	5.2	*5.1*	5.3	*:*	5.0
- Turkey	1.0	7.4	-7.5	7.9	5.8	8.9	*5.0*	5.0	*5.1*	5.2	*:*	5.1
USA	21.1	3.7	0.8	1.6	2.7	4.2	*3.6*	3.5	*3.0*	3.2	*:*	2.7
Japan	6.9	2.4	0.2	-0.3	1.4	2.7	*1.1*	2.5	*1.7*	2.2	*:*	1.8
Canada	1.9	5.3	1.8	3.4	2.0	2.9	*2.6*	2.7	*2.9*	2.9	*:*	3.0
Norway	0.3	2.8	2.7	1.1	0.4	2.9	*3.8*	3.9	*2.9*	3.0	*:*	1.8
Switzerland	0.4	3.6	1.0	0.3	-0.3	2.1	*1.3*	0.9	*1.7*	1.6	*:*	1.5
Iceland	0.0	5.7	2.6	-2.1	4.2	5.2	*5.1*	6.0	*4.5*	5.9	*:*	5.5
Australia	1.1	2.1	3.9	3.2	3.8	2.9	*3.3*	2.7	*3.3*	3.4	*:*	3.5
New Zealand	0.2	2.3	3.5	4.6	3.6	4.4	*2.3*	2.5	*2.7*	2.8	*:*	2.9
Industrialised countries	54.9	3.7	1.1	1.4	2.0	3.3	*2.6*	2.6	*2.6*	2.7	*:*	2.5
Others	45.1	6.1	4.0	4.5	6.0	7.4	*6.2*	6.4	*6.1*	6.3	*:*	6.1
CIS	3.5	9.0	6.4	5.4	7.9	8.3	*6.5*	6.8	*5.8*	6.9	*:*	6.4
- Russia	2.4	10.0	5.1	4.7	7.3	7.1	*6.0*	6.0	*5.3*	6.3	*:*	5.8
- Other	1.2	6.8	9.2	6.8	9.1	10.6	*7.5*	8.3	*7.0*	8.0	*:*	7.5
MENA	3.9	5.1	1.1	1.8	3.0	8.6	*5.4*	5.2	*4.8*	5.1	*:*	4.8
Other emerging markets	37.7	5.9	4.1	4.7	6.1	7.2	*6.3*	6.5	*6.3*	6.4	*:*	6.2
Asia	27.9	6.5	5.2	6.3	7.5	7.8	*7.1*	7.2	*7.1*	7.2	*:*	7.0
- China	13.4	8.0	7.5	8.3	9.3	9.5	*8.6*	9.3	*8.4*	8.7	*:*	8.2
- India	6.0	3.9	5.1	4.6	8.3	7.3	*6.5*	6.8	*6.8*	6.8	*:*	7.0
- Hong Kong	0.4	10.2	0.5	1.9	3.2	8.1	*4.5*	6.3	*4.5*	5.1	*:*	4.4
- Korea	1.9	8.5	3.8	7.0	3.1	4.6	*3.8*	3.8	*4.3*	4.8	*:*	5.0
- Indonesia	1.5	4.9	3.5	3.6	4.5	5.1	*5.2*	5.1	*5.5*	5.3	*:*	5.5
Latin America	7.6	4.3	0.6	-0.6	1.9	5.5	*3.9*	4.0	*3.6*	3.6	*:*	3.6
- Brazil	2.7	4.4	1.3	1.9	0.5	4.9	*3.7*	3.2	*3.7*	3.6	*:*	3.6
- Mexico	1.8	6.6	0.0	0.8	1.4	4.4	*3.6*	3.2	*3.5*	3.4	*:*	3.4
Africa	2.3	3.4	2.8	3.0	3.0	4.3	*5.7*	5.0	*6.1*	6.0	*:*	5.5
World	100.0	4.7	2.4	2.8	3.8	5.2	*4.2*	4.3	*4.1*	4.3	*:*	4.2
World excluding EU-25	78.7	5.0	2.6	3.3	4.5	5.9	*4.8*	5.1	*4.6*	4.9	*:*	4.6
World excluding euro area	84.5	4.9	2.5	3.2	4.4	5.7	*4.7*	4.9	*4.5*	4.8	*:*	4.5

(a) Relative weights, based on GDP (at constant prices and pps) in 2004.

TABLE 56 : World exports of goods, volume (percentage change on preceding year, 2000-2007) 07.11.2005

	(a)	2000	2001	2002	2003	2004	2005 estimate of III-2005	2005 estimate of XI-2005	2006 forecast of III-2005	2006 forecast of XI-2005	2007 forecast of III-2005	2007 forecast of XI-2005
EU-25 (b)	40.5	12.9	3.8	2.2	2.4	7.8	*6.4*	4.2	*6.4*	5.5	:	5.5
Euro area (b)	31.4	12.3	3.7	2.1	1.7	7.2	*5.9*	3.5	*6.1*	5.2	:	5.2
Acc/Cand Countries	1.2	15.8	18.7	16.8	18.3	15.9	*13.2*	7.6	*13.2*	8.1	:	8.9
- Bulgaria	0.1	:	:	:	:	:	*10.0*	11.0	*10.0*	11.5	:	12.0
- Croatia	0.1	:	:	:	:	:	*9.9*	5.8	*11.0*	6.7	:	6.3
- Romania	0.3	24.7	10.9	20.4	11.0	15.8	*13.5*	6.2	*12.5*	7.5	:	9.5
- Turkey	0.8	12.4	21.6	15.5	21.0	15.9	*14.0*	7.8	*14.0*	8.0	:	8.5
USA	9.2	11.2	-6.1	-4.0	1.8	8.9	*7.4*	7.5	*9.8*	10.0	:	8.3
Japan	5.9	12.4	-6.2	8.1	9.1	14.2	*8.0*	5.6	*8.2*	5.9	:	6.5
Canada	3.7	9.2	-3.5	0.7	-2.2	5.4	*3.3*	2.3	*4.5*	4.1	:	5.0
Norway	0.9	2.1	7.1	0.4	2.6	-0.8	*6.5*	5.4	*6.6*	4.1	:	2.4
Switzerland	1.4	11.6	1.4	1.1	-0.2	8.0	*7.4*	4.5	*7.3*	5.5	:	4.4
Iceland	0.0	-8.0	-12.2	7.5	4.5	18.4	*5.1*	8.2	*5.8*	6.7	:	5.8
Australia	1.0	9.5	1.1	0.7	0.1	2.8	*6.5*	4.3	*6.0*	6.0	:	6.8
New Zealand	0.2	5.3	2.0	6.7	2.6	6.9	*6.5*	-0.2	*6.5*	6.0	:	6.5
Industrialised countries	64.1	12.2	1.2	2.0	2.9	8.3	*6.7*	4.8	*7.1*	6.2	:	6.0
Others	35.9	17.7	-0.7	8.5	13.1	16.9	*10.2*	11.2	*8.8*	9.5	:	9.1
CIS	3.0	42.5	-1.0	-2.0	13.5	20.1	*7.9*	17.7	*4.2*	8.1	:	7.9
- Russia	2.1	18.1	-6.1	0.7	11.1	14.5	*7.0*	18.0	*2.5*	5.0	:	4.5
- Other	0.9	310.1	15.2	-8.8	20.1	34.9	*10.0*	17.0	*8.0*	15.0	:	15.0
MENA	4.4	8.1	0.6	-1.4	7.4	7.1	*6.3*	6.6	*4.2*	5.3	:	5.3
Other emerging markets	28.5	16.5	-0.8	11.2	14.0	18.1	*11.1*	11.3	*10.0*	10.4	:	9.8
Asia	21.8	16.7	-1.0	15.0	16.3	19.1	*12.1*	12.9	*10.8*	11.4	:	10.7
- China	6.7	26.0	16.2	25.6	32.3	27.1	*21.0*	25.0	*17.5*	18.0	:	16.0
- India	0.8	20.1	8.5	16.6	14.0	18.0	*15.0*	9.5	*14.0*	12.0	:	12.0
- Hong Kong	2.9	16.8	-3.7	8.3	13.2	14.7	*10.5*	10.0	*8.5*	9.0	:	8.0
- Korea	2.9	19.4	-13.0	30.5	16.5	21.8	*7.5*	9.7	*7.6*	8.6	:	8.0
- Indonesia	0.8	-17.2	-2.4	-1.3	-0.9	4.3	*9.5*	7.5	*12.0*	5.5	:	5.5
Latin America	5.4	16.9	-0.2	-0.9	3.2	12.3	*7.6*	6.0	*7.1*	6.3	:	6.5
- Brazil	1.1	7.0	11.4	8.4	8.6	19.3	*8.0*	6.0	*6.5*	6.5	:	6.5
- Mexico	2.1	16.6	-3.5	1.4	1.6	7.4	*7.0*	5.0	*7.0*	5.5	:	6.0
Africa	1.3	10.8	-0.3	-3.6	19.0	24.1	*9.0*	5.0	*9.0*	9.0	:	8.0
World	100.0	14.1	0.6	4.3	6.6	11.4	*7.8*	7.1	*7.7*	7.4	:	7.1
World excluding EU-25	59.5	15.0	-1.6	5.8	9.4	13.9	*8.9*	9.1	*8.6*	8.6	:	8.2
World excluding euro area	68.6	15.0	-0.9	5.3	8.8	13.3	*8.7*	8.7	*8.4*	8.4	:	8.0

(a) Relative weights, based on exports (at current prices and current exchange rates) in 2004.
(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2004)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Africa	World
EU-25	68.3	2.4	8.1	1.5	0.8	4.5	2.2	3.8	5.2	1.8	1.3	100
Belgium	77.8	1.3	6.5	1.1	0.6	2.0	0.9	3.1	4.6	1.0	1.0	100
Czech Republic	83.8	3.0	3.1	0.5	0.3	2.4	2.4	1.6	2.0	0.6	0.4	100
Denmark	68.5	1.0	5.7	4.0	1.2	8.1	1.8	2.5	5.0	1.3	0.9	100
Germany	64.6	2.7	8.9	1.8	0.7	5.4	2.8	3.0	6.8	2.0	1.2	100
Estonia	74.6	0.6	5.5	0.3	0.3	4.1	11.5	0.5	1.5	0.6	0.5	100
Greece	60.1	15.6	5.8	0.5	0.7	2.1	3.3	7.0	2.8	0.8	1.3	100
Spain	75.2	2.5	4.2	0.8	0.5	2.2	0.9	5.2	2.5	4.8	1.2	100
France	67.1	2.0	6.9	1.6	0.8	4.3	1.4	6.8	5.0	1.8	2.3	100
Ireland	63.2	0.5	19.9	2.8	0.4	5.0	0.3	1.3	4.9	1.0	0.7	100
Italy	60.4	4.8	8.1	1.6	0.9	5.8	2.6	6.3	5.6	2.7	1.2	100
Cyprus	64.9	2.8	1.8	2.2	0.2	1.0	2.8	17.6	3.5	0.4	2.8	100
Latvia	75.9	0.1	7.5	0.7	0.2	4.1	7.8	1.0	2.0	0.6	0.1	100
Lithuania	61.3	2.1	5.3	0.2	1.3	13.1	15.2	0.1	0.8	0.1	0.4	100
Luxembourg	90.4	0.7	1.9	0.3	0.4	1.9	0.8	1.0	1.6	0.8	0.4	100
Hungary	80.7	6.0	3.1	0.6	0.1	1.7	3.2	2.2	1.5	0.5	0.3	100
Malta	44.5	2.4	12.4	2.0	0.7	0.7	0.1	5.2	30.3	0.7	0.9	100
Netherlands	81.0	1.4	4.4	0.8	0.4	2.7	1.6	2.3	3.3	1.0	1.2	100
Austria	72.4	4.2	6.1	1.2	0.9	5.9	2.4	1.8	3.6	0.9	0.7	100
Poland	79.1	3.1	2.8	0.3	0.5	2.2	7.9	1.2	1.6	0.8	0.6	100
Portugal	80.8	0.9	6.1	0.3	0.6	1.7	0.3	1.8	2.2	1.2	4.0	100
Slovenia	73.3	11.1	3.7	0.3	0.3	2.3	5.1	2.1	1.2	0.5	0.3	100
Slovakia	85.7	2.9	4.5	0.5	0.4	1.3	2.8	0.5	0.9	0.2	0.3	100
Finland	58.3	1.1	6.5	2.0	1.0	5.3	9.9	4.7	8.0	2.0	1.2	100
Sweden	59.1	1.3	10.8	1.9	1.1	11.4	2.1	3.2	6.0	2.0	1.1	100
United Kingdom	57.0	1.6	15.7	2.1	1.8	4.4	1.3	5.0	7.4	1.5	2.2	100

TABLE 58 : World imports of goods, volume (percentage change on preceding year, 2000-2007) 07.11.2005

							2005		2006		2007	
							estimate of		forecast of		forecast of	
	(a)	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
EU-25 (b)	39.8	11.7	1.7	1.6	4.1	8.0	*7.0*	4.2	*6.8*	5.4	*:*	5.6
Euro area (b)	29.4	11.3	1.1	0.8	3.8	7.7	*6.4*	4.0	*6.7*	5.2	*:*	5.3
Acc/Cand Countries	1.7	31.6	-12.2	16.2	25.0	22.5	*13.8*	10.4	*13.2*	9.3	*:*	8.9
- Bulgaria	0.2	:	:	:	:	:	*14.0*	14.0	*10.5*	12.0	*:*	12.0
- Croatia	0.2	:	:	:	:	:	*6.5*	4.4	*7.7*	5.0	*:*	5.5
- Romania	0.4	29.5	22.1	13.0	17.3	18.5	*18.0*	16.2	*14.0*	14.0	*:*	12.0
- Turkey	1.0	32.3	-23.9	17.3	27.6	23.9	*13.8*	9.0	*14.2*	8.0	*:*	8.0
USA	16.9	13.5	-3.2	3.7	4.9	11.0	*7.5*	6.4	*4.6*	5.8	*:*	5.1
Japan	4.4	11.9	0.1	1.1	3.8	7.7	*7.1*	6.4	*6.2*	7.8	*:*	9.1
Canada	3.2	8.6	-5.6	1.5	3.4	8.3	*7.5*	6.8	*6.3*	5.6	*:*	6.3
Norway	0.6	3.0	-0.5	2.1	3.2	10.7	*9.9*	8.9	*8.0*	6.6	*:*	3.9
Switzerland	1.3	10.2	1.8	-3.0	1.9	6.4	*10.1*	5.2	*8.6*	6.5	*:*	4.5
Iceland	0.0	-2.4	-27.3	-4.8	15.6	20.1	*11.0*	16.3	*8.1*	6.4	*:*	6.0
Australia	1.2	5.5	-5.3	13.6	11.6	14.6	*4.5*	12.9	*3.5*	7.2	*:*	7.8
New Zealand	0.2	-2.7	-4.3	16.6	11.2	15.0	*11.0*	6.1	*11.0*	7.1	*:*	8.0
Industrialised countries	69.3	12.3	-0.4	2.6	4.9	9.2	*7.3*	5.4	*6.4*	5.9	*:*	5.8
Others	30.7	17.6	-1.3	10.0	13.4	16.8	*10.3*	10.2	*9.8*	10.9	*:*	10.6
CIS	1.9	28.0	12.5	8.3	28.6	22.1	*12.1*	19.2	*9.2*	22.8	*:*	18.9
- Russia	1.1	-4.6	15.4	8.9	18.6	16.9	*12.2*	17.0	*9.0*	25.0	*:*	18.0
- Other	0.8	184.4	7.8	7.2	46.1	29.6	*12.0*	22.0	*9.5*	20.0	*:*	20.0
MENA	3.0	11.8	10.2	5.2	2.7	0.8	*6.7*	10.6	*5.8*	7.5	*:*	7.2
Other emerging markets	25.8	17.5	-3.7	10.6	13.4	18.3	*10.7*	9.5	*10.4*	10.4	*:*	10.4
Asia	19.9	19.1	-5.4	14.3	15.0	19.2	*11.4*	10.2	*11.3*	11.1	*:*	11.3
- China	6.0	29.4	13.6	24.3	34.7	26.4	*20.0*	15.7	*18.2*	17.8	*:*	17.5
- India	1.1	5.8	1.4	4.3	21.4	22.8	*12.0*	9.5	*13.0*	10.0	*:*	10.5
- Hong Kong	3.0	18.1	-2.4	7.5	11.9	13.7	*8.3*	9.2	*8.1*	8.6	*:*	7.7
- Korea	2.5	17.0	-23.2	41.1	7.6	11.8	*4.5*	5.3	*5.0*	7.5	*:*	8.2
- Indonesia	0.6	24.6	-9.6	4.7	6.2	14.7	*14.7*	13.5	*14.0*	7.0	*:*	7.7
Latin America	4.7	14.5	-0.5	-2.1	1.9	11.5	*8.6*	7.1	*7.6*	7.3	*:*	6.8
- Brazil	0.7	8.5	0.0	-2.5	2.9	10.4	*10.0*	7.0	*8.0*	7.5	*:*	7.5
- Mexico	2.2	21.4	-2.0	1.3	-1.3	8.8	*9.0*	6.5	*7.5*	7.0	*:*	6.5
Africa	1.2	3.2	12.0	-1.1	33.3	29.2	*7.0*	8.0	*7.0*	10.0	*:*	9.0
World	100.0	13.9	-0.7	4.9	7.5	11.6	*8.2*	6.9	*7.4*	7.4	*:*	7.3
World excluding EU-25	60.2	15.4	-2.3	7.0	9.7	13.9	*9.1*	8.6	*7.7*	8.7	*:*	8.4
World excluding euro area	70.6	15.0	-1.4	6.6	9.0	13.2	*9.0*	8.1	*7.6*	8.3	*:*	8.1

(a) Relative weights, based on imports (at current prices and current exchange rates) in 2004.
(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2004)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Africa	World
EU-25	69.1	1.7	4.9	2.5	0.5	4.3	3.1	3.0	8.2	1.8	1.1	100
Belgium	74.7	0.9	6.5	2.8	0.5	1.9	1.3	2.8	6.3	1.1	1.3	100
Czech Republic	82.5	0.8	1.4	2.1	0.1	2.5	5.1	0.8	4.4	0.3	0.2	100
Denmark	76.4	1.2	3.5	1.4	0.4	7.0	0.8	0.4	7.3	1.3	0.3	100
Germany	69.5	2.0	4.6	2.8	0.3	5.3	2.7	1.6	9.0	1.6	0.8	100
Estonia	64.7	0.5	1.4	1.6	0.1	1.2	23.8	0.1	4.2	0.6	1.9	100
Greece	64.0	4.4	4.0	2.5	0.4	1.9	4.6	7.4	9.1	1.2	0.5	100
Spain	71.8	1.3	2.6	2.0	0.4	2.7	1.6	5.8	6.3	3.3	2.3	100
France	72.8	1.3	4.7	1.8	0.4	4.5	1.7	4.2	5.9	1.4	1.3	100
Ireland	69.9	0.8	13.0	3.2	0.6	2.0	0.7	0.4	8.2	0.7	0.5	100
Italy	64.3	3.7	3.2	1.9	0.4	4.2	3.9	7.7	7.2	2.3	1.1	100
Cyprus	44.5	2.4	1.1	5.8	0.2	1.0	31.0	6.1	6.6	1.1	0.2	100
Latvia	62.9	0.7	1.4	0.6	0.3	2.2	28.0	0.3	3.3	0.3	0.0	100
Lithuania	62.0	1.2	2.3	0.3	0.1	1.7	27.5	0.3	3.8	0.7	0.3	100
Luxembourg	83.8	0.1	3.5	1.1	0.4	1.6	0.5	0.3	8.6	0.0	0.1	100
Hungary	71.8	2.5	2.1	2.7	0.1	1.7	7.3	0.2	11.2	0.3	0.1	100
Malta	60.5	4.0	3.5	2.2	0.2	2.0	3.6	1.5	21.2	1.1	0.3	100
Netherlands	55.5	0.9	7.8	4.3	0.5	3.9	3.9	3.4	14.8	3.8	1.3	100
Austria	83.1	2.6	1.8	1.2	0.2	4.5	2.2	0.9	2.9	0.3	0.4	100
Poland	77.6	1.3	1.2	1.1	0.2	2.1	9.6	0.5	4.8	1.1	0.5	100
Portugal	81.2	0.8	1.8	1.6	0.2	1.8	1.4	3.2	2.8	2.9	2.2	100
Slovenia	84.1	5.6	1.2	0.7	0.2	1.7	1.6	0.7	2.9	1.2	0.1	100
Slovakia	82.7	0.9	0.5	0.4	0.1	1.1	12.2	0.1	1.7	0.2	0.1	100
Finland	65.6	0.5	3.8	3.1	0.4	3.8	11.4	0.3	9.1	1.4	0.5	100
Sweden	77.0	0.9	3.4	1.9	0.3	7.1	1.9	0.7	5.1	1.3	0.3	100
United Kingdom	61.5	1.6	8.0	3.4	1.1	6.5	1.4	2.0	11.4	1.5	1.5	100

TABLE 60 : World trade balances (fob-fob, bn. US dollars, 1999-2007) 07.11.2005

							2005		2006		2007	
							estimate of		forecast of		forecast of	
	1999	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
EU-25	54.9	-3.6	50.6	102.1	86.8	65.8	*27.4*	20.4	*14.1*	-4.3	*:*	-9.1
EU-25, adjusted [1]	:	:	-42.5	5.8	-5.3	-33.8	*-65.8*	-79.8	*-79.8*	-101.2	*:*	-106.9
Euro area	103.8	52.3	110.2	171.2	168.8	176.6	*159.3*	125.5	*156.0*	98.2	*:*	94.9
Euro area, adjusted [1]	59.9	7.0	65.6	121.5	116.2	127.9	*116.4*	76.4	*112.9*	50.7	*:*	46.9
Acc/Cand Countries	:	:	:	:	-32.0	-44.1	*-58.2*	-52.4	*-66.5*	-60.2	*:*	-66.0
USA	-348.3	-459.2	-436.7	-491.7	-559.6	-677.7	*-752.2*	-781.5	*-763.8*	-828.5	*:*	-857.7
Japan	123.4	116.6	70.2	93.8	105.8	133.0	*157.7*	123.8	*192.0*	119.8	*:*	141.1
Canada	28.3	45.1	45.2	36.4	41.1	50.8	*54.1*	54.5	*52.0*	70.6	*:*	70.7
Norway	10.7	26.0	25.8	23.4	27.2	32.3	*54.0*	46.4	*52.5*	54.6	*:*	63.3
Switzerland	-0.2	-2.5	-2.8	3.3	3.4	5.5	*-2.7*	0.9	*-4.3*	-1.6	*:*	-0.6
Iceland	-0.3	-0.5	-0.1	0.1	-0.2	-0.4	*-0.7*	-0.9	*-0.8*	-1.0	*:*	-1.1
Australia	-9.8	-4.8	1.7	-5.5	-15.3	-18.0	*-16.1*	-17.7	*-18.0*	-19.6	*:*	-21.5
New Zealand	-0.4	0.7	1.5	0.2	-0.5	-1.4	*-3.2*	-2.9	*-4.5*	-2.5	*:*	-2.6
Industrialised countries	:	:	:	:	-343.4	-454.3	*-539.9*	-609.4	*-547.4*	-672.7	*:*	-683.3
Others	126.6	204.3	143.1	175.4	225.2	285.6	*601.2*	433.2	*576.1*	505.5	*:*	504.0
CIS	-0.2	3.5	1.9	2.9	2.6	7.3	*110.7*	14.4	*96.9*	15.2	*:*	8.8
MENA	40.1	112.8	73.6	76.4	98.8	129.7	*288.0*	256.6	*266.3*	311.5	*:*	309.8
Other emerging markets	86.7	87.9	67.5	96.1	123.8	148.6	*202.6*	162.1	*212.9*	178.7	*:*	185.3
Asia	84.9	61.9	59.0	71.5	94.1	107.5	*98.5*	99.4	*110.3*	100.0	*:*	103.4
Latin America	-2.6	10.2	1.1	15.9	23.0	31.5	*70.8*	41.0	*68.2*	52.3	*:*	58.5
Africa	4.3	15.8	7.4	8.7	6.7	9.6	*33.2*	21.8	*34.4*	26.5	*:*	23.5
World	:	:	:	:	-118.2	-168.7	*61.3*	-176.3	*28.7*	-167.3	*:*	-179.3

[1] See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 1999-2007)

							2005		2006		2007	
							estimate of		forecast of		forecast of	
	1999	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
EU-25	-26.1	-75.4	-27.4	28.6	12.7	11.1	*-2.4*	-39.0	*-2.0*	-57.3	*:*	-48.9
EU-25, adjusted [1]	:	:	-65.6	0.5	-8.0	-23.0	*-57.4*	-73.2	*-57.4*	-90.5	*:*	-82.3
Euro area	17.6	-30.6	4.8	53.7	37.2	52.4	*57.3*	4.5	*64.1*	-13.6	*:*	-10.4
Euro area, adjusted [1]	-32.5	-75.8	-3.0	61.1	23.1	58.1	*48.4*	10.1	*55.2*	-8.2	*:*	-4.9
Acc/Cand Countries	:	:	:	:	-15.9	-26.9	*-30.7*	-35.5	*-34.9*	-41.2	*:*	-45.1
USA	-273.9	-396.6	-370.4	-458.3	-504.4	-651.7	*-739.0*	-767.7	*-758.4*	-830.0	*:*	-891.1
Japan	114.9	119.5	87.7	113.0	136.1	172.2	*187.9*	164.3	*215.0*	146.9	*:*	157.9
Canada	2.4	23.6	21.8	16.0	14.8	23.6	*25.8*	23.5	*25.3*	37.5	*:*	40.4
Norway	8.5	26.0	26.2	24.4	28.3	34.3	*52.8*	47.1	*51.5*	53.1	*:*	58.6
Switzerland	28.4	29.2	20.5	20.3	38.6	38.8	*29.5*	40.5	*24.6*	36.9	*:*	34.9
Iceland	-0.6	-0.8	-0.3	-0.1	0.9	1.9	*-0.5*	-1.3	*0.4*	-1.4	*:*	-1.5
Australia	-22.3	-15.4	-8.4	-16.8	-30.4	-39.5	*-33.1*	-38.8	*-31.5*	-40.9	*:*	-43.0
New Zealand	-3.5	-2.5	-1.3	-2.2	-3.4	-6.2	*-5.7*	-7.1	*-6.0*	-6.5	*:*	-6.3
Industrialised countries	:	:	:	:	-322.6	-442.4	*-515.3*	-614.0	*-516.0*	-703.1	*:*	-744.1
Others	77.7	134.0	89.4	120.9	181.9	231.2	*510.9*	423.7	*466.6*	488.9	*:*	486.9
CIS	-0.5	1.8	-0.4	1.1	0.8	4.1	*67.7*	8.0	*52.2*	6.0	*:*	-4.0
MENA	14.9	69.8	38.8	31.3	61.5	97.6	*255.9*	266.3	*234.3*	322.7	*:*	323.7
Other emerging markets	63.3	62.3	51.0	88.4	119.5	129.4	*187.3*	149.4	*180.1*	160.2	*:*	167.2
Asia	88.1	64.3	67.6	85.7	114.3	122.1	*155.2*	123.1	*149.9*	123.7	*:*	132.1
Latin America	-16.9	-4.6	-12.1	5.9	11.8	13.0	*11.8*	18.4	*9.3*	29.5	*:*	35.5
Africa	-8.0	2.6	-4.5	-3.2	-6.6	-5.7	*20.2*	7.9	*20.9*	7.1	*:*	-0.4
World	:	:	:	:	-140.7	-211.2	*-4.5*	-190.3	*-49.4*	-214.2	*:*	-257.2

[1] See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 1999-2007)

							2005		2006		2007	
SITC							estimate of		forecast of		forecast of	
Classification	1999	2000	2001	2002	2003	2004	*III-2005*	XI-2005	*III-2005*	XI-2005	*III-2005*	XI-2005
Food (0 + 1)	-10.8	0.4	0.3	0.5	2.0	7.1	*1.5*	8.4	*3.2*	2.4	*:*	1.5
Basic materials (2 + 4)	-3.7	5.4	-7.0	1.0	8.6	19.9	*1.2*	7.0	*-3.0*	0.8	*:*	-2.0
- of which :												
Agricultures non-food	-5.1	1.5	-5.2	4.6	7.3	9.8	*-3.3*	-0.2	*-0.3*	2.9	*:*	0.3
- of which :												
Wood and pulp	9.0	3.4	-10.7	-3.3	6.8	13.3	*4.5*	1.9	*-1.6*	-0.4	*:*	-1.3
Minerals and metals	-1.6	11.4	-9.6	-4.2	10.6	35.5	*6.7*	16.2	*-6.1*	-1.4	*:*	-4.6
Fuel products (3)	23.2	47.5	-8.9	-0.3	12.7	29.9	*31.2*	41.2	*-5.2*	10.9	*:*	-1.6
- of which :												
Crude petroleum	41.1	59.1	-12.4	0.2	14.8	31.6	*34.4*	45.3	*-5.7*	11.6	*:*	-1.8
Primary commodities												
- Total excluding fuels	-6.2	3.7	-4.6	0.8	6.3	15.7	*1.3*	7.4	*-1.1*	1.3	*:*	-0.9
- Total including fuels	4.8	23.5	-7.2	0.3	9.6	23.2	*18.0*	26.3	*-3.7*	7.3	*:*	-1.4
						Crude petroleum - price per barrel (us dollar)						
Brent	17.9	28.5	25.0	25.0	28.8	37.8	*50.9*	55.0	*48.0*	61.4	*:*	60.3

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 Acceding and Candidate Countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2005, 2006 and 2007 are forecasts. 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. The forecasts for 10 Member States (namely CZ, DE, ES, FR, IE, NL, AT, PL, PT and SI) have been made using chain-linked volume measures (based on previous year's prices). 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. Compared to earlier forecasts, the labour component has been replaced by average hours worked per year and person in employment (thereby also including self-employment) in absolute level terms in the autumn 2005 economic forecast. The cyclical adjustment of budgetary balances is based on this concept.

6. Employment data are based on numbers of persons employed. The concept of full-time equivalent (FTE) is used for Germany, Spain, France, Italy, the Netherlands 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. EU25 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 2004.

9. Tables 37, 38, 39 and 42 are based on government deficit and debt data for the period 2001-2004, as transmitted by Member States to the European Commission in September 2005. In publishing these data, Eurostat has indicated that, for certain Member States (the Czech Republic, Greece and Portugal), it "has reservations on the quality of the data". 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). All Member States are in the process of revising their national accounts. Though no significant impact is expected on deficit and debt figures, the expected upward revision of GDP levels by 1-2% typically leads to marginal downward revision of deficit and debt ratios. However, it should be noted that the revisions in GDP following FISIM allocations (financial services indirectly measured) will only be taken into consideration for the calculations of the deficit- and debt- to-GDP ratios in spring 2006, although FISIM allocations have been implemented by 10 Member States already (namely DK, DE, EE, ES, FR, IE, NL, AT, FI and SI).

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 on the deficit as % of GDP indicated in brackets): DK (1.1 in 2001, 1.0 in 2002, 1.1 in 2003, 1.0 in 2004-2007), HU (0.7 in 2001-2002, 0.9 in 2003, 1.1 in 2004, 1.3 in 2005 and 1.4 in 2006-2007), PL (1.5 in 2001, 1.9 in 2002, 1.6 in 2003, 1.9 in 2004, 2.0 in 2005-2007), SK (0.8 in 2005, 1.3 in 2006 and 1.4 in 2007) and SE (0.9 in 2001-2003, 1.0 in 2004-2006.

12. German, EU25 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 currently in a transition phase, the quality of statistical data may not always be directly comparable to the EU15 Member States.

14. Geographical zones are defined as follows :
    Euro area:
    EUR12 (EU15 excluding DK, SE and the UK);
    Acceding countries:
    Bulgaria and Romania
    Candidate countries:
    Croatia and Turkey.
    Industrialised Countries:
    EU25, Acceding and 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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