ISSN 0379-0991

No 5 / 2002

EUROPEAN ECONOMY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Economic forecasts
Autumn 2002

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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Unless otherwise indicated the texts are published under the responsibility of the Directorate-General for Economic and Financial Affairs of the European Commission, BU1, B-1049 Brussels, to which enquiries other than those related to sales and subscriptions should be addressed.

European Commission

EUROPEAN ECONOMY

Directorate-General for Economic and Financial Affairs

2002 Number 5

Printed in Belgium

Economic forecasts
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Abbreviations and symbols used

Member States

B	Belgium
DK	Denmark
D	Germany
EL	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
A	Austria
P	Portugal
FIN	Finland
S	Sweden
UK	United Kingdom

EU	European Union
EU-15	European Community, 15 Member States
EUR-11	Group of 11 Member States participating in monetary union (B, D, E, F, IRL, I, L, NL, A, P, FIN)
Euro area (EUR-12)	Member States currently participating in monetary union (EUR-11 plus EL)

Currencies

ECU	European currency unit
EUR	euro
ATS	Austrian schilling
BEF	Belgian franc
DEM	German mark (Deutschmark)
DKK	Danish krone
ESP	Spanish peseta
FIM	Finnish markka
FRF	French franc
GBP	Pound sterling
GRD	Greek drachma
IEP	Irish pound (punt)
ITL	Italian lira
LUF	Luxembourg franc
NLG	Dutch guilder
PTE	Portuguese escudo
SEK	Swedish krona
CAD	Canadian dollar
CHF	Swiss franc
JPY	Japanese yen
SUR	Russian rouble
USD	US dollar

Other abbreviations

bn, billion	1 000 million
CPI	Consumer price index
EC	European Commission
ECB	European Central Bank
ECSC	European Coal and Steel Community
EDF	European Development Fund
EIB	European Investment Bank
EMCF	European Monetary Cooperation Fund
EMS	European Monetary System
EMU	economic and monetary union
ERM	exchange rate mechanism
Euratom	European Atomic Energy Community
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
GDP (GNP)	gross domestic (national) product
GFCF	gross fixed capital formation
HICP	harmonised index of consumer prices
ILO	International Labour Organisation
IMF	International Monetary Fund
LDCs	less developed countries
Mio	million
Mrd	1 000 million
NCI	New Community Instrument
OCTs	overseas countries and territories
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PPS	purchasing power standard
qoq	quarter-on-quarter percentage change
SMEs	small and medium-sized enterprises
VAT	value added tax
yoy	year-on-year percentage change
:	not available
–	none

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Overview

After the decline in economic activity in the last quarter of last year, the recovery in the euro area and the EU started in the first quarter of this year, but failed to accelerate subsequently. Investment continued to contract and private consumption was weak as uncertainty increased, preventing the promising pick-up in international trade to spill over to domestic demand. The recovery is much slower than anticipated and the average growth rate in the euro area is estimated to be 0.8 % in 2002 and is forecast at only 1.8 % in 2003. Only from the second half of that year is growth expected to gain momentum, if confidence returns, oil prices ease and stock markets remain stable. Nevertheless, the rise in the unemployment rate is limited and temporary, but the fall in the inflation rate is slow. Due to a deterioration in the economic situation and an easing of budgetary policy, the general government deficit is expected to widen to 2.3 % of GDP in 2002 in the euro area (to 1.9% of GDP in the EU), with not much improvement expected in the following year.

An uneven global recovery

The policy induced recovery in the US is losing steam despite the effect of the lowering of interest rates and of the fiscal stimulus in the aftermath of the terrorist attack on 11 September 2001. Corporate scandals and collapsing stock markets have undermined confidence. In consequence, growth in the US has been revised downward to about 2.3 % in 2002 and 2003, with not much of an acceleration before mid-2003. Also, in Latin America growth prospects have been scaled down. In 2002, Argentina is in its fourth year of recession which is so severe that it lead to a decline in GDP of the continent.

The recovery in other regions continued, notably in Asia and the transition countries. While still a very poor performer, Japan appears to be coming out of recession. Strong and accelerating growth rates are expected in the rest of Asia. With EU accession around the corner, also in the Candidate Countries the expansion is on course with little or no impact from the growth slowdown in the EU. Russia is in similar situation. Finally, some industrialised countries, like Canada, Australia and New Zealand are expected to realise strong growth rates.

All in all, world GDP growth is revised downwards to 2.6 % in 2002 and is expected to accelerate to 4 % in 2004. After a contraction in 2001, the first in 20 years, international trade is expected to grow at about 2 % in 2002, before accelerating to about 7 % in 2004.

No acceleration of growth in the euro area

The pick-up in the euro area started promisingly in the first quarter of 2002. Exports increased, inventories were adjusted and firms became more optimistic about the future. However, an acceleration of the expansion failed to materialise in the remainder of the year leaving the estimated average growth rate in the euro area at a meagre 0.8 %. What went wrong ? Two reasons can be given.

First, the cycle is not dead and it takes time before excess demand or supply unwind. The present cycle seems to be driven by supply factors. The information and communication technology (ICT) hype led to over-investment and over-capacity, even if not of the same size as in the US, while the increase of food and oil prices eroded purchasing power with a shortage of demand as a consequence. The adjustment could have been faster if the EU economy was less rigid and more competitive allowing for more flexible wage and price responses.

The second reason emphasises special factors at the present juncture. Stock markets collapsed and geo-political tensions in the Middle East heightened uncertainty so that investor's confidence deteriorated and the household savings rate increased. This prevented exports to ignite domestic production, income generation and spending.

Domestic demand remained weak

As a result, private consumption in the euro area is estimated to increase by only 0.6 % in 2002 and investment is expected to contract for another year. One half of the growth contribution comes from net exports.

Investment is expected to contract in almost all Member States, but in Germany and Italy private consumption is also set to shrink in 2002, making them the worst performers this year. Also in the Netherlands, Austria and Portugal growth is particularly low, while France remains above average, but below expectations.

Table 0.1

Main features of the Autumn 2002 forecast [1] - euro area

(Real annual percentage change unless otherwise stated)				Autumn 2002			Difference with Spring 2002 (a)	
	1999	2000	2001	2002	2003	2004	2002	2003
GDP growth	2.8	3.5	1.5	0.8	1.8	2.6	-0.6	-1.1
Investment in equipment	8.5	8.8	-1.1	-4.1	2.6	6.1	-3.4	-3.3
Employment	1.8	2.1	1.4	0.4	0.4	1.0	0.1	-0.7
Unemployment rate (b)	9.4	8.5	8.0	8.2	8.3	8.0	-0.3	0.2
Inflation (c)	1.1	2.4	2.5	2.3	2.0	1.8	0.1	0.0
Government balance (% GDP) (d)	-1.3	0.1	-1.5	-2.3	-2.1	-1.8	-0.9	-0.9
Government debt (% GDP)	72.5	70.1	69.3	69.6	69.1	68.2	1.0	1.9
Current account balance (% GDP)	0.6	-0.1	0.4	1.0	1.0	1.1	-0.1	0.0
p.m. GDP growth EU-15	2.8	3.4	1.5	1.0	2.0	2.6	-0.5	-0.9

[1] The Commission services' Autumn 2002 Forecasts are based on available data up to November 4, 2002.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2002.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences in 2000, 2001 and 2002. The UMTS amounts as a % of GDP would be, according to the Autumn 2002 forecasts : 1.1%, 0% and 0% , respectively.

A turn for the better delayed by one year

Confidence declined, industrial production is still lower than one year ago and retail trade is weak, suggesting that growth is expected to remain sluggish for another quarter or two, although a contraction of GDP is not projected. The adjustment of inventories is coming to an end, there are no major imbalances and confidence is expected to return. In consequence, the euro area economy should gain momentum by mid-2003 benefiting from an improved international environment and favourable monetary conditions.

Average euro area GDP growth next year is expected to reach only 1.8 %, which represents a downward revision of 1.1 percentage point compared to the Commission Spring Forecasts. As employment and real income growth is subdued, the increase in private consumption remains limited to 1.7 % in 2003. Investment growth resumes, but pressures on profit margins and sufficient capacity limit its expansion to 2 %.

Sound fundamentals clouded by uncertainty

Uncertainty increased and the EU appears particularly vulnerable because remaining rigidities in product, labour and capital markets make it difficult to deal with shocks. This general uncertainty stems from the threat of a military conflict and the collapse of stock markets with a negative impact on consumer and investor confidence. (i) Oil prices increased to close to USD 30 per barrel in the third quarter of 2002 because of the threat of war against Iraq (but fell in October and early November). Underlying the Commission Forecasts is a decline to USD 21 in the second half of 2003, resulting in an annual average of about USD 24.1. If this decrease does not happen, but oil prices stay some USD 10 higher, about ¼ percentage point has to be shaved off from growth next year and inflation could be ¾ percentage point higher. (ii) The fall in stock markets affects the cost and availability of capital and reduces the financial wealth of households. It also weighs on the financial structure of insurance companies and pension funds, making households worried about the level of their future pensions and firms more concerned with cleaning up their balance sheets than with planning new investments. A difficult business climate and corporate governance issues increased the risk premium on loans, making credit more expensive than what the favourable monetary conditions may suggest.

However, when these uncertainties dissipate, the sound fundamentals of the EU economy should permit to realise above potential growth from the second half of next year leading to an average growth rate of 2.7 % in 2004. The savings rate of households is high and the current account is in surplus. Corporate balance sheets have been strengthened in the nineties and are fundamentally sound. The larger part of household wealth is not held in shares but in real estate which increased in value (except in Germany) and for which mortgage payments declined thanks to low interest rates. Finally, the macroeconomic policy framework is oriented towards stability and growth.

Resilient labour market in 2002, not much improvement in 2003

Despite the pronounced slowdown, employment creation is estimated to continue, albeit at a weak pace, and the rise of the unemployment rate is likely to remain limited in 2002, partially due to a slower increase in the labour force. Only in Germany and Austria is employment reduced this year. The overall development in the euro area is in stark contrast to the US, which is likely to show two years (2001 and 2002) of employment decline. Past structural reforms have increased the job content of growth in the EU, but there also appears to be some labour hoarding, taking its toll next year. The forecast euro area unemployment rate at 8.3 % in 2003 is only marginally higher than the previous year, but in several Member States (notably in the Netherlands and Portugal) the unemployment rate continues to increase more sharply.

During 2002 – 2003 about 1 million jobs are expected to be created in net terms, but when growth accelerates in the euro area more than that number could be realised in 2004 alone.

Two years of low labour productivity growth

The other side of the relatively resilient labour market is that productivity gains are expected to remain low for another year in 2003 with as a consequence an increase in unit labour costs. To some extent this is a normal cyclical reaction as employment lags the activity slowdown, but it nevertheless puts additional strains on corporate profitability and weighs on the resumption of investment. The fall in productivity could be lower if labour markets were more flexible.

Inflation is slow to decline

Stubbornly high core inflation, increased service prices, a rise in unit labour costs and continuing high oil prices, makes inflation to decline only slowly. Inflation differentials were wide in 2002 and several countries increased indirect taxes. The HICP inflation rate in the euro area is not forecast to fall below 2 % in 2003 on average from an estimated 2.3 % this year, but in 2004 HICP inflation could be 1.8 %.

Considerable deterioration of public finances in the euro area as a whole,…

Mainly due to adverse cyclical developments the general government deficit for the euro area as a whole widens to 2.3 % of GDP in 2002 and narrows marginally to 2.1 % the following year. For both years this represents an increase of almost 1 % of GDP compared to initial deficit projections in the Commission Spring Forecasts. In 2002, apart from the deterioration in the economic situation, other elements contributed to the widening of the deficit: the worse outturn for 2001 provided for a lower starting position, but there were also overruns. As announced in the budgetary plans currently under discussion at national level, some measures are taken in 2003 to reduce the deficit. Only budgetary measures adopted or known in sufficient detail are taken into account in the forecast for 2003. For 2004, the projection is based on the normal assumption of no change in policy and the deficit at 1.8 % of GDP would remain wide.

…but the situation varies widely among euro area Member States.

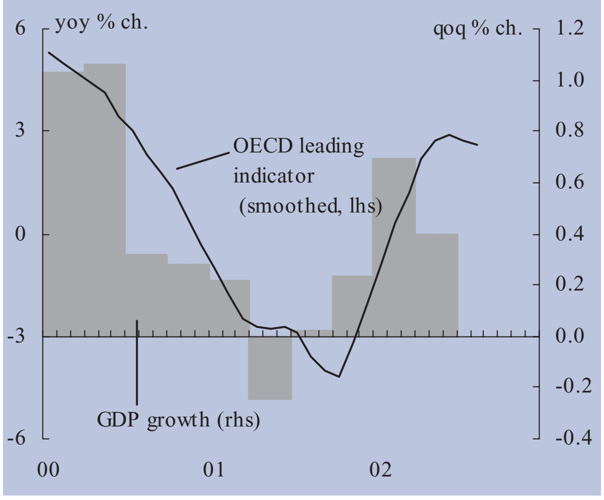
In 2002, four euro area countries (Belgium, Spain, Luxembourg, Finland) are estimated to have cyclically adjusted balances close to equilibrium or in surplus. In the Netherlands, the actual deficit is rising, but the cyclically adjusted deficit remains limited and is corrected. Greece, has not been in such a position according to revised data and its public debt is very high. Also Ireland and Austria were in such a position, but with tax cuts in the former and flood related expenditures in the latter government accounts deteriorate. In Italy, the debt increases to above 110 % of GDP and the actual deficit at 2.4 % of GDP is worrying, but is expected to decline marginally in 2003. The French deficit, on the other hand, is expected to increase from 2.7 % in 2002 to 2.9 % of GDP in 2003. Two countries may have deficits in excess of 3 % of GDP for two consecutive years although both are considering additional measures to avoid the second year: Portugal (in 2001 and 2002) and Germany (in 2002 and 2003). Of the four countries which breached the 3 % ceiling or are approaching it, only Germany and Portugal make a structural effort of 0.5 % of GDP in 2003 to reduce their deficit.

Chapter 1
World economy

1. Global recovery hampered by uncertainty

The global recovery has disappointed: quarterly growth in the OECD fell back to 0.4% in the second quarter of 2002, after having jumped to 0.7% in the first – just below the average reached in the second half of the nineties. Moreover, leading indicators, as calculated by the OECD, have started to reverse their course in recent months, suggesting weak growth going forward.

Graph 1.1: **OECD: GDP growth and leading indicator**



At the start of 2002, vigorous global growth was expected, following significant policy stimulus after 11 September. There had been a widespread loosening of monetary policy. Moreover, US fiscal policy became very accommodating, as reflected in the forecast government deficit of 3.2% of GDP in 2002, from only 0.5% in 2001.

The policy stimulus in the US was partially responsible for a recovery in international trade in the first half of 2002, which may have raised business expectations to an unrealistic level all over the world. Expectations were subsequently corrected during summer, which contributed to the weakening of equity markets.

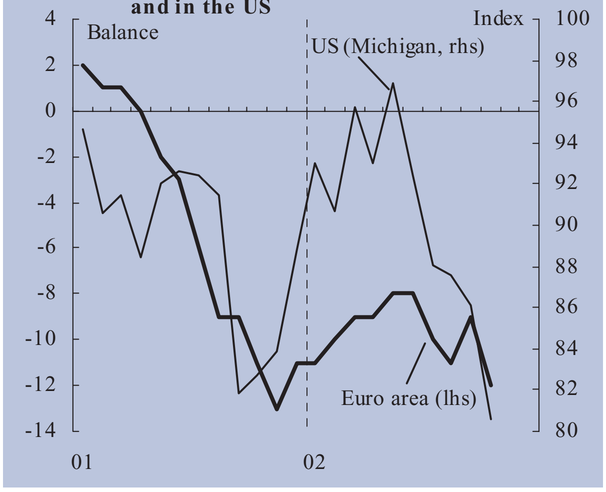
Uncertainty is the culprit

"Uncertainty" seems to summarise the interrelated factors that explain the weakness of the recovery. The present uncertainty relates to three factors:

- the evolution of equity markets;
- geopolitical tensions leading to high oil prices;
- uncertainty about the true state of the economy and the corporate sector.

The factors are interrelated as the geopolitical tensions and the uncertainty about the true state of the economy contributed to the slide in equity markets. The equity market slide, in turn, played a role in increasing the uncertainty about the true state of the corporate sector. Weak equity markets cut firms off from previously available easy equity financing, accelerating the recognition of the corporate sector problems. The correction in business and consumer sentiment is also entangled with the uncertainty factors.

Graph 1.2: **Consumer confidence in the euro area and in the US**



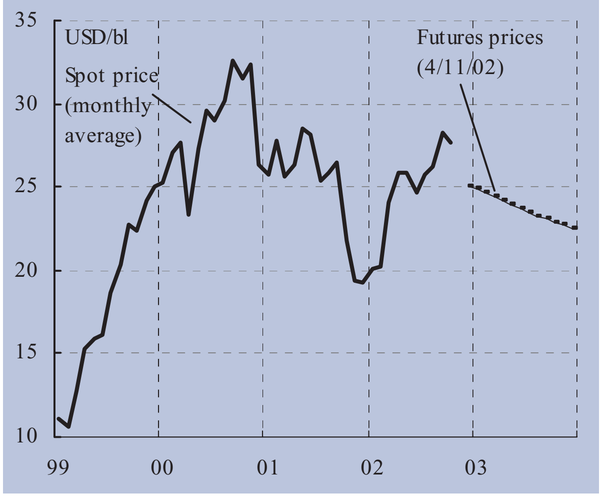
The effects of the equity market decline

The effect of equity market wealth on private consumption can be important, but differs among economies according to the relative size of the stock market capitalisation and to differences in financial structure. Similarly, the effect on investment is expected to vary by sector, as the technology sector relies more heavily on financing through the equity market. Finally, there is evidence that real economy developments are often preceded by similar equity market developments. Indeed, the equity market decline partially reflects lower earnings and output expectations.

War risk fuels oil prices

Economic sentiment has been heavily influenced by the risk of a war against Iraq, which has led to high oil prices. It is very difficult to assess the global economic consequences of a war against Iraq as the political and military uncertainties surrounding the event are high. The dimension and duration of the conflict are both unknown. It makes a difference whether the involvement is limited to a couple of countries or more widespread, whether the war is confined to Iraq or spreads to other regions and whether the conflict is short-lived or protracted. The continuing changes in the probability of a war against Iraq create additional uncertainty.

Graph 1.3 : **Brent oil price**



The Brent oil price stood above $23/bl for most of 2002 and topped even $29/bl at the end of September. This was mainly due to the "war premium", that reflects fears of an oil supply disruption that could arise with war in Iraq. The eventual disappearance of the war premium combined with the lack of strength of the global recovery could lead to substantially lower oil prices. The forecast assumes continued political risk into the first quarter of 2003 and an easing of tension thereafter. Despite volatility in monthly prices, the annual average Brent oil price would remain fairly stable at USD 25.5/bl in 2002 and USD 24.1/bl in 2003 before dropping to USD 22.5/bl in 2004.

Assessment of recent economic and financial developments revised

Investors have lost confidence in the reliability of the accounts of certain parts of the corporate sector in the US. As investors from all over the world invested heavily in the US during the nineties, the effects of the US corporate governance issue on investor sentiment in the rest of the world are significant.

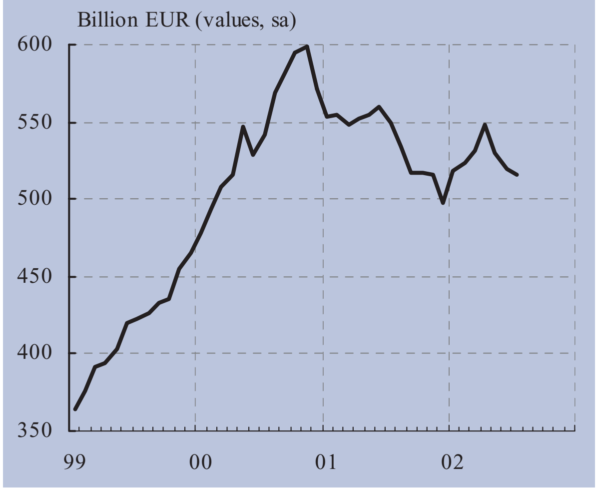
Other elements of uncertainty about economic developments are the big revisions recently made to the national accounts of the two biggest economies of the world. The downward revision of US growth in 2000 and 2001 nourishes doubts about the magnitude of the permanent increase in US trend productivity growth. In the case of Japan, the revision was due to a substantial methodology change. Revisions in public finance data in some European countries contributed to uncertainty as well.

Finally, economic agents were misled by the strength of the recovery in the first quarter of 2002, which proved to be an aberration.

International trade faces slow recovery

International trade was on a bumpy road in 2002: trade values fell back from May onwards, after a strong rise during the first four months. The forecast assumes some dynamism in the second half of 2002, leading to an increase of about 2% in trade volumes in 2002. When the global recovery gathers steam, trade would recover, with volume growth of about 6% and 7% in respectively 2003 and 2004.

Graph 1.4 : **World trade indicator**

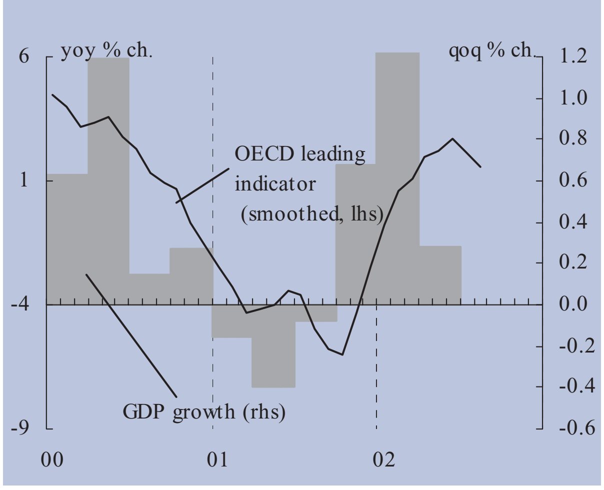


2. Uneven recovery among the G-7 economies and among emerging markets

Canada stands out among the G-7 economies

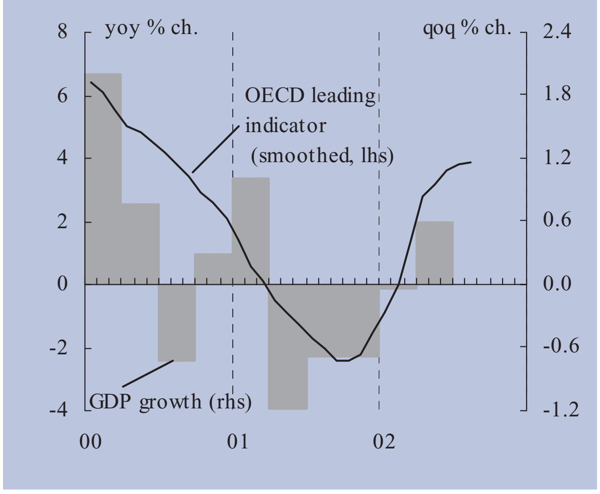
In the *US*, the recovery will be sluggish during 2003. Potential growth of around 3% will only be reached in the course of 2004. Relatively slow growth in Europe and Japan, combined with a strong dollar would nevertheless lead to a record current account deficit of 5.7% of GDP in 2004. The strong dollar during the forecast period comes from the assumption of constant real exchange rates for non-EU currencies. Notwithstanding recent developments, the 2002 Q3 nominal effective exchange rate of the dollar was still 25% above the average level of the nineties.

Graph 1.5: **US: GDP growth and leading indicator**



In *Japan*, second quarter growth was 0.6% qoq, suggesting that the economy emerged from a year of economic recession. While the recovery in external demand has boosted exports, the domestic economy, on the other hand, is still subdued, with structural problems and the high level of unemployment acting as a drag on the outlook for private consumption.

Graph 1.6 : **Japan: GDP growth and leading indicator**



Canada would be the best performer among the G-7 economies during the forecast period. Based on healthy fundamentals and a supportive, but prudent,

Graph 1.7: **Canada: GDP growth and leading indicator**

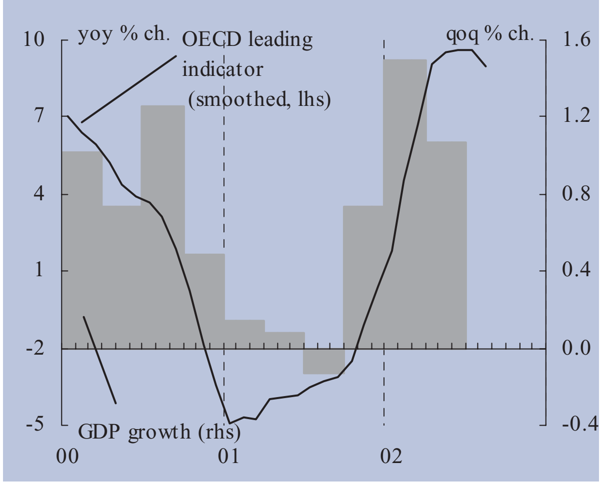


Table 1.1

International environment

(Real annual percentage change)		1999	2000	2001	Autumn 2002: 2002	2003	2004	Difference with Spring 2002: 2002	2003
					Real GDP growth				
USA		4.1	3.8	0.3	2.3	2.3	2.8	-0.4	-0.8
Asia		5.2	5.7	3.8	4.2	5.2	5.4	0.1	0.3
of which	Japan	0.7	2.4	-0.1	-0.6	1.2	1.4	0.2	0.6
	China	7.1	8.0	7.3	7.1	7.5	7.5	-0.2	0.1
	ASEAN4 + Korea (a)	4.7	6.4	2.7	4.5	5.5	5.8	1.5	1.2
AC (b)		3.1	4.1	3.0	2.5	3.8	4.3	:	:
FSU		4.4	7.9	6.0	4.3	4.5	4.3	0.2	-0.1
of which	Russia	5.4	8.3	5.0	3.9	4.3	4.0	0.2	-0.2
OPEC-Indonesia		0.4	4.0	3.5	0.9	4.6	2.9	-2.0	0.7
Latin America		0.9	3.6	1.5	-0.8	2.3	4.3	-1.8	-1.4
Africa		3.3	4.1	1.9	3.2	3.8	3.7	0.1	0.0
World		3.7	4.6	2.2	2.6	3.6	4.0	-0.3	-0.3
World excl. euro area		3.8	4.7	2.3	2.9	3.8	4.2	-0.2	-0.2
					World trade				
World import growth		7.1	12.8	-0.8	1.9	6.2	7.1	-1.3	-0.8
World import growth excl. euro area		7.1	13.3	-1.4	3.0	6.5	7.1	-0.9	-0.6
Extra euro area export market growth		11.4	11.7	0.5	3.0	6.3	6.6	-0.5	-0.2

(a) ASEAN4 : Indonesia, Malaysia, Philippines, Thailand.
(b) Acceding Countries.

macroeconomic policy the outlook for the Canadian economy is good, but much depends on the future path of the US economy.

Another fast growing industrialised economy is *Australia*, where growth is forecast to pick up to around 5% in 2002, supported by buoyant consumer spending, a recovery in business investment and the rebuilding of inventories. Growth would slow only moderately to 4 ¾% in 2003 and 3 ¾% in 2004.

Emerging markets: so far no contagion beyond Latin America

Among *emerging markets*, there is a wide divergence between the fortunes of the Latin American economy, which would shrink in 2002 and recover only modestly afterwards, and the others. The contagion emanating from Argentina remains so far restricted to Latin America.

The economies of *non-Japan Asia* have remained surprisingly buoyant, despite the volatility of equity markets, the slowdown in the US and in other export markets, and the problems emerging from Latin America. *China*, in particular, has shown considerable economic strength, due to public sector investment and export growth. *Korea* and *Malaysia* are also expected to show strong growth during the forecast period.

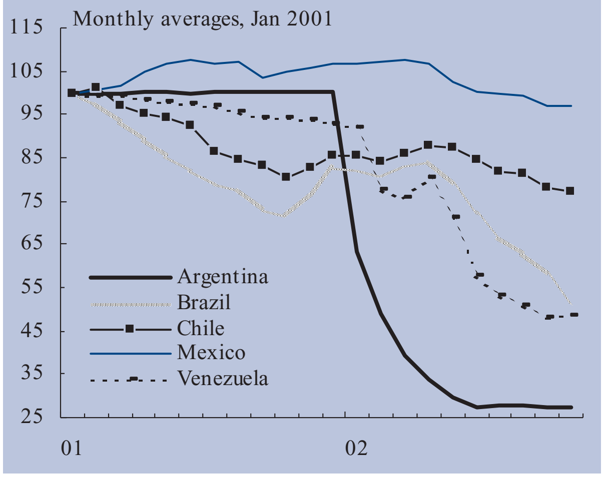
Growth in the *candidate countries* remains fairly robust, considering the weakness of growth in the EU, the main trading partner of these countries, and some exceptional domestic problems such as the floods in the Czech Republic. Domestic demand, rising exports to Russia and the former states of Yugoslavia, and significant FDI inflows have provided support to these economies and have off-set the decline in growth of exports resulting from the slowdown in the EU.

Given high projected oil prices, and continuation of structural reforms, *Russia*'s economy is expected to show growth of around 4% in 2003.

Argentinean crisis affects other Latin American economies more than initially anticipated

The protracted economic crisis in *Argentina* has spread to other countries in Latin America since last spring. The crisis has adversely affected the economy and the banking systems of *Uruguay* and *Paraguay* and, in combination with political factors, has produced serious financial turmoil in *Brazil*. Moreover, Latin America's economic outlook is negatively affected by the weakness of the international environment and by specific economic and political problems in certain countries (e.g. *Venezuela*).

Graph 1.8: **Latin American currencies in USD**



As a result, a decline in Latin America's GDP of about 1% is projected for 2002, the first negative number recorded by the region since the debt crisis of 1982-83. The region's GDP is expected to recover only moderately in 2003, partly reflecting the structural nature of the problems experienced by some countries. Growth would accelerate in 2004, supported by the recovery in the world economy and the positive impact on net exports of the improved competitiveness.

Mexico and *Chile* have shown impressive resilience to the Argentinean crisis, which reflects in the case of Mexico its increasing links with the US economy as well as, in both Mexico and Chile, prudent macroeconomic management. The Mexican recovery is being weak due to the lack of strength of the US economy.

Impact of Latin American crisis on EU economy limited

The share of Latin America in the international trade and financial links of the EU seems to be rather small, specifically when compared to the links with the countries that in 1997-1998 were most affected by the Asian crisis (Table 1.2). Only the share of foreign direct investment is high: one eighth of extra-EU outflows went to Latin America over the period 1992-2000.

The impact of Latin America depends, however, critically on the developments in the individual countries. The two biggest economies of the region, Brazil and Mexico, which together account for 57% of its GDP, are also the main counterparts of EU trade, investment and banking links. The exception is foreign direct investment, for which Argentina has been far more important than Mexico.

Table 1.2

Comparing EU links in trade and finance

(% of extra-EU)	Exports goods	Exports services	Int. bank claims	FDI position abroad
Asia 1996*	10.1	8.9	23.1	5.9
Latin America**	6.6	5.8	8.7	12.5
of which:				
Brazil	1.9	na	2.3	5.3
Mexico	1.5	na	3.3	0.9
Argentina	0.5	na	0.8	2.9
Colombia	0.2	na	0.3	0.7
Chile	0.4	na	0.9	0.8
Venezuela	0.4	na	0.4	0.6
Other	1.6	na	0.7	1.2

* Asia: 1997Q2 for bank claims. Asia is defined as the sum of Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand.

** 2001, except 2002Q2 for bank claims, 2000 for service exports. FDI position abroad approximated by sum of outflows over 1992-2000.

Source: Eurostat, except bank claims from BIS

The figures seem to suggest that, provided that the relative resilience of the economies of Brazil and Mexico continues, the EU would be shielded from most of the fall-out of the Latin American crisis, as a result of the small weight of the crisis-stricken economies (Argentina, Paraguay, Uruguay and Venezuela).

Finally, the limits of the approach of quantifying the international EU links should be clearly stressed. The effects of a crisis in specific emerging markets are not only dependent on the intensity of its links with the EU. The effects will crucially depend on the overall health of the EU economy, specifically the health of the corporate and financial sector, and the strength of domestic demand and external demand outside the crisis-stricken emerging markets.

Chapter 2

The economy of the euro area

1. Slow recovery in 2002

1.1. Growth acceleration delayed

The economic recovery in the euro area started in the first quarter of 2002 after last year's slight and short-lived contraction of GDP. However in the second quarter of 2002, the recovery did not gain momentum. The quarterly growth rate was +0.4% for each of the two first quarters of this year. After an initial boost, foreign demand brought little support to the recovery. Consumption was sluggish in the first half of this year. Inventories and investment posted their sixth negative quarterly change in a row.

Table 2.1

Composition of growth in 2001/02 - Euro area

(Seasonally and working day adjusted)	Quarterly % change			
	01Q3	01Q4	02Q1	02Q2
GDP	0.2	-0.3	0.4	0.4
Private consumption	0.2	0.0	-0.2	0.3
Government consumption	0.4	0.4	0.8	0.4
Gross fixed capital formation	-0.7	-0.8	-0.6	-0.7
Changes in inventories (% of GDP)	-0.3	-0.5	-0.3	-0.3
Export of goods and services	-0.2	-1.4	-0.2	1.8
Import of goods and services	-1.5	-1.5	-0.9	1.3
	% contribution			
	01Q3	01Q4	02Q1	02Q2
GDP	0.2	-0.3	0.4	0.4
Private consumption	0.1	0.0	-0.1	0.2
Government consumption	0.1	0.1	0.2	0.1
Gross fixed capital formation	-0.1	-0.2	-0.1	-0.1
Changes in inventories	-0.3	-0.2	0.2	0.1
Net exports	0.5	0.0	0.2	0.2

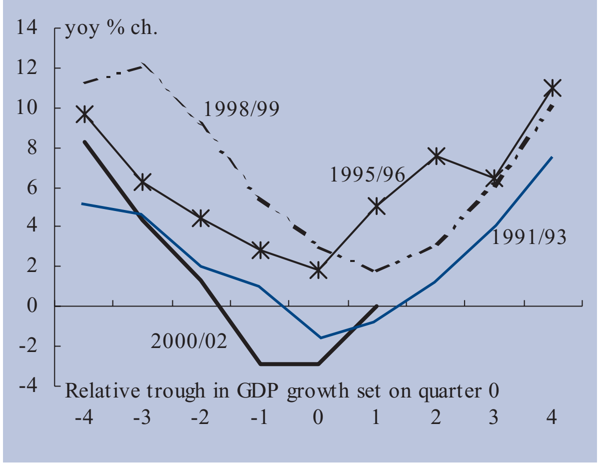
A tentative pick-up in exports

Growth was driven by net exports in the beginning of the first half of the year (each quarter 0.2% contribution to qoq change in GDP). In the first quarter, this was partly due to very weak imports, reflecting the poor state of domestic demand. In the second quarter, exports grew by 1.8%, after several quarters of contraction. However, the latest trade data at the world level (chart 1.4), point to some stabilisation.

Private consumption subdued by low confidence

Private consumption has remained sluggish for the four last quarters and even declined in the first quarter of 2002 by -0.2% on a quarterly basis. Stubborn inflation had eroded the purchasing power of households. Furthermore, inflation has been perceived by households as stronger than it actually was in the context of the changeover to the euro. Evidence can be found in consumer surveys which indicate that households had the feeling that inflation in the last 12 months went up whereas HICP actually decreased until August.

Graph 2.1: **Growth of exports in the euro area across cycles**



Consumer confidence failed to recover decisively and has hovered since the end of 2001 just above the long run average. Increasing uncertainties about labour market developments, stock markets and international relations have led to relative pessimism which accentuated the impact of dented real disposable income and shrinking financial wealth.

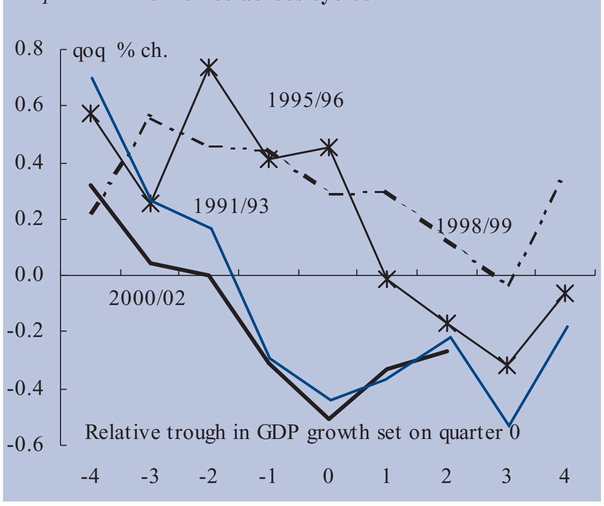
Contracting inventories

In the second quarter of 2002, stocks were depleted for the sixth quarter in a row. Inventories are reduced either if actual demand is stronger than previously expected or if firms anticipate a decline of future demand which cannot be accommodated by a reduction in production because it takes time to adjust production processes. In the 1995/96 or 1998/99 slowdowns, de-stocking started only after the trough because the upturn in consumption was stronger than anticipated. However, the pattern of inventories in the current cycle is similar to the 1991/93 recession. In this cycle, inventories have been depleted during the downturn before the trough, because firms have expected very low demand since the end of last year, and not because demand is stronger than previously expected. As in 1991/93, the pattern of inventories points to a shortage in final demand.

Investment on hold

Capital spending fell by about -0.7% in each of the last five quarters. Profit margins have been under pressure and profit expectations have been muted, but more fundamentally slack demand does not create incentives to initiate investments. Moreover, any pick up in demand would be met by an increased use of existing capacity. Capacity utilisation in the manufacturing industry stabilised in the third quarter of 2002 at 80.7 %, below the average level of the last ten years (at 81.8 %) but much above the trough of the 1993 recession.

Graph 2.2: **Inventories across cycles**



Generalised weakness across sectors

In the last four quarters, the economic slowdown was most noticeable in the industrial and retail sectors. The industrial sector was recovering from the contraction in the last quarter of 2001, but was losing steam over the summer. The situation in the construction sector worsened in the first half of 2002. The financial sector recovered in the second quarter of this year, but activity remains low.

Table 2.2.
Sectoral breakdown of growth in 2001/02 - Euro area

	Quarterly % change			
(Season. & working day adj.)	**01Q3**	**01Q4**	**02Q1**	**02Q2**
GDP	0.2	-0.3	0.4	0.4
Agriculture	1.5	-0.2	-0.5	0.3
Industry	0.0	-1.8	0.8	0.3
Construction	0.0	0.1	-0.7	-0.6
Wholesale and retail trade	0.2	0.0	0.4	0.5
Financial intermediation	0.5	0.3	0.2	0.6
Public administration and defence	0.3	0.4	0.5	0.5

1.2. Behind the lack of momentum

Two reasons can be given for the interruption of the recovery. First, the pick-up in the first quarter of 2002 could be seen as a false start in the light of historical experience suggesting that a slowdown lasts longer. Second, something went wrong in the transmission of the promising pick-up in exports to the other demand components probably due to increased uncertainty related to the collapse in stock markets and a war threat.

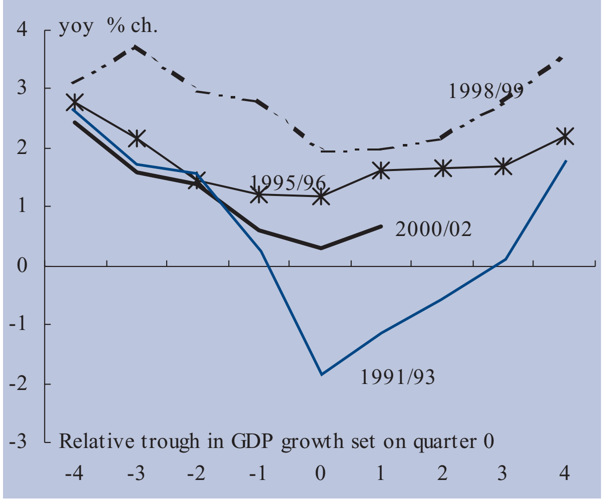
Frustrated expectations

The recovery started promisingly in the first quarter of this year with a boost coming from exports. This, together with the easing of international political tensions after the quick end to the hostilities in Afghanistan, bolstered confidence as reflected in survey sentiment indicators which are capturing expectations. As a consequence, growth was expected to accelerate and to be above potential by the end of the year.

The overall profile of the current recovery is in line with historical experience. It generally takes more than 3 or 4 quarters before imbalances between demand and supply are absorbed. The 2001 downturn was more pronounced than in 1995 or 1998, but milder than 1993.

Despite differences in level, the shape of a gradual recovery in the euro area is similar to past cyclical upturns. Contrary to widespread expectations two years ago, economic cycles exist. The brisk improvement in expectations after the 11th September was wrongfully interpreted as a turn in the cycle.

Graph 2.3: **GDP growth in the euro area across cycles**



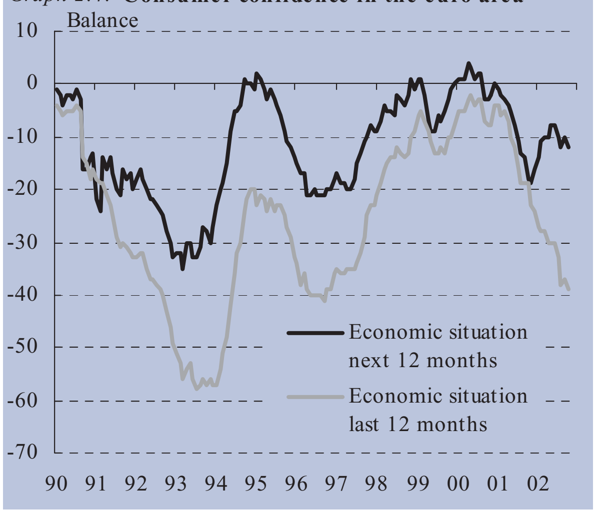
Growth subdued due to increased uncertainty

The economic policy boost in the US petered out and the pick-up in international trade was losing steam over the summer, but trade remained sustained. Apparently something went wrong in Europe with the transmission of the pick-up in foreign demand to domestic demand. The increase in exports, even if moderate, failed to stimulate private consumption and investment, despite a turn of expectations for the better. Underlying economic conditions were also conducive to an acceleration of growth. As far as private consumption is concerned, employment held up quite well during the slowdown and there was still some real income growth. Monetary policy has been eased and this should have stabilised investment, instead of the deterioration which was observed.

Increased uncertainty, stemming from volatility in stock markets and a war threat on Iraq, seems to be responsible for the failed transmission. The gap between household expectations about future developments and the assessment of current economic circumstances widened until mid-2002, increasing the risk that expectations were unrealistic. Eventually, the gap may narrow by an adjustment of expectations and not by an improvement of the economy.

Similarly in the corporate sector, uncertainty led to increased risk aversion and investments were reconsidered. Corporate bond spreads over long-term government yields increased reflecting a risk premium lenders asked and financing conditions became more severe than at first sight suggested by the low interest rates.

Graph 2.4: **Consumer confidence in the euro area**



Box 2.1: **External assumptions and budgetary conventions**

Exchange rates

Constant nominal exchange rate in the ERM2 (DKK/EUR rates) and constant real rates (nominal rates adjusted for changes in GDP deflators) for Sweden, the UK and non-EU currencies are assumed. The period considered for the stability assumption is the fourth quarter of 2002, with historical values up to 4 November and the average of the two weeks period between 21 October and 4 November used for the remainder of the quarter. The average USD/EUR rate for that period was 0.98 and the JPY/EUR rate 121.4. This leads to average USD/EUR rates of 0.94 in 2002, 0.98 in 2003 and 2004 and JPY/EUR rates of 118.6, 118.5 and 115.4 respectively.

Interest rates

Short-term interest rates are set in order to reflect the objective of monetary policy with respect to price stability. 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, where initial conditions receive relatively more weight. Prices for Brent oil are forecast at 25.5 USD/bl on average in 2002, 24.1 USD/bl in 2003 and 22.5 USD/bl in 2004.

Prices of non-fuel commodities are thought to have bottomed out and are expected to increase as economic activity in the world picks up. Prices of primary commodities, excluding fuels, are assumed to increase by 0.3 % in 2002, 4.3 % in 2003 and to rise by a further 4.5% in 2004. Prices of metals, food and raw materials are all expected to firm during the forecast horizon as demand picks up in line with global economic recovery.

Budgetary data

Estimates for 2001 are based on the Excessive Deficit Procedure notification, submitted by the Member States in September 2002. Eurostat reported on 30 September (press release 116/2002) that it could not certify figures for Greece, as some information was still pending or incomplete. Since then, the outstanding accounting issues have been settled by Eurostat, in co-operation with the Greek authorities, and Greece has submitted a revised reporting at the beginning of November 2002. The Commission forecasts already take into account these revised data.

For 2002, information on the execution of the budgets is taken into account. For 2003 budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2004, the “no-policy change” assumption used in the forecasts implies that presently known measures (if not one-offs) and trends are extrapolated.

The government balances reported in the notification may be different from those in a national accounts context, following an amendment to ESA95. Regulation (EC) N° 2558/2001 on the reclassification of settlements under swaps agreements and forward rate agreements implies there are two relevant definitions of government deficit/surplus. According to this Regulation, interest flows under swaps have been reclassified from income property to financial account, while stating the need for a specific treatment of these flows for data transmitted under the Excessive deficit Procedure. Therefore, according to ESA95, swap settlements are excluded from the calculation of general government balances, while for the purposes of the Excessive Deficit Procedure and the Stability and Growth Pact balances do include swaps.

Calendar effects on GDP growth and output gaps

Year 2004 is a leap year. The mere addition of one extra working day implies that output increases, other things being equal, by about 0.4 of a percentage point. Annual GDP figures are not adjusted for the number of working days, while quarterly national accounts figures of most countries are adjusted for the number of working days in each quarter. This implies that the simple addition of the four quarters of a single year may not add up to the annual figure. Moreover, the calculation of potential GDP from which the output gap is derived does not make any adjustment on the basis of the number of working days in the leap year because this is considered as a temporary shock and should not affect the cyclically adjusted balances, which are calculated using these output gaps. Hence, for 2004 the apparent declining output gap is to a certain extent due to this calendar phenomenon.

2. A gradual growth acceleration

2.1. Potential growth at the end of 2003

Slow growth in the second half of 2002

Following last year's small contraction of GDP in the fourth quarter, most indicators improved in the first half of 2002, slightly eased in the Summer and did not significantly improve afterwards. This suggests that the recovery is on hold.

Industrial production in the euro area grew moderately in August, but remained below its level one year ago. A slightly more positive reading is suggested by retail data which slightly expanded in July, after a significant contraction in the second quarter of 2002.

GDP is expected to grow by 0.8% in 2002, of which net exports (due to weak imports) contribute one half. Private consumption growth falls below 1 % and investment contracts.

Growth accelerating in 2003 and stabilising in 2004

Driven by consumption, growth is expected to rise gradually in the course of 2003 and is forecast to reach an average growth rate of 2%. The output gap on a quarterly basis would be closed at the end of 2003. Private consumption growth is close to 2 % and after two years of contraction, investment is expanding again. With a substantial carry-over from 2003, the growth rate for 2004 should reach 2¾%.

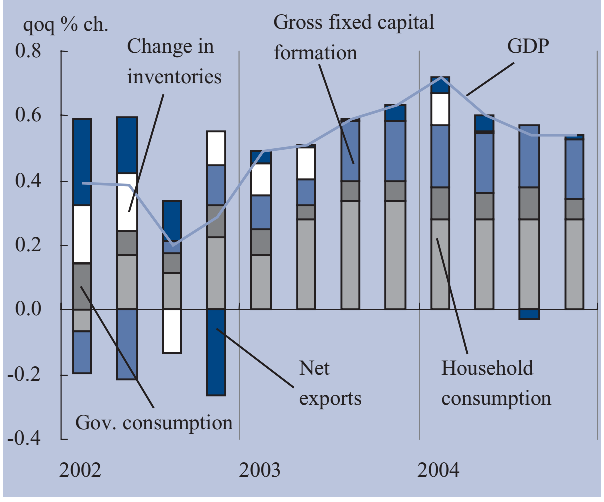
Table 2.3

Composition of growth - euro area

(Real annual percentage change) **Autumn 2002**

	2001		1997	1998	1999	2000	2001	2002	2003	2004
	bn Euro curr. prices	% GDP	Real percentage change							
Private consumption	3919.2	57.4	1.6	3.1	3.5	2.5	1.8	0.6	1.7	2.3
Government consumption	1362.8	20.0	1.3	1.4	1.8	2.1	2.0	2.0	1.4	1.6
Gross fixed capital formation	1436.1	21.0	2.5	5.3	6.0	4.9	-0.3	-1.9	2.0	4.0
- of which : equipment	560.2	8.2	5.4	9.7	8.5	8.8	-1.1	-4.1	2.6	6.1
- of which : construction	724.3	10.6	-0.4	1.8	4.1	2.6	-0.4	-0.7	1.3	2.1
Change in stocks as % of GDP	-6.9	-0.1	0.1	0.5	0.2	0.2	-0.2	-0.1	0.1	0.2
Exports of goods and services	2550.3	37.4	10.5	7.3	5.2	12.6	2.7	0.6	5.0	6.9
Final demand	9261.5	135.7	3.8	4.5	3.9	5.4	1.4	0.4	2.8	3.8
Imports of goods and services	2437.1	35.7	9.1	10.0	7.4	11.3	1.4	-0.7	5.6	7.0
GDP	6824.4	100.0	2.3	2.9	2.8	3.5	1.5	0.8	1.8	2.6
p.m. GDP EU-15	8882.0		2.5	2.9	2.8	3.4	1.5	1.0	2.0	2.6
			Contribution to change in GDP							
Consumption			1.3	2.1	2.4	1.9	1.4	0.7	1.3	1.6
Investment			0.6	1.1	1.3	1.1	0.0	-0.4	0.4	0.8
Inventories			0.1	0.4	-0.2	0.0	-0.4	0.0	0.2	0.1
Exports			3.1	2.4	1.7	4.3	1.0	0.2	1.9	2.7
Final demand			5.1	6.0	5.2	7.2	2.0	0.6	3.8	5.2
Imports (minus)			-2.6	-3.0	-2.4	-3.7	-0.5	0.2	-2.0	-2.6
Net exports			0.5	-0.7	-0.6	0.6	0.5	0.5	-0.1	0.1

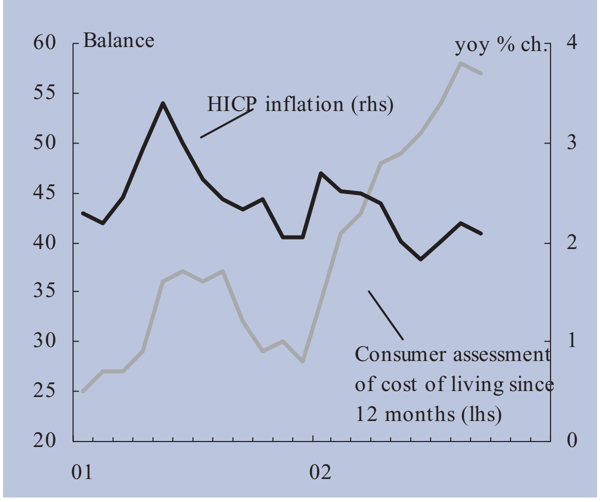
Graph 2.5: **Quarterly profiles of GDP components**



fast in the forecast horizon are expected to result in higher real wages thanks to a deceleration in inflation; moreover, the gap between perceived inflation and actual inflation that might have weighed on consumption in 2002 is expected to narrow as households will be better aware of the new prices in euro;

- Household income is expected to be further supported by an increase in employment;
- After 8 quarters in a row of weak consumption, there may be some pent-up demand which is released when conditions improve;
- Consumer confidence which remained around the long-term average should improve and the savings rate which increased significantly in 2002 to more than 15 % of disposable income is expected to decline.

Graph 2.6 : **Consumer assessment of inflation**



Private consumption holds the key

After two years of subdued growth, euro area *exports* are expected to increase at about 5% in 2003 and continue to expand in line with the improved international environment. The euro area will lose some market share as emerging markets increasingly participate in the global economy, but also as a result of the strengthening of the euro.

Consumption was sluggish even before the trough, compared to other cycles in the nineties. However, most effects that contributed to inhibit consumption in 2001/02 are expected to unwind at the beginning of 2003:

- Nominal wages, though increasing somewhat less

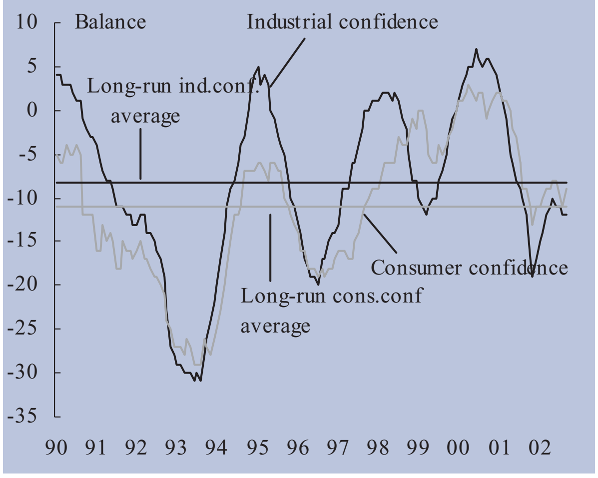
Table 2.4

Determinants of private consumption expenditure - euro area

(Annual percentage change)				Autumn 2002			Difference with Spring 2002 (a)	
	1999	2000	2001	2002	2003	2004	2002	2003
Real private consumption expenditure	3.5	2.5	1.8	0.6	1.7	2.3	-0.6	-0.8
Compensation per employee	2.3	2.8	2.8	2.9	2.8	2.9	0.0	-0.2
Real compensation per employee	1.2	0.6	0.4	0.8	0.8	1.1	0.0	-0.3
Employment	1.8	2.1	1.4	0.4	0.4	1.0	0.1	-0.7
Real gross disposable income	1.8	2.0	2.4	1.2	1.6	2.1	-0.3	-0.6
Saving rate of households (b)	14.8	14.4	14.9	15.4	15.3	15.2	0.3	0.5

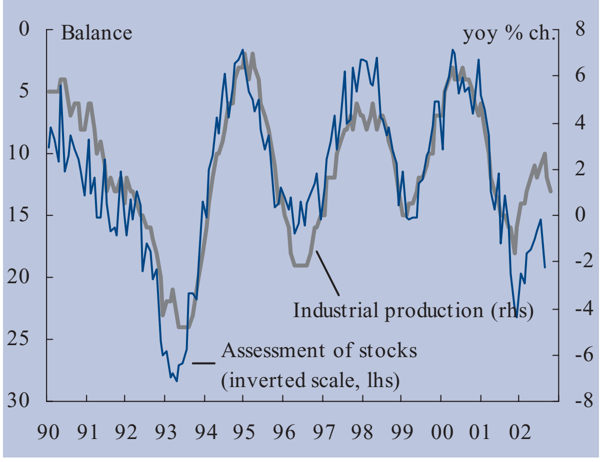
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2002.
(b) As a percentage of gross disposable income.

Graph 2.7: **Industrial and consumer confidence in the euro area**



Weak expectations of a recovery should contribute to further deplete *inventories*, like after the 1993 trough, and lead to a low level of stocks at the end of 2002. With the strengthening final demand, firms are expected to adjust their inventory levels and a significant upward effect on industrial production should stem from stock rebuilding.

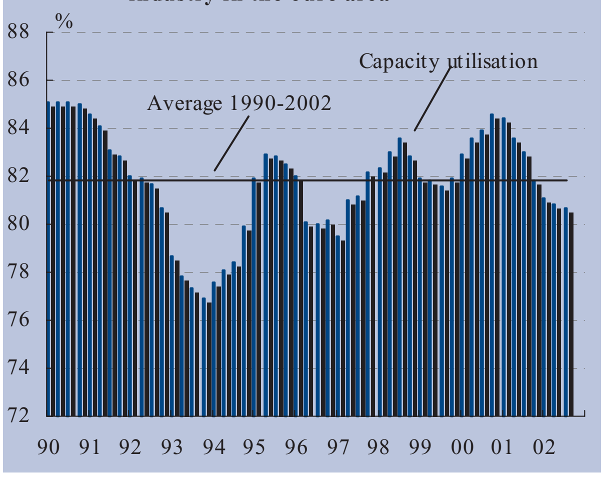
Graph 2.8: **Stockbuilding and industrial production in the euro area**



Capacity utilisation at this moment is fairly close to its long-term average in contrast to the 1993 recession. This would suggest that the remaining capital overhang could be eliminated when production picks up leading to a quick recovery of *investment* after the sharp contraction in 2002 (-1.8 %). However, total investment is expected to grow moderately at 2.3 % in 2003 and 4.1 % in 2004 hampered by pressures on both the cost of capital and return on capital.

The decline in real benchmark interest rates has not translated into a lower cost of capital for many firms. Underlying factors are: the rise in corporate bond spreads over government yields, a hike in bank lending rates and possibly tighter bank lending. Furthermore, stock markets fell steeply so that raising equity capital became more expensive.

Graph 2.9: **Capacity utilisation in manufacturing industry in the euro area**



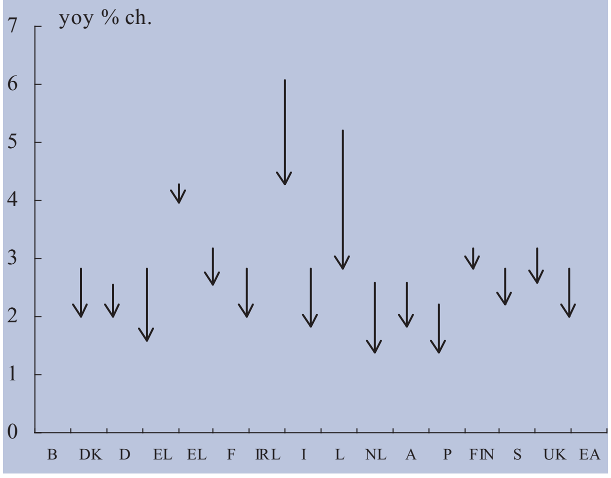
With respect to the return on capital, profitability has deteriorated as producer prices are subdued and unit labour costs have been rising because of declining growth is labour productivity. The recent oil price jump added to this upward pressure on costs.

2.2. Larger downward revisions in Member States with budget problems

The growth take off has been postponed in the euro area, which has affected euro area countries differently. Member States with sound public finances can let the automatic stabilisers operate more freely to reinforce domestic demand and resist better the slowdown. Countries with already relatively large deficits saw a further deterioration in their fiscal situation in 2002, but, nevertheless, have been subject to more pronounced forecast revisions on real growth.

In Germany, Portugal, Netherlands, and Italy slow growth continues in 2003. Both the German and Italian economy suffer from faltering domestic demand, and growth is upheld by net exports, while keeping government finances under control is difficult. The Portuguese economy faces structural imbalances, and the reduction of the government deficit to below 3% is felt. The economic performance in the Netherlands is affected by low productivity gains and relatively high wage increases, which continues to lower competitiveness.

Graph 2.10 : **Growth revisions for 2003 from the Commission Spring to the Autumn Forecast**



Growth is also low in Austria, Belgium, France and Luxembourg. The widening of the deficit in Austria during 2002 and the heavy debt of Belgium prevent these countries making full use of the automatic stabilisers. In France, public finances are further deteriorating in 2003 stimulating domestic demand, but nevertheless, growth remains disappointing. Finland, on the other hand, has a budget surplus and could use the automatic stabilisers so that growth is stronger despite the impact of the decline in stock markets and production in the ICT sector.

Among the countries that have better resisted the slowdown, Spain, Ireland and Greece, the acceleration in the recovery is also postponed. Spain is expected to realise a growth rate of 2.6% in 2003, while the other three show growth rates of around 3%, or above. In Ireland, growth remains the second highest in the EU after Greece, but it should be noted that the Irish government surplus completely dwindled and became a deficit far from balance.

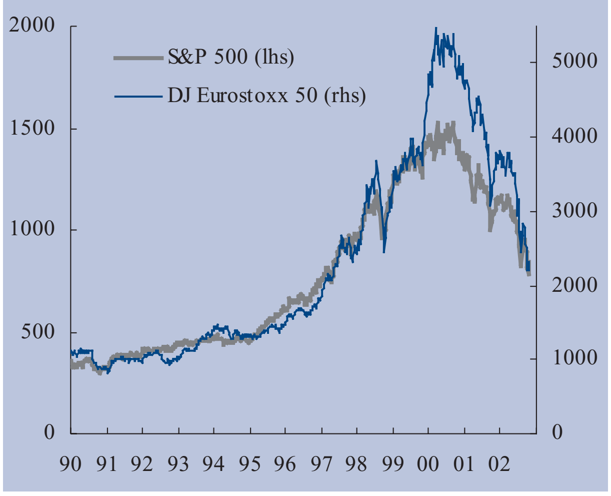
The countries outside the euro area are performing better than the euro area average. Private consumption is holding up well in the UK, partly due to rises in housing prices, offsetting falls in equity wealth, though this is partly offset by a contraction in fixed investment. The Danish economy has already seen a small recovery in 2002, with a shift from investment to consumption driven growth. The Swedish economy is still weak due to the slump in the ICT sector, but as public finances firmly are in surplus, there has been room for fiscal expansion, which also happened to a smaller degree in Denmark.

2.3. Issues at the present juncture

The collapse in stock markets

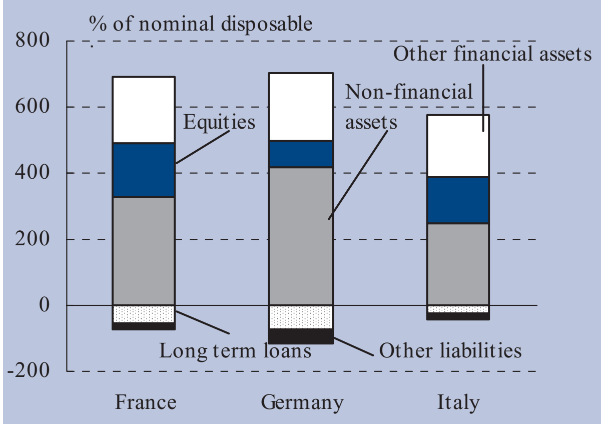
Since the beginning of this year stock markets lost about 40 % of their value in Europe and volatility was very high adding to the uncertainty. While difficult to quantify, this has effects on the economy. It is estimated that a 20 % correction in stock markets could shave 0.4 percentage point of euro area GDP growth after one year. This impact is based on a permanent change in equity prices, the persistence of the negative confidence effects and no policy response.

Graph 2.11: **Euro area and US stock markets**



Furthermore, equity is not the only asset of households, whose balance sheet has four main components. On the asset side there are (i) equities, (ii) other securities (mainly fixed-income), and (iii) real estate; (iv) mortgage loans are the most important liability. In the euro area, the share of equities in total wealth is smaller than the share in other securities and also smaller than the share in real estate.

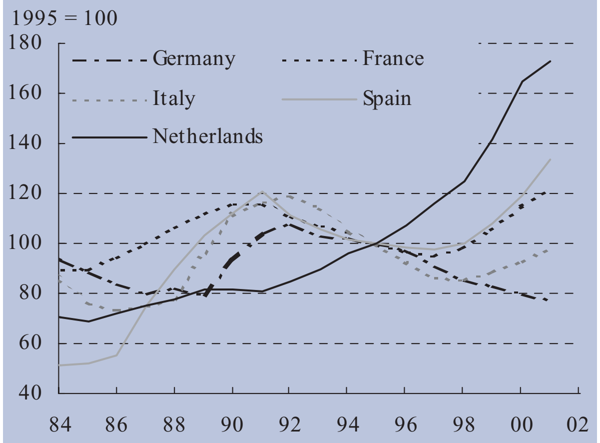
Graph 2.12: **Household wealth in 2000**



Source: OECD Economic Outlook

While the fall in stock markets prices since 2001 has shrunk at least by half household financial wealth in equities, other components of household wealth have been notably resilient in the downturn. This is mostly due to the fall in real interest rates down to historical lows. The decline in long interest rates increased the market value of bond holdings and mortgages can be refinanced at more attractive interest rates in the EU. It increased also the value of household wealth through the acquisition of more expensive property with the same instalments. Finally, real estate prices have generally increased in spite of the slowdown, but are they sustainable ?

Graph 2.13: **Annual inflation-adjusted house prices**



Source: Bank for International Settlements (using nat. data)

The rise in house prices

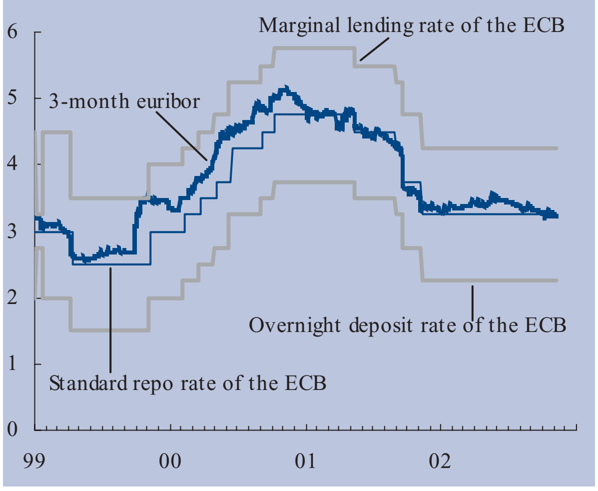
Real estate prices have been increasing since the second half of the nineties in some major euro area countries following the elimination of the overhang of the late eighties/early nineties. House prices have risen continuously in the Netherlands. The major exception to this trend of increasing prices is Germany, where house prices have been declining since the construction boom related to re-unification in 1990.

While a bubble with an inevitable burst cannot be ruled out, compared to the late eighties, the situation seems more stable. First, nominal housing prices have hardly exceeded the levels reached in the early 90s in most euro area countries. Second, the outburst of the real estate bubble in 1991 spread from commercial real estate to the whole housing market, fuelled by rising prices rather than scarcity of capacity. Nominal commercial property prices are below the early 90s level and the development of this type of speculative activity seems less likely.

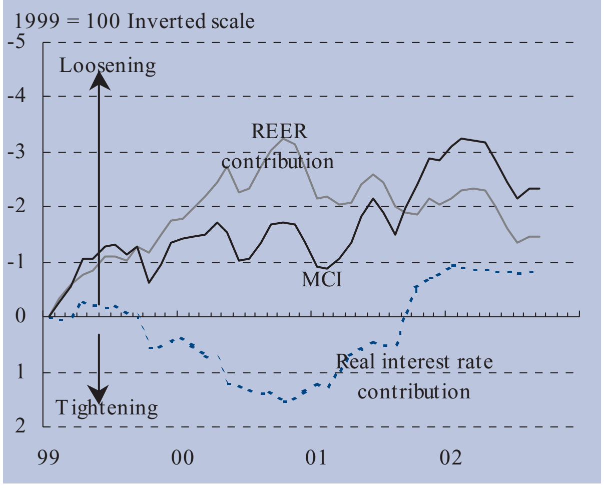
Favourable monetary conditions, but uncertainty prevents to take full advantage

Following the latest interest rate cut of the ECB in November 2001, interest rate levels are conducive to growth. Interest rates, both short and long, increased somewhat in the beginning of this year as an inflation risk premium developed, given the sudden spike in inflation at that moment. Subsequently, interest rates dropped and are historically low.

Graph 2.14 : **Short-term interest rates in the euro area**

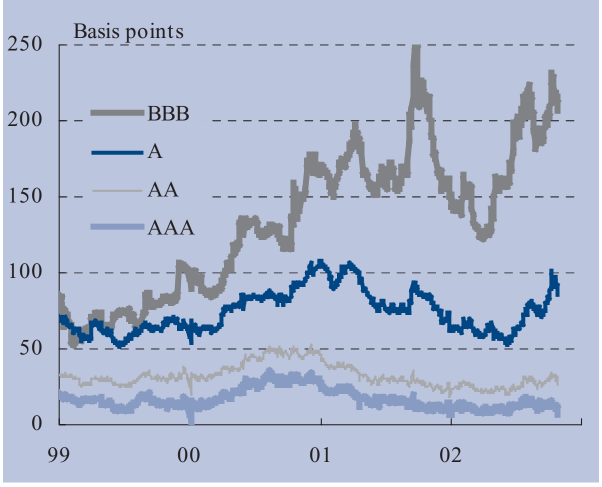


Graph 2.15: **Monetary conditions in the euro area**



However, the appreciation of the euro and the widening of corporate interest rates spreads have mitigated the loosening of monetary conditions since the second quarter of 2002, shedding another light on the low level of actual interest rates. The euro exchange rate against the US dollar rose steeply in the second quarter and seems to have stabilised since the third quarter around parity. The nominal effective exchange rate of the euro has appreciated by about 10% since the end of 2000, its low point. A stronger euro is nevertheless welcome, as it will contribute to curb inflation in the euro area. It should not hamper the recovery to the extent that it corrected earlier weakness in the exchange rate and it contributes to the shift from external demand to domestic demand.

Graph 2.16 : **Corporate bond spreads in the euro area**

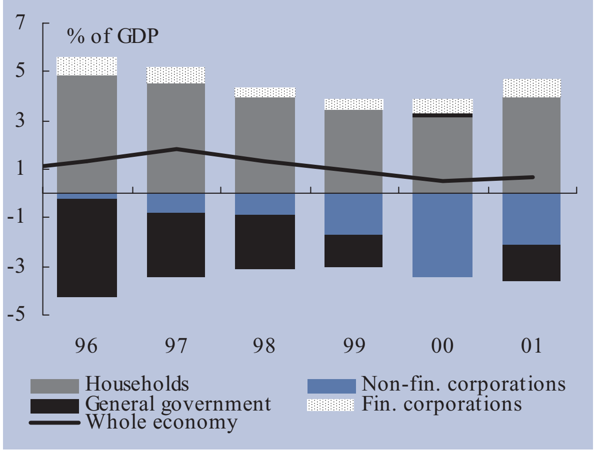


Of more concern is the development of a risk premium which makes borrowing more expensive than what the favourable monetary stance suggests. Evidence for this can be found in the widening of BBB bond spreads over government yields in the wake of the Enron crisis which affected also EU companies. Worries about potential accounting fraud which prevents as the assessment of the true state of balance sheets and general economic uncertainty increased risk aversion, requiring a compensation in the form of a risk premium.

Net borrowing and financing of corporations during the downturn.

Over the period 1996-2001 total saving and investment in the euro area as a share of GDP remained broadly stable. Gross saving (including net capital transfers) averaged about 22% of GDP and gross capital formation (including net acquisition of valuables) averaged about 20-21% of GDP. As a result, the net lending position of the whole economy as measured by the difference between saving and investment in the capital account, moved in the range between 0.5% and 2% of GDP.

Graph 2.17: **Net lending / net borrowing of sectors in the euro area**



At the sectoral level, however, there has been an important change with a shift between government and private net lending positions. Over the last five years, the net borrowing of the government sector declined, such that in 1999 the non-financial corporate sector became the largest sectoral net borrower in the euro area. However, general government has remained a net borrower in the economy, the only exception being the small net lending position recorded in 2000 partly due to the windfall revenues from UMTS.

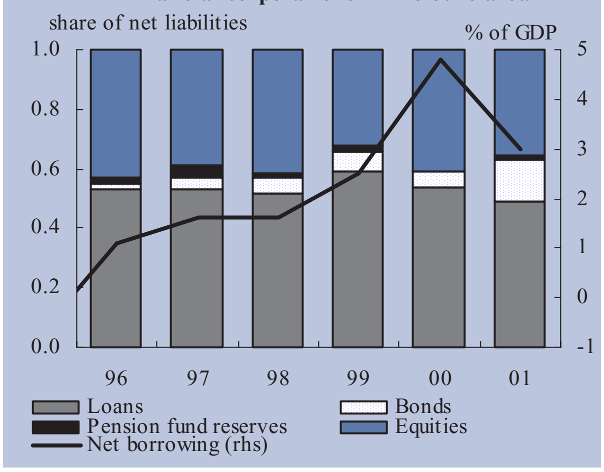
Borrowing by non-financial corporations widened from 0.2% of GDP in 1996 to 3.4% in 2000, and narrowed again to 2.1% in 2001. The greater deterioration in 2000 reflects the one-off investment expenditure in UMTS licenses. The rise in borrowing needs by corporations should not be problematic in the context of the favourable investment conditions that prevailed between 1996 and 2000, supported by the decline of interest rates as inflation and government finances improved, increasing profitability, and the relatively strong economic growth. From a balance sheet perspective, it is reassuring to note that the worsening of the economic climate led to an improvement in the corporate net-borrowing positions between 2000 and 2001, but corporate borrowing is today bigger than five years ago.

Corporate borrowing can be measured also from the financial account as it is the difference between net acquisition of financial assets and net incurrence of liabilities. The balancing items in the capital and financial accounts should correspond except for differences in statistical sources. The financial account confirms that euro area corporations increased borrowing significantly and that, despite the improvement in 2001, total indebtedness rose substantially, from 4.9% of GDP in 1996 to 10.5% in 2001. This makes more difficult to finance capital spending and may delay the rebound of investments.

Looking at the structure of financing, loans account for more than 50% of total net liabilities. The relative share of bank loans and equity as a source of finance has declined since 2000, while the issuance of securities gained in importance during the downturn. It reflects the difficulty to raise capital on the stock market and a more cautious stance of banks to grant credit, which is not marketable. In these conditions the issuance of bonds increased in importance.

Overall, the change in the pattern of financing corporate borrowing needs during the slowdown suggests a deterioration of balance sheets with increased concerns for riskier debt instruments on the part of potential suppliers of capital.

Graph 2.18: **Net borrowing and financing of non-financial corporations in the euro area**



3. Resilient labour market

3.1. Continued job creation despite slow growth

Employment reacts with a lag to the downswing

After several years of strong improvements (10 million jobs were created between 1996 and 2001), employment growth started decelerating in the second half of 2001 following with some lag, the continued weakening of economic activity. The annual growth rate of employment came down to 1.1% in the third quarter of 2001 compared to 2.1% in the same quarter of 2000 and continued to decelerate in the first half of this year to stand at 0.5% in the second quarter of 2002. However, employment growth has remained positive.

In 2002 employment growth is estimated to be limited to 0.4% in the euro area. In absolute terms, this translates into 0.5 millions new jobs only, significantly less than in recent years. Employment developments are expected to differ across Member States. A pace of net job creation above the euro area average is anticipated for Luxembourg (2.8%), Spain and Ireland (1.3%), Italy (1.0%), Portugal and the UK (0.7%), France (0.6%), while employment is forecast to be stagnant in Belgium, Denmark, Austria and Sweden and to contract in Germany (-0.5%).

The projected increase in employment in 2003 is 0.4%, the same as in the previous year. More positive developments are envisaged for Spain (1.8%), Ireland (1.4%), Luxembourg (1.2%), and to a lesser extent also for Greece (0.8%), the UK (0.7%) and Belgium (0.6%). Employment is estimated to remain unchanged in Germany, Finland and Sweden, to growth below the euro area average in Portugal (0.2%) and Denmark (0.3%) and to decline in the Netherlands (-0.5%).

Employment is forecast to pick-up by 1.0% in 2004 thanks to the rebound of economic activity. Among the larger Member States, the strongest employment gain is estimated for Spain (2.3%) with France (1.2%) and Italy (1.0%) maintaining about the euro area pace of growth while Germany (0.5%) is lagging behind.

In absolute terms, it is estimated that in 2004 net job creation in the euro area will amount to about 1.3 million which is less than in recent years but more than in the two previous years taken together. As working-age population is expected to post only marginal increases, the overall employment rate is forecast to rise moderately from 61.3% in 2002 to 61.9% in 2004.

Table 2.5

Sectoral employment growth in the euro area

(Annual percentage change seasonally adjusted)

	99	00	01	01Q3	01Q4	02Q1	02Q2
Whole economy	1.8	2.1	1.4	1.1	0.8	0.7	0.5
Agriculture	-2.7	-1.6	-0.8	-1.2	-1.5	-2.3	-2.0
Industry	0.3	0.8	0.4	0.1	-0.5	-0.9	-1.0
Services	2.7	2.9	1.9	1.7	1.5	1.5	1.3

The slowdown of employment growth during 2001 and 2002 applies to all sectors but was more pronounced in agriculture and manufacturing. Employment in agriculture continued to decline both for structural reasons and because the sector is still suffering from the loss of consumer confidence following recent food crisis. Employment in industry reversed its positive pattern in the second quarter of 2001 and decelerated rapidly in the following quarters as industrial production was severely hit by the economic downturn.

The service sector proved to be the most dynamic sector for employment during the economic downturn. Employment continued to rise even though the annual growth rate has been falling continuously since the beginning of 2001 to stand at 1.3% in the second quarter of 2002 compared to an average growth rate of 2.9% in 2000 and 1.9% in 2001. Within services, the deceleration of employment growth in "trade and

Table 2.6

Labour market outlook - euro area

(Annual percentage change)				Autumn 2002			Difference with Spring 2002	
	1991-95	1996-00	2001	2002	2003	2004	2002	2003
Population in working age (15-64)	0.4	0.2	0.4	0.3	0.3	0.2	0.1	0.1
Labour force	0.4	1.0	1.0	0.8	0.6	0.7	0.2	-0.1
Employment	-0.2	1.4	1.4	0.4	0.4	1.0	0.1	-0.7
Employment (change in million)	-2.8	8.1	1.8	0.5	0.5	1.3	0.1	-0.9
Unemployment (levels in millions)	12.5	13.3	11.0	11.5	11.7	11.3	-0.2	0.4
Unemployment rate (% of labour force)	9.4	9.9	8.0	8.2	8.3	8.0	-0.3	0.2
Labour productivity, whole economy	1.7	1.2	0.1	0.4	1.4	1.6	-0.7	-0.4
Employment rate (a)	58.5	59.1	61.2	61.3	61.4	61.9	-0.5	-0.9
p.m. Employment EU-15	-0.4	1.4	1.2	0.4	0.4	0.9	0.1	-0.6

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

transport" and "finance and business" since the autumn of 2001 was exacerbated by the negative employment impact on aviation and stock markets following the terrorist attack in the US.

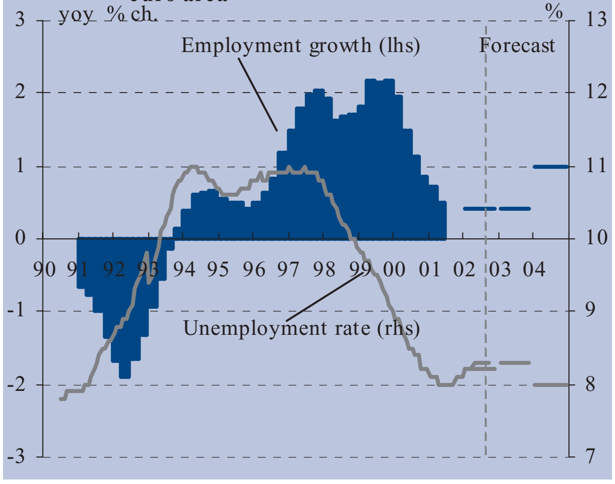
Limited increase in unemployment

A consequence of the small albeit positive pace of employment growth, particularly this year and the next, is the limited deterioration of the unemployment rate. The harmonised unemployment rate, which has been falling since the spring of 1997, has not risen significantly in reaction to the marked economic downturn. Only a minor increase of 0.3 pp was registered over the last twelve months, from 8.0% in September 2001 to 8.3% in September 2002. For the year 2002 as a whole, the number of unemployed is estimated at 8.2% of the labour force, compared to 8.0% in 2001, and to increase marginally to 8.3% in 2003. The slowdown of labour supply growth from 1.0% in 2001 to 0.6% in 2003 contributes to limit the deterioration of the unemployment rate this year and the next. In 2004, on the back of stronger activity, the unemployment rate is forecast to decline to reach an annual average of 8.0%. Unemployment rates are expected to remain quite dispersed in Member States and above the euro area average in Greece, Spain, France, Italy and Finland.

3.2. Employment performance has been supported by structural reforms

Over the period 1996-2001 the euro area labour market performed extremely well. Employment grew at the respectable pace of 1.4% on average each year, significantly higher than the rate of growth of the population in working age. As a result, the employment rate rose to 61.2% in 2001 making further progress towards reaching the intermediate Lisbon target of 67% in 2005. About 10 millions new jobs were created between 1996 and 2001 while the number of people without a job declined by 3.2 million. As a result the unemployment rate fell from 10.8% to 8.0%.

Graph 2.19: **Employment and unemployment in the euro area**



Flexible labour contractual arrangements, reduction of the tax burden on labour income, promotion of active labour market policies and reform of the tax-benefit system have paved the way for a decline of structural unemployment in the euro area. Moreover, social partners have pursued more employment-friendly wage arrangements which contributed to the improved job-performance. The EMU provided a macro-economic framework within which the benefits of nominal wage restraints are more visible.

The NAIRU (Non-Accelerating Inflation Rate of

Unemployment) came down from 9.8% in 1996 to 8.7% in 2001 which means that structural factors contributed to the improvement in actual unemployment over the last five years. Thanks to labour market reforms the employment content of growth increased over the past few years. That is, a larger share of growth is translated into employment creation.

Over the forecasting horizon, the structural component of the unemployment is projected to decline further to 8.1% in 2004 thanks to continued wage moderation. It helps explain the limited increase in unemployment.

Table 2.7

Actual unemployment rate and Nairu - Euro area

(% of labour force)	1996	2000	2001	2002	2003	2004
Unemployment rate	10.8	8.5	8.0	8.2	8.3	8.0
NAIRU	9.8	9.1	8.7	8.6	8.4	8.1

NAIRU: Non-Accelerating Inflation Rate of Unemployment

3.3. Labour market rigidities remain

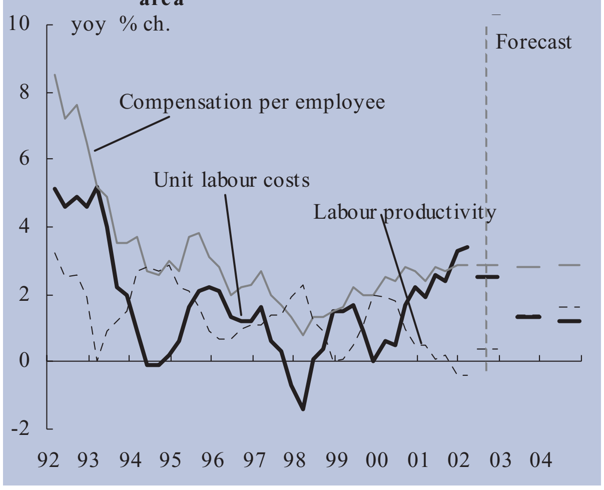
Despite the progress made in recent years, structural unemployment remains very high in the euro area which means that employment and labour market participation do not fluctuate much over the business cycle. Additional evidence of the relative rigidity of the labour market in the euro area is provided by the high share of long-term unemployment which still accounts for approximately 50% of total unemployment.

The remarkable resilience of the euro area labour market helped avoiding a greater deterioration of overall consumer confidence and household spending.

The other side of the coin is that labour productivity experienced a sharp deceleration since mid-2000 and in the last quarter of 2001 even declined in absolute terms as employment continued to rise despite the marked deceleration of economic activity. Annual growth in output per worker averaged to only 0.2% in 2001 in the euro area, down from 1.4% in 2000 and is forecast to be only 0.4% in 2002. Growth in GDP per occupied person is estimated to resume again in 2003 at 1.4% and to post a marginal increase the following year to reach 1.6%. While a decline in labour productivity is normal during downturns, this time the slowdown is significant.

Compensation per head stabilised at 2.9% in 2000 and 2001 and is estimated to grow at about the same annual pace over the forecasting horizon. As a result, unit labour costs accelerated by 2.8% in 2001, the highest increase since 1993 and markedly above the average growth rate of the last five years. In 2002, unit labour costs are estimated to rise by a further 2.5% before coming down to a more normal pattern in the following two years. The strong increase in unit labour costs over the last two years left little room for an improvement of corporate profit margins and weighs on the rebound of business investment.

Graph 2.20: **Labour costs and productivity in the euro area**



4. Inflation prospects improve

4.1. Inflation outlook

Inflation expected to fall below 2% in the first half of 2003

The upward pressure coming from higher food prices at the beginning of the year, the upsurge of oil prices since the second quarter of 2002 related to geopolitical tensions outside the euro area and the persistent stickiness of core inflation, translate into an estimated HICP inflation rate (Harmonized Index of Consumer Prices) of 2.3% in 2002. This inflation rate is higher than that forecast by the Commission in Spring and above the ECB' medium term objective of price stability.

Barring additional tensions in the Middle East and, therefore, on oil, annual inflation is forecast to fall to 2.1% in the first quarter of 2003. Also core inflation (HICP inflation excluding the volatile energy and unprocessed food component) is forecast to resume a downward trend at the beginning of next year. Over the forecasting period, the average inflation rate is projected at 2.0% on average in 2003 and to slow down further to 1.8% in the following year.

Cyclical and structural factors should dampen inflation

Several short-term elements point to lower price inflation: the unwinding of past increases in energy and food prices, low pressure from producer prices, subdued inflation expectations, favourable effects from the recent appreciation of the euro.

Looking at the major determinants of inflation in the medium-term, the deceleration of HICP inflation over the forecasting horizon is supported by the pick up of labour productivity which, contingent to an appropriate wage behaviour, will dampen the rise of unit labour costs and contribute to reduce overall inflation. Increased competition among firms accompanied by low pressure from the demand side and continuous deregulation in the service sector stemming from implementing further EU legislation are also expected to have a dis-inflationary impact.

Inflation differentials remain wide

Inflation rates among euro area participants remain however quite dispersed. In 2002 the lowest inflation rate is forecast for Germany (1.4%) but HICP inflation is estimated to fall below the 2.0% ceiling also in Belgium (1.6%), France, Austria, Finland and Luxembourg (1.9%). By contrast, the highest price increases are anticipated for Ireland (4.8%), the Netherlands (3.9%), Greece (3.8%), Spain (3.6%) and Portugal (3.5%). In 2003, the inflation rate is forecast to decline in all Member States except for Germany (1.5%) with Belgium (1.4%) and Ireland (3.8%) at the

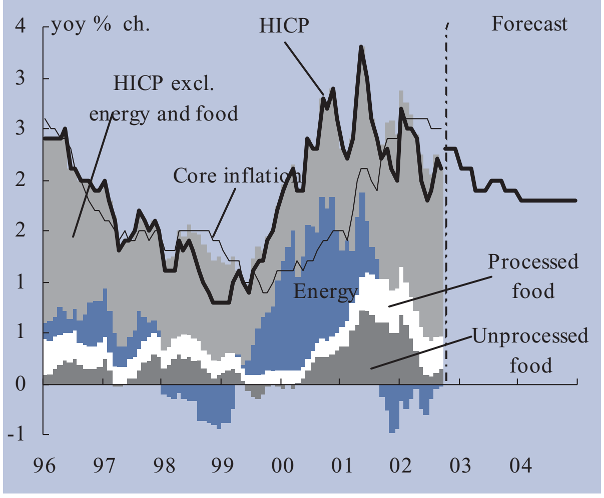
Table 2.8

Inflation outlook - euro area

(Annual percentage change)				**Autumn 2002**			**Difference with Spring 2002**	
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2002**	**2003**
Private consumption deflator	1.1	2.2	2.4	2.1	2.0	1.8	0.0	0.1
GDP deflator	1.2	1.4	2.4	2.2	1.9	1.7	0.2	0.2
HICP	1.1	2.4	2.5	2.3	2.0	1.8	0.1	0.0
Compensation per employee	2.3	2.8	2.8	2.9	2.8	2.9	0.0	-0.2
Unit labour costs	1.3	1.4	2.7	2.5	1.3	1.2	0.7	0.1
Import prices of goods	-0.6	9.1	0.4	-1.4	0.3	1.2	-1.8	-1.9
p.m. HICP EU-15	1.2	2.1	2.3	2.1	1.9	1.8	0.0	0.0

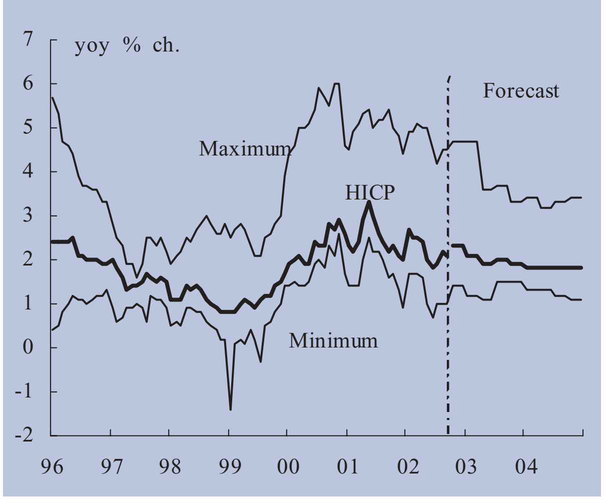
extremes. Among the largest Member States, in 2004 inflation is projected to decline in Germany (1.2%), France (1.6%), Italy (1.9%) and Spain (2.4%), while it is expected to rise in the UK (1.8%).

Graph 2.21: **Contributions to euro area HICP inflation**



The difference between the highest and the lowest inflation rate in the euro area remained unchanged at 3.3 pp. between 2001 and 2002. While this gap is estimated to shrink somewhat during the following two years, the size of the inflation differentials across Member States remains wide and make the conduct of monetary policy more difficult.

Graph 2.22: **Inflation differentials in the euro area**



The low inflation rate in some countries prompted fears of deflation. This appears unjustified. Deflation is not simply lower inflation but it is a prolonged period of decline in the overall price level, which leads to a continuous postponing of household and business expenditure and thus triggers a downward spiral in economic activity. Although demand is weak in some countries with very low inflation, this kind of development is not observed.

4.2. Recent inflation developments

Only in 1999, the first year of EMU, euro area inflation was below 2%. Three reasons can be given for the relatively high inflation in the recent past: (i) a series of price shocks, (ii) rising service prices and (iii) an increase in unit labour costs.

Nevertheless, a comparison of inflation rates in Member States over the last two decades reveals that inflation is now significantly lower. And for the euro area as a whole, the inflation rate is currently well below the long-term average (1960-1998) in Germany before the beginning of EMU (3.2%).

HICP inflation pushed up by special factors

Since mid 2001 headline HICP inflation in the euro area was on a distinct downward trend and was expected to continue on that path in 2002. However, the beginning of 2002 witnessed a marked increase in annual inflation (to 2.7% in January) which remained stubbornly high during the first months of 2002. A gradual resumption to a downward trend lead in June to an inflation rate of 1.8%, the lowest rate since December 1999. After this dip, HICP inflation increased again to 2.1% in September.

A combination of special factors are behind the still surprisingly high level of inflation. At the beginning of the year, inflation was pushed upwards by surges in prices of fresh food owing to unusually cold weather, increases in indirect taxes in some Member States, traditional increases of tariffs of some public sector goods and services and a limited impact from the euro cash changeover as firms have rounded up prices particularly in some services (cafes and restaurants, repairs) and for small manufactured items bought regularly. More recently, international tensions have led to a rise in oil prices and there has been a further spike in fresh food prices as a consequence of crop losses due to the recent flooding. While these elements may explain why inflation is slow to fall, they are of a temporary nature and thus their effects are expected to unwind quite rapidly.

Core inflation driven by services

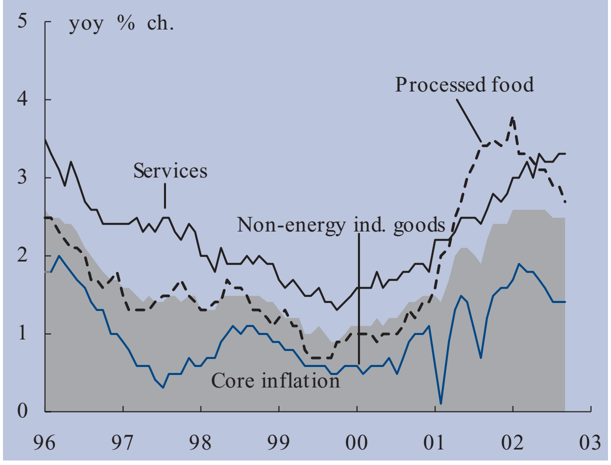
Of more concern is the stickiness of core inflation. Core inflation was particularly resilient in 2002. It was 2.6% in January 2002 and has not yet shown clear signs of a trend reversal. Since February 2002 core inflation has always been above HICP inflation. In the first three quarters of 2002, core inflation averaged at 2.6% compared to 1.9% in the same period of the preceding year.

The decomposition of core inflation into its three main components - non-energy industrial goods, processed food and services - reveals that the upward trend in core inflation during 2002 is mainly driven by service inflation. Non-energy industrial prices while still affected by previous hikes in oil prices are decelerating. They moved down from 1.9% in February to 1.4% in September. Processed food inflation peaked at 3.8% in January but it has declined steadily since then to reach 2.7% in September as the pass-through effects of previous price shocks in unprocessed food are fading away.

By contrast, inflation in services rose to 3% in January 2002 and has been steadily above that level since then, peaking at 3.3% in September, the highest level since February 1996. The average inflation rate in services during the first three quarters of this year has been 3.2% compared to 2.4% in the same period of 2001. Considering that the weight of services is the HICP basket is close to 40%, the rising inflation trend in services puts a strong upward pressure on overall inflation.

Several reasons can be pointed at for the increase in service inflation. First, the pass-through of price increases from the international environment is easier as the service sector is more protected from overall competitive pressures. Second, the existence of productivity differentials between the goods and the service sector with broadly similar wage developments imply higher cost pressure in the sector with lower productivity gains, which is generally thought to be the service sector (Samuelson-Balassa effect). Third, consumption expenditure patterns are shifting from goods to services implying higher weights in the euro area HICP basket and making the impact of the increase in service prices larger on overall inflation. Finally, the service sector is characterised by a stronger intervention of public authorities through administrative prices.

Graph 2.23: **Components of core inflation in the euro area**



Rising unit labour costs

A further element for the hiccup in core inflation is related to the rise of unit labour costs. Owing to a combination of steady compensation per employee and a sharp slowdown in productivity growth, unit labour costs have picked up considerably during 2001 and 2002. However, while unit labour costs have certainly risen, firms are unlikely to fully pass them on to prices as this would lead to a loss of market share given the current economic context of subdued growth. Partially, the increase in unit labour costs will be also reflected on lower profit margins. In 2003 and 2004, growth in unit labour costs is expected to decelerate as labour productivity benefits from the cyclical upswing. The pressure on profit margins would then ease.

5. Public finances: overall deterioration but uneven developments across Member States

General government deficits widen

For *2002* the general government balance is expected to reach a deficit of 2.3 % of GDP in the euro area, compared to 1.5 % in 2001. This also marks a large upward revision compared to a deficit forecast of 1.4 % of GDP according to the Commission Spring Forecasts. The revisions in the general government positions compared to the Commission Spring Forecast are particularly important in the case of Austria (upward revision of 1.7 percentage point), Greece and Ireland (both up by 1.6 percentage point), Italy (1.1 percentage point) and Germany (up by one percentage point).

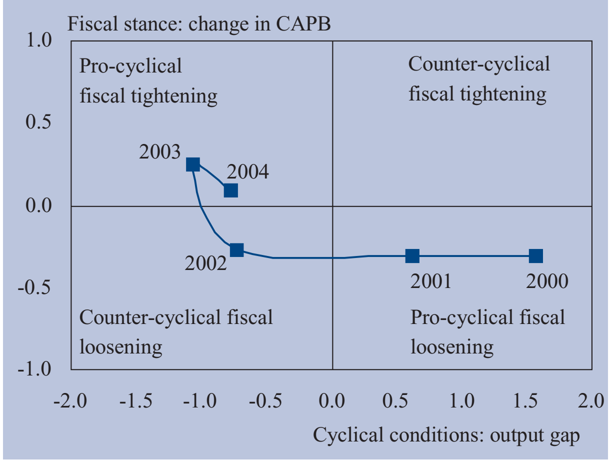
In *2003* only a small improvement is expected for the euro area with the general government deficit falling marginally to 2.1 % of GDP. In *2004*, the deficit of the euro area is expected to fall slightly more to reach 1.8 % of GDP. This is the result of the expected acceleration in GDP growth because the forecast for 2004 is done on the basis of the « no policy change » assumption.

The effect of the cycle and the policy reaction

The economic slowdown is the main factor responsible for the deterioration of public finances in 2002, but not the only one. Fiscal policy has been eased, there have been slippages and the budgetary outcome for 2001 was worse than expected providing for a weaker starting base.

The change in the actual balance for the euro area in 2002 shows a deterioration of 0.8 of a percentage point of GDP, compared to 2001. The cyclical component accounts for 0.6 of a percentage point. It reflects the working of the automatic stabilisers which should soften the impact of the deterioration in the economic situation. There is also a negative contribution to the change in the actual balance from discretionary measures or slippages (-0.3 of a percentage point), partially compensated by a reduction in interest expenditure (+0.2 of a percentage point). In 2003, the contribution of the cycle to the expected marginal improvement in the actual balance is again negative but only by 0.2 % point. In 2004, as actual output may rise somewhat faster than potential, the cyclical effect on the budget balance should be neutral.

Graph 2.24: **Euro area fiscal stance and cyclical conditions**



Budgetary policy in the euro area loosened in 2002, as measured by the change in the cyclically adjusted primary balance (CAPB), which declined by 0.3 of a percentage point, but there are considerable differences at the country level. Most Member States start correcting the deficits in 2003 and the overall budgetary stance in the euro area is tightened next year.

The most important revision in deficit estimates for 2001 with obvious carry-over effects in 2002 concerns Portugal, Italy and Greece. In Portugal the 2001 deficit of 4.1 % of GDP was much higher than expected. The main reasons behind this upward revision for 2001 relate to new information on government sub-sectors and amendments in order to be in line with Eurostat

Table 2.9

General government budgetary position - euro area

(% of GDP)				Autumn 2002			Difference with Spring 2002	
	1999	2000	2001	2002	2003	2004	2002	2003
Total receipts (1)	47.7	47.3	46.7	46.3	46.2	46.0	-0.3	0.0
Total expenditure (2)	49.0	47.2	48.2	48.6	48.3	47.8	0.5	0.9
Actual balance (3) = (1)-(2)	-1.3	0.1	-1.5	-2.3	-2.1	-1.8	-0.9	-0.9
Interest (4)	4.3	4.1	3.9	3.8	3.7	3.7	0.1	0.0
Primary balance (5) = (3)+(4)	3.0	4.2	2.5	1.5	1.6	1.8	-0.8	-0.8
UMTS	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Cyclically adjusted balance (6)	-1.6	-1.7	-1.9	-2.0	-1.7	-1.5	-0.8	-0.5
Cyclically adj. prim. balance = (6)+(4)	2.7	2.4	2.1	1.8	2.1	2.1	-0.7	-0.3
Change in actual balance :	0.9	1.4	-1.6	-0.8	0.2	0.3	-0.7	0.0
Due to - Cycle	0.3	0.5	-0.4	-0.6	-0.2	0.2	-0.2	-0.4
- UMTS	0.0	1.1	-1.1	0.0	0.0	0.0	0.0	0.0
- Interest	0.4	0.2	0.2	0.1	0.1	0.0	-0.1	0.1
- Cycl. adj. primary balance	0.2	-0.3	-0.3	-0.3	0.3	0.0	-0.4	0.4
Gross debt	72.5	70.1	69.3	69.6	69.1	68.2	1.0	1.9
p.m. Actual balance EU-15	-0.7	1.0	-0.8	-1.9	-1.8	-1.6	-0.8	-0.9
p.m. Primary balance EU-15	3.4	4.8	2.8	1.6	1.6	1.7	-0.8	-0.8
p.m. Cycl. adj. prim. balance EU-15	3.0	2.8	2.5	1.9	2.0	2.1	-0.7	-0.4

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

rules. For Italy it is mainly the application of the decision by Eurostat on securitisation that led to the revision of the 2001 deficit. For Greece, the recent review of the general government accounts by Eurostat, implied a revision of the balances for 2000 and 2001 by close to one percentage point of GDP.

Composition of government accounts

Total revenues as a percent of GDP are expected to keep decreasing in the euro area over the forecast period. From 46.7 % of GDP in 2001, revenues are forecast to decline to 46.3 % of GDP in 2002 and to decrease further to 46.2 % of GDP and 46.0 % of GDP in 2003 and 2004 respectively. This is a generalised movement across Member States. Total expenditure of general government is expected to decline from 48.6 % of GDP in 2002 to 47.8 % of GDP in 2004. This is due to lower interest expenditure and lower unemployment-related expenditure as the slowdown in economic activity is not expected to cause a drastic increase in the unemployment rate.

Over the forecast period, budget balances will benefit from lower interest expenditure. Interest spending will fall from 3.8 % of GDP in 2002 to 3.7 % of GDP in both 2003 and 2004 in the euro area. Interest expenditure contribute slightly positively to the change in actual balances or have a neutral contribution during the forecast years.

The debt situation

Several Member States see their debt to GDP ratio increase with the consequence that for the euro area as a whole the debt ratio is expected to increase, albeit by a very small amount, for the first time in many years in 2002. This is mainly the result of increases in the debt ratio in Germany (by 1.4 percentage point) bringing the debt to GDP ratio to 60.9 %, in France (by 1.3 percentage point increase) but the ratio staying below 60 % of GDP, and in Portugal, where the increase compared to 2001 is almost two percentage points, bringing the ratio to 57.4 % of GDP.

For Greece the debt to GDP ratio increased in 2000 and 2001. In 2002 it is expected to resume declining, but at 105.8 % the Greek debt ratio remain among the highest in the EU. In Italy, the downward trend of the debt/GDP ratio is expected to be temporarily reversed in 2002. Although the deterioration is only marginal, the situation is preoccupying in the light of the very high level of the debt at 110.3 % of GDP in 2002.

Excessive deficits in Portugal and Germany, risks in France and Italy

These countries entered EMU with relatively high deficits, like most other countries in the euro area, but failed to advance the consolidation towards the medium-term objective of close-to-balance or in surplus, in particular during periods of strong expansion. They were not successful in reducing rapidly their deficit, so as to allow for a safety margin in cyclical downturns. In consequence, deficits are very high in 2002 and remain so in 2003. Only Germany and Portugal intend to make a structural effort of at least 0.5 % of GDP in 2003 with a view to achieve government accounts close to balance or in surplus in 2006 at the latest.

In *Portugal*, the excessive deficit procedure was launched in late July as previously undisclosed information led to a large revision of the deficit for 2001 to 4.1% of GDP. In line with the calendar imposed by the Stability and Growth Pact, the decision on the existence of an excessive deficit and recommendation for its correction was adopted by the Ecofin Council on 5 November. According to the Commission Forecasts, the deficit is clearly reduced from the previous year but could still be 3.4 % of GDP in 2002. The economy is growing less than expected and some measures have not been implemented or are yielding less than planned. In 2003, the deficit is expected to be just below 3 % of GDP thanks to a significant tightening of policy as not much help can come from the economy which remains weak.

In *Germany*, continued tax revenue shortfalls, some expenditure overruns and the impact of floods mean that this year's deficit exceeds the 3% of GDP threshold, according to the Commission Forecasts. A considerable effort is made to reduce the deficit in 2003, but on the basis of the measures clearly identified in early November, the deficit remains at 3.1 % of GDP compared to 3.8 % in 2002.

In *France*, this year's deficit is estimated at 2.7% of GDP and is expected to increase further to 2.9 % in 2003. The cyclically adjusted deficit remains at 2.7 % of GDP, according to the Commission calculations. The safety margin for dealing with negative surprises without breaching the 3% of GDP deficit threshold is virtually absent.

In *Italy*, breaching the 3 % ceiling does not seem an immediate risk, but the concern is the continuous overruns leading in 2002 to a deficit of 2.4 % of GDP, as well as the quality of budgetary adjustment to reduce the deficit to 2.2 % of GDP in 2003. Furthermore, the reduction in the debt/GDP has come to halt, with the debt ratio rising to 110.3% of GDP in 2002.

Strong deterioration in actual balances in Greece, the United Kingdom, Austria, the Netherlands and Ireland, but in the latter two countries the cyclically adjusted deficit is reversed

With the exception of Greece, these countries had actual balances in equilibrium or in surplus in 2001. In Greece, the deficit widens marginally, while the other see their general government balances worsen significantly in 2002 to between 0.8 % of GDP (the Netherlands) and 1.8 % of GDP (Austria) in response to the adverse cyclical circumstances. Deficits remain wide in 2003, but in the case of Ireland and the Netherlands the cyclically adjusted deficit is improving rapidly.

Luxembourg remains in surplus in 2002 but experiences a deficit in 2003 (compared to a surplus of 6.1 % of GDP in 2001). However, its debt to GDP ratio remains very low.

Due to a recent review by Eurostat of general government accounts in *Greece*, the deficit has been revised by close to one percentage point of GDP in 2000 and 2001, so that the actual balance was not around equilibrium in 2001 as previously thought, but a deficit (1.2 % of GDP) was recorded which marginally widens to 1.3 % of GDP in 2002 and remains high in the following year (1.1 % of GDP). The cyclically adjusted deficit continues to be significant at around 2 %.

In *Ireland*, a fast deterioration is observed since 2000 in the financial balance of the general government. From a surplus of 4.4 % of GDP in 2000, a surplus of "only" 1.5 % of GDP was recorded in 2001, mainly as a result of a significant undershooting of tax revenues. In 2002, a deficit will be recorded for the first time in Ireland since 1996, of 1 % of GDP. This is due to both the effect of the cycle, as GDP growth decelerates, but also to discretionary measures. In 2003 and 2004, according to the forecasts, deficits of about the same size in terms of GDP as that of 2002 are expected.

In the *Netherlands*, from a comfortable surplus of 2.2 % of GDP in 2000, a 0.1 % surplus was recorded in 2001, while in 2002 the forecast deficit amounts to 0.8 % of GDP. This development reflects to a certain extent the operation of automatic stabilisers in an environment of weakening economic activity. For the forecast years, deficits of about 1 % of GDP are expected. Slow economic growth and increases in the unemployment rate will counterbalance efforts of the government, through discretionary measures, such as tax increases and reduction in government expenditure. The cyclically adjusted deficit in the Netherlands is expected to decrease substantially already in 2002 (down by ¾ of a percentage point), while in 2003 a cyclically adjusted surplus is forecast.

Austria, after running deficits in the late 1990's and in 2000, managed to record a zero balance in 2001. However, the expected deficit in 2002 could reach 1.8 % of GDP, explained by the economic slowdown and increased government expenditure in order to repair the damage caused by the summer floods. The situation will only marginally improve in 2003.

In the *United Kingdom* from a 0.7 % of GDP surplus in 2001, a deficit of 1.1 % of GDP is expected in 2002 and 1.3 % of GDP in 2003. This deterioration in the public finances for the UK is partially due to weaker revenues, as a result of slower GDP growth, but also to important discretionary expenditure for both current consumption and investment.

Box 2.2: **How the cyclically adjusted general government balances are calculated**

Following the ECOFIN Council meeting of 12 July, the production function (PF) approach for the estimation of output gaps[1], now constitutes the reference method when assessing the stability and convergence programmes, starting with the 2002 set of programmes. During a "short" transition period, during which the PF method will be periodically reviewed and amended if necessary, the Hodrick-Prescott (HP) filter will be used as a backup method. For Spain the HP filter method will be used to assess the 2002 stability programme. Also Germany and Austria expressed the view that some time was needed before estimates using the production function are considered as sufficiently reliable in deriving policy assessments.

The output gaps are calculated according to both methods and are presented in the Statistical Annex in tables 13 and 14, according to the PF approach and the HP filter respectively.

Tables 40 and 41 of the Statistical Annex present the cyclically adjusted balances (CAB) and primary balances (CAPB) according to the production function approach. For Spain, Germany and Austria an exception is made in Tables 40 and 41 and the cyclically adjusted balances for these three countries are calculated on the basis of output gaps estimated according to the HP filter.

If the PF or HP filter method is used the CAB and CAPB are broadly the same for the euro area. For 2002, the CAB according to the PF is higher than that calculated with the HP filter by 0.2 of a point for the euro area. Positive difference of 0.2 means that the cyclically adjusted deficit according to the PF method is lower than that calculated according to the HP filter. For 2003 and 2004 the difference between the two measures remains at 0.2 of a point. For the three countries which have expressed objections or reservations in using the PF approach the table shows that differences between the two measures are negligible or zero for Austria and Germany.

For Spain differences are slightly more significant. The calculation based on the output gap obtained on the basis of the production function is higher than that obtained through the use of the HP filter by 0.4 in 2002, 0.5 in 2003 and 0.7 in 2004.

Relatively larger differences exist for some other individual countries. For Ireland, Portugal, and the Netherlands the difference is above half of a point, while for the remaining countries the difference is less.

Cyclically adjusted balances

(% of GDP)	2002		2003		2004	
Country	**PF**	**HP**	**PF**	**HP**	**PF**	**HP**
B	0.2	0.4	0.2	0.5	0.1	0.3
DK	2.1	2.2	2.1	2.3	2.5	2.6
D	-3.2	-3.3	-2.4	-2.4	-1.9	-1.9
EL	-1.7	-1.6	-1.8	-1.5	-2.0	-1.5
E	0.3	-0.1	0.3	-0.2	0.7	0.0
F	-2.7	-2.7	-2.8	-2.7	-2.4	-2.5
IRL	-1.4	-2.0	-0.8	-1.5	-0.2	-1.1
I	-1.8	-2.1	-1.6	-1.9	-2.5	-2.9
L	-	-	-	-	-	-
NL	-0.6	-0.8	0.0	-0.5	0.3	-0.4
A	-1.7	-1.6	-1.5	-1.4	-1.4	-1.3
P	-3.0	-3.5	-1.9	-2.6	-1.5	-2.3
FIN	3.7	3.5	3.3	3.3	3.6	3.7
S	1.3	1.1	1.3	1.0	1.5	1.2
UK	-0.6	-0.9	-0.9	-1.3	-1.0	-1.5
EU-15	-1.5	-1.7	-1.3	-1.5	-1.2	-1.5
Euro area	-1.9	-2.1	-1.6	-1.8	-1.5	-1.7

[1] See for details: European Eonomy, Economic Paper N° 176, “Production function approach to calculating growth and output gaps” September 2002.

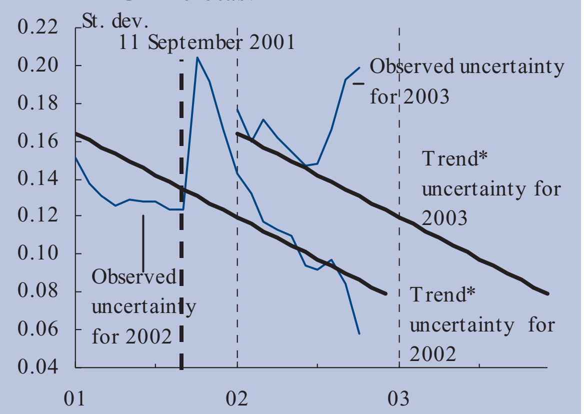
6. Risks more to the downside

Several uncertainties surround the projections. They come both from inside and outside the EU and most of them represent negative risks. Over-pessimism is, however, not justified as the level of uncertainty now does not appear to be larger than in the months following the terrorist attack on 11 September 2001. Furthermore, the fundamentals of the EU economy remain sound.

Uncertainty in perspective

In a two year projection window (see chart) it can be expected that under normal circumstances forecast uncertainty declines over time, as the prediction horizon shortens and more information becomes available. A departure from this path would indicate abnormal uncertainty.

Graph 2.25: **Standard deviation of monthly euro area GDP forecast**



*: Based on average standard deviations, Jan 95 - Oct
Source: Consensus Forecasts, calculation Commission

After the terrorist attack on 11 September uncertainty increased considerably as measured by the standard deviation around the mean GDP forecast for 2002 and 2003 provided by a representative sample of analysts. Fiscal and monetary policies were eased, especially in the US, and the quick resolve of the Afghan war fostered a return of confidence.

Nevertheless, growth has been revised downward, but forecast uncertainty surrounding the current year, which is nearing its end, has been reduced to normal levels. For 2003, uncertainty remains wide as illustrated by the high standard deviation compared to the normal level 15 months before the end of the year to be forecast (see chart). However, at this moment the uncertainty not explained by the forecast horizon is not larger than in the aftermath of 11 September.

External and domestic risks weigh on the outlook

Several risks are present, but two deserve particular attention in the light of the disappointing resistance of the EU economy. First, oil prices are high but are expected to decline when the war premium related to military tensions around Iraq disappear. If this does not happen or, worse, oil prices increase even further, then the inflation outlook is at risk and confidence remains undermined with negative consequences for consumption and investment. Second, although equity markets recovered somewhat in October, the collapse in stock markets contributed to the deterioration of balance sheets of corporate and financial institutions, has lowered confidence and affected negatively consumption through an increase in the savings rate.

The impact of these shocks is exacerbated by the fragility of domestic demand and the lack of flexibility of the EU economy. Rigidities in labour, product and financial markets accentuate downward pressures on profit margins, upward pressures on wages and prices due to insufficient competition and lead eventually to subdued real income growth.

Fundamentals remain sound

The very short-term prospects are not bright, but the EU economy remains free of major imbalances. Despite the recent deterioration of some sectoral accounts, the balance sheets of financial and non-financial firms, households and the government remain solid. There is also a surplus on the current account. When uncertainties dissipate and the shocks unwind, the recovery should take hold, further supported by stability oriented policies.

Chapter 3

Member States

1. Belgium

Economic activity to gain momentum in 2003 and peak in 2004

The situation in 2002 and prospects

The recovery in economic activity in the first quarter of 2002 - real GDP growing by 0.6% as against the previous quarter, which followed a negative real GDP growth rate in the last quarter of 2001 - did not gain momentum in the second quarter, according to available data. Furthermore, recent statistical evidence and survey indicators suggest that economic activity was probably modest also in the third quarter. The synthetic indicator of the National Bank of Belgium - which has proved to be a good early indicator of turning points in the business cycle with a lead of one quarter - stabilised in October, after a deterioration in the three preceding months, while the consumer confidence indicator followed a similar movement. These developments suggest that economic activity should remain weak in 2002, real GDP growth being estimated at 0.7% compared with 0.8% in 2001.

The scenario of an acceleration in economic activity assumed in the Spring forecasts is still in place, only delayed by two to three quarters: economic recovery would be progressive, gaining momentum in the first quarters of 2003. The Belgian economy is expected to expand by 2% in 2003 and by a more robust 2.8% in 2004, on the basis of stronger growth in international trade, higher investment spending and sustained private consumption. The observed delay in economic recovery may be partly attributed to the lagged effects of weak economic activity on employment: job creation, which remained relatively strong in 2001 despite the economic slowdown, could be zero in 2002; this development will partly offset the effects on real GDP growth of the expected recovery in external demand.

GDP components

After two years of very weak to negative growth rates, both export and import volumes are expected to increase by healthy rates in 2003, and further in 2004. Exports should grow by about 5 to 6 percent each year as global economic activity and international trade are expected to improve and Belgium export markets to grow accordingly. Imports should grow at similar rates supported by increased consumption and investment demand. Private consumption is expected to rise by about 2% in 2003 and faster in 2004 supported by improvement in employment and real personal incomes. The saving rate should fall marginally in 2003 and further in 2004 after having risen in 2002 due to increased uncertainty about economic developments and deteriorating labour markets. Private investment is expected to rise by 2.5% in 2003 and by a higher rate in 2004 after an estimated negative growth rate this year; improved economic prospects, notably concerning export markets and, to some extent, corporate profitability should sustain investment demand in the coming two years. Investment in housing should also rise from a low growth rate in 2001-02; public investment should be higher in 2003 and in 2004, after having declined in 2001 and risen very modestly this year.

Labour market, cost and prices

Job creation is expected to come to a standstill in 2002 as the adverse effects of the prolonged economic slowdown are being felt, with a lag, by the labour market. Employment should rise again in 2003 although at a rather modest rate and faster in 2004 supported by robust economic growth. Unemployment should rise somewhat this year and resume its falling trend from 2003.

Inflation, measured by the HICP, is estimated at 1.7% this year, clearly below the 2.3% rate recorded in 2001. Lower import prices, notably oil prices, despite a rise in recent months, and ad hoc factors - the abolition of the radio and TV licence fee in Flanders and Brussels Regions - is expected to contribute to this trend. Inflation is expected to fall further in 2003 in a context of still modest economic activity and contained production costs and rise somewhat in 2004, remaining

Table 3.1

Main features of country forecast - BELGIUM

	2001			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	254.3	100.0	1.9	3.2	3.7	0.8	0.7	2.0	2.8
Private consumption	138.5	54.5	1.9	2.1	3.4	0.9	0.8	1.9	2.3
Public consumption	55.1	21.7	1.2	3.6	2.3	2.2	1.4	1.5	2.3
GFCF	52.9	20.8	1.7	4.3	4.1	0.5	-2.8	2.5	4.3
of which : equipment	-	-	-	-	-	-	-2.0	2.0	4.2
Change in stocks as % of GDP	-1.1	-0.4	0.1	-0.4	-0.1	-0.7	-0.4	-0.3	-0.3
Exports (goods and services)	217.1	85.4	4.5	5.0	8.2	1.1	-0.6	4.6	6.0
Final demand	462.4	181.8	2.7	3.6	5.7	0.8	-0.1	3.3	4.2
Imports (goods and services)	208.1	81.8	4.0	4.1	8.4	0.8	-1.1	4.9	6.1
Contribution to GDP growth : Domestic demand			1.7	2.8	3.1	1.1	0.1	1.8	2.6
Stockbuilding			-0.1	-0.5	0.3	-0.6	0.3	0.2	0.0
Foreign balance			0.3	0.9	0.3	0.3	0.3	0.0	0.3
Employment			0.1	1.4	1.6	1.2	0.0	0.6	1.1
Unemployment (a)			9.1	8.6	6.9	6.6	6.8	6.8	6.5
Compensation of employees/head			4.7	3.3	2.5	3.6	3.6	3.1	3.1
Unit labour costs			2.8	1.6	0.4	4.0	2.8	1.7	1.4
Real unit labour costs			-0.5	0.2	-0.9	2.0	0.8	-0.2	-0.5
Savings rate of households (b)			-	16.1	15.1	14.9	15.2	15.1	14.8
GDP deflator			3.3	1.4	1.3	2.0	2.1	1.8	1.8
Private consumption deflator			3.2	1.3	2.3	2.5	1.8	1.7	1.9
Harmonised index of consumer prices			-	1.1	2.7	2.4	1.6	1.4	1.7
Trade balance (c)			0.1	3.7	2.1	2.6	3.0	3.4	3.6
Balance on current transactions with ROW (c)			2.1	5.3	4.4	4.5	5.0	5.2	5.3
Net lending(+) or borrowing(-) vis à vis ROW (c)			2.0	5.3	4.3	4.4	4.9	5.1	5.3
General government balance (c)(d)			-6.9	-0.5	0.1	0.4	-0.1	0.0	0.3
General government gross debt (c)			124.6	114.9	109.2	107.6	105.6	101.7	96.8

(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 in 2001. The UMTS amount as a % of GDP would be : 0.2%.

however below 2% as economic recovery is expected to be more robust and labour market tighter.

Nominal wage increases are expected to remain moderate, contributing to the deceleration in unit labour costs in the coming two years. A new framework wage agreement for the period 2003-2004, expected to be concluded by the end of this year, will determine to a large extent developments regarding wages and price competitiveness. Concerns expressed about loss of competitiveness by the Belgian economy vis-à-vis its main trading partners in recent years should encourage moderate wage agreements; still weak economic activity and labour markets should support such a tendency. Nominal wage increases may be somewhat higher in 2004, but are expected to remain relatively contained in view also of expected moderate wage developments in Belgium's main trading partners, notably Germany.

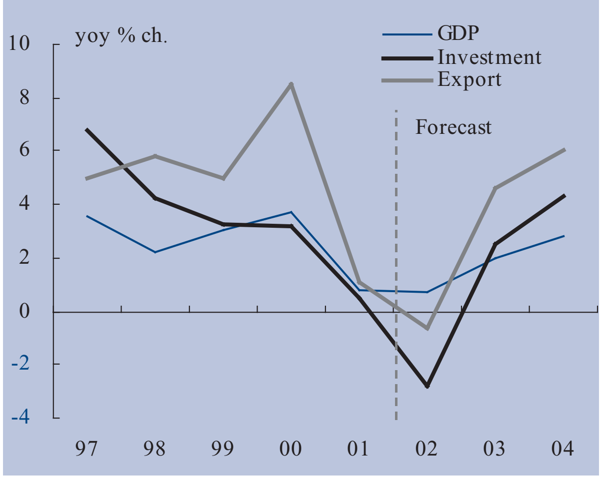
Public finances

Despite the deterioration in economic developments compared with the projections of the 2002 budget, the general government accounts should be practically in balance in 2002, as a 0.1% of GDP deficit is projected for this year. Strengthened control of primary expenditures, including social security spending, decided during the budgetary control exercise last Spring and confirmed in June are contributing positively to fiscal developments. A balanced general government position is forecast for 2003, turning into a surplus of 0.3% of GDP in 2004. Public finance projections assume that, broadly, the budgetary strategy of the 2001 update of the stability programme of Belgium will be followed, taking also account of the impact of the cycle; this implies, in particular, sizeable primary surpluses of the order of 6% in 2002, and somewhat lower in 2003 and 2004, realised mainly through control of primary expenditures. The decline in interest payments as percent of GDP resulting from the decline in the debt ratio, will contribute to the projected budgetary outcome. According to the forecast, the government revenue to GDP ratio is expected to decline in 2002 and in 2003 and rise somewhat in 2004, while the expenditure ratio is projected to decline by 0.6 percentage point in the three years to 2004. The cyclically adjusted primary surplus is expected to remain slightly above 6% of GDP in 2003, after an estimated 6.4% in 2002 and 6.2% in 2001, suggesting a broadly neutral fiscal stance, and decline to 5.6 % of GDP in 2004.

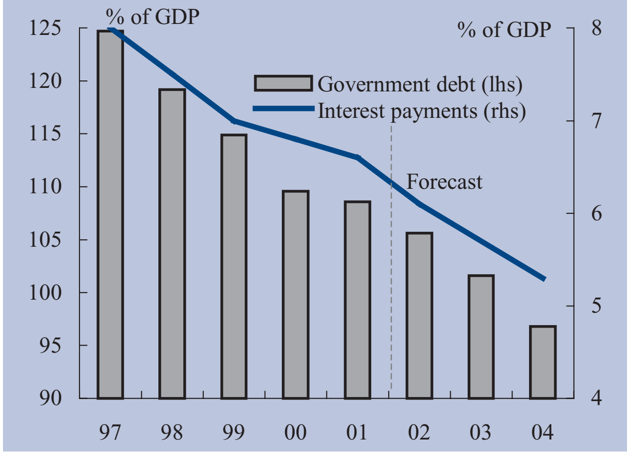
The 2003 draft budget confirmed the continuation of the tax reform - the main component of which is a reduction in the personal income tax - decided in 2001 and planned to be implemented over the period 2002-2006. The budget, based on an assumption of a 2.1% real GDP growth, is targeting a balance in the general government accounts for 2003. A corporate tax reform announced last March will be implemented from 2003 and is assumed to be broadly budgetary-neutral.

The government debt ratio should continue its falling trend over the period of the forecast and decline by 3 percentage points of GDP in 2002 and by a further 8.8 points over the next two years to 96.8% of GDP in 2004.

Graph 3.1 : **Belgium - GDP, investment and exports**



Graph 3.2 : **Belgium - Government debt and interest payments**



2. Denmark

Growth sustained by domestic demand

The economy in 2002

After the deceleration of GDP in 2001 to growth at just 1.0%, the economy picked up again in the first half of 2002. The second quarter proved particularly strong when the quarter on quarter GDP growth rate was 1.1%. So far in 2002 growth has been driven solely by domestic demand. The expected acceleration in private consumption finally seems to have set in, primarily driven by large increases in car purchases by households, but retail sales have also increased at stronger rates. Investment is still growing robustly, but the composition is somewhat surprising as especially equipment investment has continued to rise despite the slowdown in economic growth in the second half of 2001, whereas residential investment continues to decrease despite the high level of house prices.

Exports have so far held up well despite the international slowdown and exports of goods grew by 3.8% year-on-year in the first half of 2002. The resilience of Danish exports is most likely linked to the composition of goods exported, as their high content of agricultural and pharmaceutical products tends to shelter the economy against external cyclical developments. This results in a tendency for Danish export to gain market shares in international slowdowns and lose market shares in upturns. Imports have increased slightly faster than exports resulting in a small negative contribution from net exports in the first half of 2002.

Inflation fell in the first half of the year, but has increased again in recent months and is now back at the same level as in the beginning of the year.

Prospects

Indicators released for the third quarter so far point to a less buoyant development than in the second quarter. Both industry production and orders are falling and the increase in car sales has been slowing down. Therefore real GDP is expected to increase more slowly during the second half of 2002, resulting in an overall growth rate for the year of 1.7%. In 2003 real GDP is expected to grow by 2.1% increasing to 2.4% in 2004. In both years domestic demand is again expected to be driving growth, as net exports are expected to have a small negative impact.

Currently the Danish economy seems well balanced. The private sector's net borrowing requirement is close to zero, and the public sector is running large surpluses. However, the labour market is expected to be very tight in all three years and especially in 2004 risks of overheating may emerge. Public finances are expected to remain sound and show healthy surpluses over the forecast horizon.

GDP components

The expectation of a weaker second half in 2002 and increasing growth rates again during 2003 is reflected in all components of GDP. Private consumption should become weaker in the second half of 2002 as car sales and retail sales are showing signs of moderating. However, for the three forecast years to 2004, growth rates of above 2% every year are expected in line with increases in real disposable incomes. The weaker outlook for production in the third quarter and the general uncertainty induced by the recent stock market fall is foreseen to bring the current growth in fixed investment to a halt. An acceleration is set to happen in the course of 2003, especially as housing investment is expected to increase from the current low level. This increase is partly policy-induced as different measures have been taken to increase housing investments.

Exports of goods are predicted to grow more slowly than external demand in coming years as the persistent high wage increases and the strong *krone* implies loss of competitiveness. Furthermore, export growth might also be limited by capacity constraints, especially in 2004. Imports of goods are expected to be stronger than a "normal" relationship to final demand would predict as investment, which is one of the main growth components in all three years, tends to have a high

Table 3.2

Main features of country forecast - DENMARK

	2001			Annual percentage change						
bn DKK	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	1344.5	100.0	1.9	2.3	3.0	1.0	1.7	2.1	2.4
Private consumption	631.3	47.0	1.5	0.2	-0.3	0.8	2.1	2.2	2.2
Public consumption	343.0	25.5	1.5	1.8	0.6	1.2	1.4	0.9	1.0
GFCF	284.2	21.1	2.9	1.0	10.7	0.0	2.3	3.8	5.2
of which : equipment	126.6	9.4	3.9	1.5	12.6	1.0	6.8	4.7	5.9
Change in stocks as % of GDP	-0.1	0.0	0.5	-0.2	0.0	0.4	0.1	0.1	0.2
Exports (goods and services)	613.0	45.6	4.2	10.8	11.5	3.7	3.6	4.0	4.9
Final demand	1871.3	139.2	2.4	2.6	5.2	1.9	2.4	2.9	3.4
Imports (goods and services)	526.8	39.2	4.5	3.3	11.2	4.3	4.1	4.8	5.7
Contribution to GDP growth :	Domestic demand		1.7	0.8	2.3	0.7	1.9	2.2	2.5
	Stockbuilding		0.1	-1.3	0.2	0.4	-0.1	0.1	0.0
	Foreign balance		0.0	2.8	0.6	-0.1	-0.1	-0.2	-0.2
Employment			0.3	1.5	0.8	0.2	0.1	0.3	0.4
Unemployment (a)			7.0	4.8	4.4	4.3	4.2	4.2	4.1
Compensation of employees/head			5.3	2.9	3.9	4.5	3.9	3.8	4.3
Unit labour costs			3.7	2.0	1.6	3.7	2.3	2.0	2.3
Real unit labour costs			-0.6	-0.6	-2.0	0.9	0.6	-0.2	-0.2
Savings rate of households (b)			-	1.7	4.0	6.5	7.6	7.5	6.9
GDP deflator			4.3	2.7	3.7	2.8	1.6	2.2	2.4
Private consumption deflator			4.3	2.6	3.0	2.1	2.3	2.0	2.1
Harmonised index of consumer prices			-	2.1	2.7	2.3	2.4	2.0	2.0
Trade balance (c)			1.2	2.7	3.2	3.3	3.3	3.1	2.9
Balance on current transactions with ROW (c)			-1.1	1.7	1.6	2.5	2.1	2.1	2.2
Net lending(+) or borrowing(-) vis à vis ROW (c)			-1.1	2.3	1.6	2.5	2.0	2.1	2.2
General government balance (c)(d)			-1.9	3.1	2.5	3.1	2.0	2.0	2.5
General government gross debt (c)			63.8	52.7	46.8	44.7	44.0	42.4	39.8

(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 in 2001. The UMTS amount as a % of GDP would be : 0.2%.

import content. However, the current account is expected to show surpluses of 2% of GDP or above every year.

Costs and prices

HICP increases should slow in 2003 as the effects of slow increases in import prices and falling oil prices pass through and the tax freeze is fully implemented. Furthermore, the budget bill for 2003 includes a lowering of excise duties by October 1, 2003.

However, the larger part of the effect of the lower excise duties will first be visible in 2004, where it will help curb the tendency for rising inflation, as the effect of the small increases in import prices disappear. All through the forecast period inflation is sustained by relative high increases in prices of services as a result of high wage increases. This leaves it difficult currently to get inflation permanently below 2%.

Labour market

The labour market has continued to remain tight despite the slowdown in economic growth last year. Unemployment has been largely unchanged and wage increases are still lingering around 4%. The lack of easing on the labour market in the downturn resulted in a fall in productivity rates last year, as some labour hoarding took place. This year productivity rates are expected to return to more normal levels, thereby implying only a limited increase in employment despite the larger growth rate. Unemployment is expected to decline slightly over the next two years and thereby continue to remain close to the estimated structural level. Employment creation is expected to pick up again next year and grow by a fairly unchanged rate in 2004.

Annual wage increases are set to remain high and even rise in 2004 as no extra reductions in hours worked have been agreed for that year as most of the current private sector wage agreements expire in the spring of 2004.

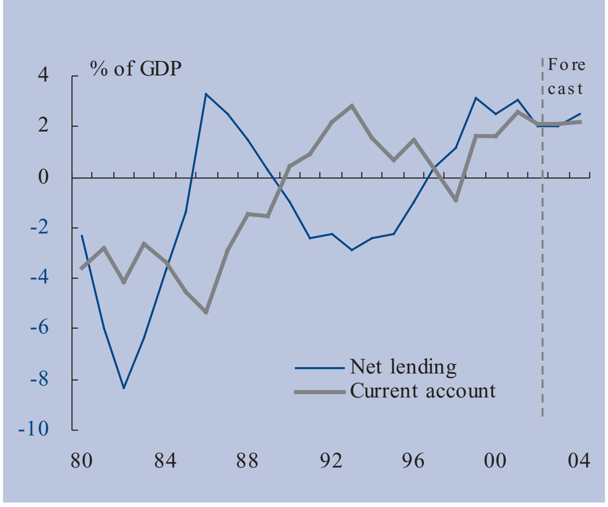
Public finances

The general government balance showed a surplus of 2.8% of GDP in 2001 (excluding UMTS of 0.2% of GDP). This year it is expected to decrease to 2.0% of GDP primarily as a result of a pension scheme, "the special pension contribution", being changed from a public pension scheme to a private scheme as the redistributive effects in the pension scheme are eliminated and declining corporate tax revenues from the extraordinary high level in 2001

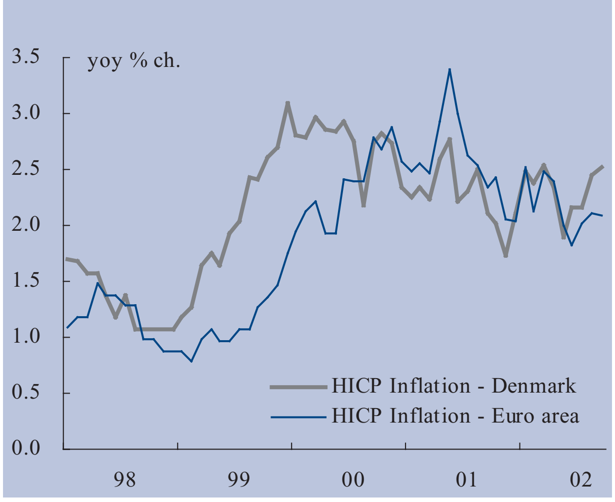
A surplus of 2.0% is also expected in 2003 where increased revenues as a result of higher GDP growth is offset by lower corporate taxes. In 2004, the surplus is expected to increase to 2.5% as the pension yield tax probably will start generating revenues again after three years of hardly any revenue due to the size of the stock market fall.

The debt ratio is set to fall from the current level of 44% of GDP to just below 40% of GDP by the end of 2004.

Graph 3.3 : **Denmark - Public finances current account**



Graph 3.4: **Denmark - HICP inflation**



3. Germany

Crawling along

The economy in 2002

After contracting in the second half of 2001, activity picked up again in the first half of 2002, rising in both Q1 and Q2 at a quarterly rate of 0.3%. Nevertheless, economic performance remained disappointing, as it failed to set the stage for the expected upturn in the second half of 2002. Business expectations, which rose strongly in spring, have started to fall again.

Growth was exclusively due to decelerating inventory depletion and a rising foreign contribution. The latter was, however, not so much the result of rising exports than of falling imports, which reflected a decline in final domestic demand by about ½% in each quarter. In particular, equipment investment continued to fall strongly for the seventh quarter in a row, adding to the long-lasting drag from construction activity. Private consumption also fell, while public consumption rose only slightly.

The crawling pace of the economy can be expected to continue during the second half of 2002 and into early 2003. No GDP component will provide major stimulus. However, there are tentative signs that the negative domestic trends are bottoming out. Private consumption, which fell noticeably in the first quarter of the year, has started to pick up moderately. Despite capacity utilisation still being relatively low, slightly rising order volumes suggest a modest recovery also in equipment investment, which is 15% below its last peak. Reconstruction activities in the aftermath of the Summer floods should give a temporary boost to the economy around the end of the year, as buildings, productive equipment, and household durables are replaced.

A further small growth impulse is likely to come from a slowdown in de-stocking. By contrast, no net impulse is expected from foreign trade, as the sharp decline in imports is likely to start reverting.

With an estimated overall growth rate of barely 0.4% for 2002, unemployment has been on the rise, reaching a seasonally adjusted 4.1 million in the third quarter, which is unlikely to fall rapidly. High unemployment continues to weigh on consumer spending and public finances.

On the positive side, the 2002 wage round was clearly not as disruptive as might have been feared, leading to only moderate effective wage increases. Due to a substantial negative wage drift, nominal tariff wage rises by over 3% were actually accompanied by an economy-wide slowdown in effective wage increases in the first half of the year to 1.5%. Therefore, and due to falling import prices and subdued growth, inflation in Germany is very low. Consumer prices in October were only 1.2% above the level of a year ago, suggesting an inflation rate of 1.4% for the whole of 2002. Clearly, earlier fears of euro-induced price hikes have proved largely unwarranted but probably contributed to lower growth as a result of consumers' spending restraint.

Prospects

While sputtering on into early 2003, activity is expected to speed up moderately around the middle of the year, leading to an estimated annual GDP growth around 1.4%. In the first quarter of the year, reconstruction in the flood areas is likely to play a role, especially for the construction sector. A subsequent decline in building activity should be partially compensated by a slight acceleration in equipment investment. Furthermore, consumer spending is likely to pick up, as the savings rate reverts to a lower level following an increase in both 2001 and 2002. High unemployment and the substantial further fall in stock market values will, however, dampen consumption growth somewhat.

The slight acceleration in growth by the middle of 2003 is likely to be accompanied by a modest increase in effective wages. Despite only small gains in labour productivity, international competitiveness will thus be broadly maintained. Nevertheless, the external contribution will not provide a substantial growth impulse, because the rise in domestic demand is likely

Table 3.3

Main features of country forecast - GERMANY

	2001			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	2071.2	100.0	2.0	2.0	2.9	0.6	0.4	1.4	2.3
Private consumption	1232.2	59.5	2.0	3.7	1.4	1.5	-0.7	1.1	1.7
Public consumption	393.5	19.0	1.4	1.0	1.2	0.8	1.0	1.0	1.1
GFCF	416.3	20.1	1.5	4.1	2.5	-5.3	-4.8	1.6	4.2
of which : equipment	166.3	8.0	2.0	7.2	9.5	-5.8	-6.8	3.7	7.9
Change in stocks as % of GDP	-9.4	-0.5	0.0	-0.3	-0.1	-0.8	-0.6	-0.2	-0.1
Exports (goods and services)	726.9	35.1	5.2	5.6	13.7	5.0	2.1	5.0	7.4
Final demand	2759.5	133.2	2.5	3.4	4.6	0.7	-0.3	2.6	3.6
Imports (goods and services)	688.3	33.2	4.3	8.5	10.5	1.0	-2.2	6.3	7.5
Contribution to GDP growth :	Domestic demand		1.7	3.2	1.6	-0.2	-1.2	1.1	2.0
	Stockbuilding		0.0	-0.4	0.2	-0.6	0.1	0.5	0.0
	Foreign balance		0.4	-0.7	1.0	1.4	1.4	-0.2	0.3
Employment			0.3	1.2	1.8	0.4	-0.5	0.0	0.5
Unemployment (a)			-	8.4	7.8	7.7	8.1	8.2	7.9
Compensation of employees/head			3.7	1.2	2.0	1.7	2.0	2.2	2.4
Unit labour costs			1.9	0.4	1.0	1.5	1.1	0.7	0.6
Real unit labour costs			-0.7	-0.1	1.2	0.1	-0.3	-0.3	-0.3
Savings rate of households (b)			-	15.4	15.4	15.7	16.1	15.9	15.8
GDP deflator			2.7	0.5	-0.3	1.4	1.4	1.1	0.8
Private consumption deflator			2.6	0.4	1.5	1.9	1.3	1.4	1.1
Harmonised index of consumer prices			-	0.6	2.1	2.4	1.4	1.5	1.2
Trade balance (c)			3.8	3.4	3.1	4.8	6.3	6.3	6.7
Balance on current transactions with ROW (c)			1.2	-0.8	-1.0	0.2	1.9	1.7	1.9
Net lending(+) or borrowing(-) vis à vis ROW (c)			1.0	-0.8	-0.3	0.1	0.9	1.9	2.3
General government balance (c)(d)			-2.4	-1.5	1.1	-2.8	-3.8	-3.1	-2.3
General government gross debt (c)			46.0	61.2	60.2	59.5	60.9	61.8	61.1

(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 in 2000. The UMTS amount as a % of GDP would be : 2.5%.

to be accompanied by higher imports, thereby offsetting the import decline in 2002. Overall, expected GDP growth in 2003 is therefore mostly driven by rising final domestic demand. A small positive impact is also likely to come from stocks, as inventory depletion comes to an end.

Growth in 2004 is expected to reach 2.3%, thereby reducing the output gap by two thirds. With the trends identified for 2003 continuing, domestic demand will be the main driver of growth. However, the higher figures for 2004 are largely due to a calendar effect rather than to an acceleration in the underlying forces of growth. Due to an extra calendar day (29 February) and because of an additional holiday falling on a weekend, raw GDP figures for 2004 will be around 0.6% higher than calendar-adjusted figures.

Employment, costs and prices

As a result of slow overall growth unemployment is unlikely to decline substantially and is expected to remain above 4 million in 2003 and to fall only slightly in 2004. Consumer price inflation in 2003 is likely to remain steady compared with 2002, as low labour cost pressures and falling import prices balance out with increases in indirect taxes and a temporary rise in oil prices. As these latter two effects subside, inflation is likely to moderate gradually in 2004.

Public finances

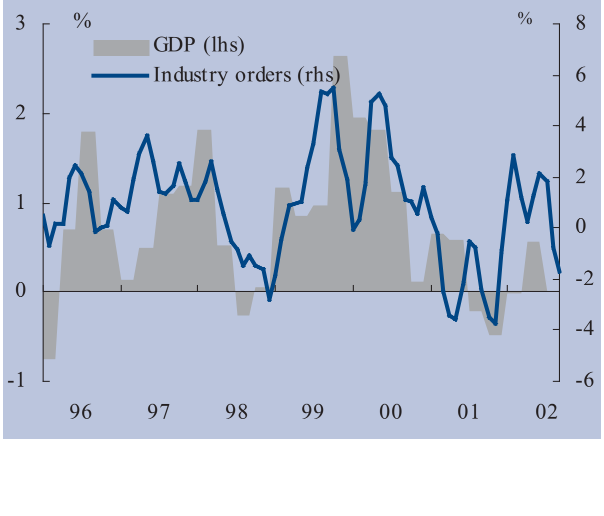
Following a revised 2001 outcome of 2.8% of GDP, the general government deficit is projected to reach 3.8% of GDP in the current year. This rise is mostly due to a clear shortfall in tax revenues compared with the official May tax estimate, and a widening gap in social security finances. Not surprisingly, the debt ratio is also forecast to breach the Treaty’s reference value by rising above 60% of GDP.

The deficit forecast for 2003 is based on the following assumptions: contribution rates to the pension system are likely to rise from 19.1% of gross income in 2002 to 19.5% in 2003; no rise in contribution rates to health insurance is assumed. Out of the consolidation package agreed upon by the coalition partners in October, an overall volume of around 0.2 percentage points of GDP has been incorporated. With many specific measures only to be decided after the forecast's cut-off date, the 'no-policy-change' assumption implies that they could not be taken into account. On the other hand, the 2003 forecast assumes that some savings will become effective in the health sector. If all policy decisions included in the coalition agreement are translated in specific policy measures and if growth in 2003 reaches at least 1.4%, the deficit would fall below 3% of GDP next year.

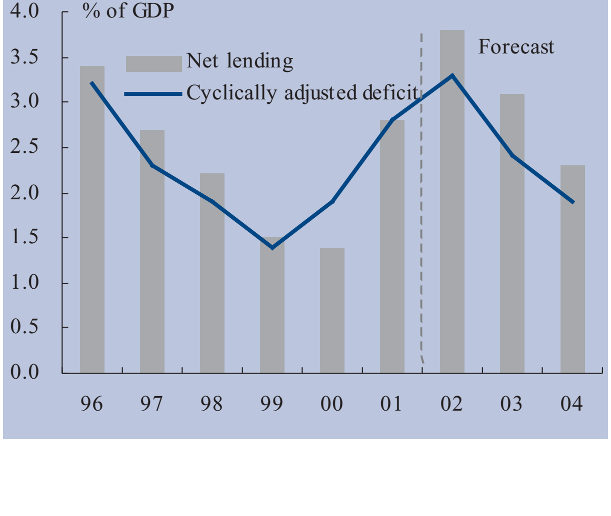
Furthermore, additional public investment on account of the flood damages was incorporated, as was the postponement of the next step of tax reform from 2003 to 2004. On the basis of these assumptions, the 2003 general government deficit would reach 3.1% of GDP, with the debt level rising above 61% of GDP.

In 2004, accelerating growth conducive to employment creation should make for a further fall in the deficit, in spite of the implementation of the next step of income tax reform. Part of the improvement is due to additional savings out of the consolidation programme presented in October 2002. The debt ratio, however, would stay above the Treaty's reference value.

Graph 3.5 : **Germany - Quarterly change in industry orders and semi-annual growth rate**



Graph 3.6: **Germany - Nominal and cyclically adjusted deficits** (without UMTS revenues)



4. Greece

Economic growth is easing but activity continues at a strong pace

The economy in 2002

Despite a deceleration due to weak export markets, real GDP still rose at a strong pace in 2002, exceeding the EU and the euro area average; activity was mainly supported by domestic demand. Lower interest rates and consumer credit expansion, combined with lower tax uncertainty, sustained private consumption. On the other hand, increased financial flows from the EU Structural Funds and the preparation for the Olympic Games of 2004 boosted investment, which increased much faster than real GDP. On the external side, the slowdown in world demand reduced the rate of increase in exports, while imports recovered under the impulse of domestic demand; as a result, the external balance made a negative contribution to real GDP growth.

The situation in the labour market improved but at a slow pace. Total employment is estimated to have risen by 0.3% in 2002. On the other hand, the unemployment rate fell below 10% in the first half of 2002 but should still remain at a high level. A two-year wage agreement in the private sector, signed on 15 April 2002, provides for an increase in the minimum wage in two steps: 3.6% on 1 January 2002 (including the adjustment for inflation in 2001 equal to 1.1%) and 1.8% on 1 July 2002. For 2003, the agreement provides for a 3.9% increase in the minimum wage on 1 January 2003. On average, the benchmark wage will increase by 5.4% in 2002 and 4.8% in 2003. An adjustment for inflation exceeding 3.3% in 2002 and not exceeding 1% will be incorporated on 1 January 2003.

Consumer price inflation accelerated in the first months of 2002, as a result of temporary shocks like high food prices due to bad weather. Its rate of increase has been stabilising since the Summer months but remains high and above the EU and the euro zone average. In addition, underlying inflation that remained below the headline rate in the first quarter moved above this rate in the following months, implying the persistence of some inflationary pressures. In 2002, consumer inflation should accelerate further for a second consecutive year.

Prospects in 2003 and 2004

Economic activity prospects continue to be good and will improve in line with external recovery in 2003. Real GDP growth is expected to continue to rise above potential, averaging around 4% in 2003. Nonetheless, a deceleration in investment in the second half of 2004 should result in a somewhat slower GDP growth in 2004, at around 3.7% on average.

Consumer spending is expected to remain sustained and might also accelerate as a result of the 2002 tax reform which should increase disposable income. Activity in the construction sector will be buoyant as a number of infrastructure plans need to be finished before the Olympic Games of 2004, but this factor will cease to exert a positive effect on GDP growth as from mid-2004. Nonetheless, public investment growth, supported by large inflows from EU Structural Funds until 2006, and lower interest rates will assist private investment in the period after the end of the Olympic Games. In addition, strong tourist flows are expected for the year of the Olympic Games, implying that at the end of the forecasting period, the negative contribution of the external balance to real output growth should be much lower than in previous years.

Price developments are influenced by a number of factors that point to opposite directions. Taking into account the underlying assumptions for world primary commodities price increases, oil prices and the exchange rate of the euro, inflation should decelerate in coming quarters. On the domestic side, some acceleration in wages should be implied from the application of the compensation clause for the higher than expected inflation rate in 2001; nonetheless, the content of the April agreement on wage increases in the private sector should imply that cost-pressures might be resumed as from 2004 as there is no compensation for inflation exceeding a specific rate in 2003. Nonetheless,

Table 3.4

Main features of country forecast - GREECE

	2001		Annual percentage change						
bn Euro	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	130.9	100.0	1.2	3.6	4.2	4.1	3.5	3.9	3.7
Private consumption	89.8	68.6	2.2	2.9	2.7	3.2	3.0	3.2	3.3
Public consumption	20.3	15.5	1.2	1.4	2.3	0.5	1.0	0.7	0.6
GFCF	29.8	22.8	1.1	6.2	8.0	5.9	7.3	8.3	5.6
of which : equipment	10.8	8.3	5.1	3.5	17.6	3.7	6.2	6.5	5.5
Change in stocks as % of GDP	0.2	0.1	0.0	-0.4	-0.1	0.1	0.0	0.0	0.0
Exports (goods and services)	29.7	22.7	3.5	8.0	19.7	-1.3	1.0	4.3	7.1
Final demand	169.9	129.7	1.9	3.6	6.6	2.6	3.1	4.1	4.2
Imports (goods and services)	38.9	29.7	5.4	3.8	14.5	-1.9	2.2	4.6	5.5
Contribution to GDP growth : Domestic demand			1.5	3.7	4.1	3.7	4.0	4.4	3.8
Stockbuilding			0.0	-0.7	0.3	0.3	-0.1	0.0	0.0
Foreign balance			-0.6	0.5	-0.1	0.3	-0.5	-0.4	-0.1
Employment			0.9	0.0	-0.2	-0.3	0.3	0.8	0.6
Unemployment (a)			7.6	11.9	11.1	10.5	9.9	9.4	9.1
Compensation of employees/head			15.7	4.6	6.1	5.4	6.5	5.5	5.0
Unit labour costs			15.3	1.0	1.7	0.9	3.2	2.3	1.8
Real unit labour costs			-0.4	-1.9	-1.7	-2.4	0.0	-0.8	-1.4
Savings rate of households (b)			-	19.1	19.8	18.7	19.1	19.6	19.6
GDP deflator			15.7	3.0	3.4	3.4	3.3	3.2	3.2
Private consumption deflator			15.3	2.2	3.2	3.1	3.1	3.1	3.1
Harmonised index of consumer prices			-	2.1	2.9	3.7	3.8	3.2	3.3
Trade balance (c)			-11.6	-13.6	-15.7	-14.9	-14.3	-14.3	-14.3
Balance on current transactions with ROW (c)			-1.2	-3.3	-4.0	-4.8	-4.6	-4.7	-4.5
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	-1.5	-1.6	-3.2	-3.0	-3.0	-2.9
General government balance (c)(d)			-9.7	-1.9	-1.8	-1.2	-1.3	-1.1	-1.1
General government gross debt (c)			75.7	105.1	106.2	107.0	105.8	102.0	98.5

(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 in 2001. The UMTS amount as a % of GDP would be : 0.5%.

despite some weakening, the economy is expected to continue growing above potential. On the basis of the above, there may be a deceleration in the rate of inflation until 2004 but consumer price increases are forecast to average above 3% in 2003 and 2004.

Public finances

A significant methodological revision in the statistical treatment of a number of operations took place in the course of 2002, following the recommendations of Eurostat. As a result, in 2001, the general government accounts remained in deficit (at 1.2% of GDP from 1.8% of GDP in 2000) as compared with a surplus of 0.1% of GDP reported previously. However, excluding non-budgeted receipts from the sale of mobile phone licences (UMTS) which amounted to 0.5% of GDP, in 2001, the government accounts should post a 1.7% of GDP deficit. The debt ratio increased also following the recent revisions and reached 107% of GDP in 2001 from 99.7% of GDP estimated previously.

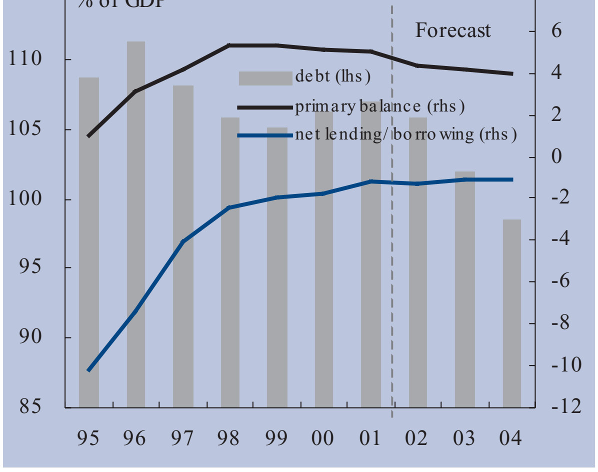
The State budget for 2002 and the 2001 updated stability programme, based on the statistical methods used before the recent revision, targeted a deficit for the State Budget consistent with a surplus of 0.8% of GDP for the general government. Underlying further improvement in the budgetary position, there was the continuing reduction in debt servicing costs which follows the decline in interest rates and in the debt ratio.

After reaching 5.1% of GDP in 2001 (or 4.6% of GDP when excluding receipts from UMTS licenses), the primary surplus of the general government remained at a high level in 2002 (at 4.4% of GDP). The general government debt ratio which increased in 2000 and 2001, is estimated to decline in 2002 but to remain above 100% of GDP at the end of 2002.

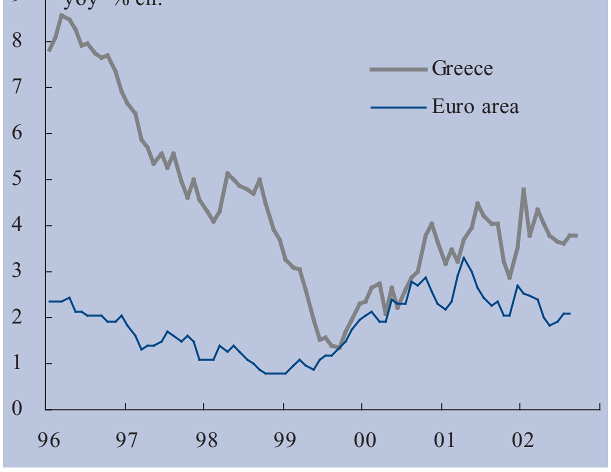
For 2003, the 2001 update of the stability programme projected a surplus of 1% of GDP. In the draft State budget for 2003, presented in early October 2002, the projected surplus is revised downwards, to 0.5% of GDP. This is mostly attributed to the estimated budgetary outcome for 2002 but also to the impact of the tax reform introduced in 2002. Following the recent methodological changes, the improvement in the budgetary position of the general government would be reflected in a lower deficit rather than a higher surplus.

The budgetary strategy is based on further decline in the interest burden for the general government, while the projected fall in current primary expenditure should partly compensate the impact of the tax package. The primary surplus of the general government is projected to decline gradually but to remain at a high level. However, the projected cut in primary spending may be difficult to implement given that the main components of current spending are highly inelastic (mostly, wages and grants). Thus, it is likely that the general government accounts will remain in deficit of around 1.0% of GDP, in 2003 and 2004, under unchanged policies. Furthermore, the primary balance should continue to decline until the end of the forecasting period. The debt ratio is expected to be put on a downward trend, benefiting from the growth dividend, and to fall below 100% of GDP at the end of 2004.

Graph 3.7 : **Greece - Gen.Govmt. debt, primary balance & surplus**



Graph 3.8 : **Greece - HICP compared with the euro area**



5. Spain

Economy to recover force in 2004

Activity

In 2001 GDP decelerated significantly, recording 2.7% growth for the whole year, in sharp contrast to 4.2% growth in 2000, mainly due to weaker final domestic demand. In 2002 a deceleration has continued, more marked than foreseen in the spring, with estimated growth of 1.9%. Weaker than expected private consumption and investment have been the main elements of such moderation. While exports and imports are expected still to gain some momentum, the external sector contribution to GDP growth should be neutral for the whole year. With a better economic climate and improved consumers' confidence, an upward profile is expected in 2003, with GDP growth of 2.6%, rising in 2004 to around that of estimated potential; the output gap, relative to trend, should be close to zero throughout the forecast period.

GDP components

The slower growth experienced in 2001 was mainly due to significant reductions in private consumption and investment growth rates. Low growth of gross fixed capital formation can mostly be attributed to investment in equipment due to worsened business expectations. On the external side, the moderate growth of exports and imports contrasts with rises over 10% in 2000, mirroring the downward trend observed in world demand.

For 2002 as a whole deceleration is expected to continue as a result of further moderation of the main domestic demand components. Private consumption is expected to slow as a consequence of moderation in employment and the non-indexation of income tax brackets, which will give rise a deceleration in gross disposable income. The forecast shows a more optimistic picture for 2003. Private consumption is expected to gain some strength during the first half of the year due to better economic prospects and increasing employment growth, together with the positive effects on disposable income stemming from reform of the personal income tax. The latter is also expected to lead to a significant rise in the household saving rate. This trend is envisaged to continue in 2004, with private consumption growing by around 3%.

Investment is expected to moderate further in 2002, due to a sharp fall in equipment investment and a moderation in construction. With business prospects envisaged to improve in 2003, equipment investment should gain force. On the other hand, given the strength shown by construction in recent years and the brisk increase in housing prices, a further moderation of this component is expected, although it will not totally offset the improvement in equipment behaviour. All in all, gross fixed capital formation should accelerate in 2003. This trend should consolidate in 2004, with both equipment and construction gaining momentum.

Exports and imports are expected to rise in the second half of 2002, although still recording negative growth rates in the year as a whole. Along with the recovery of world demand, exports will accelerate in 2003. Imports are also expected to increase substantially, in line with the envisaged recovery of final demand. On balance the contribution of the external side to GDP growth is expected to be neutral in 2002 and 2003, turning slightly negative in 2004.

Labour market

The deceleration of activity has moderated employment creation. Employment growth is expected to slow to below 2% in 2002 but to rise towards 2½% by the end of the forecast period. Despite less buoyant employment growth, the increase in unemployment in 2002 is expected to be limited and short-lived, with the average rate for the year half a point above that of 2001, with the rate falling further in 2003 and 2004 to around 10% (Eurostat definition) by the end of the period. The activity rate is expected to rise by two percentage points over the period.

Table 3.5

Main features of country forecast - SPAIN

	2001			Annual percentage change						
	bn Euro Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	651.6	100.0		2.6	4.2	4.2	2.7	1.9	2.6	3.2
Private consumption	380.7	58.4		2.2	4.7	3.9	2.5	1.7	2.3	3.1
Public consumption	114.0	17.5		4.0	4.2	5.0	3.1	2.2	3.0	2.5
GFCF	165.6	25.4		3.7	8.7	5.7	3.2	1.5	2.5	4.5
of which : equipment	45.4	7.0		4.2	7.6	4.7	-1.2	-3.9	2.0	6.3
Change in stocks as % of GDP	2.0	0.3		0.3	0.5	0.4	0.3	0.4	0.4	0.4
Exports (goods and services)	195.0	29.9		7.6	7.7	10.1	3.4	-0.4	5.9	7.1
Final demand	857.3	131.6		3.5	6.1	5.7	2.9	1.3	3.3	4.2
Imports (goods and services)	205.6	31.6		8.6	12.7	10.6	3.5	-0.5	5.6	7.1
Contribution to GDP growth :			Domestic demand	2.8	5.6	4.6	2.8	1.7	2.5	3.4
			Stockbuilding	0.0	0.1	-0.1	0.0	0.1	0.1	0.0
			Foreign balance	-0.1	-1.4	-0.3	-0.1	0.0	0.0	-0.2
Employment				1.0	3.5	3.4	2.4	1.3	1.8	2.3
Unemployment (a)				15.8	12.8	11.3	10.6	11.4	10.9	10.2
Compensation of employees/head				8.3	2.7	3.7	4.1	4.2	3.5	3.0
Unit labour costs				6.5	2.0	2.9	3.8	3.6	2.7	2.1
Real unit labour costs				-0.6	-0.7	-0.5	-0.4	-0.2	-0.4	-0.6
Savings rate of households (b)				-	10.7	9.9	10.3	10.6	11.0	11.1
GDP deflator				7.1	2.7	3.5	4.2	3.9	3.1	2.7
Private consumption deflator				7.1	2.4	3.2	3.3	3.6	2.9	2.5
Harmonised index of consumer prices				-	2.2	3.5	2.8	3.6	2.9	2.4
Trade balance (c)				-4.0	-5.1	-6.2	-5.7	-5.0	-4.9	-5.1
Balance on current transactions with ROW (c)				-1.2	-2.3	-3.3	-2.8	-2.2	-2.0	-1.9
Net lending(+) or borrowing(-) vis à vis ROW (c)				-0.9	-1.1	-2.5	-2.0	-1.4	-1.1	-1.0
General government balance (c)(d)				-4.7	-1.1	-0.6	-0.1	0.0	-0.3	0.1
General government gross debt (c)				46.9	63.1	60.5	57.1	55.0	53.2	51.1

(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 in 2000. The UMTS amounts as a % of GDP would be : 0.1%.

The increase in employee compensation per full-time equivalent in 2002 is expected to accelerate slightly despite a weaker labour market than in 2001, mainly due to the effect of indexation clauses stemming from higher than expected inflation. However, unit labour costs are expected to remain unchanged due to a slight increase in labour productivity, yielding a decline in re al terms that would extend the trend observed in previous years. Despite the recovery of employment growth in 2003, a slight moderation of compensation per employee in line with a deceleration in price developments and improved productivity should produce a further deceleration in unit labour costs; real unit labour costs should continue to decline. These trends are expected to remain in 2004, with compensation per employee and unit labour costs moderating further.

Prices

The HICP and national CPI inflation rates averaged 2.8% and 3.6% in 2001, respectively, while core HICP inflation averaged 2.6% (3.5% for national CPI). Despite the relatively moderate behaviour of wages in 2002, price developments have been worse than expected, mainly due to unprocessed food and services. While lower energy prices in the first half of the year contributed to a fall in headline inflation rates, core inflation has remained high. For 2002 as a whole the HICP and CPI inflation rates are expected to exceed 3½% before easing to below 3% and 2½% in 2003 and 2004, respectively, provided wage moderation continues. Core inflation is expected to show little change in 2002 compared with 2001, though should moderate in 2003 and 2004.

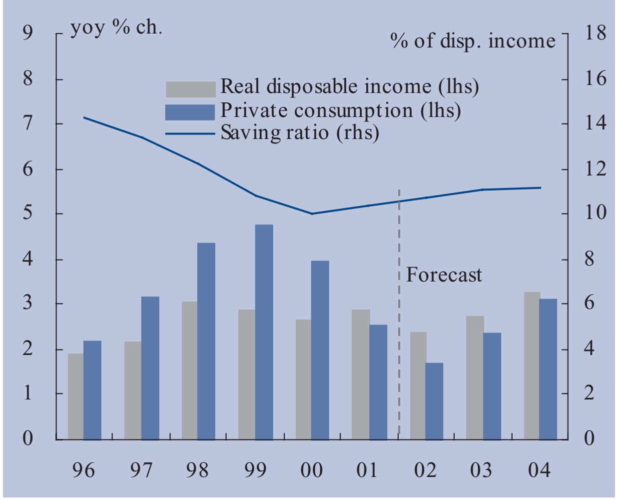
External sector

The current account deficit fell to 2.9% of GDP in 2001; growth of merchandise trade slumped. A recovery of exports of goods is expected to begin in the second half of 2002 as a result of somewhat stronger world demand, along with a recovery of imports. The upward trend is expected to continue in 2003 and 2004 for both exports and imports due to a better international climate and stronger domestic activity. The current account deficit is foreseen to narrow further to below 2% as a result of gains in the terms of trade and a growing services surplus in both 2003 and 2004.

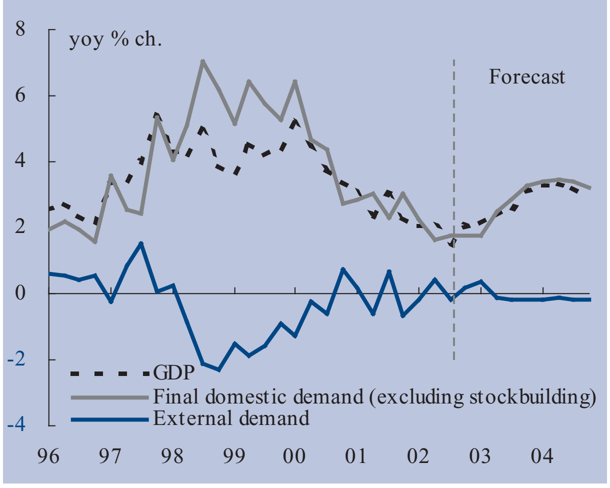
Public finances

Despite the economic slowdown in 2002, the relatively good behaviour of tax revenues, particularly the corporate income tax, and the moderation of public consumption have contributed to alleviate pressure on the budget. Consequently, the general government budget is foreseen to be in balance after a deficit of 0.1% of GDP in 2001. In 2003 the envisaged reform of the personal income tax is expected to moderate tax revenues. The forecast of a less optimistic framework than that envisaged by the authorities in the budget leads to a small deficit of 0.3% of GDP. Assuming no policy changes, the budget is forecast to record a marginal surplus in 2004, in line with the scenario foreseen in the stability programme. The debt-to-GDP ratio is expected to continue below 60% and on a declining path throughout the forecast period.

Graph 3.9 : **Spain - Households use of income account**



Graph 3.10: **Spain - Contributions to GDP growth**



6. France

Sustained domestic demand to remain the backbone of growth

The economy in the first half of 2002

Economic activity accelerated in the first half of 2002, with real GDP growing at an annualised pace of 2%, after stagnation observed in the second half of 2001. The recovery was driven in the first few months of the year by strong acceleration in exports, which supported the improvement in industrialists' output expectations. As a consequence, the rapid fall in the stock-to-GDP ratio, which had started twelve months earlier, came gradually to an end. At the same time, public consumption grew very rapidly and private consumption, although decelerating, continued to support real GDP growth.

This recovery was not strong enough to reverse the deceleration in employment creation, already observed since the Spring 2001. Thus, the unemployment rate continued increasing and reached 9.0% of the labour force in August. Private investment remained also very sluggish, companies waiting for confirmation of recovery in demand prospects before increasing productive capacities in a context of low profitability.

Current situation and prospects

Several elements currently point to weaker real GDP growth in the second half of 2002. Indeed, business survey indices have been falling since April in most sectors. In manufacturing, output expectations, a key variable of the survey, stopped improving in May, before starting to decrease to a level below long-term average. This deterioration heralds a deceleration, or even a decrease, in industrial production in the second part of 2002. In the service sector, the latest business surveys have shown relatively erratic fluctuations with the main variables remaining close to the long-term average. On the consumer side, fears of unemployment have continued increasing and confidence has deteriorated.

From the beginning of 2003, the recovery in the world economy is expected to trigger an acceleration in export markets. This movement, together with still favourable monetary conditions and a decline in inflation, should favour a gradual rebound in economic activity. Real GDP growth should resume to a rate close to potential in the first half of 2003, before further accelerating in the second part of next year and in 2004.

GDP components

The acceleration in export volumes from the beginning of 2003 should support an upturn in demand expectations, and create the conditions for a re-stocking phase. After eighteen months of stagnation, productive investment should gradually accelerate in the second half of 2003, when the upgrading of demand prospects are confirmed and capacity utilisation recovers. The continued moderation in the cost of borrowing should also contribute to the recovery in private investment.

Private consumption is expected to remain relatively dynamic, although less than observed in the last three years. Deceleration in real gross disposable income, mainly due to the slowdown in employment creation and to lower tax cuts, explains the relative moderation in private consumption growth in 2003.

Labour market, costs and prices

The deterioration in economic conditions impacted on the labour market in 2002: employment growth was virtually nil in the second quarter, and the situation is not expected to improve significantly before Summer 2003. The slowdown in employment growth also reflects the gradual fading of the impact of active labour market policies, the end of the reduction in working time, and the necessity for companies to restore margins after the strong diminution of the last two years. In this context, the increase in the unemployment rate, which began in May 2001 after three years of decline, should continue until the re-acceleration in economic activity induces a rebound in employment creation.

Table 3.6

Main features of country forecast - FRANCE

		2001		Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices		1463.7	100.0	2.0	3.2	3.8	1.8	1.0	2.0	2.7
Private consumption		805.8	55.1	1.7	3.2	2.5	2.6	1.7	2.1	2.5
Public consumption		340.6	23.3	2.4	1.5	2.7	2.5	3.2	2.0	2.4
GFCF		295.6	20.2	1.7	8.3	7.7	2.3	0.1	1.2	3.6
of which : equipment		110.1	7.5	4.4	11.9	11.5	3.6	-0.8	1.1	5.5
Change in stocks as % of GDP		-1.3	-0.1	0.1	0.6	0.9	0.2	-0.6	-0.2	0.2
Exports (goods and services)		408.6	27.9	5.2	4.3	12.7	0.5	0.4	4.6	6.3
Final demand		1849.3	126.3	2.4	3.9	5.8	1.4	0.8	2.8	3.8
Imports (goods and services)		385.6	26.3	4.3	6.2	14.3	0.1	0.4	6.1	7.7
Contribution to GDP growth :	Domestic demand			1.9	3.7	3.5	2.4	1.7	1.9	2.6
	Stockbuilding			0.0	-0.1	0.4	-0.8	-0.8	0.4	0.4
	Foreign balance			0.2	-0.3	-0.1	0.1	0.0	-0.3	-0.3
Employment				0.2	1.9	2.4	2.1	0.6	0.4	1.2
Unemployment (a)				9.9	10.7	9.3	8.5	8.8	9.0	8.3
Compensation of employees/head				5.2	2.5	2.1	2.6	2.7	2.6	2.9
Unit labour costs				3.4	1.2	0.7	2.9	2.4	1.1	1.4
Real unit labour costs				-0.7	0.6	0.0	1.4	0.6	-0.5	-0.1
Savings rate of households (b)				-	15.3	15.4	15.9	16.2	15.8	15.7
GDP deflator				4.1	0.5	0.7	1.4	1.8	1.5	1.5
Private consumption deflator				4.4	0.4	1.5	1.6	1.6	1.7	1.6
Harmonised index of consumer prices				-	0.6	1.8	1.8	1.9	1.8	1.6
Trade balance (c)				-0.9	0.9	-0.3	0.1	0.1	-0.1	-0.2
Balance on current transactions with ROW (c)				-0.9	2.6	1.2	1.2	1.1	1.0	0.9
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.0	2.5	1.2	1.2	0.9	0.9	0.9
General government balance (c)(d)				-3.0	-1.6	-1.3	-1.4	-2.7	-2.9	-2.5
General government gross debt (c)				38.9	58.5	57.3	57.3	58.6	59.3	59.3

(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 in 2001 and 2002. The UMTS amounts as a % of GDP would be : 0.1% and 0% respectively.

Wage moderation is expected to continue in 2003 and 2004, even if a slight acceleration by the end of the forecast period cannot be excluded. Indeed, in 2003 the effects of the harmonisation of the different levels of the minimum wage created by the working time reduction laws will be counter-balanced by a cyclical deceleration in wages. In a context of accelerating apparent labour productivity, growth in unit labour costs is projected to be moderate in 2003 and 2004, especially compared to the relatively dynamic increment observed in 2001 and 2002.

Against this background, underlying inflationary pressures should remain limited. Moderation in prices will also reflect the consequences of the appreciation of the euro and the normalisation of energy and food prices. After a temporary acceleration in the last few months of 2002, the year-on-year rate of inflation should decrease gradually during 2003. In line with economic recovery, inflation is projected to re-accelerate moderately in the course of 2004, although remaining below 2%.

Public finances

In 2002 public finances deteriorated markedly. The general government deficit is now forecast to reach 2.7% of GDP this year. This is to be compared to the 1.4% of GDP planned by the French authorities in the Finance Law for 2002. The Commission forecast assumes a tight control in public expenditures in the second part of the year. The slippage in the 2002 deficit is due to an overrun in expenditures, worth 0.6-0.7 percentage point of GDP, and to a shortfall in revenues reflecting unfavourable economic developments.

The French authorities project a stabilisation in the general government deficit in 2003 at the same level as in 2002, i.e. 2.6% of GDP according to the draft budget for 2003, under the assumption of an acceleration in real GDP growth to 2.5% in 2003. These plans reflect the fact that the margins created by a slower-than-GDP growth in expenditures (+1.5% in real terms) just compensate the implementation of tax cuts (worth 0.2 percentage point of GDP).

A general government deficit of 2.9% of GDP is projected for 2003. This projection makes the crucial assumption that real expenditures in 2003 will be in line with the target set in the draft budget bill for 2003, except for unemployment benefits and for a slight slippage in health expenditures. The largest part of the difference with the official forecast stems from the impact of lower growth on budgetary variables.

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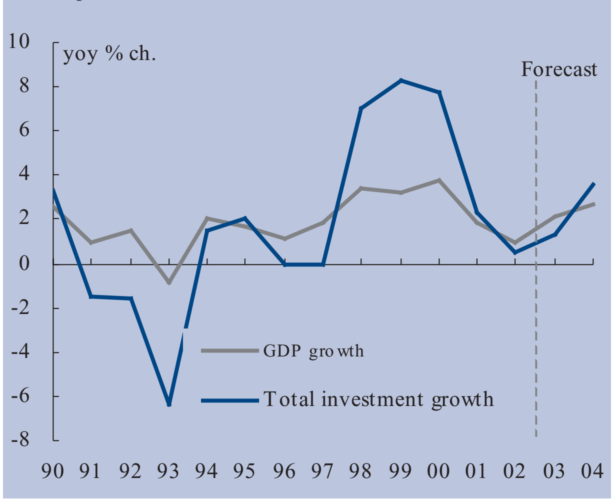
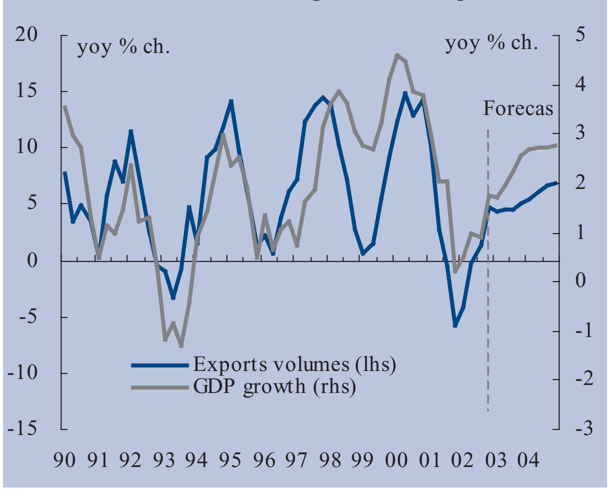
In 2004, the general government deficit is projected to decrease to 2.5% of GDP. The crucial assumption concerns real government expenditures, which are projected to increase by 2% in real terms by the Commission. This is to be compared with an expenditure increase by 1.4% for 2004 in the multi-annual budgetary projection associated with the 2003 budget. The embodied slippage in expenditures is slightly lower than the average slippage observed since the introduction of multi-annual plans exist. This forecast takes into account the slowdown in the dynamic of public payrolls planned for 2003 and the full impact of measures on health expenditures. Should developments on the spending side and tax cuts be in line with the multi-annual programme, the 2004 general government deficit could be 0.2 percentage point of GDP lower than currently forecast by the Commission.

Graph 3.11: **France - GDP and investment**



Graph 3.12: **France - GDP growth and exports**



7. Ireland

A sharp slowdown followed by recovery to sustainable growth

Output in 2001-2002

Irish real GDP growth fell to 5.7% in 2001, after 9.8% on average over the period 1996-2000. While still impressive by EU standards, Ireland experienced a sharp downturn under the combined influence of (labour) supply constraints and several exogenous shocks (international slowdown, ICT retrenchment and animal diseases): year-on-year growth declined from 12.3% in the first to 0.1% in the final quarter. For 2002, preliminary quarterly national accounts indicate a year-on-year expansion of 2.9% in the first quarter. Industrial production grew 8.8% on the year in the first eight months, compared to 10.2% for year 2001, but this reflects a very strong performance of the chemicals sector (+31.7%); excluding chemicals, industrial output fell by 7.6%. For 2002 as a whole, real GDP growth of just above 3% is expected, even more muted than the previous year.

Demand components in 2002

As in earlier years, nominal disposable incomes are being boosted by high growth in earnings per capita, significant direct tax relief, a rise in employment and very low to negative real interest rates. Nonetheless, continuing high inflation and poor confidence levels from job losses are depressing private spending growth, especially when compared with the record levels of 1999-2000. Excluding car sales, retail sales volume in the first eight months was 2.9% higher than in the same period of 2001. Public consumption is also supporting domestic demand, albeit on a reduced scale compared with the previous year.

Housing completions, which achieved another record in 2001, benefited from budget changes and look set to expand firmly; in the first six months of 2002, completions rose 5.2% on the year. Growth in other construction is forecast to be more subdued, partly because the roll-out of the National Development Plan is affected by high construction sector inflation. Regarding investment in equipment, nominal imports of producer capital goods for the first six months (n.s.a.) were up 28% on the preceding half-year, but fell 11% on the year. In line with this, the assumed gradual recovery in overall equipment investment results in negative annual growth, albeit less dramatically so than in 2001.

Merchandise exports were very strong in the beginning of the year mainly due to an impressive performance of the chemical and pharmaceutical sectors. In the first seven months, exports expanded 2.2% in volume on the year and, for 2002 as a whole, are expected to post very modest growth by recent Irish standards. Merchandise imports, which stagnated in 2001, rose by 2.6% in volume in the first seven months and are forecast to maintain positive growth, in line with the strengthening of economic activity. Trade in services is forecast to be much more buoyant, as was the case in 2001.

Growth in 2003-2004

As one of the most open economies of the EU, Ireland is expected to benefit significantly from the international pick-up in activity in 2003, leading to a recovery of exports and investment. Reflecting improved economic conditions, a modest fall in the savings rate after two consecutive years of rises should also support private consumption. While activity will strengthen as the year progresses, 2003 will be another year of below potential growth. For 2004, however, the projections assume growth to rise towards that commonly thought to be sustainable in the medium term, of above 5%.

Table 3.7

Main features of country forecast - IRELAND

	2001				Annual percentage change					
	bn Euro Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	114.5	100.0		4.8	11.1	10.0	5.7	3.3	4.2	5.2
Private consumption	53.6	46.8		3.1	9.3	9.0	5.0	3.7	4.8	5.6
Public consumption	16.8	14.7		1.6	6.7	7.6	10.5	7.0	3.2	3.0
GFCF	26.7	23.3		3.5	14.0	7.0	-0.4	0.8	3.9	4.6
of which : equipment	7.8	6.8		4.0	17.3	9.6	-7.4	-2.5	4.5	6.0
Change in stocks as % of GDP	0.3	0.3		0.6	0.5	0.7	0.3	0.2	0.2	0.1
Exports (goods and services)	112.4	98.2		11.0	15.2	20.6	6.7	4.9	7.3	9.2
Final demand	209.7	183.2		6.1	11.8	14.9	5.5	4.3	6.0	7.3
Imports (goods and services)	95.5	83.4		8.5	12.0	21.2	6.1	5.3	7.8	9.5
Contribution to GDP growth :			Domestic demand	2.7	8.7	7.1	3.9	3.0	3.6	4.1
			Stockbuilding	0.2	-1.4	0.3	-0.4	0.0	-0.1	-0.1
			Foreign balance	1.7	4.3	2.4	1.6	0.4	0.7	1.1
Employment				1.4	6.0	4.7	3.0	1.3	1.4	1.9
Unemployment (a)				13.8	5.6	4.2	3.8	4.4	4.9	4.8
Compensation of employees/head				7.0	5.2	8.9	9.2	7.9	6.7	5.9
Unit labour costs				3.5	0.3	3.6	6.4	5.8	3.8	2.5
Real unit labour costs				-1.7	-3.7	-0.6	1.1	0.3	0.0	-1.0
Savings rate of households (b)				-	12.8	13.0	13.5	14.4	14.2	13.8
GDP deflator				5.4	4.1	4.3	5.3	5.5	3.7	3.6
Private consumption deflator				5.2	3.1	4.0	4.2	4.7	4.0	3.3
Harmonised index of consumer prices				-	2.5	5.3	4.0	4.8	3.8	3.1
Trade balance (c)				8.3	25.4	27.3	29.9	29.6	29.4	30.0
Balance on current transactions with ROW (c)				-1.7	0.4	0.1	-0.3	-0.9	-1.3	-1.6
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	1.0	1.2	0.3	-0.3	-0.8	-1.2
General government balance (c)(d)				-4.9	2.2	4.4	1.5	-1.0	-1.2	-1.0
General government gross debt (c)				96.1	49.7	39.1	36.4	35.3	35.0	34.5

(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 in 2002. The UMTS amount as a % of GDP would be : 0.2%.

Labour market

The steady fall in unemployment since 1996, when the rat e was some 12%, finally came to a halt in early 2001, having reached a very low rate of below 4%. Since then, unemployment has displayed a moderate upward trend. Over the first nine months of 2002, the rate averaged 4.4%. The economic slowdown is expected to lead to employment growth below labour force growth in both 2002 and 2003, entailing a rise in unemployment. However, in 2004, this situation should be reversed, so that unemployment starts to fall again, to just under 5%. This forecast assumes falling net immigration and slowing population growth.

Wage developments

Wage pressures have intensified in recent years in response to high(er than expected) inflation and labour shortages in a situation of virtually full employment. As a result, compensation per capita gained 9.2% in 2001 after 8.8% in 2000. The available evidence for 2002 suggests a delayed response to the economic downturn: in the first six months, hourly industrial earnings rose 8.2% on the year, down from 10.3% in the preceding half-year. While the forecast assumes a gradual easing to 2004, growth in compensation per capita is expected to remain relatively high because of a continued tight labour market and sticky inflation expectations. Regarding 2002, the forecast thus assumes a continuation of significant drift above the pay terms of the current national agreement, which for the year amounted to a rise in basic pay of 4.8% and 5.6% in the private and public sector respectively and a one-off lump-sum of 1% of basic pay. With the current agreement expiring at the end of the year, negotiations for a possible successor started at the end of October 2002.

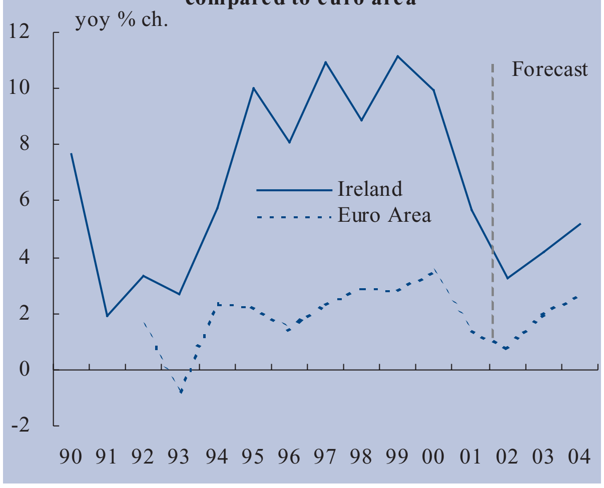
Inflation

The budget for 2002 introduced a package of indirect tax rate hikes which, according to the Irish authorities, added almost 1 percentage point to the 2002 inflation rate (CPI measure). This, together with far higher rates of underlying inflation than in 2001, has produced a marked rise in inflation in spite of the economic slowdown. Compared to 4.0% in year 2001, the HICP rate averaged 4.8% over the first nine months of 2002 and a similar rate is expected for the year as a whole. In 2003 and 2004, inflation should fall in response to lower earnings growth and easing excess demand pressures, leading to a narrowing differential with the euro area average.

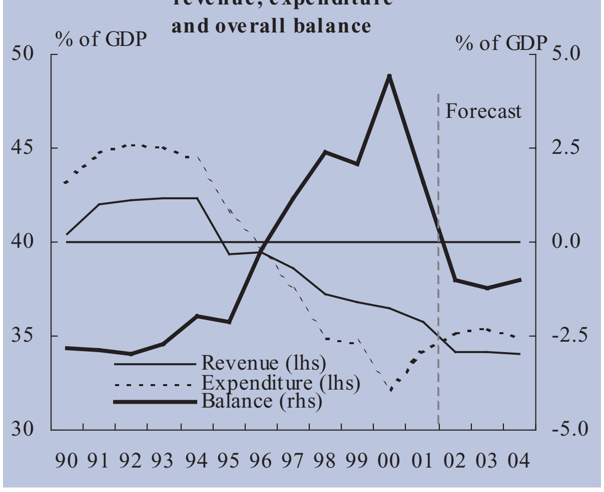
Public finances

General government data for 2001 are not yet fully available and have been partly estimated. In 2002, as in 2001, the implementation of the budget has been marked by a significant tax undershoot. In the first ten months, taxes grew just 2.3% on the year, compared to a budget target of 8.6%. Furthermore, discretionary ("voted") spending rose 19.6%, compared to a budgeted rise of 14.4% for the year as a whole. The general government balance is forecast to post a deficit (the first since 1996) of some 1% of GDP, far below the budget-day target of a surplus of 0.4% of GDP (adjusted for the exclusion of a one-off transfer from the Central Bank and including UMTS receipts). As the budget for 2003 will be unveiled only on 4 December, the forecasts for 2003-2004 are pre-budget. Given the non-indexed tax and social benefits system, the no-policy change assumption is made operational by freezing average tax rates and adjusting social transfer payments by the forecast CPI inflation rate (with a top-up of 1 percentage point). The projections take account of the cut in the corporation tax rate to 12.5% from 1 January 2003 and, for expenditure, envisage further implementation of the National Development Plan. However, no contingency provisions are included and no allocation has been made for “benchmarking” (pay increases for public sector workers recommended in July 2002), because of uncertainties regarding its degree and timing of implementation (the Irish authorities estimate that full implementation would cost close to 1% of GDP). On these assumptions, the general government balance remains in deficit, while the value of general government debt broadly stabilises at around 35% of nominal GDP over the forecast horizon.

Graph 3.13 : **Ireland - Real GDP growth compared to euro area**



Graph 3.14 : **Ireland - General government revenue, expenditure and overall balance**



8. Italy

Weak domestic demand weighs on the pace of economic recovery

Growth

In 2002 real GDP growth is forecast to average around ½ percent, down from 1.8% in 2002. Economic performance was lacklustre in the first half, staying well behind what had been expected in spring. It was also considerably weaker than in the rest of the euro area. Total output edged up only marginally in the first two quarters, leaving an overhang of merely 0.2% compared with the euro area average of 0.5%. The lack of momentum was due to a delayed revival of export demand coupled with very weak final domestic demand, from which the contribution to growth failed to move into positive territory. Private consumption expenditure remained subdued, showing little to no response to sluggish but nevertheless tangible signs of economic recovery. In the second quarter private consumption was still below the level of a year earlier, despite ongoing job creation and a sizeable increase in real disposable income.

For the second half of 2002, estimates of industrial production point to a temporary acceleration in economic activity in the third quarter, helped by a favourable working days effect. Thereafter, leading indicators as well as the likely impact of strikes suggest a return to a more measured but nevertheless positive upward trend. Only investment is expected to experience a brief and more substantial upturn towards the end of the year, as firms take advantage of the so-called "Tremonti" law, a tax incentive scheme due to expire at the end of December. However, this will only partly off-set the negative performance earlier in the year.

In 2003, the sluggish pace of recovery is expected to continue, with economic growth strengthening only gradually. A more sizeable acceleration is forecast from around mid-year, along with an improved economic situation in the euro area as a whole. The revival is assumed to be largely driven by stronger domestic demand, benefiting from a favourable set of fundamentals. In particular, private consumption should rise on account of easing inflationary pressure and further increases in disposable income backed by planned income tax cuts. The stronger effective exchange rate with respect to the 2002 average and Italy's trade weighting towards foreign markets expanding less than total world trade are expected to dampen merchandise export growth. The external contribution to growth is likely to remain slightly negative. Nevertheless, total output growth is forecast to approach 3% in annualised terms in the second half of the year, averaging 1.8% in 2003 as a whole. For 2004, taking into account the carry-over effect from 2003 and assuming that economic activity expands towards its potential rate over the course of the year, real GDP growth is likely to average around 2.4%.

Prices and wages

In 2002, in spite of a sizeably negative output gap and a decree law freezing controlled prices up until the end of November, inflationary pressure has remained high. Annual average CPI inflation, which measures price increases gross of subsidies, might be around 2.5%, slightly lower than that of the HICP as household medical cost contributions were increased over the course of the year. Inflation is forecast to ease early in 2003 as the negative output gap persists essentially unchanged and import prices benefit from a stronger euro. Unit labour costs are also assumed to contribute to lower inflation, mainly through an increase in productivity. Wage increases are forecast to stay moderate.

Employment and unemployment

In clear contrast with most euro area economies, employment continued to increase in Italy up until July 2002, although at a slowing rate. The rate of unemployment fell to 9.0%, a ten-year low. By regions, however, employment started to decline in the northern part of the country, signalling that the positive trend in the country as a whole is likely to come to a halt.

Table 3.8

Main features of country forecast - ITALY

	2001			Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices		1216.7	100.0	1.9	1.6	2.9	1.8	0.4	1.8	2.4
Private consumption		732.3	60.2	2.2	2.4	2.7	1.1	-0.1	1.9	2.4
Public consumption		224.7	18.5	1.6	1.3	1.7	2.2	1.6	1.2	0.8
GFCF		241.0	19.8	1.2	5.7	6.5	2.4	-2.2	3.2	3.9
of which : equipment		115.4	9.5	2.3	8.3	7.1	1.1	-4.2	3.9	5.1
Change in stocks as % of GDP		-0.7	-0.1	0.7	0.9	-0.2	-0.2	0.7	0.6	0.5
Exports (goods and services)		344.0	28.3	5.1	0.3	11.7	0.8	-0.7	4.9	6.9
Final demand		1541.2	126.7	2.4	2.4	4.3	1.4	0.4	2.6	3.5
Imports (goods and services)		324.5	26.7	4.9	5.3	9.4	0.2	0.1	5.4	7.2
Contribution to GDP growth :	Domestic demand			1.8	2.8	3.2	1.6	-0.2	2.0	2.4
	Stockbuilding			-0.1	0.1	-1.1	0.0	0.9	-0.2	0.0
	Foreign balance			0.1	-1.3	0.8	0.2	-0.2	-0.1	0.0
Employment				0.3	1.1	1.9	1.6	1.0	0.4	1.0
Unemployment (a)				9.5	11.3	10.4	9.4	8.9	8.9	8.7
Compensation of employees/head				8.4	2.4	3.0	2.8	2.9	2.8	2.9
Unit labour costs				6.7	2.0	2.0	2.6	3.5	1.4	1.4
Real unit labour costs				-1.0	0.3	-0.1	0.0	1.0	-1.0	-0.7
Savings rate of households (b)				-	15.6	14.8	15.2	16.5	16.7	16.3
GDP deflator				7.8	1.7	2.1	2.6	2.4	2.4	2.1
Private consumption deflator				7.6	2.1	2.8	2.9	2.7	2.2	2.0
Harmonised index of consumer prices				-	1.7	2.6	2.3	2.6	2.0	1.9
Trade balance (c)				0.8	2.4	1.3	1.9	2.1	2.3	2.5
Balance on current transactions with ROW (c)				-0.1	1.0	-0.2	0.6	0.7	1.0	1.1
Net lending(+) or borrowing(-) vis à vis ROW (c)				0.0	1.2	0.1	0.7	0.8	1.0	1.2
General government balance (c)(d)				-9.4	-1.8	-0.5	-2.2	-2.4	-2.2	-2.9
General government gross debt (c)				97.0	114.5	110.6	109.9	110.3	108.0	106.9

(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 in 2000. The UMTS amount as a % of GDP would be : 1.2%.

Moreover, planned layoffs at FIAT and the ensuing effects on suppliers can be expected to have a measurable impact on total employment. Consequently, job creation is forecast to turn negative in late 2002 and to recover gradually over the course of the following two years. The declining trend in the rate of unemployment is expected to stop in 2003 and to resume in 2004.

Public finances

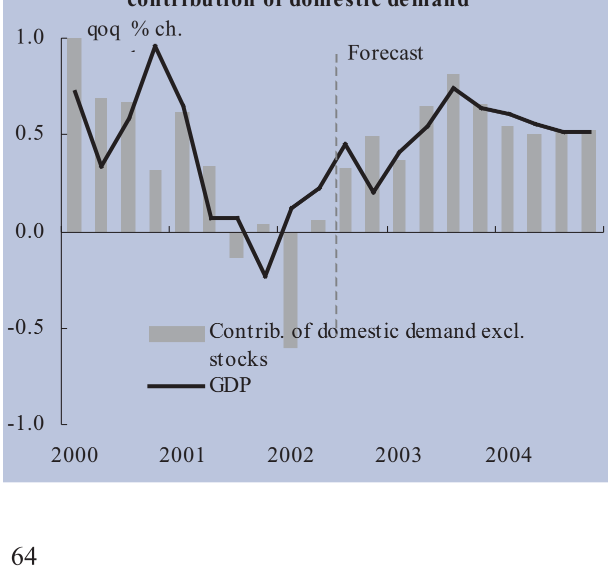
After a deficit of 2.2% of GDP in 2001, general government net borrowing in 2002 is estimated at 2.4% of GDP, decreasing marginally in 2003 also as a result of sizeable one-off measures (1.2% of GDP, compared to 0.7% in 2002). In 2004 the “no-policy-change” deficit is estimated at around 3% of GDP. Reflecting a large and largely unexplained discrepancy between government accounts in accrual and cash terms (see chart 3.16), the government debt ratio in 2002 is expected to slightly increase compared to 2001 and to decline very gradually in 2003-2004. Developments in the debt ratio over the forecast period do not take into account an announced financial operation which could lower the debt ratio at the end of 2002 below the 2001 level and slightly accelerate the projected pace of reduction in subsequent years.

The forecast takes into account the effects of the decree laws of 8 July (which blocks tax credits for recruitment and investment in disadvantaged areas and curbs increases in healthcare expenditure) and of 24 September (urgent measures to increase tax receipts). Despite these measures, sales of real assets amounting to some 0.6% of GDP and receipts from a tax amnesty for assets held abroad totalling another 0.1% of GDP, the primary surplus drops markedly in 2002 compared to 2001, partly offset by the large decline in interest payments. Current tax receipts decrease slightly relative to GDP, also due to the lesser effect of some transitory revenue-boosting taxes in 2001. Moreover, there are uncertainties as to the expected yields of other taxes, notably the tax on the re-evaluation of assets introduced in the Budget Law for 2002. The strong increase in primary expenditure in percentage of GDP compared to 2001 is due to higher outlays for healthcare, wages and pensions.

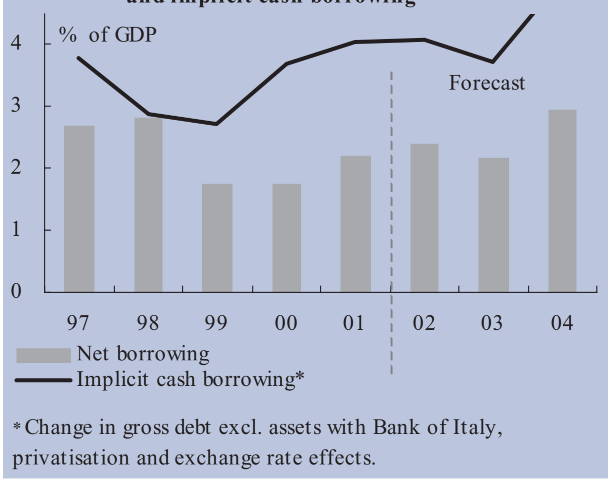
The draft Budget Law for 2003, unveiled on 30 September, introduces a reduction in the personal income tax estimated at 0.3% of GDP, as well as a sizeable tax settlement operation, estimated to improve the budget balance by 0.4% of GDP, and a new tax amnesty for assets held abroad, expected to yield a further 0.2% of GDP. The Commission forecast fully includes the estimated effects of these measures, all of which have essentially transitory effects. Planned savings in government purchases of goods and services on the part of the central and decentralised administrations and in subsidies to enterprises are estimated in the forecast to total 0.6% of GDP. It should be noted that the government's amendment to the Budget Law, presented to Parliament on 31 October, has not been assessed and its effects are not included in the Commission forecast. The Commission's budgetary estimate also hinges on planned sales of real assets of 0.6% of GDP, which carry a degree of uncertainty, as they concern not yet fully identified state property.

The forecast for 2004 is based on legislation currently in force. Tax and social security contributions receipts are consistent with the macroeconomic framework and with the estimated effects of the measures in the Budget Law for 2003. Other revenues and non-interest expenditures are forecast on the basis of the trends underlying the updated official projections for 2003-2006 released in September. The rate of increase of compensation of employees has been adjusted for the assumption on inflation. Gross fixed capital formation reflects much lower sales of real assets. Capital receipts reflect the expiration of one-off revenue measures.

Graph 3.15 : **Italy - GDP growth and contribution of domestic demand**



Graph 3.16 : **Italy - general government: net borrowing and implicit cash borrowing***



* Change in gross debt excl. assets with Bank of Italy, privatisation and exchange rate effects.

9. Luxembourg

Significant slowdown as services exports weaken, but recovery expected

The situation in 2002

In 2001 economic growth in Luxembourg slowed down sharply to 1.0%, following many years in which real GDP growth clearly exceeded the EU average. In view of the very open character of the Luxembourg economy, the slowdown was primarily due to weak export growth of 1.6%, in line with the cyclical downturn in world trade, while import growth at 5.0% remained strong, sustained by still buoyant domestic demand. The deceleration in exports was primarily due to a 0.4% decrease in services exports, probably largely accounted for by weakness in financial services exports in response to the turmoil on global financial markets. The deterioration of the external balance continued into the first half year of 2002, mainly due to a contraction in the value of exports. In general, exposed sectors of the economy, notably financial services and telecommunications as well as manufacturing, showed signs of further weakening, along with the general slowdown of economic activity in the EU. However, the performance of sheltered sectors has been more positive during the first part of 2002. Retail trade remained rather buoyant, probably due to the dynamism in private consumption, boosted by strong (albeit decelerating) job creation and an acceleration in wage increases. By contrast, construction output was quite strong in the first half of 2002, in particular public construction investment. Strong growth in economic activity in recent years resulted in a very fast increase in employment, which rose by 5.6% in 2001. This strong job creation slowed down in the first eight months of 2002, and was even negative in manufacturing. Consumer price inflation decelerated between January and August 2002, largely due to base effects, despite some upward impact of the cash changeover to the euro concentrated at the beginning of the year.

Prospects

Real GDP growth is expected to slow down further in 2002 to a mere 0.1%, well below the EU average. The stagnation of economic growth not only stems from a drag from the external sector but also from a marked slowdown in domestic demand, despite strong increases in real government consumption, as private consumption growth is expected to moderate and gross fixed capital formation, particularly in machinery, will be adversely affected by the economic slowdown. Private consumption would decelerate to 2.3% in 2002, due to lower increases in real wages, decelerating employment and increased uncertainty on the part of consumers which will likely lead to higher savings. For 2002, it is expected that a major drag on activity still stems from adverse developments in the financial sector, which will impact negatively on services exports. Given the size of the negative external shock to the financial sector that affected the Luxembourg economy already last year, a (somewhat delayed) negative impact on overall employment and on activity in a broader range of business services sectors is expected. Overall economic prospects are somewhat more favourable over the remainder of the forecast horizon; a pickup in real GDP growth to 2.0% is foreseen in 2003 as a result of a more favourable external environment which would help exports and private investment to gradually recover from the adverse impact of the global cyclical downturn. In 2004, real GDP is expected to grow by 5.6% largely as a result of a recovery of domestic demand.

Employment and unemployment

Employment growth should decelerate in the course of 2003, reflecting the slowdown in economic activity with a lag. Total employment growth is forecast to decrease to slightly over 1% in 2003, before picking up to 1.6% in 2003 in line with the upturn in economic activity. As job creation in recent years had mostly benefited non-residents, the slowdown in employment growth will result in a particularly sharp slowdown in the number of frontier workers. However, it should also lead to a rise in the number of resident unemployed even if a significant part of this increase is likely to be

Table 3.9

Main features of country forecast - LUXEMBOURG

	2001			Annual percentage change						
	mio Euro	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices		21510.3	100.0	4.9	6.0	8.9	1.0	0.1	2.0	3.4
Private consumption		9104.2	42.3	3.2	2.6	3.3	3.6	2.3	2.0	3.0
Public consumption		3719.1	17.3	4.0	7.1	4.3	7.5	6.0	7.5	4.5
GFCF		4667.8	21.7	4.6	14.0	-6.3	5.9	-2.7	-0.3	4.3
of which : equipment		1675.9	7.8	-	25.4	-19.6	7.0	-9.1	-7.3	3.9
Change in stocks as % of GDP		179.4	0.8	1.2	0.5	-0.5	0.9	0.5	0.5	0.5
Exports (goods and services)		32792.4	152.5	6.8	12.0	19.1	1.2	-2.6	3.2	4.5
Final demand		50462.9	234.6	5.4	9.6	11.3	3.2	-1.0	2.9	4.2
Imports (goods and services)		28952.6	134.6	5.9	12.9	14.0	4.5	-1.9	3.7	4.8
Contribution to GDP growth :	Domestic demand			3.4	5.7	0.7	4.0	1.4	2.2	3.2
	Stockbuilding			0.3	-0.3	-1.0	1.4	0.1	0.0	0.0
	Foreign balance			1.2	0.5	8.3	-4.0	-1.4	-0.2	0.2
Employment				2.2	5.0	5.6	5.6	2.8	1.2	1.6
Unemployment (a)				2.5	2.4	2.3	2.0	2.3	2.8	2.9
Compensation of employees/head				4.9	3.4	4.7	4.4	3.5	3.0	2.3
Unit labour costs				2.2	2.4	1.5	9.1	6.3	2.2	0.5
Real unit labour costs				-1.4	-0.7	-1.2	6.7	5.4	0.2	-1.4
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.6	3.1	2.8	2.3	0.8	2.0	2.0
Private consumption deflator				3.8	1.4	2.6	2.8	1.9	1.7	1.6
Harmonised index of consumer prices				-	1.0	3.8	2.4	1.9	1.8	1.8
Trade balance (c)				-11.5	-12.9	-9.2	-12.1	-12.4	-12.6	-12.8
Balance on current transactions with ROW (c)				-	-	-	-	-6.1	-5.8	-5.0
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	-	-	-	-6.1	-5.8	-5.0
General government balance (c)				-	3.6	5.6	6.1	0.5	-1.8	-1.9
General government gross debt (c)				7.1	6.0	5.6	5.6	4.6	3.9	5.4

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

cushioned by the specific measures for the unemployed already implemented by the authorities. Consequently, the rise in registered unemployment is likely to be cushioned.

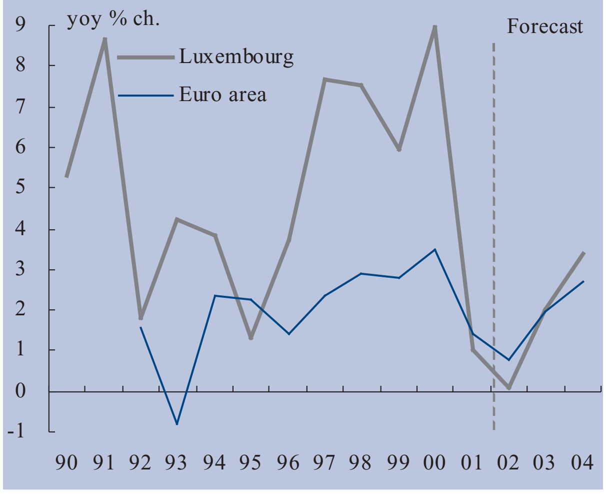
Costs and prices

HICP inflation is predicted to fall to 1.9% this year, from 2.4% in 2001, due to lower energy prices, a weakening of unit labour costs and to a cyclical contraction in profit margins. Harmonised inflation should subsequently slightly decelerate further to 1.8% in 2003 and remain at this rate in 2004, as the moderating impact of decelerating unit labour costs would be compensated for mainly by the unwinding of the negative contribution of energy prices and by a recovery in profit margins. Decelerating inflation would allow wages increases to slow down gradually over the forecast horizon while remaining probably faster than in neighbouring countries. The expected moderation in unit labour costs is largely due to a cyclical pick up in labour productivity growth.

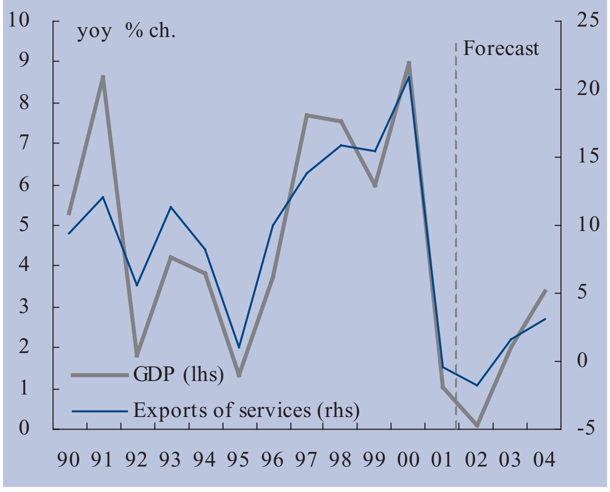
Public finance

Strong domestic activity boosted government revenues in 2001. Hence, despite a round of tax cuts and rather strong government expenditure, the general government surplus amounted to 6.1% of GDP, compared to 5.6% in 2000. Substantial surpluses were recorded both in the central government and with the social security funds. In 2002 the general government surplus should decrease significantly. This outcome is attributable both to the decrease in the revenue-to-GDP ratio and to the marked increase in spending caused by slower economic growth. The broad tax reform implemented in 2001 and 2002 will negatively affect receipts of both corporate taxes and income taxes from 2002 onwards. Government expenditure will continue to grow fast mainly owing to an increase in social payments and the sustained growth in government expenditure and public investment in infrastructures. Consequently, the expenditure to GDP ratio is considerably, to 45.2% of GDP in 2004. The general government surplus is expected to turn projected to increase into a deficit of 1.8 and 1.9% of GDP in 2003 and 2004 respectively, due to continued strong growth in expenditure, the lagged impact of the slowdown in economic activity on revenues from taxes and social contributions, as well as the effects of the tax reform. Public debt is expected to reach 5.4% by 2004.

Graph 3.17 : **Luxembourg - GDP growth compared to the euro area**



Graph 3.18 : **Luxembourg - GDP growth and exports of services**



10. The Netherlands

Economic growth stalls as high labour costs lead to competitiveness problems

The situation in 2002

Following a number of years in which real GDP growth exceeded the EU average, the Dutch economy is experiencing a sharp slowdown. Real GDP growth is expected to reach a mere 0.2% in 2002. In the second quarter of 2002, economic growth hovered around zero in quarter-on-quarter terms for the fourth consecutive quarter. As elsewhere in the EU, the slowdown in activity was to a large extent due to the deceleration in international trade. The decline in exports was accentuated by the deterioration in external competitiveness and the consequent losses in export market share. The recent appreciation of the euro has been an additional factor dampening Dutch export growth. In addition, domestic demand and in particular private consumption has also weakened considerably for a number of reasons. Private consumption growth has been lacklustre on the back of the significant declines in consumer confidence, signs of a reversal on the labour market as the unemployment rate started to rise, and the negative impact of high inflation on household real disposable income. Moreover, the slump on equity markets and the moderation on the housing market led to the fading out of wealth effects that had boosted private consumption between the mid-1990s and the year 2000. The household saving ratio sharply increased in 2001 and likely will remain high in 2002, despite substantial gains in household disposable income due to the 2001 tax reform, as households appear reluctant to spend in response to the economic downturn, volatility on financial markets, and heightened concern about economic prospects. A deterioration in profits and slow growth put downward pressure on investment. Investment growth was strongly negative in the first two quarters of 2002 reflecting weak business confidence, lower than expected corporate profits, uncertainty partly resulting from the turmoil in financial markets, losses in external competitiveness, and sluggish housing investment.

Prospects: slow recovery in the course of 2003

A recovery in exports and some rebound in domestic demand would lead to a modest upturn, starting from the second half of 2002 onwards. This will result in real GDP growth reaching 0.9% in 2003 and 2.2% in 2004. In 2003, consumer demand will remain sluggish despite a drop in inflation, reflecting uncertainty on the part of consumers and a worsening labour market. In 2004, the expected further fall in inflation and a recovery in employment growth would underpin real disposable household income. Hence, private consumption growth is expected to increase to 1.5% in 2004. Private non-residential capital formation is expected to recover gradually in the course of 2003 and 2004, in line with the upturn in domestic and external demand, with total investment growth reaching 2.2% by 2004. On the external side, export growth is expected to recover to 4.1% in 2003 and 5.7% in 2004 in line with developments in world demand. However, over the forecast horizon, the recovery of net exports is expected to be relatively muted compared to previous cyclical upswings, as losses in competitiveness not only dampen the recovery of exports, but also lead to a gradual increase in import penetration. Restraints on government spending put in place by the new government would limit the growth rate of real government consumption to 0.3% next year and 1.2% in 2004. The contribution of inventories to real GDP growth is expected to turn slightly positive in 2003, following the drag on growth put in 2002 during the downward phase of the inventory cycle.

A risk to the forecast concerns the impact of the decline in equity prices on pension fund reserves. For around 300 pension funds out of a total of some 900, reserves have fallen below the statutory minimum coverage

Table 3.10

Main features of country forecast - NETHERLANDS

	2001			Annual percentage change						
	bn Euro Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	429.2	100.0		2.5	4.0	3.3	1.3	0.2	0.9	2.2
Private consumption	212.9	49.6		1.8	4.7	3.6	1.2	1.0	1.0	1.5
Public consumption	99.5	23.2		2.1	2.5	1.9	3.1	2.4	0.3	1.2
GFCF	94.1	21.9		2.3	7.8	3.5	-0.8	-3.3	-0.2	2.2
of which : equipment	30.4	7.1		4.0	10.1	4.1	-4.4	-5.8	-2.2	2.3
Change in stocks as % of GDP	-0.1	0.0		0.4	0.1	-0.2	0.0	0.0	0.0	0.0
Exports (goods and services)	280.2	65.3		5.4	5.1	10.9	1.7	-1.6	4.1	5.7
Final demand	686.6	160.0		3.2	4.6	6.0	1.5	-0.4	2.0	3.3
Imports (goods and services)	257.4	60.0		4.6	5.8	10.6	1.9	-1.4	3.9	5.0
Contribution to GDP growth :			Domestic demand	1.9	4.6	3.0	1.1	0.3	0.5	1.5
			Stockbuilding	-0.1	-0.5	-0.3	0.2	0.1	0.0	0.0
			Foreign balance	0.5	-0.1	0.8	0.0	-0.2	0.4	0.7
Employment				1.4	2.6	2.2	1.9	0.3	-0.5	0.2
Unemployment (a)				7.0	3.2	2.8	2.4	3.1	4.3	4.6
Compensation of employees/head				2.6	3.7	4.6	5.0	5.1	4.2	3.9
Unit labour costs				1.6	2.4	3.5	5.7	5.2	2.7	1.8
Real unit labour costs				-0.4	0.8	-0.6	0.4	1.3	-0.3	-0.5
Savings rate of households (b)				-	15.2	11.8	14.5	14.5	14.3	14.3
GDP deflator				2.0	1.6	4.2	5.3	3.8	2.9	2.3
Private consumption deflator				2.5	1.8	3.5	4.6	3.4	2.6	2.2
Harmonised index of consumer prices				-	2.0	2.3	5.1	3.9	2.8	2.4
Trade balance (c)				3.8	3.9	5.0	5.6	5.6	6.0	6.7
Balance on current transactions with ROW (c)				3.7	4.0	5.3	3.3	3.6	4.3	5.5
Net lending(+) or borrowing(-) vis à vis ROW (c)				3.5	3.8	4.9	3.2	3.8	3.3	4.4
General government balance (c)(d)				-4.0	0.7	2.2	0.1	-0.8	-1.2	-0.9
General government gross debt (c)				71.1	63.1	55.8	52.8	51.0	50.1	48.8

(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 in 2000. The UMTS amount as a % of GDP would be : 0.7%.

ratio, according to the Pension and Insurance Chamber. Covering even part of the shortfall by raising pension premiums over the forecast horizon (for the largest part borne by companies) would have significant adverse macro-economic effects. For 2003, under the relatively cautious assumption of a rise in private pension premiums paid by 1.3% of the wage bill and a rise of 2.3 percentage point in public pension premiums, real GDP growth would decrease by 0.1%, the general government balance would deteriorate by 0.2% of GDP and private sector wage costs would increase by 0.9 percentage point.

Employment and unemployment

Employment is forecast to decrease by 0.5% in 2003 and then to gradually pick up again, reaching 0.2% in 2004, following the cyclical recovery of output with a lag. As a consequence, the unemployment rate is expected to rise substantially and to stand at 4.5% on average in 2004, reflecting the lagged response of the labour market to the economic slowdown and Cabinet plans to cut down the number of civil servants. The lag with which employment growth responds to the slowdown in activity should be longer than usual, due to ‘labour hoarding’ in a labour market, which has been very tight in recent years. It is envisaged that labour supply will grow at lower rates than witnessed in the second half of the 1990s, partly because of demographic factors.

Costs and prices

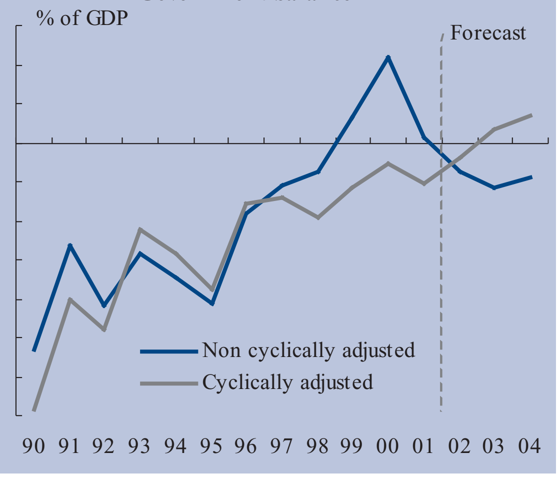
HICP inflation would gradually decrease over the forecast horizon, to 2.8% in 2003 and 2.4% in 2004.

The drop in inflation mainly reflects an easing of unit labour costs due to a slight moderation of wages and a rebound in labour productivity growth (from a historical low of–0.7% in 2001 - largely due to labour hoarding - to around 2% by 2004), despite some recovery of profit margins. The drop in import prices in 2002 and 2003 is another factor contributing to lower inflation. The upward impact of the euro cash changeover, which De Nederlandsche Bank estimated at around 0.6 percentage point in the first six months of 2002, is expected to fade. Despite the expected easing of the labour market, continued shortages in certain segments and a relatively high inflation rate are expected to keep wage increases relatively high, with compensation per employee projected to ease only gradually from slightly above 5% in 2002 to 3.8% in 2004. This would allow for a recovery in profit margins. On the other hand, increases in pension premiums are expected to counterbalance part of the beneficial effect of easing wage increases on labour costs.

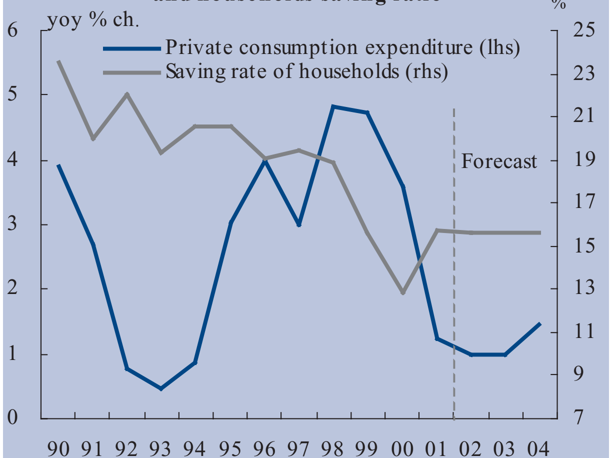
Public finance

In the 2003 budget, the new Dutch government introduced expenditure cuts and tax increases to improve the budgetary situation. However, deficits would continue to persist over the forecast horizonpartly because of sluggish economic growth. The small 2001 budget surplus (0.1% of GDP) is projected to deteriorate to -0.8% in 2002 and -1.2% in 2003, before improving somewhat to -0.9% of GDP in 2004. This pattern partly reflects the operation of automatic stabilisers in a weak economic environment. In 2003 and 2004, significant tax increases and expenditure cuts are planned to avoid a further deterioration in budget balances. Tax increases will mainly take the form of an elimination of personal and corporate income tax deductions. Expenditure cuts relate to the number of civil servants and the flow of income from the central government to the regional and local authorities. In addition, benefits for the unemployed and disabled are to be reduced. The deteriorating economic environment, however, implies that the goal of avoiding ex-ante deficits will not be achieved over the forecast horizon. That said, in cyclically adjusted terms the general government balance is forecast to improve from a slight deficit in 2002 to an estimated surplus of 0.6% of GDP by 2004. The pace of debt reduction will be relatively slow, resulting in a gross government debt ratio of 48.8% of GDP in 2004.

Graph 3.19 : **The Netherlands - General Government balance**



Graph 3.20 : **The Netherlands - Consumption and households saving ratio**



11. Austria

Domestic demand to recover after nose-dive in 2002

Developments in 2002

Having contracted in the second and third quarter of 2001, the Austrian economy resumed growth up to mid-2002. Nevertheless, economic performance during the first half of the year was disappointing, because of a sharper than anticipated fall in domestic demand growth, owing to sluggish household demand and falling investment.

Private consumption is set to grow at only about half the rate of 2001, with disposable income of households being squeezed by weak employment growth, rising unemployment and higher than anticipated inflation. Investment took a dive in the first half-year, with construction suffering from excess supply and budgetary restraint, while equipment investment plunged owing to deteriorating demand expectations. For the second half of 2002, little improvement is in sight from either the domestic side or external trade due to the delay in the international economic upswing. The only exception is construction demand, which is expected to benefit from the recent flood disaster already in the fourth quarter and also in 2003. Although the rise in exports is forecast to decelerate sharply, the growth contribution of the external sector should increase, reflecting a slump in import growth. Overall, at some ¾% output growth is expected to remain unchanged compared with the previous year.

Notwithstanding a temporary acceleration in August, inflation declined in the first three quarters and is expected to continue its downward trend. Weak output growth led to a sharp increase in unemployment, with the unemployment rate staying nonetheless significantly below the EU15-average.

Prospects

The economic recovery should gain momentum in 2003, thanks to strengthening domestic demand and the expected upswing in world economic growth. Private consumption should pick up as a result of higher disposable income growth and rising employment levels, while public consumption is expected to be curbed. After a dive in 2002, investment should rebound, reflecting the improved outlook for exports. As a result, real GDP growth in 2003 is expected to accelerate to some 1¾%. Domestic demand, being the mainstay of growth already in 2003, is projected to gain momentum in 2004 and, combined with higher export growth, bring overall GDP growth close to a rate of 2¼%.

Demand components

Having contracted in 2002, household real disposable income should expand again in 2003, if moderately, thanks to decelerating inflation and rising employment. As a result, private consumption is expected to recover quite vigorously in 2003 and more strongly in 2004. Public consumption is forecast to remain subdued throughout the projection period, assuming that the new government, to be formed after general elections in late November, will make efforts to control budgetary spending. Construction investment, in particular civil engineering but also housing construction, is projected to benefit from the flood disaster, with a turnaround of the downward trend expected as of 2003. Equipment investment is expected to pick up by mid-2003 reflecting the improvement in demand prospects. Exports are expected to gain momentum, coming in full swing in 2003. With imports also surging, reflecting the expected pick-up in domestic demand, the contribution of net exports to GDP growth should decline in 2003 and turn negative in 2004.

Prices and Wages

Consumer price inflation is likely to abate somewhat in 2003 as falling import prices and decelerating unit labour costs should more than offset a temporary increase in oil prices, and remain unchanged in 2004.

Sluggish growth in 2002 is expected to lead to relatively moderate private sector wage agreements for

Table 3.11

Main features of country forecast - AUSTRIA

	2001			Annual percentage change						
	bn Euro Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	211.9	100.0		2.3	2.7	3.5	0.7	0.7	1.8	2.2
Private consumption	121.6	57.4		2.5	2.3	3.3	1.5	0.8	1.3	2.0
Public consumption	40.5	19.1		1.8	3.1	0.0	-0.5	0.2	0.3	0.4
GFCF	49.1	23.2		2.2	2.1	5.9	-2.2	-2.6	3.8	4.6
of which : equipment	19.5	9.2		2.4	4.7	11.5	-4.1	-5.8	7.4	8.3
Change in stocks as % of GDP	0.7	0.3		0.3	1.2	0.5	0.0	0.1	0.2	0.2
Exports (goods and services)	111.1	52.5		4.7	8.5	13.4	7.4	0.1	6.2	7.6
Final demand	323.0	152.5		2.9	4.6	6.0	2.3	-0.1	3.4	4.2
Imports (goods and services)	111.2	52.5		4.3	9.0	11.6	5.9	-1.8	6.4	8.0
Contribution to GDP growth :			Domestic demand	2.3	2.4	3.2	0.2	-0.1	1.7	2.2
			Stockbuilding	0.0	0.5	-0.7	-0.4	-0.1	0.1	0.0
			Foreign balance	0.1	-0.2	0.8	0.8	1.0	0.1	0.0
Employment				0.2	1.4	0.8	0.7	0.1	0.4	0.6
Unemployment (a)				3.3	3.9	3.7	3.6	4.3	4.3	4.1
Compensation of employees/head				4.6	2.3	2.1	1.8	2.3	2.1	2.4
Unit labour costs				2.4	0.9	-0.6	1.7	1.6	0.7	0.8
Real unit labour costs				-0.5	0.3	-2.0	0.1	0.2	-0.4	-0.5
Savings rate of households (b)				-	12.2	10.9	9.2	8.9	9.0	9.2
GDP deflator				3.0	0.7	1.4	1.6	1.4	1.0	1.3
Private consumption deflator				3.0	0.9	1.5	2.0	1.7	1.6	1.5
Harmonised index of consumer prices				-	0.5	2.0	2.3	1.9	1.6	1.5
Trade balance (c)				-3.8	-1.6	-1.3	-0.6	0.2	-0.1	-0.3
Balance on current transactions with ROW (c)				-1.0	-3.0	-2.6	-2.2	-0.7	-1.0	-1.3
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.0	-3.1	-2.8	-2.5	-1.0	-1.3	-1.6
General government balance (c)(d)				-3.2	-2.3	-1.5	0.2	-1.8	-1.6	-1.5
General government gross debt (c)				56.3	64.9	63.6	63.2	63.2	63.0	62.3

(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 in 2000. The UMTS amount as a % of GDP would be : 0.4%.

2003, with nominal increases in contractual wages somewhat below those of 2002. In 2004, despite wage moderation in the private sector expected to continue, the cyclical upswing should lead to somewhat higher wage settlements than in 2003. In the public sector, however, given that the wage increase for 2001-02 was very moderate and entailed significant losses in real terms, an additional pay-rise to partly compensate for purchasing power losses, is expected for 2003. In sum, wage growth in 2003 should be below that of 2002 and increase somewhat in 2004.

Labour market

In 2002, sluggish output growth has an adverse impact on the labour market. Total employment is expected to fall, with dependent labour nevertheless expanding slightly. With overall output growth gaining momentum, a more sustained pick-up in the labour market should be expected as of mid-2003. With the number of self-employed almost stagnating over the forecast period, total employment growth is thus expected to resume in 2003. As of 2003, labour supply is forecast to change in line with the business cycle, contrary to the recent counter-cyclical expansion. Reflecting the projected tendencies of labour demand and supply, the sharp rise in unemployment in 2002 is expected to come to a halt in 2003 before turning around in 2004.

Current account

In 2002, the current account deficit is expected to almost halve due to weak domestic demand. The slump in import growth, will yield an exceptional – but transitory - trade surplus in 2002, and a widening of the services balance surplus. Owing to a negative incomes balance, however, the current account should register a deficit. As of 2003, with domestic demand recovering, merchandise imports are projected to accelerate, outpacing the expansion of goods exports, and thus the trade balance should turn negative again.

Public finances

In 2001, general government finances improved from a deficit of 1.6% of GDP in 2000 (excluding UMTS proceeds) to budgetary balance (figures in ESA 95 definition, i.e. disregarding Swap operations). As this was achieved against low output growth, the improvement in the cyclically-adjusted position was even stronger. The favourable outcome in 2001 was due mainly to a strong rise in tax revenues, exceeding expectations, and resulting in a sharp increase in the tax burden to almost 46% of GDP.

In 2002, however, the budgetary position is projected to weaken substantially to a deficit of 1.8%, thereby deviating significantly from the stability programme target of a balanced budget.

The expected deterioration is largely due to revenue shortfalls compared with earlier official estimates: a negative “echo-effect” related to the tax regime shift in 2001 and the economic slowdown, in particular the weakness of domestic components, are all bearing down tax revenues.

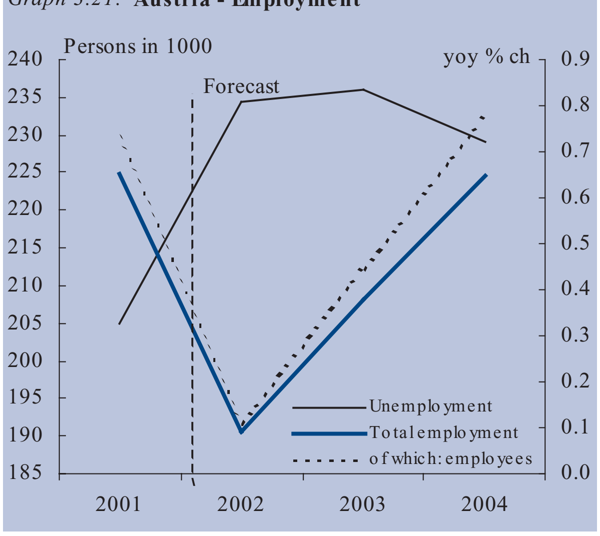
Expenditure growth is difficult to be reined in, despite the continued exonerating effects of the pension and the administrative reform. Apart from an emergency aid package related to the recent flood disaster, totalling some 0.6% of GDP, of which some ¼ percentage point affects the year 2002, social security spending increased more strongly than the authorities had anticipated.

Moreover, the surplus at the Länder level is projected to decline from 2001.

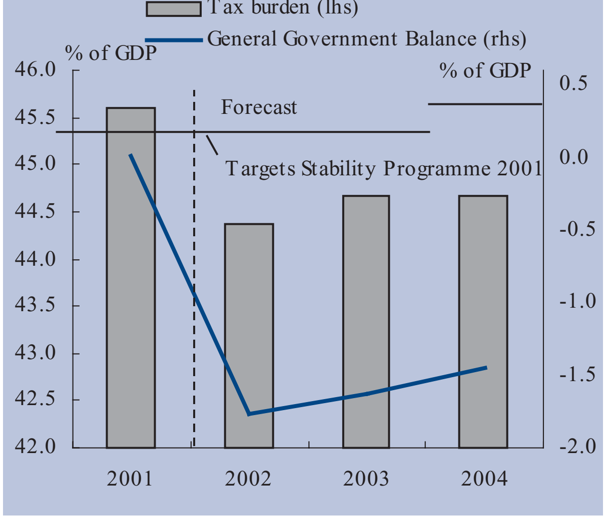
In 2003, no special factors – largely accounting for the budgetary results in 2001 and 2002 – should affect the budgetary outcome, apart from the flood disaster emergency package. The tax intake should return to normal patterns. Additional, partly flood related spending should more than offset the continued impact of expenditure restraint. Public sector employees may be granted an additional pay rise, making up for past purchasing power losses. In sum, the expected cyclical upswing, conducive to employment creation, should slightly lower the deficit in 2003 and 2004.

The forecast for 2003 is subject to great uncertainty. The Austrian government had collapsed before the budget for 2003 was passed. Early parliamentary elections are scheduled for 24 November 2002 and the budget for 2003 will be adopted only next year.

Graph 3.21: **Austria - Employment**



Graph 3.22 : **Austria - Government balance and tax**



12. Portugal

Further adjustment towards more sustainable levels of domestic demand

The economy in 2002

Following a period of strong growth driven by buoyant domestic demand, economic activity started to decelerate in the second half of 1999. This slowdown continued uninterrupted into 2002. The pace of growth decreased from an average of 3½% per year in 1999-2000 to 1.7% in 2001, and is estimated at around ¾% in 2002. This basically reflects faltering domestic demand (both private consumption and investment), which was only partly offset by a rise in the contribution to growth from the net foreign balance. In particular, growth of private consumption has seen a sharp deceleration, with purchases of durable goods receding in the first half of the year, while investment is expected to fall by nearly 3½% in 2002, reflecting a marginal decline in residential construction and a more marked contraction in equipment investment. Public investment is estimated to recede on account of an electoral cycle that ended in 2001, and due to the impact of the saving measures adopted in the 2002 rectifying budget, especially the planned sale of assets which are to be recorded as negative investment. Merchandise exports should rise by about 3% in 2002, exceeding the pace of foreign demand growth. Therefore, the Portuguese economy is assumed to gain market shares in 2002, further to the gains recorded in 2001. At the same time, weakening domestic demand brought about a strong deceleration in merchandise import growth from 1% in 2001 to about ¼% in 2002. All considered, the contribution of total net exports to output growth rose to about ¾ pp of GDP.

Outlook

In the first three quarters of 2002, and according to the coincident indicator on current economic activity published by the Bank of Portugal, economic activity decelerated to an annualised growth rate of ½% (as against 1.7% for the whole of 2001). Judging by the most recent indicators, domestic demand waned further in the third quarter. Output growth is expected to continue to decelerate until the beginning of 2003. For the whole of 2002, GDP growth is expected at around ¾%. A moderate pick-up in economic activity is forecast to take place in 2003, brought about by favourable developments abroad, which is expected to strengthen the current process of substituting the major source of growth towards the export sector and away from domestic demand. However, in view of the negative overhang in economic growth at the end of 2002, GDP growth is expected to reach only about 1¼% in 2003 before accelerating to an annual rate of some 2½% in 2004. Although gaining momentum, domestic demand is forecast to expand at an annual average of just over 1% in 2003-04. This is mainly due to continued efforts by private sector agents to redress their balance sheets, following the sharp rise in indebtedness in recent years. The balance of payments deficit (the sum of the current and capital balances) is therefore expected to nearly halve between 2001 and 2004, declining to a value close to 4% of GDP in 2004.

GDP components

Private consumption is expected to remain subdued throughout the forecast period. Consumer confidence is currently at historically low levels, and households are expected to use a substantial part of the growth in real disposable income to reduce their debt-to-income ratios.

Total investment is forecast to decline further in 2003 as the adjustment of private capital spending to more sustainable levels continues, and public investment not co-financed by EU funds is reduced in nominal terms due to budgetary constraints. Growth in total investment is only expected to turn positive in 2004.

Export market growth is estimated to accelerate sharply from ½% in 2002 to approximately 6½% on average in the 2003-04 period. The strong rebound in foreign

Table 3.12

Main features of country forecast - PORTUGAL

		2001		Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices		122.9	100.0	2.9	3.5	3.5	1.7	0.7	1.2	2.5
Private consumption		75.0	61.0	2.8	4.8	2.6	0.9	1.0	0.9	1.5
Public consumption		25.4	20.7	4.0	5.0	3.3	2.4	1.4	0.2	0.3
GFCF		33.5	27.3	3.9	7.3	4.7	0.1	-3.5	-1.0	3.6
of which : equipment		16.3	13.3	3.7	10.9	6.5	-3.5	-5.5	-1.7	4.8
Change in stocks as % of GDP		0.8	0.6	0.5	0.9	0.6	0.6	0.6	0.7	0.7
Exports (goods and services)		38.1	31.0	6.6	3.2	8.4	2.9	2.6	4.4	6.9
Final demand		172.8	140.6	4.0	5.1	4.2	1.4	0.6	1.3	3.1
Imports (goods and services)		50.0	40.7	7.2	8.8	5.8	0.9	0.2	1.7	4.3
Contribution to GDP growth :	Domestic demand			3.4	5.9	3.6	1.0	-0.1	0.3	1.9
	Stockbuilding			0.0	0.2	-0.3	0.0	0.0	0.1	0.0
	Foreign balance			-0.5	-2.7	0.2	0.6	0.8	0.8	0.6
Employment				0.3	2.2	1.7	1.6	0.7	0.2	1.2
Unemployment (a)				6.7	4.5	4.1	4.1	4.6	5.5	5.5
Compensation of employees/head				14.3	9.9	6.3	5.0	4.8	3.7	3.5
Unit labour costs				11.3	8.5	4.4	5.0	4.8	2.6	2.2
Real unit labour costs				-0.8	5.2	1.3	0.0	-0.2	0.0	0.1
Savings rate of households (b)				-	10.7	11.7	12.5	13.0	14.1	15.2
GDP deflator				12.3	3.2	3.1	4.9	4.9	2.7	2.1
Private consumption deflator				12.0	2.3	2.9	4.2	3.5	2.9	2.5
Harmonised index of consumer prices				-	2.2	2.8	4.4	3.5	2.9	2.5
Trade balance (c)				-12.7	-12.4	-13.6	-12.5	-10.0	-9.0	-8.4
Balance on current transactions with ROW (c)				-3.8	-8.8	-10.3	-9.3	-7.8	-6.8	-6.5
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	-6.0	-8.6	-7.8	-6.0	-4.8	-4.2
General government balance (c)(d)				-5.8	-2.4	-2.9	-4.1	-3.4	-2.9	-2.6
General government gross debt (c)				56.6	54.4	53.3	55.5	57.4	58.1	58.1

(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 in 2000. The UMTS amount as a % of GDP would be : 0.3%.

demand is expected to lead to a strong rise in exports as market shares are projected to remain broadly unchanged in 2003-04 after the gains registered in 2001-02. The total import elasticity of final demand is estimated to decline in 2002, because of the marked slowdown in demand for durables which have a high import content. With the revival of investment and exports, the import elasticity should edge up again at the end of the forecast period. Overall, the contribution of total net exports to GDP growth is forecast to be close to ¾ pp over the forecast period.

External Balance

The external deficit, as measured by the sum of the current and capital balances, is projected to nearly halve between 2001 and 2004, declining to a ratio close to 4% of GDP. The narrowing of the external imbalance reflects the slowdown in the growth of domestic demand combined with the expected normalisation in capital transfers resulting from the implementation of a new Community Support Framework, which should more than offset the projected deterioration in the incomes balance.

Prices

Despite a 2 pp rise in the standard VAT rate to 19% as from July 2002, HICP inflation has only slightly increased since, suggesting that producers have only partly passed through to consumers the VAT rise, thereby reducing profit margins. Moderate import price inflation, low wage increases, and subdued domestic demand throughout the forecast period are all expected to contribute to dampen inflation from about 3½% in 2002 to a projected 2½% in 2004.

Labour Market

Employment should still grow in 2002, in particular in the construction and services sectors, while the unemployment rate is forecast to rise to 4¾%. The slowdown in economic activity will have a more marked impact on labour market outcomes in 2003. Employment is projected to nearly stagnate, reflecting both the economic slowdown together with the freeze in public sector hiring. The unemployment rate is expected to reach some 5½% in 2003. However, the easing in labour market conditions combined with possible spill-over effects from the planned lower pay rises in the public sector are expected to bring about lower wage increases in the private sector of the economy. Total wage gains per employee are expected to decelerate from about 4¾ % in 2002 to 3½% in 2004.

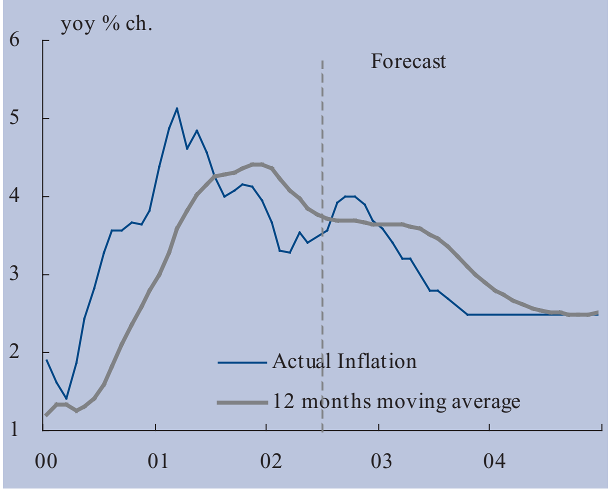
Public finances

Public finance data for Portugal were revised significantly after the Spring forecast, resulting in higher government deficits. These revisions were reported in the September EDP notification, and basically follow the conclusions reached by an ad-hoc commission, which had been entrusted by the Portuguese government to review general government accounts for 2001. Since taking office in April 2002, the Portuguese government introduced a rectifying budget which included saving measures totalling about ½% of GDP.

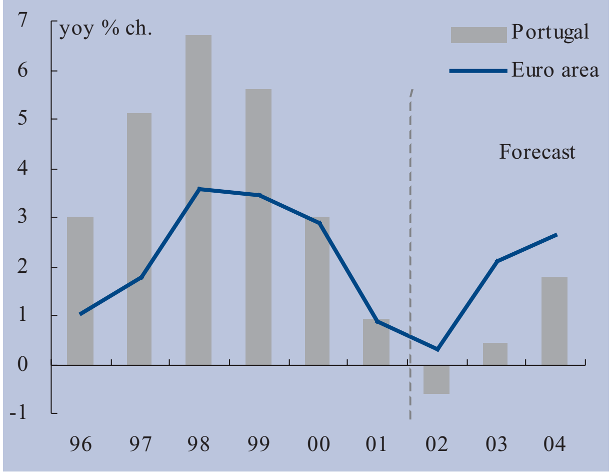
The deficit target for 2002 is 2.8% of GDP. However, and according to the latest information, the actual deficit outturn for 2002 is currently estimated at around 3½% of GDP. The higher figure reflects a number of factors, notably: lower growth than projected in the rectifying budget (¾% as against 1¼%), which is depressing tax revenue below target; less favourable developments as regards health care and local authorities expenditure; and a likely shortfall in the revenue intake from the planned sale of real assets, which were expected to bring in a total of about ¾% of GDP; in particular the current estimate does not include the announced sale of the fixed telephone network.

The forecast for 2003 is based on the draft budget for that year. Among the most significant measures included in the budget are: i) personal income tax brackets are indexed below inflation; ii) half-year minimum payments on account of final corporate taxes are raised substantially; iii) the average inflation rate in the EU will be used as the benchmark in all future wage negotiations in the public sector; iv) a vast programme of privatisation is planned to bring in € 1500 million in revenue of which 40% is to be used to repay public debt; v) government transfers will continue to grow above nominal GDP, partly due to the decision to progressively raise the minimum pension towards the minimum wage. The resulting forecast is a deficit slightly below 3% of GDP, which however is above the budgetary target of 2.4%. The difference mainly reflects: lower growth than assumed in the budget forecast (1¼% as against 1¾%); and the carry over effect from the deficit slippage estimated for 2002.

Graph 3.23: **Portugal - CPI inflation**



Graph 3.24: **Portugal - National final uses including stocks at 1995 prices**



13. Finland

Overcoming the drag from external weakness and de-stocking

Economy in 2002

Finland was severely hit by the slump in international trade last year. As a consequence, following growth of 0.7% in 2001, the economy slipped into a technical recession by the turn of the year. Apart from foreign demand, this was also due to a substantial stock correction. Final domestic demand slackened, too. The rebound in the second quarter of 2002 was remarkably strong, with real GDP increasing by 2.1% quarter-on-quarter. The driving force behind this hike was external demand leading to exports soaring by 4.4% on the quarter. Furthermore, final domestic demand resumed its rising trend. Both private and public consumption as well as equipment investment recorded an acceleration in the course of the Spring. However, construction activity eased on the back of weaker demand prospects. Inventories were further adjusted downwards, owing to relatively large de-stocking in manufacturing but especially due to ship deliveries.

Although activity has been subdued, net employment creation remained on a rising path recording a cumulative growth of 0.4% year-on-year in the first nine months of 2002. This implies of some labour hoarding, reflecting healthy financial balances and relatively strong confidence in the corporate sector. Nevertheless, as labour supply continues to grow, the downward trend in unemployment has stopped. From an average rate of 9.1% in 2001, unemployment edged up to 9.2% (s.a.) between January and September 2002. Inflation (HICP) eased quickly from an average of 2.7% in 2001 to 1.4% in September 2002. This was mainly due to the fading of shocks from higher prices of food and housing. However, prices of services, in particular of health care and recreation, continue to exert upward pressure.

Prospects

Leading indicators point to a somewhat mixed outlook for the last months of 2002. Therefore, activity is set to advance at a moderate pace in the second half of 2002, resulting in an average growth of about 1½% in 2002. Against the background of an assumed recovery in foreign demand and continued healthy domestic demand, a pick-up in activity is expected by the second half of 2003, accelerating the annual rate of GDP growth to 2¾% in 2003 and further to 3½% in 2004.

Following from the projected profile of activity, job creation is expected to come to a halt in the last months of 2002, implying employment remaining flat for the year as a whole. As a consequence, a small rise in unemployment is forecast for 2002. For the future, the delayed recovery and spare capacity in the corporate sector is expected to hold back job creation. Therefore, employment is projected to hover around current levels throughout 2003. Nevertheless, hiring should not face major supply constraints, given the continued decline in the NAIRU and the fact that the level of unemployment is expected to remain above the EU average throughout the forecast period.

GDP components

Owing to a relatively high export share of close to 40% of GDP, Finland has suffered significantly from the weakness in external demand. In spite of high price competitiveness of Finnish firms, external demand is not expected to give a major boost to growth before the second half of 2003. In 2004, net exports should raise GDP by over 1 percentage point owing particularly to lively foreign demand for Finnish telecommunication and forest products. Easing inflation together with expected sizeable nominal wage rises in 2003-04 should help consumer spending to maintain its leading role as the driver of the economy. However, the tax cuts of the recent past seem to have come to an end and some rises of social security contributions have already been introduced. Furthermore, the expected increase in unemployment may dampen private consumption. Owing to low capacity utilisation rates and weak export demand, business investment is expected to stay

Table 3.13

Main features of country forecast - FINLAND

	2001		Annual percentage change						
	bn Euro Curr. prices	**% GDP**	**1981-98**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
GDP at constant prices	136.0	100.0	2.4	4.1	6.1	0.7	1.4	2.8	3.4
Private consumption	67.9	49.9	2.4	4.0	2.6	1.1	2.7	2.5	2.6
Public consumption	28.6	21.0	2.1	1.9	-0.2	2.1	1.9	1.5	1.4
GFCF	26.9	19.8	0.7	3.0	3.9	4.0	-1.6	1.5	4.3
of which : equipment	9.0	6.6	1.8	-2.0	-0.8	14.3	-2.5	0.3	6.5
Change in stocks as % of GDP	1.2	0.9	0.1	-0.1	1.1	0.3	-0.2	0.0	0.0
Exports (goods and services)	54.5	40.1	5.1	6.8	20.1	-2.2	2.5	5.7	6.6
Final demand	179.0	131.7	2.7	3.5	9.0	-0.1	1.5	3.5	4.1
Imports (goods and services)	43.0	31.7	4.0	4.0	16.0	0.1	1.6	5.5	5.9
Contribution to GDP growth : Domestic demand			1.9	3.0	2.0	1.7	1.4	1.8	2.3
Stockbuilding			0.0	-1.2	1.3	-0.8	-0.6	0.2	0.0
Foreign balance			0.6	1.6	3.5	-1.1	0.6	0.8	1.1
Employment			-0.4	2.7	2.2	1.1	0.2	0.0	0.8
Unemployment (a)			8.4	10.2	9.8	9.1	9.1	9.3	8.9
Compensation of employees/head			6.7	2.1	3.7	4.5	3.3	4.0	3.8
Unit labour costs			3.8	0.8	-0.2	5.0	2.1	1.2	1.2
Real unit labour costs			-0.9	0.9	-2.7	1.9	1.0	-1.3	-0.4
Savings rate of households (b)			-	9.2	7.1	9.1	8.8	9.0	8.7
GDP deflator			4.8	-0.2	2.6	3.0	1.0	2.5	1.6
Private consumption deflator			4.5	1.0	3.9	2.9	2.0	1.8	1.7
Harmonised index of consumer prices			-	1.3	3.0	2.7	1.9	1.8	2.0
Trade balance (c)			4.0	9.5	11.4	10.4	10.2	10.2	10.6
Balance on current transactions with ROW (c)			-0.7	6.0	7.6	6.8	6.9	7.0	7.4
Net lending(+) or borrowing(-) vis à vis ROW (c)			-0.6	6.4	8.0	7.5	6.9	7.0	7.4
General government balance (c)			0.3	1.9	7.0	4.9	3.6	3.1	3.5
General government gross debt (c)			30.5	46.8	44.0	43.4	42.4	41.9	41.1

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

subdued up to the second half of 2003. In 2004, improving demand prospects should boost investment activity. Rising vacancy rates for business premises are pr ojected to weigh on business construction throughout the forecast period. On the other hand, favourable financing conditions together with the ongoing migration towards the growth centres of the country are expected to stimulate housing construction which was sluggish in 2001-02.

Costs and prices

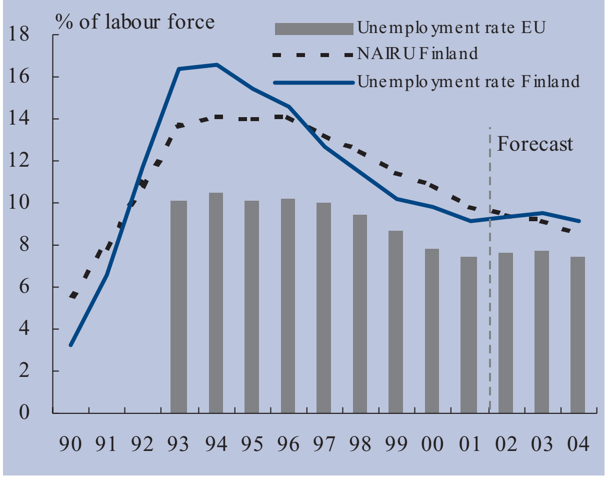
Although activity is expected to gradually pick up, lower food and housing prices are estimated to reduce price pressures, bringing HICP inflation down by about ¾ percentage points to just below 2% in 2002. In 2003, the base effect is estimated to pave the way for slightly lower average inflation. In 2004, projected pick-up in activity imply a soft acceleration in price inflation. In December 2000, a centralised two-year wage agreement provided for a general wage rise of 2.3% in 2002. Due to a positive wage drift, per-capita wages appear to increase by about 3¼% in 2002. However, nearly flat employment in 2002-03 appears to curb the rise in unit labour costs due to a rise in overall productivity. As for wages in 2003-04, a new round of centralised wage negotiation started in mid-October. Initial wage claims are for an increase close to 4% for 2003 and about 3½ % for 2004. Even allowing for the fact that actual settlements will turnout significantly lower than initial claims, upward pressure on labour costs appears to be building up, assuming also unabated wage drift of about 1 percentage point.

Public finances

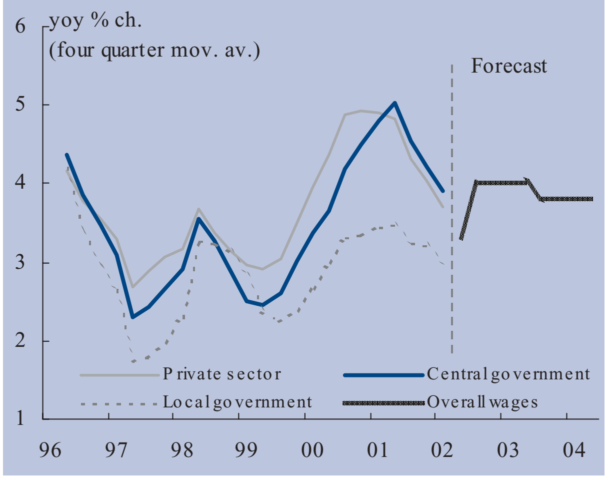
Although the general government financial surplus is expected to decrease by about 1¼ percentage points to some 3½ % of GDP in 2002, it is projected to exceed the estimate of the Spring forecast. This results from an improved overall revenue intake, and particularly from higher social contributions due to lower-than-expected unemployment. However, central government expenditure is also projected to grow beyond the rate agreed in the government's medium-term spending guidelines of Spring 2002. This goes in particular for expenditure on social transfers. In addition, the financial position of local governments appears to slip further into deficit, due partly to reforms in the financial burden sharing between the state and the municipalities but more importantly to additional expenditure on welfare services and local government wages. Consequently, the general government surplus is estimated to edge down further to some 3% of GDP in 2003 while the stronger economic activity is expected to bring it back to around 3½ % in 2004.

In 2003 and 2004, the trend of a mildly rising nominal government debt is expected to continue. This is due to a decline in the primary surplus in 2003 and to the ongoing reduction in the holdings of domestic government bonds by social security funds. As a consequence of the expected acceleration of GDP growth, the debt ratio is anticipated to fall gradually to just above 41% of GDP by the end of the forecast period.

Graph 3.25: **Finland - Unemployment**



Graph 3.26: **Finland - Wages**



14. Sweden

Private consumption contributes to stronger growth in 2002

The economy in 2002

Swedish economic growth has shown resilience so far in 2002, with GDP growth of 1.5% year-on-year in the first half of 2002 compared with 1.2% in the year 2001. Despite the fact that exports have remained weak, the contribution to growth from net exports was highly positive, due to very low imports. The prolonged global slump in the telecom sector has weighed heavily on Swedish exports and in particular on manufacturing. On the domestic side, economic activity has been mixed. Private consumption accelerated in Q2 and was up by 1% on the quarter, aided by an increase in disposable incomes. Lower taxes, a resilient labour market and relatively strong consumer confidence has contributed to this. On the other hand, share prices have continued to fall substantially in 2002. This led households to increase the saving rate. Investment has been poor, influenced by uncertain business prospects. De-stocking continued in the first half of 2002. By contrast, public consumption has risen strongly. With some acceleration in GDP and at the same time almost flat employment growth, productivity growth per person has risen sharply.

Prospects

Recent indicators point to the economy being in the middle of a very hesitant recovery. Both business and consumer confidence indicators suggest that one cannot expect much in the way of acceleration in the very short-term. Indications of a recovery in the world economy also appear to be uncertain. These prospects, both domestically and externally, are expected to result in relatively stable growth in the second half of 2002. A further recovery is expected in 2003, with some rise in private consumption and a turnaround in investment. External demand growth should pick up in 2003, resulting in stronger exports. In 2004, economic growth is expected to be close to potential. Overall, GDP is expected to grow by 1.6% in 2002, 2.2% in 2003 and 2.4% in 2004.

Inflation is expected to remain stable over the forecast period, close to the Riksbank's inflation target of 2%. On balance, upside risks from, possibly, higher wage increases are countered by downside risks stemming from the turbulence in asset prices. The labour market is fairly tight and is expected to be stable in 2002-04.

GDP components

The substantial tax cuts in 2002 raises disposable incomes markedly, actually the biggest increase in real terms in more than 30 years, and should result in much stronger private consumption growth, of 1.4%, after having grown be a mere 0.2% in 2001. Despite this acceleration in consumption, the prolonged fall in equity prices, in fact larger between 2000 and 2002 than during the depression in 1929-32, results in negative wealth effects, despite continued, slight rises in house prices. This should lead to an increase in the savings rate of almost 3 percentage points in 2002. These negative wealth effects are expected to subdue somewhat in 2003 and further in 2004, suggesting some increase in private consumption. Investment growth is expected to be negative in 2002, as business prospects are very uncertain. In 2003, investment is expected to be subdued too, although investment in housing and 3G telecom networks should contribute to positive investment growth overall. A further rise in investment is foreseen for 2004, as economic activity gathers momentum. Stocks are expected to contribute negatively to growth again in 2002, but should turn around in 2003 and give a positive contribution in 2003. As external demand growth has improved in 2002, Swedish exports, comprising more than ICT equipment, are set to turn positive, after having fallen in 2001. In 2003 and 2004, a further recovery in exports is expected, in line with world markets. Imports too

Table 3.14

Main features of country forecast - SWEDEN

		2001		Annual percentage change						
	bn SEK	Curr. prices	% GDP	1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices		2167.2	100.0	1.7	4.5	3.6	1.2	1.6	2.2	2.4
Private consumption		1079.7	49.8	1.2	3.9	4.5	0.2	1.4	1.7	2.2
Public consumption		577.7	26.7	1.2	1.7	-0.9	1.4	1.7	0.5	0.5
GFCF		379.1	17.5	1.5	9.6	5.0	1.5	-1.6	3.8	4.1
of which : equipment		183.9	8.5	4.4	13.2	4.6	2.3	-1.5	4.0	4.0
Change in stocks as % of GDP		3.0	0.1	0.0	0.2	0.7	0.2	-0.2	0.1	0.2
Exports (goods and services)		1006.7	46.5	5.6	6.5	10.3	-1.4	1.8	5.8	6.0
Final demand		3046.3	140.6	2.4	4.6	6.0	-0.4	1.0	3.3	3.5
Imports (goods and services)		879.1	40.6	4.3	4.4	11.5	-3.9	-0.6	6.0	6.0
Contribution to GDP growth :	Domestic demand			1.2	4.0	2.9	0.7	0.9	1.6	1.9
	Stockbuilding			0.0	-0.6	0.5	-0.5	-0.3	0.3	0.1
	Foreign balance			0.6	1.3	0.4	1.0	1.1	0.3	0.4
Employment				-0.2	2.2	2.1	1.9	0.1	-0.1	0.2
Unemployment (a)				5.0	7.1	5.8	4.9	4.9	5.3	5.3
Compensation of employees/head				6.7	1.3	7.3	3.8	4.1	4.0	4.1
Unit labour costs				4.7	-1.0	5.8	4.4	2.5	1.6	1.9
Real unit labour costs				-0.7	-1.6	4.7	2.3	0.1	-0.7	-0.4
Savings rate of households (b)				-	7.8	6.8	9.3	12.2	12.0	11.5
GDP deflator				5.4	0.7	1.0	2.0	2.4	2.4	2.3
Private consumption deflator				6.0	1.0	1.0	1.6	2.0	1.7	1.9
Harmonised index of consumer prices				-	0.6	1.3	2.7	2.1	2.3	2.1
Trade balance (c)				3.4	7.0	6.6	6.4	6.7	6.9	6.7
Balance on current transactions with ROW (c)				0.4	4.0	3.6	3.3	3.6	3.8	3.7
Net lending(+) or borrowing(-) vis à vis ROW (c)				-0.4	2.7	3.5	3.2	3.5	3.7	3.6
General government balance (c)				-2.7	1.5	3.7	4.8	1.4	1.2	1.5
General government gross debt (c)				61.5	65.0	55.3	56.6	53.8	51.7	50.3

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

should pickup, although remaining negative in 2002, as final demand recovers in 2003 and 2004.

Costs and prices

Inflation has eased considerably since the beginning of this year and has been around 2% in recent months, in an environment of relatively subdued economic activity. Existing wage agreements suggest increases below 4%. However, due to a relatively tight labour market, some wage drift and some, possible, upward pressure on wages resulting from re-negotiations for certain sectors, wages are expected to be around 4% in 2002-2004. As productivity growth is expected to be close to 2% over the forecast period, wage increases of around 4% should be compatible with inflation close to the Riksbank's 2% target. Inflation is expected to be slightly above 2% over the forecast period.

Labour market

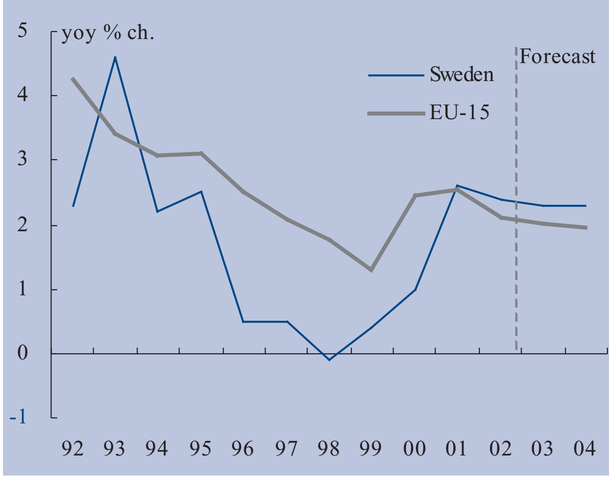
Employment growth has eased during 2002 and is expected to be marginally positive for the year. Some evidence suggests that there has been an element of labour hoarding this year. The gradual recovery in economic activity is therefore not expected to result in any additional employment growth in 2003. The labour force is expected to expand moderately in 2003, which will result in a slight increase in the unemployment rate. In 2004, some employment growth is expected, as economic activity gains momentum.

Public finances

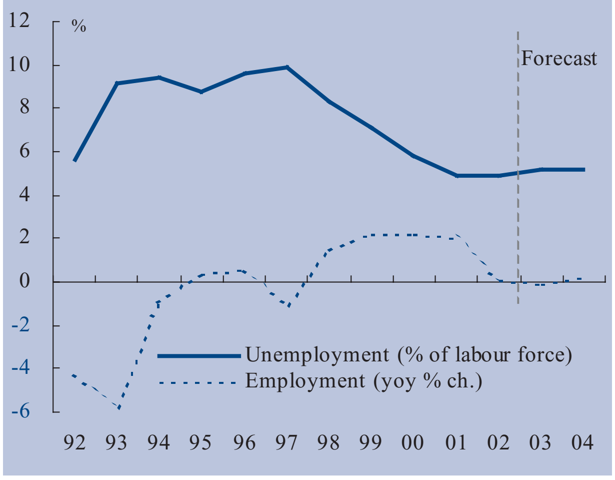
Swedish public finances have been in surplus each year since 1998 and an increase in the surplus was posted in 2001, to 4.8% of GDP. The fiscal policy framework has contributed to the strong fiscal position. In 2002, the surplus in public finances is expected to be much lower. Relatively subdued economic growth and additional tax cuts of the order of 1.1% of GDP contributes to this. Moreover, the absence of positive carry-over effects on tax revenue in the National Accounts system, resulting from lower corporate and capital gain taxes being recorded in 2002, has an effect on the large decline in the budget balance this year. On the expenditure side, the government remains committed to the previously set expenditure ceilings on central government, as announced in the Budget Bill for 2003. However, the budgetary margins within the expenditure ceilings are very small and expenditure in some expenditure areas, such as sick insurance expenditure, could be higher than planned. In addition, the high inflation rate in June 2001 increases indexed transfer payments in 2002.

Despite the very narrow margins in the central government expenditure plans over the forecast period, the use of ceilings remains a very important tool for medium-term budgetary planning. This helps keeping the public finances in good shape and budget surpluses of close to 1.5% of GDP are expected over the forecast period. Gross debt was 56.6% of GDP in 2001. The debt-to-GDP ratio is expected to fall over the forecast period and reach around 50% of GDP in 2004, as the budget surpluses described above take effect.

Graph 3.27: **Sweden - CPI inflation compared with EU-15**



Graph 3.28 : **Sweden - Employment and unemployment**



15. United Kingdom

Back to trend growth by 2003, as investment and net exports revive

The economy in 2002

The British economy is weathering the recent global economic downturn rather well. Although performance was weak in the latter half of 2001, with two consecutive quarters of near-stagnant growth in 2001Q4 and 2002Q1, recent data reveals that the economy is growing again as household consumption has remained especially strong. The UK is benefiting from monetary loosening in the shape of a 2% cumulative cut in the repo rate since the beginning of 2001, and a fiscal stimulus in the form of planned rises in general government spending.

It should be noted that the celebrations of the Queen's Jubilee affected a variety of indicators for May and June, and thus Q2 as a whole, though preliminary data for Q3 suggests respectable growth for the two quarters taken as a whole.

Although household expenditure was subdued early in 2002, it has since picked up so that, together with net exports, it was the biggest contributor to GDP growth in Q2. Fixed investment, already declining throughout 2001, flattened out in 2002Q2. This was the first time in 5 quarters that fixed investment did not contribute negatively to GDP growth. General government consumption was the second-largest drag on growth in Q2 after having been the largest contributor to GDP growth in Q1. De-stocking accelerated during Q2 and proved to be the largest negative contributor to growth. Net exports of goods and services improved during the first half of this year, due to a rebound in export growth in Q2 while import growth declined. Net exports thus contributed 0.9%-points to GDP growth in Q2, the first time they had contributed positively since 2001Q1.

On the output side, services output became more subdued in the first half of 2002, construction grew strongly, but manufacturing output continued to fall, despite rising exports. The labour market has stayed strong but productivity growth was low. Inflationary pressures remain low - on the HICP measure, inflation is at 1.0%, around the lowest in the EU. RPIX inflation has remained below the 2½ % target since January.

Prospects

Growth for 2002 on average should be around 1.6%, with the rate rising to 2.7%, around trend, in 2004. The pickup in external factors this year, which began in Q2, is expected to continue boosting exports. The contribution of the net external balance to annual growth is expected to be less negative from 2003 onwards than in previous years. Meanwhile, domestic demand is expected to remain strong, in part as a result of macro-economic policy. With growth below trend in 2002, a small negative output gap will emerge so supply constraints, overall, should not constrain growth. Unemployment is expected to fall slightly by 2004. Although a slight pick-up in wage increases is expected, a pick up in productivity growth is expected, so rises in unit labour costs will be subdued.

GDP components

Growth in household consumption is expected to be maintained over the forecast period, albeit below the rapid rates observed in 2001 and the first half of 2002. Real wage earnings are expected to grow moderately and disposable incomes continue to benefit from low interest rates. The rise in house prices, currently racing along at over 20% per year, is offsetting the negative impact the recent falls in equity markets may have on consumption out of wealth. Nevertheless, the falls in financial wealth associated with equity market weakness, combined with the rise in gross debt associated with the strength in the housing market are expected to affect the savings rate, raising it by the end of the forecast period. 2003 will see a reversal in the current decline of fixed investment, benefiting from strong planned boosts to general government

Table 3.15

Main features of country forecast - UNITED KINGDOM

	2001			Annual percentage change						
bn GBP	Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	987.7	100.0		2.5	2.4	3.1	2.0	1.6	2.5	2.7
Private consumption	654.9	66.3		3.0	4.5	5.2	4.1	3.5	2.3	2.2
Public consumption	192.0	19.4		0.9	3.1	2.1	2.2	3.7	3.0	3.0
GFCF	163.1	16.5		3.6	0.6	1.9	0.3	-4.0	2.7	3.5
of which : equipment	76.9	7.8		4.5	1.0	3.3	1.5	-7.6	2.1	3.2
Change in stocks as % of GDP	1.8	0.2		0.2	0.8	0.7	0.1	-0.1	0.0	0.1
Exports (goods and services)	268.0	27.1		4.5	5.3	10.1	1.2	0.0	5.1	5.9
Final demand	1279.7	129.6		3.1	4.0	5.4	2.2	1.5	3.2	3.5
Imports (goods and services)	291.0	29.5		5.6	8.7	11.7	2.8	1.4	4.9	5.3
Contribution to GDP growth :			Domestic demand	2.7	3.6	4.2	3.2	2.4	2.7	2.7
			Stockbuilding	0.1	0.2	-0.1	-0.6	-0.2	0.1	0.2
			Foreign balance	-0.3	-1.4	-1.1	-0.7	-0.6	-0.2	-0.2
Employment				0.4	1.2	1.1	0.6	0.7	0.7	0.8
Unemployment (a)				9.1	5.8	5.4	5.0	5.0	4.9	4.8
Compensation of employees/head				6.8	4.3	5.0	5.3	3.5	4.7	4.4
Unit labour costs				4.6	3.1	3.0	3.9	2.6	2.8	2.4
Real unit labour costs				-0.3	0.6	0.8	1.9	-0.2	0.6	-0.2
Savings rate of households (b)				-	4.8	4.2	6.1	5.5	5.8	6.1
GDP deflator				5.0	2.5	2.2	1.9	2.8	2.3	2.6
Private consumption deflator				5.0	1.6	0.7	0.4	0.9	1.2	1.5
Harmonised index of consumer prices				-	1.3	0.8	1.2	1.2	1.5	1.8
Trade balance (c)				-1.9	-3.0	-3.2	-3.4	-2.7	-2.7	-2.6
Balance on current transactions with ROW (c)				-1.1	-2.2	-2.0	-2.1	-1.8	-1.8	-1.6
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.4	-2.1	-1.8	-2.0	-1.8	-1.8	-1.6
General government balance (c)(d)				-3.0	1.1	4.0	0.7	-1.1	-1.3	-1.4
General government gross debt (c)				47.2	45.1	42.1	39.1	38.5	38.1	37.6

(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 in 2000. The UMTS amount as a % of GDP would be : 2.4%.

investment and an end to the fall in business investment in line with a revival in business expectations and a b etter financial position of companies. Government consumption will continue to be an important contributor to demand growth, as planned. Export growth is expected to recover steadily during the forecast period. Import growth will be a little weaker than export growth, reflecting the lower growth in domestic demand compared to 2001.

Labour Market

The labour market has remained strong despite the global slowdown, with the unemployment rate hitting a twenty seven year low this year. Rises in wage earnings continue to be moderate. Employment has grown moderately, and in the three months to August rose by 0.7% on the year. This trend is expected to continue, leading to a slight decline in unemployment by 2004. This year, productivity growth is expected to start recovering from its low rate observed in 2001, given the stronger expected GDP growth, and an expected tighter labour market. Unit labour costs rises are expected to be moderate and sustainable over the forecast period.

External balance

The current account deficit is expected to shrink throughout the forecast period to around 1.6% of GDP by 2004. The negative contribution of net exports of goods and services to GDP growth in 2002 is expected to decline over the forecast period as UK overseas markets show good growth.

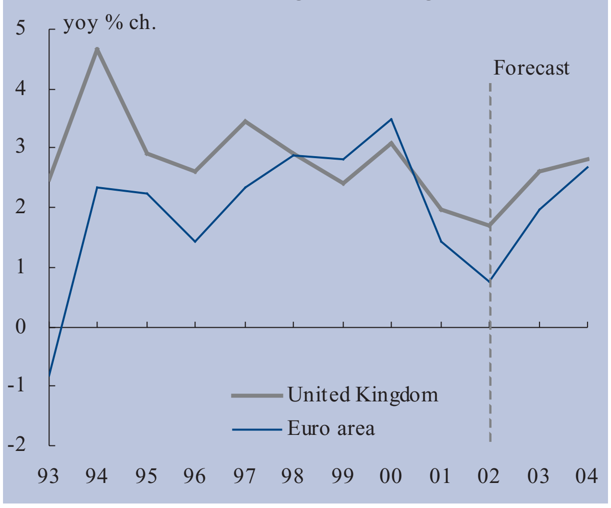
Prices

HICP inflation is low at around 1.0 % - around the lowest in the EU. RPIX inflation is expected to continue to meet the government's 2 ½ % target. Benign developments in unit labour costs should continue in the face of an economy operating around potential and with unemployment close to the NAIRU.

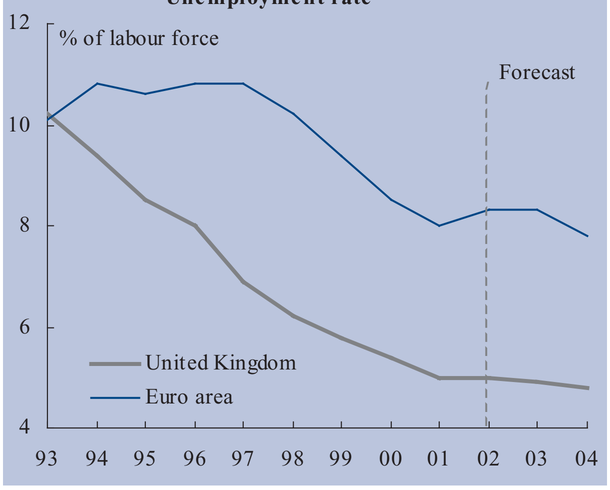
Public finances

The general government finances are expected to move into small deficit over the period. The surplus of 0.7 % of GDP in 2001 will fall to a deficit of around 1.1 % of GDP in 2002 as growth is slower in the year as a whole; some tax revenues, notably corporation tax, are weak, while discretionary expenditure growth rises strongly as planned. The deficit is expected to rise gently to 1.4 % by 2004, as strong planned rises in expenditure in those years will be broadly offset by rises in social contributions. The ratio of gross debt to GDP will fall to under 38 % by the end of 2004.

Graph 3.29 : **United Kingdom - GDP growth**



Graph 3.30: **United Kingdom - Unemployment rate**



Chapter 4

Non-EU countries

1. United States

A subdued recovery with much downside risk

The economy in 2002

Since the end of the relatively mild recession in 2001 the US economy has advanced at an uneven pace, averaging 3% growth in the twelve months to end-September. However, the recent developments of key indicators point to a weakening of the recovery in the fourth quarter. Industrial production, retail sales, durable goods orders and shipments are all stagnating or declining following gains in the early phase of the recovery. Consumer confidence and purchasing managers indices are trending downward. Business investment has not yet decisively turned upward.

So far the recovery has not led to much employment growth and the unemployment rate has been hovering between 5.6% and 6.0%. Inflation as measured by the 12-month change in the CPI had fallen to 1.5% by September. US imports have surged back to levels seen before the recession, but exports are recovering much more slowly. The continued decline in net exports is subtracting substantially from overall GDP growth and is pushing the current account deficit to a new low. In spite of some depreciation against the euro and the yen, the dollar has remained virtually unchanged over the first ten months of the year in both nominal and real effective terms.

Last year's stimulative fiscal and monetary policy measures clearly helped to set the recovery on track. Macroeconomic policy has continued its accomodative stance in the current year. An additional fiscal stimulus package was adopted in March. The Federal Reserve, after keeping the federal funds rate unchanged at 1.75% for eleven months, lowered it to 1.25% in early November.

Unusually for the early phase of a recovery, equity prices continued their downward trend in a fairly dramatic way into the autumn. However, in terms of the wealth effect on households, lower share prices have been counterbalanced by continuing price gains in the housing market.

Prospects for the economy going forward

The chances of a continued recovery are being determined by both positive and negative factors which have to be weighed against each other. On the positive side, the following are of reference:

The step-up in trend productivity growth since 1995 has not been broken by last year's recession, although the estimated average annual increase in labour productivity in the 1995-2001 period has been lowered to 2¼ % for the non-farm business sector. In the first three quarters of 2002 productivity has increased strongly.

Monetary policy is expected to remain very accommodating, as long as the recovery is not firmly established, since inflation and inflationary expectations are well contained.

The phased cuts in personal taxation introduced last year will release more purchasing power within the forecast period. More generous depreciation rules will provide an incentive for business investment starting this autumn. Generally, the fiscal stance of the federal government will remain supportive of the recovery.

On the other hand, there are also a number of constraining factors:

The negative wealth effect from the decline in equity prices over the past 2½ years has not yet taken its full effect in the economy.

The household sector's high level of indebtedness and debt-service burden will also restrain growth in personal consumption expenditure.

Table 4.1

Main features of country forecast - UNITED STATES

	2001			Annual percentage change						
bn USD	Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	10082.1	100.0		3.1	4.1	3.8	0.3	2.3	2.3	2.8
Private consumption	6987.0	69.3		3.3	4.9	4.3	2.5	3.1	2.3	2.7
Public consumption	1522.2	15.1		1.8	3.1	2.8	4.0	4.3	3.7	3.6
GFCF	1982.2	19.7		4.2	7.9	5.6	-2.9	-2.4	2.1	4.7
of which : equipment	1019.5	10.1		6.7	11.6	8.1	-5.4	-1.2	3.8	5.9
Change in stocks as % of GDP	-60.4	-0.6		0.4	0.7	0.7	-0.7	0.0	0.3	0.5
Exports (goods and services)	1034.2	10.3		6.3	3.4	9.7	-5.4	-1.4	3.9	4.2
Final demand	11465.2	113.7		3.5	4.9	4.9	-0.4	2.4	2.9	3.5
Imports (goods and services)	1383.1	13.7		7.6	10.9	13.2	-2.9	3.4	6.1	7.0
Contribution to GDP growth :	Domestic demand			3.2	5.4	4.5	1.6	2.3	2.5	3.3
	Stockbuilding			0.1	-0.2	0.0	-1.4	0.6	0.3	0.2
	Foreign balance			-0.2	-1.2	-0.9	-0.2	-0.7	-0.6	-0.7
Employment				1.7	1.9	1.9	-0.3	-0.5	0.4	0.6
Unemployment (a)				6.6	4.2	4.0	4.8	5.8	6.0	6.0
Compensation of employees/head				4.5	4.1	5.4	2.9	2.4	4.0	4.5
Unit labour costs				3.0	1.8	3.5	2.3	-0.4	2.0	2.3
Real unit labour costs				-0.3	0.3	1.4	0.0	-1.6	0.5	0.5
Savings rate of households (b)				-	2.6	2.9	2.4	4.1	4.5	4.5
GDP deflator				3.4	1.4	2.1	2.4	1.2	1.5	1.8
Private consumption deflator				3.5	1.6	2.5	2.0	1.4	2.0	2.2
General index of consumer prices				-	2.2	3.4	2.8	1.6	2.3	2.3
Trade balance (c)				-2.2	-3.8	-4.7	-4.3	-4.6	-5.1	-5.6
Balance on current transactions with ROW (c)				-1.5	-3.0	-4.1	-3.8	-4.7	-5.2	-5.8
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.5	-3.0	-4.1	-3.8	-4.7	-5.2	-5.8
General government balance (c)				-3.8	0.7	1.5	-0.5	-3.2	-3.6	-3.8
General government gross debt (c)				-	-	-	-	-	-	-

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

The upturn in business fixed investment is being held back by a considerable degree of unused capacity in the manufacturing sector.

The international competitiveness of US goods and services has deteriorated due to the dollar's appreciation since 1995. Assuming unchanged real exchange rates, external trade will make a significant negative contribution to output growth.

A subdued recovery

Taking both the positive and negative conditions into account, the forecast expects the recovery to proceed at a subdued pace. GDP growth is projected to recede to about 1½ % annualised in the final quarter of 2002, primarily on the basis of a slowdown in consumer spending. This would result in an annual growth rate of 2.3% for 2002.

The development in personal consumption expenditure will be the key factor in determining the strength of the recovery going forward. It is projected that growth in consumer spending will not exceed 2% in annual terms in the first half of 2003 which would imply a small improvement in household balance sheets. Subsequently, a gradual pick-up in consumer spending to around 3% in 2004 is expected. Business investment in equipment and software should continue its slow recovery based on improved corporate profitability, but remain far below the double-digit growth rates of the late 1990s. The sizeable contribution to growth from the inventory turnaround will gradually diminish over the forecast period. Residential investment stayed on a high level during the recession and has therefore little potential to add strength to the recovery. Investment in non-residential structures is likely to remain weak for another year. Growth in government consumption expenditure is projected to continue on a relatively strong note from the current year. Finally, the continued decline in net exports will subtract about two thirds of a percentage point from annual GDP growth over the forecast period.

Overall, real GDP is expected to increase by 2.3% in 2003 and by 2.8% in 2004 when quarterly growth rates would reach 3% which is the estimated rate of long-term potential output growth. In such a scenario, unemployment will remain around 6% while inflation will remain below 2%.

Downside risks dominate

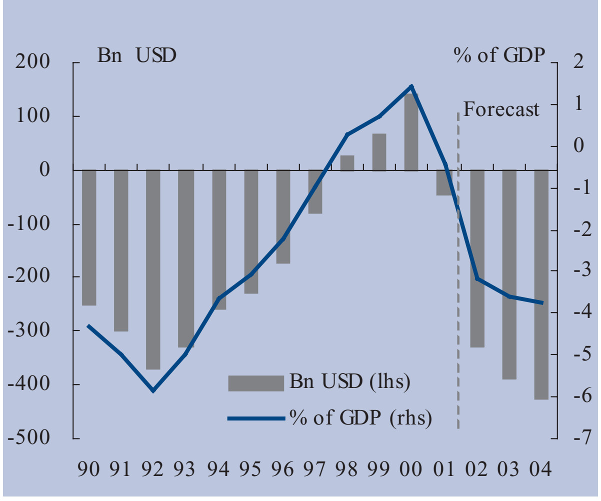
While subdued growth in the near term, turning into moderate growth in the second half of next year, is the most likely scenario, there are both downside and upside risks to such an outcome. Considering the relative weakness of household balance sheets, an abrupt fall in household demand is the predominant risk. This could happen if house prices do not continue to rise. The projected development of consumer spending in the forecast does not allow for a rise in the household saving rate beyond 4½ %. If households were to move towards their 7-8% long-term average saving rate, the economy would fall into another recession. On the upside, it cannot be ruled out that the considerable impetus put in place by monetary and fiscal policy could lead to somewhat stronger demand growth. Furthermore, there is a possibility that further tax cuts will be adopted and that government spending, for instance on defence, will advance more quickly than anticipated.

The return of the twin deficits

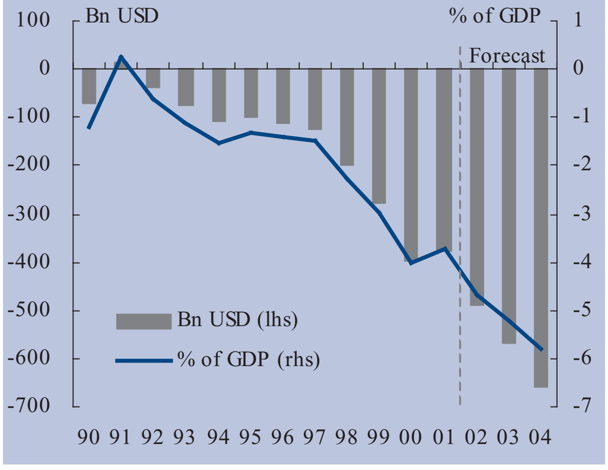
US public finances improved strongly up to 2000, but during last year's recession there was a dramatic turnaround in the fiscal position (see graph 4.1). The automatic budgetary effect of the economic slowdown and the discretionary fiscal measures resulted in a deficit of 0.5% of GDP. The Bush Administration's tax cuts and spending measures will show their full budgetary effect from this year onwards. At the same time, the fiscal situation of state and local governments has turned out more negative than previously estimated. The budget deficit of general government is likely to exceed 3% of GDP in 2002 and is projected to worsen in the following two years.

The current account deficit is projected to deteriorate to 4.6% of GDP this year, mainly as a result of the worsening trade performance. The deficit will widen to 5.2% next year and even to 5.8% in 2004. This deterioration will continue the trend that began in the 1990s and will set new negative records for the external account of the United States (see graph 4.2). It will undoubtedly intensify the concerns about the sustainability of the deficit and its negative impact on domestic growth and employment.

Graph 4.1 : **USA - general government net lending**



Graph 4.2: **USA - Current account balance (NIPA definition)**



2. Japan

Modest recovery ahead

Current situation and prospects

Following the longest slump in a decade, the Japanese economy seems to have emerged from recession in the second quarter of this year. Preliminary data indicate that growth in the second quarter was 0.6% on the quarter (2.6% on an annualised basis). However, the recovery is largely driven by external demand, underlining the large dependence on US and East-Asian growth prospects.

Cautious quarterly growth rates for the remainder of the year imply a fall in GDP for 2002 as a whole by 0.6%, before rising to some 1.2% in 2003 and expanding slightly further to around 1.4% in 2004. The Japanese economy is thus likely to see a modest recovery, helped by external demand. The fairly strong upward revision in comparison to the spring forecast should be seen in the context of substantially revised data – calculated according to a new method with more emphasis on supply-side statistics.

GDP components

Domestic demand is likely to remain lack-lustre over the forecast horizon. Private consumption is, however, showing some resilience despite falling real wages, a very high unemployment rate by Japanese standards, and a continued fall in prices of equity and housing. Gross fixed capital formation continued to fall in the first half of the year across all components of investment. Investment in non-residential construction and equipment is expected to continue to fall up to the end of next year as capacity utilisation remains at a fairly low level and corporate profits have been squeezed. Destocking of inventories accelerated during the first six months of 2002 and inventories have now come down to the lowest level in a decade. As a result, assuming a gradual deceleration of the destocking, the change in inventories is likely to give a substantial contribution to growth in 2003.

The external sector was the main engine of growth in the first half of the year. As export market growth is likely to pick up further in 2003 and remain at a high level in 2004, this would support healthy export growth, albeit somewhat negatively affected by the appreciation of the yen (vs the dollar) that took place in spring this year. Import growth, which is expected to be negative in the current year, should take off in 2003 and 2004 – in line with the strong elasticity to domestic demand. Overall, the growth contribution of net exports is forecast to remain positive, but decline somewhat in 2003 and remain at this level in 2004.

Labour market

The situation in the labour market remains difficult with job losses being particularly pronounced in the manufacturing and the wholesale/retail sales sectors. Nevertheless, employment has recovered somewhat since the autumn and into the spring. On an annual basis, employment is expected to fall by more than 1% in 2002, drop slightly further in 2003 and reverse direction in 2004. The unemployment rate has been on a cautious upward trend since the beginning of the year and is forecast to edge up slightly next year and remain at this level in 2004.

Costs and prices

Nominal wages have been declining since the beginning of last year and are likely to fall by some 1.6% on an annual basis for 2002 as a whole. Given the difficult situation of many companies, employees seem to have accepted a lowering of their salaries. Wages are expected to continue to fall slightly in 2003 and thereafter to rise modestly in 2004.

The year-on-year fall in consumer prices has decelerated somewhat since the start of the year although core inflation (excluding fresh food and energy) has remained fairly constant over the period, easing only marginally to a year-on-year fall of 0.8% in

Table 4.2

Main features of country forecast - JAPAN

	2001			Annual percentage change						
	bn YEN Curr. prices	% GDP		1981-98	1999	2000	2001	2002	2003	2004
GDP at constant prices	506110.9	100.0		2.9	0.7	2.4	-0.1	-0.6	1.2	1.4
Private consumption	286829.6	56.7		2.8	1.2	0.6	1.4	0.7	0.7	1.0
Public consumption	88320.4	17.5		3.2	4.5	4.6	2.7	1.9	1.4	1.4
GFCF	130117.1	25.7		2.9	-0.8	3.2	-1.4	-5.9	-2.1	-0.3
of which : equipment	-	-		4.3	0.1	9.7	-	-	-	-
Change in stocks as % of GDP	-2330.4	-0.5		0.4	-0.3	-0.3	-0.5	-0.9	-0.3	0.1
Exports (goods and services)	52567.0	10.4		4.6	1.4	12.4	-6.9	4.9	5.7	6.5
Final demand	555503.7	109.8		3.0	0.8	2.9	-0.1	-0.7	1.3	1.6
Imports (goods and services)	49392.8	9.8		4.4	3.0	9.6	-0.9	-1.8	2.9	4.2
Contribution to GDP growth :			Domestic demand	2.8	1.1	1.9	0.8	-0.9	0.1	0.7
			Stockbuilding	0.0	-0.3	0.0	-0.2	-0.4	0.7	0.3
			Foreign balance	0.1	-0.1	0.5	-0.7	0.7	0.4	0.4
Employment				0.8	-0.8	-0.1	-0.5	-1.2	-0.3	0.3
Unemployment (a)				2.7	4.7	4.7	5.0	5.2	5.3	5.3
Compensation of employees/head				2.9	-1.1	0.4	-1.0	-1.6	-0.3	0.2
Unit labour costs				0.7	-2.6	-2.1	-1.4	-2.2	-1.7	-0.9
Real unit labour costs				-0.6	-1.2	-0.1	0.0	-1.3	-1.0	0.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				1.3	-1.4	-2.0	-1.4	-0.9	-0.8	-0.8
Private consumption deflator				1.5	-0.5	-1.1	-1.5	-1.4	-1.4	-1.2
General index of consumer prices				-	-0.3	-0.7	-0.6	-1.0	-1.0	-0.8
Trade balance (c)				2.8	2.7	2.4	1.8	2.6	3.3	3.8
Balance on current transactions with ROW (c)				2.3	2.6	2.5	2.1	3.0	3.6	3.9
Net lending(+) or borrowing(-) vis à vis ROW (c)				2.6	2.2	2.3	2.3	3.2	3.8	4.1
General government balance (c)				-1.7	-7.1	-7.4	-7.2	-8.0	-8.1	-8.2
General government gross debt (c)				71.7	115.8	123.5	132.2	142.9	150.7	158.3

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

the month of September. Deflation is expected to continue during the remainder of the forecast period since the growth scenario would be strong enough to reverse the price fall, and monetary policy does not seem able to affect prices.

Public finances

In 2001, the general government deficit reached 7.2% of GDP and the gross debt amounted to 132.6% of GDP. For FY 2002 (fiscal year, running from April 2002 to March 2003), a ceiling of 30 trillion yen on the issuance of government bonds was initiated. In the budget preparations for FY 2003, Prime Minister Koizumi indicated that he would be ready to abandon this cap in order to commence the intended tax reform. The government has also indicated that taxes would be lowered by some 1 trillion yen, to the benefit of both companies and households. For calendar year 2002, the fiscal deficit is estimated to be 8.0% of GDP, rising slightly throughout the forecast period; the gross debt is expected to increase to just above 158% of GDP at the end of 2004.

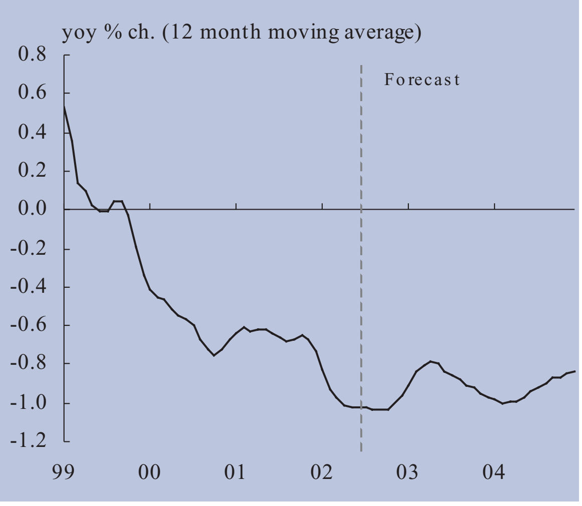
Policy measures

The recently appointed Minister for Financial Services, Mr Takenaka, has stated that he would like to see a much more aggressive disposal of the massive amount of non-performing loans (NPLs) burdening the financial sector. In his initial plan to tackle the NPLs, which was leaked to the press, Mr Takenaka wanted to make the rules for deferred tax assets much more stringent. This would probably have caused most major banks to become undercapitalised in relation to the BIS requirements. Banks would then have had to be subject to public injections conditional upon changing management or even the risk of being nationalised. Following harsh political resistance within the Liberal Democratic Party, the final outcome presented by the government on 30 October 2002 is a much more cautious package.

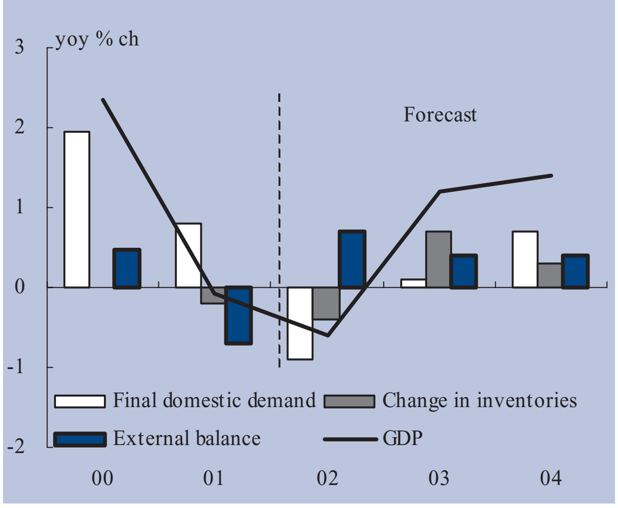
The government's policy measures for the financial sector are summarised in the "Programme for Financial Revival". The government aims to half the ratio of NPLs to total loans - in major banks - by March 2005, a target which is, in fact, even less ambitious than the government's previous intentions. The programme embraces measures which will make stricter assessments of banks' assets, enhancing capital adequacy and strengthening governance. If a financial institution becomes undercapitalised, financial support measures would be provided and the management of such an institution would need to be reformed.

A work programme with a time-frame for implementing these measures is to be presented by the FSA later in November. Given the general nature and uncertainty of the scope and timing of the measures, it has not been possible to incorporate these policy measures into the current forecast.

Graph 4.3 : **Japan - CPI**



Graph 4.4 : **Japan - Contribution to real GDP growth**



Statistical annex

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STATISTICAL ANNEX : AUTUMN 2002 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.4	1.6	2.7	2.0	3.2	3.7	0.8	1.1	0.7	2.8	2.0	:	2.8
DK	2.7	2.0	2.7	2.5	2.3	3.0	1.0	1.7	1.7	2.5	2.1	:	2.4
D	3.1	2.0	1.8	2.0	2.0	2.9	0.6	0.8	0.4	2.7	1.4	:	2.3
EL	4.5	1.2	3.4	3.4	3.6	4.2	4.1	3.7	3.5	4.2	3.9	:	3.7
E	4.6	1.5	3.8	4.3	4.2	4.2	2.7	2.1	1.9	3.1	2.6	:	3.2
F	3.8	1.1	2.7	3.4	3.2	3.8	1.8	1.6	1.0	2.8	2.0	:	2.7
IRL	4.2	4.7	9.8	8.8	11.1	10.0	5.7	3.5	3.3	6.1	4.2	:	5.2
I	3.9	1.3	1.9	1.8	1.6	2.9	1.8	1.4	0.4	2.7	1.8	:	2.4
L	3.7	3.9	6.8	7.5	6.0	8.9	1.0	2.9	0.1	5.2	2.0	:	3.4
NL	3.4	2.1	3.7	4.3	4.0	3.3	1.3	1.5	0.2	2.7	0.9	:	2.2
A	3.6	2.0	2.8	3.9	2.7	3.5	0.7	1.2	0.7	2.5	1.8	:	2.2
P	4.8	1.7	3.8	4.5	3.5	3.5	1.7	1.5	0.7	2.2	1.2	:	2.5
FIN	3.8	-0.7	5.2	5.3	4.1	6.1	0.7	1.6	1.4	3.3	2.8	:	3.4
S	2.9	0.6	3.0	3.6	4.5	3.6	1.2	1.7	1.6	2.8	2.2	:	2.4
UK	2.5	1.8	2.9	2.9	2.4	3.1	2.0	2.0	1.6	3.0	2.5	:	2.7
EU-15	3.4	1.5	2.6	2.9	2.8	3.4	1.5	1.5	1.0	2.9	2.0	:	2.6
Euro area	3.6	1.5	2.6	2.9	2.8	3.5	1.5	1.4	0.8	2.9	1.8	:	2.6
USA	3.5	2.4	4.1	4.3	4.1	3.8	0.3	2.7	2.3	3.1	2.3	:	2.8
JAP	6.2	1.4	1.4	-1.1	0.7	2.4	-0.1	-0.8	-0.6	0.6	1.2	:	1.4

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2002-2004)

	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4	2004/1	2004/2	2004/3	2004/4
B	0.6	0.3	0.4	0.4	0.4	0.6	0.7	0.7	0.8	0.7	0.6	0.5
DK	0.2	1.1	0.2	0.5	0.4	0.5	0.7	0.6	0.6	0.4	0.7	0.5
D	0.3	0.3	0.4	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.3
EL	:	:	:	:	:	:	:	:	:	:	:	:
E	0.5	0.4	0.5	0.5	0.7	0.7	0.8	0.9	0.9	0.8	0.7	0.7
F	0.6	0.4	0.3	0.3	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
IRL	0.3	0.8	0.8	1.0	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.3
I	0.1	0.2	0.4	0.2	0.4	0.5	0.7	0.6	0.6	0.6	0.5	0.5
L	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.0	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.6	0.7	0.7	0.7
A	0.4	0.6	0.3	0.4	0.4	0.6	0.7	0.7	0.5	0.5	0.5	0.5
P	0.8	0.7	-0.8	0.0	0.3	0.6	0.8	0.8	0.6	0.5	0.4	0.5
FIN	-0.7	2.1	0.4	0.1	0.6	1.1	1.4	1.5	0.7	0.5	0.3	0.3
S	0.5	0.6	0.5	0.6	0.7	0.7	0.6	0.7	0.6	0.7	0.5	0.6
UK	0.1	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
EU-15	0.4	0.4	0.4	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Euro area	0.4	0.4	0.4	0.2	0.4	0.5	0.7	0.6	0.6	0.6	0.6	0.5
USA	1.2	0.3	0.8	0.4	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
JAP	0.0	0.6	0.3	0.3	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.4

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2002-2004)

	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4	2004/1	2004/2	2004/3	2004/4
B	-0.2	0.5	0.9	1.7	1.5	1.8	2.2	2.6	2.9	3.0	2.8	2.6
DK	1.1	1.9	1.6	2.1	2.3	1.7	2.2	2.2	2.5	2.4	2.4	2.4
D	-0.2	0.1	0.7	1.2	1.2	1.3	1.4	1.7	1.9	1.9	1.7	1.6
EL	:	:	:	:	:	:	:	:	:	:	:	:
E	2.0	2.0	1.5	1.9	2.1	2.4	2.6	3.1	3.3	3.3	3.2	3.0
F	0.5	1.0	0.8	1.6	1.5	1.8	2.1	2.5	2.7	2.7	2.7	2.7
IRL	0.0	0.3	2.1	2.9	3.7	4.0	4.5	4.7	4.9	5.1	5.3	5.4
I	0.0	0.2	0.5	0.9	1.2	1.5	1.8	2.2	2.4	2.5	2.3	2.2
L	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.1	-0.1	0.2	0.5	0.7	0.9	1.0	1.1	1.4	1.9	2.4	2.9
A	0.0	0.9	1.6	1.8	1.8	1.7	2.1	2.3	2.4	2.4	2.2	2.0
P	1.2	0.9	0.9	0.6	0.2	0.1	1.7	2.6	2.9	2.8	2.4	2.0
FIN	-1.7	2.5	1.4	1.8	3.1	2.1	3.2	4.6	4.8	4.2	3.0	1.8
S	1.0	1.6	2.0	2.2	2.3	2.5	2.6	2.7	2.6	2.5	2.5	2.4
UK	1.0	1.3	1.7	2.1	2.6	2.6	2.5	2.5	2.5	2.6	2.8	2.9
EU-15	0.5	0.8	1.0	1.6	1.7	1.8	2.0	2.3	2.5	2.5	2.5	2.4
Euro area	0.3	0.7	0.9	1.4	1.5	1.6	1.9	2.3	2.5	2.5	2.4	2.3
USA	1.4	2.2	3.1	2.7	2.1	2.4	2.3	2.6	2.7	2.8	2.9	2.9
JAP	-2.5	-0.7	0.2	1.2	1.4	1.1	1.2	1.3	1.5	1.5	1.4	1.4

TABLE 4 : Domestic demand, volume (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.3	1.2	2.5	2.9	2.4	3.6	0.5	1.4	0.4	2.4	2.1	:	2.7
DK	2.5	2.3	2.6	4.0	-0.5	2.6	1.1	2.1	1.8	2.6	2.3	:	2.7
D	3.0	2.1	1.6	2.4	2.8	1.8	-0.8	0.1	-1.1	2.7	1.7	:	2.1
EL	4.7	1.3	3.6	4.6	2.8	4.0	3.5	4.1	3.6	4.2	4.0	:	3.5
E	4.9	1.0	4.2	5.7	5.6	4.4	2.7	2.2	1.8	3.2	2.5	:	3.3
F	3.8	0.7	2.6	4.0	3.6	4.0	1.7	1.2	0.9	2.9	2.3	:	3.0
IRL	3.6	2.5	8.9	9.7	8.3	8.5	4.1	3.9	3.5	4.9	4.2	:	4.8
I	3.8	0.3	2.4	3.1	3.0	2.1	1.6	2.0	0.7	2.7	1.9	:	2.4
L	3.5	2.7	4.6	7.3	6.1	-0.2	6.8	2.3	1.8	4.4	2.6	:	3.6
NL	3.3	1.5	3.7	4.8	4.3	2.7	1.4	1.5	0.4	3.1	0.6	:	1.6
A	3.4	2.5	2.4	2.9	2.9	2.7	-0.1	0.9	-0.3	2.5	1.8	:	2.3
P	4.9	2.5	4.7	6.7	5.6	3.0	0.9	0.8	-0.1	1.9	0.4	:	1.8
FIN	4.0	-2.7	3.9	4.8	2.8	2.9	2.0	1.4	0.9	2.2	2.3	:	2.7
S	2.7	-0.9	2.5	4.3	3.5	3.5	0.3	1.3	0.6	2.4	2.0	:	2.2
UK	2.5	1.3	3.9	5.0	3.6	3.9	2.5	2.6	2.0	3.2	2.6	:	2.7
EU-15	3.4	1.1	2.8	3.9	3.4	3.1	1.2	1.5	0.7	2.9	2.1	:	2.6
Euro area	3.6	1.1	2.6	3.6	3.5	2.9	1.0	1.2	0.3	2.8	2.0	:	2.6
USA	3.4	2.4	4.7	5.5	5.1	4.4	0.2	3.6	2.8	3.8	2.8	:	3.4
JAP	6.1	1.4	1.2	-1.5	0.8	1.9	0.6	-1.7	-1.3	0.2	0.8	:	1.1

TABLE 5 : Final demand, volume (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.2	2.3	3.9	4.2	3.6	5.7	0.8	1.6	-0.1	3.8	3.3	:	4.2
DK	3.1	2.4	3.8	4.1	2.6	5.2	1.9	2.2	2.4	3.6	2.9	:	3.4
D	3.6	2.5	3.1	3.4	3.4	4.6	0.7	0.6	-0.3	3.8	2.6	:	3.6
EL	5.0	1.6	4.8	4.6	3.6	6.6	2.6	4.1	3.1	4.7	4.1	:	4.2
E	5.2	2.4	5.4	6.2	6.1	5.7	2.9	2.5	1.3	4.0	3.3	:	4.2
F	4.2	1.4	3.7	4.9	3.9	5.8	1.4	1.5	0.8	3.7	2.8	:	3.8
IRL	4.9	6.7	13.1	15.3	11.8	14.9	5.5	4.8	4.3	7.8	6.0	:	7.3
I	4.3	1.6	2.8	3.2	2.4	4.3	1.4	2.1	0.4	3.7	2.6	:	3.5
L	4.3	4.2	9.5	11.3	9.6	11.3	3.2	3.2	-1.0	6.4	2.9	:	4.2
NL	4.1	3.2	5.1	5.8	4.6	6.0	1.5	1.3	-0.4	3.9	2.0	:	3.3
A	4.2	2.5	4.5	4.5	4.6	6.0	2.3	2.0	-0.1	4.3	3.4	:	4.2
P	5.5	2.6	5.2	7.2	5.1	4.2	1.4	1.2	0.6	2.9	1.3	:	3.1
FIN	4.1	-0.1	6.2	6.8	3.5	9.0	-0.1	1.9	1.5	3.9	3.5	:	4.1
S	3.1	1.2	4.5	5.7	4.6	6.0	-0.4	1.4	1.0	3.9	3.3	:	3.5
UK	2.8	2.1	4.6	4.6	4.0	5.4	2.2	2.2	1.5	3.9	3.2	:	3.5
EU-15	3.8	2.0	4.0	4.6	3.9	5.4	1.5	1.7	0.7	3.9	2.9	:	3.7
Euro area	4.1	2.1	3.9	4.5	3.9	5.4	1.4	1.6	0.4	3.9	2.8	:	3.8
USA	3.6	2.8	4.9	5.1	4.9	4.9	-0.4	2.8	2.4	3.8	2.9	:	3.5
JAP	6.3	1.5	1.6	-1.5	0.8	2.9	-0.1	-0.7	-0.7	0.9	1.3	:	1.6

TABLE 6 : Gross domestic product at current market prices (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	8.5	4.4	4.1	3.7	4.6	5.0	2.8	3.2	2.8	4.7	3.9	:	4.7
DK	10.4	4.1	5.1	3.5	5.0	6.8	3.7	3.9	3.3	5.0	4.4	:	4.9
D	7.2	5.5	2.4	3.1	2.6	2.6	2.0	2.3	1.7	3.6	2.5	:	3.2
EL	17.3	15.4	8.8	8.8	6.7	7.8	7.6	7.1	6.9	7.5	7.2	:	7.1
E	15.3	7.0	6.8	6.8	7.0	7.8	6.9	5.3	5.9	5.8	5.7	:	6.0
F	10.8	3.2	3.7	4.4	3.8	4.6	3.3	3.0	2.7	4.3	3.5	:	4.2
IRL	13.2	7.7	14.3	15.6	15.7	14.6	11.2	8.2	9.0	10.0	8.1	:	8.9
I	14.2	6.2	4.8	4.6	3.3	5.1	4.5	3.8	2.9	4.9	4.2	:	4.6
L	8.7	7.6	9.5	9.8	9.3	12.0	3.3	5.2	1.0	9.1	4.0	:	5.4
NL	8.5	4.4	5.9	6.1	5.6	7.6	6.6	4.8	4.0	5.7	3.9	:	4.6
A	8.3	5.2	3.7	4.5	3.4	5.0	2.3	2.9	2.1	3.9	2.9	:	3.6
P	17.3	9.7	7.3	8.5	6.8	6.8	6.7	4.8	5.7	4.6	3.9	:	4.6
FIN	12.2	1.5	6.7	8.5	3.9	8.8	3.7	2.8	2.5	5.2	5.4	:	5.1
S	10.3	4.0	4.1	4.5	5.2	4.7	3.3	3.9	4.0	5.0	4.6	:	4.7
UK	10.8	5.2	5.7	6.0	5.0	5.3	3.9	4.5	4.4	5.6	4.9	:	5.4
EU-15	10.5	5.2	4.5	4.8	4.2	5.0	3.9	3.7	3.3	4.8	4.0	:	4.6
Euro area	10.5	5.3	4.2	4.7	4.0	4.9	3.9	3.5	3.1	4.7	3.8	:	4.4
USA	8.4	5.0	5.9	5.6	5.6	6.0	2.6	4.2	3.5	5.3	3.9	:	4.7
JAP	11.6	2.4	0.6	-1.2	-0.8	0.3	-1.4	-2.0	-1.5	0.8	0.4	:	0.6

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.2	1.7	2.3	3.0	2.1	3.4	0.9	1.3	0.8	2.1	1.9	:	2.3
DK	2.1	2.3	1.5	2.3	0.2	-0.3	0.8	1.6	2.1	2.0	2.2	:	2.2
D	3.5	2.3	1.7	1.8	3.7	1.4	1.5	-0.2	-0.7	2.1	1.1	:	1.7
EL	4.8	1.8	2.8	3.5	2.9	2.7	3.2	2.8	3.0	3.0	3.2	:	3.3
E	4.5	1.2	3.7	4.4	4.7	3.9	2.5	2.0	1.7	3.1	2.3	:	3.1
F	3.7	0.7	2.1	3.4	3.2	2.5	2.6	1.7	1.7	2.8	2.1	:	2.5
IRL	3.1	3.2	7.9	7.7	9.3	9.0	5.0	4.3	3.7	5.9	4.8	:	5.6
I	4.4	0.9	2.6	3.2	2.4	2.7	1.1	1.7	-0.1	2.3	1.9	:	2.4
L	3.8	2.5	4.3	7.8	2.6	3.3	3.6	4.0	2.3	3.5	2.0	:	3.0
NL	3.6	1.6	4.0	4.8	4.7	3.6	1.2	2.1	1.0	3.4	1.0	:	1.5
A	3.6	2.3	2.6	2.7	2.3	3.3	1.5	1.6	0.8	2.3	1.3	:	2.0
P	4.0	2.3	3.8	5.1	4.8	2.6	0.9	0.7	1.0	2.0	0.9	:	1.5
FIN	3.9	-0.9	3.9	5.1	4.0	2.6	1.1	2.1	2.7	2.2	2.5	:	2.6
S	2.3	-0.2	2.9	2.7	3.9	4.5	0.2	1.7	1.4	2.6	1.7	:	2.2
UK	2.7	1.5	4.2	3.8	4.5	5.2	4.1	2.6	3.5	2.8	2.3	:	2.2
EU-15	3.5	1.4	2.8	3.2	3.6	3.0	2.2	1.5	1.2	2.6	1.8	:	2.2
Euro area	3.8	1.4	2.5	3.1	3.5	2.5	1.8	1.2	0.6	2.5	1.7	:	2.3
USA	3.7	2.6	4.2	4.8	4.9	4.3	2.5	3.0	3.1	2.6	2.3	:	2.7
JAP	5.7	2.2	1.0	0.1	1.2	0.6	1.4	-0.1	0.7	0.2	0.7	:	1.0

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.5	1.5	1.9	1.0	3.6	2.3	2.2	1.6	1.4	1.6	1.5	:	2.3
DK	3.6	2.1	1.9	3.1	1.8	0.6	1.2	1.4	1.4	0.8	0.9	:	1.0
D	3.0	1.9	1.2	1.9	1.0	1.2	0.8	1.5	1.0	1.1	1.0	:	1.1
EL	4.6	0.5	1.8	1.7	1.4	2.3	0.5	0.5	1.0	1.0	0.7	:	0.6
E	4.9	3.0	3.4	3.7	4.2	5.0	3.1	3.1	2.2	3.1	3.0	:	2.5
F	3.4	2.3	1.7	-0.1	1.5	2.7	2.5	1.7	3.2	1.4	2.0	:	2.4
IRL	3.6	2.7	5.9	6.5	6.7	7.6	10.5	5.5	7.0	3.3	3.2	:	3.0
I	3.4	-0.2	0.9	0.2	1.3	1.7	2.2	1.1	1.6	1.0	1.2	:	0.8
L	3.6	3.7	4.3	1.3	7.1	4.3	7.5	3.7	6.0	3.5	7.5	:	4.5
NL	2.8	2.1	2.1	3.6	2.5	1.9	3.1	2.0	2.4	1.7	0.3	:	1.2
A	2.7	3.0	1.1	2.8	3.1	0.0	-0.5	-0.1	0.2	0.2	0.3	:	0.4
P	7.6	2.7	3.6	4.1	5.0	3.3	2.4	1.7	1.4	1.0	0.2	:	0.3
FIN	4.4	-0.5	2.0	1.7	1.9	-0.2	2.1	1.6	1.9	1.1	1.5	:	1.4
S	3.5	0.4	0.7	3.2	1.7	-0.9	1.4	0.7	1.7	0.5	0.5	:	0.5
UK	1.8	1.2	1.6	1.5	3.1	2.1	2.2	3.3	3.7	3.3	3.0	:	3.0
EU-15	3.1	1.6	1.6	1.5	2.0	2.0	2.0	1.9	2.2	1.7	1.7	:	1.8
Euro area	3.4	1.7	1.7	1.4	1.8	2.1	2.0	1.6	2.0	1.4	1.4	:	1.6
USA	2.5	-0.1	1.9	1.5	3.1	2.8	4.0	4.5	4.3	4.5	3.7	:	3.6
JAP	4.4	3.2	3.0	1.9	4.5	4.6	2.7	-0.8	1.9	0.3	1.4	:	1.4

TABLE 9 : Total investment, volume (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.4	-0.4	3.9	3.0	4.3	4.1	0.5	0.5	-2.8	3.4	2.5	:	4.3
DK	2.7	1.8	7.2	10.0	1.0	10.7	0.0	4.1	2.3	5.4	3.8	:	5.2
D	2.3	1.8	1.8	3.0	4.1	2.5	-5.3	-2.4	-4.8	3.6	1.6	:	4.2
EL	3.5	-0.2	8.0	10.6	6.2	8.0	5.9	9.6	7.3	9.8	8.3	:	5.6
E	6.0	-0.5	6.3	10.0	8.7	5.7	3.2	1.9	1.5	4.2	2.5	:	4.5
F	4.5	-1.2	4.5	7.0	8.3	7.7	2.3	-0.1	0.1	3.1	1.2	:	3.6
IRL	5.2	2.3	14.1	14.8	14.0	7.0	-0.4	2.4	0.8	3.6	3.9	:	4.6
I	2.9	-1.2	4.3	4.0	5.7	6.5	2.4	2.8	-2.2	4.9	3.2	:	3.9
L	3.3	3.2	6.9	11.8	14.0	-6.3	5.9	-0.5	-2.7	5.3	-0.3	:	4.3
NL	3.0	0.7	5.7	4.2	7.8	3.5	-0.8	-0.8	-3.3	2.4	-0.2	:	2.2
A	3.9	2.4	3.2	3.9	2.1	5.9	-2.2	0.6	-2.6	4.0	3.8	:	4.6
P	4.6	2.2	8.6	11.5	7.3	4.7	0.1	0.5	-3.5	2.1	-1.0	:	3.6
FIN	3.3	-9.5	7.3	9.3	3.0	3.9	4.0	-1.2	-1.6	2.8	1.5	:	4.3
S	3.1	-4.4	5.3	8.5	9.6	5.0	1.5	1.6	-1.6	4.6	3.8	:	4.1
UK	3.3	-0.3	5.3	12.8	0.6	1.9	0.3	2.1	-4.0	3.7	2.7	:	3.5
EU-15	3.4	-0.3	4.2	6.5	5.2	4.6	-0.2	0.6	-2.1	3.9	2.2	:	3.9
Euro area	3.4	-0.1	4.0	5.3	6.0	4.9	-0.3	0.2	-1.9	3.8	2.0	:	4.0
USA	3.6	4.1	8.4	10.5	7.9	5.6	-2.9	0.0	-2.4	5.9	2.1	:	4.7
JAP	8.0	-0.9	1.2	-4.0	-0.8	3.2	-1.4	-5.3	-5.9	0.2	-2.1	:	-0.3

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1971-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	:	:	:	:	:	:	:	2.0	-2.1	2.5	2.2	:	3.9
DK	-1.0	-0.6	3.1	-2.0	-3.6	6.8	-6.1	1.2	-0.7	4.6	2.7	:	3.8
D	0.5	4.0	-1.3	-1.0	1.4	-2.6	-6.0	-1.8	-4.2	0.2	-0.4	:	0.6
EL	0.2	-2.8	5.4	9.2	6.2	2.8	7.2	11.0	8.2	11.5	10.0	:	5.8
E	3.1	0.1	4.6	7.8	9.0	6.1	5.8	4.0	4.5	4.2	2.9	:	3.7
F	1.1	-2.1	1.7	1.9	6.1	7.2	1.8	0.0	-0.1	2.0	0.7	:	1.9
IRL	2.3	3.3	13.0	10.0	12.3	6.6	4.6	2.3	3.0	3.8	3.5	:	3.7
I	0.4	-2.4	1.9	-0.2	2.8	5.6	3.7	2.3	0.0	2.8	1.7	:	2.0
L	:	4.4	6.2	16.4	7.0	6.2	6.9	3.6	2.1	4.7	4.4	:	4.6
NL	0.0	0.3	3.6	3.6	6.2	3.6	2.1	0.2	-0.7	1.8	1.3	:	2.0
A	2.4	3.6	0.6	2.3	0.0	1.2	-1.5	-1.3	-0.5	0.8	0.9	:	1.5
P	:	3.5	6.8	6.9	4.6	4.7	3.2	0.5	-1.5	1.5	-0.4	:	2.5
FIN	2.1	-11.1	9.2	11.2	6.3	6.7	-2.6	-3.0	-1.4	0.3	1.7	:	2.4
S	0.3	-8.5	0.4	2.7	1.2	5.1	1.0	3.0	0.2	4.7	4.8	:	4.9
UK	1.7	-1.0	1.5	2.8	-0.2	-0.4	-2.0	4.4	0.8	4.6	3.6	:	3.9
EU-15 [1]	1.1	0.4	1.5	1.9	3.4	2.4	-0.6	1.2	-0.5	2.6	1.7	:	2.4
Euro area [1]	1.1	0.7	1.5	1.8	4.1	2.6	-0.4	0.5	-0.7	2.1	1.3	:	2.1
USA	1.7	0.7	4.8	6.0	3.9	2.7	-0.1	-1.3	-4.1	4.1	-0.4	:	2.8
JAP	3.8	-1.9	-1.4	-4.2	-1.7	-1.1	:	-2.1	:	-0.6	:	:	:

[1] Excluding Belgium, excluding Portugal up to 1985.

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1971-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1971-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	:	:	:	:	:	:	:	1.9	-2.0	4.3	2.0	:	4.2
DK	2.9	2.5	6.7	7.5	1.5	12.6	1.0	2.8	6.8	4.5	4.7	:	5.9
D	2.7	-2.4	6.2	9.2	7.2	9.5	-5.8	-3.9	-6.8	7.8	3.7	:	7.9
EL	3.5	4.6	12.9	16.5	3.5	17.6	3.7	8.1	6.2	8.1	6.5	:	5.5
E	4.3	-2.5	9.1	14.5	7.6	4.7	-1.2	-1.4	-3.9	4.9	2.0	:	6.3
F	5.3	-0.1	8.1	12.5	11.9	11.5	3.6	-1.2	-0.8	4.2	1.1	:	5.5
IRL	4.5	1.8	15.9	24.9	17.3	9.6	-7.4	2.5	-2.5	3.5	4.5	:	6.0
I	3.9	-0.1	6.5	7.2	8.3	7.1	1.1	3.1	-4.2	6.5	3.9	:	5.1
L	:	2.1	6.9	6.1	25.4	-19.6	7.0	-5.0	-9.1	6.0	-7.3	:	3.9
NL	2.6	1.3	7.0	2.3	10.1	4.1	-4.4	-2.3	-5.8	3.5	-2.2	:	2.3
A	3.5	0.3	6.2	4.5	4.7	11.5	-4.1	2.5	-5.8	7.6	7.4	:	8.3
P	:	0.0	11.9	18.5	10.9	6.5	-3.5	0.5	-5.5	2.7	-1.7	:	4.8
FIN	3.4	-9.3	5.5	8.0	-2.0	-0.8	14.3	-0.3	-2.5	4.6	0.3	:	6.5
S	4.7	-0.6	7.9	11.0	13.2	4.6	2.3	0.8	-1.5	5.3	4.0	:	4.0
UK	3.1	0.3	8.7	23.5	1.0	3.3	1.5	0.3	-7.6	3.0	2.1	:	3.2
EU-15 [1]	3.8	-0.5	7.6	11.9	7.3	7.9	-0.5	-0.4	-4.4	5.3	2.6	:	5.5
Euro area [1]	3.9	-0.9	7.3	9.7	8.5	8.8	-1.1	-0.7	-4.1	5.9	2.6	:	6.1
USA	5.3	7.7	11.7	14.5	11.6	8.1	-5.4	0.9	-1.2	7.0	3.8	:	5.9
JAP	5.3	-0.7	4.4	-6.2	0.1	9.7	:	-8.5	:	1.0	:	:	:

[1] Excluding Belgium, excluding Portugal up to 1985.

TABLE 12 : Public investment (as a percentage of GDP, 1971-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1971-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.6	1.5	1.7	1.5	1.8	1.8	1.5	1.4	1.6	1.4	1.6	:	1.6
DK	3.0	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	:	1.8
D	3.2	2.6	1.9	1.9	1.9	1.8	1.7	1.7	1.6	1.6	1.7	:	1.7
EL	2.8	3.2	3.5	3.6	3.6	3.8	3.8	4.0	3.7	4.0	3.9	:	3.9
E	2.9	4.1	3.2	3.3	3.4	3.2	3.3	3.5	3.4	3.6	3.5	:	3.5
F	3.4	3.3	3.1	2.9	3.0	3.2	3.3	3.0	3.4	3.0	3.3	:	3.3
IRL	3.9	2.2	2.9	2.7	3.2	3.7	4.3	4.3	4.5	4.3	4.6	:	4.8
I	3.2	2.7	2.3	2.4	2.4	2.4	2.5	2.0	2.0	2.0	2.0	:	2.5
L	:	4.7	4.4	4.5	4.6	4.1	4.4	4.8	4.8	4.6	5.2	:	5.4
NL	2.9	2.2	3.0	2.9	3.0	3.2	3.4	3.3	3.4	3.4	3.5	:	3.5
A	4.3	3.2	2.0	1.9	1.7	1.5	1.2	1.2	1.2	1.2	1.1	:	1.1
P	3.1	3.6	4.1	3.9	4.2	3.9	4.1	4.2	3.8	4.3	3.8	:	3.8
FIN	3.8	3.2	2.9	2.9	2.9	2.5	2.6	2.7	2.6	2.6	2.4	:	2.4
S	3.9	2.4	2.7	2.7	2.7	2.5	2.6	2.6	2.7	2.6	2.7	:	2.7
UK	3.0	1.9	1.2	1.2	1.1	1.1	1.2	1.5	1.3	1.7	1.5	:	1.6
EU-15	3.3	2.7	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	:	2.4
Euro area	3.3	2.9	2.5	2.5	2.5	2.5	2.6	2.4	2.5	2.4	2.5	:	2.6
USA	2.7	2.5	2.6	2.6	2.7	2.7	2.8	3.5	3.4	3.6	3.4	:	3.4
JAP	5.3	5.8	5.6	5.5	5.8	5.0	4.8	5.3	4.6	5.1	4.4	:	4.2

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as percentage of potential GDP, 1986-2004) [1] 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1965-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.1	-0.1	0.2	-0.2	0.7	2.0	0.8	-0.6	-0.5	-0.1	-0.4	:	0.3
DK	0.1	-1.1	0.9	0.8	0.8	1.5	0.3	-0.1	-0.1	0.1	-0.1	:	0.1
D	-0.1	1.7	-0.4	-0.8	-0.3	1.0	-0.1	-1.5	-1.3	-0.7	-1.4	:	-0.8
EL	0.5	-1.9	-1.5	-1.5	-0.6	0.1	1.0	2.6	1.2	3.5	1.8	:	2.4
E	-0.1	-1.1	-0.7	-0.4	0.6	1.3	0.4	-0.2	-0.8	-0.3	-1.5	:	-1.5
F	0.0	-0.2	-0.1	-0.2	0.8	1.9	1.2	-0.6	0.0	-0.3	-0.3	:	-0.3
IRL	0.1	-2.4	2.4	1.6	4.2	6.2	4.4	0.8	0.8	-0.3	-1.4	:	-2.4
I	0.1	-0.4	0.4	0.5	0.2	0.9	0.3	-1.2	-1.2	-0.9	-1.3	:	-1.0
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-0.1	0.1	1.6	1.8	2.8	3.3	2.0	-0.9	-0.3	-0.8	-1.8	:	-1.8
A	-0.1	0.6	0.0	0.1	0.6	1.8	0.8	-0.4	-0.3	0.1	-0.4	:	-0.1
P	0.1	0.0	0.8	1.3	1.7	2.2	0.5	-1.6	-1.4	-2.6	-2.8	:	-3.1
FIN	0.5	-4.5	1.9	2.6	2.5	4.9	1.7	-0.7	-0.1	-0.5	-0.3	:	-0.1
S	0.6	-2.3	-0.1	-0.5	1.2	2.3	0.8	0.1	0.1	0.4	-0.1	:	-0.1
UK	0.3	-1.7	0.8	1.1	0.6	0.9	0.0	-0.9	-0.9	-0.7	-0.9	:	-0.8
EU-15	0.0	-0.1	0.1	0.1	0.5	1.5	0.5	-0.8	-0.7	-0.5	-1.0	:	-0.7
Euro area	0.0	0.2	0.0	-0.1	0.5	1.6	0.6	-0.9	-0.7	-0.5	-1.1	:	-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.
Potential GDP is calculated on the basis of the Production Function (see note 5 on concepts and sources); the leap year 2004 has not been included.

TABLE 14 : Output gap relative to trend GDP (deviation of actual output from trend output as percentage of trend GDP, 1961-2004) [1]

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.0	0.1	0.2	-0.3	0.6	2.1	0.7	-0.5	-0.7	0.0	-0.8	:	-0.1
DK	0.2	-1.5	0.9	0.9	0.9	1.6	0.3	-0.3	-0.2	0.0	-0.3	:	-0.1
D	-0.2	2.2	-0.2	-0.6	-0.2	1.1	0.1	-1.4	-1.2	-0.5	-1.4	:	-0.7
EL	0.1	-0.4	-0.8	-0.8	-0.5	0.4	0.9	0.9	0.8	1.4	1.1	:	1.1
E	0.2	0.0	-0.3	-0.2	0.8	1.9	1.5	0.3	0.4	0.4	-0.1	:	0.1
F	0.1	0.1	-0.6	-0.8	0.1	1.6	1.2	-0.2	-0.1	0.2	-0.4	:	0.0
IRL	0.1	-3.5	2.1	1.3	4.7	7.3	6.0	2.3	2.8	1.5	0.9	:	0.3
I	0.1	-0.2	-0.2	-0.3	-0.4	0.7	0.7	-0.5	-0.6	0.1	-0.6	:	0.0
L	-0.2	1.3	0.5	0.6	2.0	6.6	3.7	0.3	0.2	0.5	-1.2	:	-1.1
NL	-0.1	-0.3	1.0	1.1	2.4	3.2	2.1	-0.3	0.1	-0.1	-1.0	:	-0.8
A	-0.1	0.9	0.1	0.2	0.7	2.1	0.7	-0.5	-0.6	0.1	-0.7	:	-0.5
P	-0.1	0.1	0.5	0.9	1.6	2.5	1.7	0.5	0.1	0.4	-1.0	:	-0.7
FIN	0.7	-4.9	1.0	1.7	2.3	4.9	2.2	0.2	0.2	0.2	-0.3	:	-0.2
S	0.3	-1.9	-0.1	-0.7	1.4	2.5	1.3	0.0	0.5	0.2	0.3	:	0.3
UK	0.2	-1.7	0.5	0.7	0.6	1.1	0.6	-0.1	-0.3	0.4	-0.1	:	0.2
EU-15	0.1	0.2	0.0	-0.2	0.4	1.6	0.8	-0.5	-0.4	0.0	-0.6	:	-0.2
Euro area	0.0	0.6	-0.1	-0.3	0.3	1.6	0.9	-0.6	-0.4	0.0	-0.7	:	-0.3

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.
Trend GDP is calculated using the Hodrick-Prescott filter (see note 5 on concepts and sources).

TABLE 15 : Deflator of gross domestic product (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.9	2.7	1.3	1.7	1.4	1.3	2.0	2.1	2.1	1.9	1.8	:	1.8
DK	7.5	2.1	2.4	1.0	2.7	3.7	2.8	2.2	1.6	2.4	2.2	:	2.4
D	3.9	3.4	0.6	1.1	0.5	-0.3	1.4	1.4	1.4	0.9	1.1	:	0.8
EL	12.2	14.0	5.2	5.2	3.0	3.4	3.4	3.3	3.3	3.2	3.2	:	3.2
E	10.3	5.4	2.9	2.4	2.7	3.5	4.2	3.1	3.9	2.6	3.1	:	2.7
F	6.7	2.1	1.0	0.9	0.5	0.7	1.4	1.4	1.8	1.4	1.5	:	1.5
IRL	8.7	2.9	4.2	6.2	4.1	4.3	5.3	4.5	5.5	3.6	3.7	:	3.6
I	9.9	4.9	2.8	2.7	1.7	2.1	2.6	2.4	2.4	2.2	2.4	:	2.1
L	4.9	3.5	2.6	2.1	3.1	2.8	2.3	2.3	0.8	3.7	2.0	:	2.0
NL	4.9	2.3	2.1	1.7	1.6	4.2	5.3	3.2	3.8	3.0	2.9	:	2.3
A	4.6	3.1	1.0	0.5	0.7	1.4	1.6	1.7	1.4	1.3	1.0	:	1.3
P	11.9	7.9	3.4	3.8	3.2	3.1	4.9	3.2	4.9	2.4	2.7	:	2.1
FIN	8.1	2.2	1.4	3.0	-0.2	2.6	3.0	1.2	1.0	1.9	2.5	:	1.6
S	7.2	3.4	1.1	0.9	0.7	1.0	2.0	2.2	2.4	2.1	2.4	:	2.3
UK	8.1	3.4	2.8	2.9	2.5	2.2	1.9	2.5	2.8	2.5	2.3	:	2.6
EU-15	6.9	3.6	1.8	1.9	1.4	1.5	2.3	2.1	2.3	1.9	2.0	:	1.9
Euro area	6.7	3.7	1.6	1.7	1.2	1.4	2.4	2.0	2.2	1.7	1.9	:	1.7
USA	4.6	2.5	1.7	1.2	1.4	2.1	2.4	1.4	1.2	2.1	1.5	:	1.8
JAP	5.1	1.0	-0.8	-0.1	-1.4	-2.0	-1.4	-1.2	-0.9	0.2	-0.8	:	-0.8

TABLE 16 : Price deflator of private consumption (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.8	2.2	1.7	1.0	1.3	2.3	2.5	1.7	1.8	1.7	1.7	:	1.9
DK	7.4	2.3	2.3	1.3	2.6	3.0	2.1	2.4	2.3	2.1	2.0	:	2.1
D	3.4	3.3	1.3	1.1	0.4	1.5	1.9	1.7	1.3	1.6	1.4	:	1.1
EL	11.5	13.8	4.7	4.5	2.2	3.2	3.1	3.3	3.1	2.9	3.1	:	3.1
E	10.0	5.6	2.8	2.2	2.4	3.2	3.3	2.9	3.6	2.6	2.9	:	2.5
F	6.7	2.5	1.2	0.7	0.4	1.5	1.6	1.4	1.6	1.6	1.7	:	1.6
IRL	8.7	2.7	3.2	3.8	3.1	4.0	4.2	4.4	4.7	3.3	4.0	:	3.3
I	9.4	5.8	2.7	2.1	2.1	2.8	2.9	2.3	2.7	2.1	2.2	:	2.0
L	4.6	3.3	1.7	1.2	1.4	2.6	2.8	1.9	1.9	2.1	1.7	:	1.6
NL	4.8	2.6	2.2	1.7	1.8	3.5	4.6	3.3	3.4	2.5	2.6	:	2.2
A	4.4	3.1	1.3	0.5	0.9	1.5	2.0	2.2	1.7	2.0	1.6	:	1.5
P	12.2	7.5	2.9	2.8	2.3	2.9	4.2	3.1	3.5	2.4	2.9	:	2.5
FIN	7.4	3.0	1.9	1.7	1.0	3.9	2.9	1.9	2.0	2.0	1.8	:	1.7
S	7.2	4.8	1.3	1.0	1.0	1.0	1.6	1.9	2.0	2.0	1.7	:	1.9
UK	7.7	4.1	2.1	2.7	1.6	0.7	0.4	2.0	0.9	2.0	1.2	:	1.5
EU-15	6.7	4.0	1.9	1.7	1.2	1.9	2.0	2.1	1.9	1.9	1.8	:	1.7
Euro area	6.4	4.0	1.9	1.5	1.1	2.2	2.4	2.1	2.1	1.9	2.0	:	1.8
USA	4.6	2.7	1.9	1.1	1.6	2.5	2.0	1.4	1.4	2.3	2.0	:	2.2
JAP	5.5	1.1	-0.2	-0.1	-0.5	-1.1	-1.5	-0.9	-1.4	0.1	-1.4	:	-1.2

TABLE 17 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	5.1	2.4	1.6	0.9	1.1	2.7	2.4	1.7	1.6	1.7	1.4	:	1.7
DK	7.2	2.0	2.0	1.3	2.1	2.7	2.3	2.3	2.4	2.1	2.0	:	2.0
D	3.5	3.1	1.2	0.6	0.6	2.1	2.4	1.8	1.4	1.7	1.5	:	1.2
EL	11.6	13.9	4.6	4.5	2.1	2.9	3.7	3.6	3.8	3.2	3.2	:	3.3
E	10.1	5.2	2.6	1.8	2.2	3.5	2.8	3.0	3.6	2.5	2.9	:	2.4
F	6.7	2.2	1.3	0.7	0.6	1.8	1.8	1.7	1.9	1.6	1.8	:	1.6
IRL	8.6	2.5	2.6	2.1	2.5	5.3	4.0	4.5	4.8	3.3	3.8	:	3.1
I	9.1	5.0	2.4	2.0	1.7	2.6	2.3	2.2	2.6	2.0	2.0	:	1.9
L	4.6	2.8	1.7	1.0	1.0	3.8	2.4	2.0	1.9	2.2	1.8	:	1.8
NL	4.7	2.9	1.9	1.8	2.0	2.3	5.1	3.5	3.9	2.2	2.8	:	2.4
A	4.5	3.2	1.2	0.8	0.5	2.0	2.3	1.6	1.9	1.7	1.6	:	1.5
P	13.2	7.1	2.4	2.2	2.2	2.8	4.4	3.1	3.5	2.4	2.9	:	2.5
FIN	7.6	2.3	1.6	1.4	1.3	3.0	2.7	2.0	1.9	2.1	1.8	:	2.0
S	6.9	4.2	1.1	1.0	0.6	1.3	2.7	2.2	2.1	2.2	2.3	:	2.1
UK	8.0	3.4	1.6	1.6	1.3	0.8	1.2	1.6	1.2	1.8	1.5	:	1.8
EU-15	7.1	3.8	1.7	1.3	1.2	2.1	2.3	2.1	2.1	1.9	1.9	:	1.8
Euro area	6.9	3.9	1.7	1.2	1.1	2.4	2.5	2.2	2.3	2.0	2.0	:	1.8
USA	5.1	3.1	2.5	1.6	2.2	3.4	2.8	1.4	1.6	2.4	2.3	:	2.3
JAP	5.6	1.4	0.3	0.6	-0.3	-0.7	-0.6	-0.9	-1.0	-0.1	-1.0	:	-0.8

TABLE 18 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2002-2004)

	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4	2004/1	2004/2	2004/3	2004/4
B	2.5	1.3	1.3	1.4	1.4	1.1	1.5	1.5	1.7	1.6	1.7	1.8
DK	2.4	2.1	2.4	2.5	2.0	1.9	2.1	1.8	2.0	1.9	2.0	2.3
D	2.0	1.1	1.0	1.5	1.2	1.3	1.6	1.8	1.3	1.3	1.2	1.1
EL	4.3	3.8	3.7	3.5	3.3	3.2	3.3	3.1	3.4	3.2	3.3	3.4
E	3.2	3.6	3.6	3.9	3.5	2.9	2.6	2.5	2.5	2.4	2.3	2.3
F	2.3	1.7	1.7	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.6	1.7
IRL	5.1	4.8	4.4	4.7	4.7	3.6	3.7	3.3	3.0	3.1	3.1	3.1
I	2.5	2.4	2.6	2.8	2.5	2.0	1.8	1.7	1.8	1.9	2.0	2.0
L	2.0	1.5	1.9	2.3	2.2	1.7	1.6	1.7	1.8	1.8	1.8	1.7
NL	4.6	4.0	3.9	3.5	3.0	2.5	3.0	2.4	2.3	2.4	2.5	2.4
A	1.8	1.6	2.0	2.0	1.9	1.6	1.5	1.4	1.5	1.5	1.5	1.5
P	3.4	3.5	3.7	3.7	3.4	3.0	2.7	2.5	2.5	2.5	2.5	2.5
FIN	2.6	2.0	1.7	1.4	1.6	1.7	1.9	2.0	2.0	2.0	2.0	2.1
S	2.9	1.9	1.5	2.1	2.4	2.1	2.2	2.2	2.0	2.2	2.2	2.1
UK	1.6	0.9	1.1	1.2	1.5	1.5	1.6	1.6	1.7	1.8	1.8	1.9
EU-15	2.4	1.8	1.9	2.1	2.0	1.8	1.9	1.9	1.8	1.8	1.8	1.8
Euro area	2.5	2.1	2.1	2.3	2.1	1.9	2.0	1.9	1.8	1.7	1.8	1.7
USA	1.2	1.3	1.7	2.3	2.5	2.2	2.1	2.2	2.3	2.3	2.4	2.4
JAP	-1.4	-0.9	-0.8	-0.7	-0.8	-1.0	-1.1	-1.0	-0.9	-0.8	-0.8	-0.8

TABLE 19 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.1	0.5	3.1	-0.9	-0.3	10.0	1.8	1.2	-0.3	1.9	1.0	:	1.6
DK	:	1.2	1.5	-3.0	0.9	6.9	2.5	1.4	-0.9	2.1	1.1	:	1.9
D	2.8	0.9	0.7	0.2	-1.0	3.1	1.5	0.7	0.0	1.6	1.2	:	1.3
EL	10.0	8.7	4.0	2.3	0.5	8.7	2.2	1.4	1.4	3.0	2.3	:	2.8
E	:	3.1	2.3	-0.1	-1.0	8.4	2.0	0.4	0.2	2.3	1.3	:	1.6
F	5.0	-1.5	0.5	-1.8	-1.6	2.0	0.2	-0.1	-0.4	1.4	0.8	:	1.3
IRL	7.4	1.1	2.5	3.2	3.0	5.9	4.2	1.8	0.2	2.3	0.1	:	1.8
I	7.5	5.5	1.2	0.6	-0.5	5.4	3.6	2.0	-0.4	3.0	1.2	:	2.1
L	:	-0.3	-0.2	-0.5	-2.8	3.8	0.1	-0.5	0.6	2.0	1.2	:	1.1
NL	2.8	-0.8	1.9	-1.9	-1.0	9.6	1.1	0.7	-0.1	2.6	-0.2	:	0.9
A	:	-0.1	0.6	0.2	-0.6	2.2	-0.9	1.0	-0.8	1.8	-0.2	:	1.1
P	:	2.7	:	:	:	:	:	0.8	-1.2	2.4	1.4	:	1.0
FIN	:	3.7	-1.4	-1.3	-5.6	2.7	-1.6	-1.0	-2.8	1.6	-0.6	:	1.5
S	:	3.2	-1.6	-1.8	-2.2	2.2	2.2	0.5	-1.7	1.5	0.1	:	0.6
UK	6.7	3.0	-2.3	-5.8	-2.9	1.4	-0.3	1.3	1.1	1.7	0.8	:	1.7
EU-15	4.8	1.4	0.7	-1.1	-1.2	4.5	1.3	0.9	-0.1	1.9	0.8	:	1.4
Euro area	4.5	1.1	1.2	-0.3	-0.9	4.9	1.5	0.8	-0.2	2.0	0.9	:	1.4
USA	3.9	0.3	-1.7	-3.1	-1.3	1.2	-0.7	-1.4	-0.5	1.2	2.0	:	1.9
JAP	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 20 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.3	-0.7	3.9	-2.7	0.8	12.6	1.8	0.9	-0.7	2.0	0.5	:	1.4
DK	:	0.5	0.5	-3.0	-1.4	7.4	1.2	1.6	-0.7	1.9	1.2	:	1.8
D	2.3	-0.1	1.4	-2.9	-1.5	8.8	0.5	-0.4	-1.5	2.0	1.0	:	1.3
EL	10.6	8.5	4.2	3.6	2.2	7.5	3.1	1.7	-0.6	2.9	1.7	:	2.1
E	:	2.3	2.7	-0.7	0.4	10.4	-0.2	0.1	-1.5	2.5	0.5	:	1.4
F	5.6	-1.7	1.0	-2.9	-1.7	5.7	-0.5	0.5	-1.4	1.8	0.0	:	0.7
IRL	7.2	2.4	2.6	2.3	3.0	8.4	3.0	1.7	-1.4	2.1	-0.4	:	1.5
I	7.8	4.9	1.6	-2.6	-0.5	13.4	1.1	0.9	-2.1	2.6	-0.3	:	1.7
L	:	0.3	1.1	-1.2	-0.9	6.5	2.7	-1.0	0.3	1.5	1.0	:	1.0
NL	2.8	-1.2	2.2	-2.0	0.5	9.5	0.1	1.0	-1.1	2.4	-0.7	:	0.4
A	:	0.1	1.2	-0.5	-0.1	3.5	-0.7	0.9	-0.6	2.2	0.4	:	1.6
P	:	0.7	:	:	:	:	:	0.7	-3.0	2.5	0.5	:	1.4
FIN	:	3.7	-0.1	-4.1	-1.7	6.4	-3.1	-0.3	-2.4	2.1	-0.7	:	1.5
S	:	3.4	-0.1	-1.1	0.6	4.8	3.3	1.1	-1.3	3.3	-0.3	:	1.5
UK	6.8	3.4	-3.6	-7.4	-3.3	0.6	-0.6	1.9	-2.0	1.9	0.9	:	1.5
EU-15	5.1	1.1	0.9	-3.0	-1.0	7.6	0.3	0.7	-1.5	2.1	0.4	:	1.3
Euro area	4.7	0.6	1.8	-2.2	-0.6	9.1	0.4	0.4	-1.4	2.2	0.3	:	1.2
USA	5.3	0.1	-1.6	-6.0	0.2	4.8	-2.9	-2.6	-1.6	1.2	2.9	:	2.6
JAP	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 21 : Terms of trade of goods (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-0.2	1.2	-0.7	1.8	-1.1	-2.3	0.0	0.3	0.4	-0.1	0.5	:	0.2
DK	:	0.7	1.1	0.0	2.3	-0.5	1.3	-0.2	-0.2	0.2	-0.1	:	0.1
D	0.4	1.0	-0.7	3.2	0.5	-5.3	1.0	1.1	1.6	-0.4	0.3	:	0.0
EL	-0.5	0.2	-0.2	-1.2	-1.6	1.1	-0.9	-0.3	2.0	0.1	0.6	:	0.7
E	:	0.8	-0.4	0.6	-1.4	-1.7	2.1	0.3	1.7	-0.1	0.8	:	0.2
F	-0.5	0.2	-0.5	1.1	0.2	-3.5	0.7	-0.5	1.1	-0.4	0.8	:	0.6
IRL	0.1	-1.2	-0.1	0.9	-0.1	-2.3	1.2	0.1	1.7	0.1	0.4	:	0.3
I	-0.3	0.5	-0.4	3.3	0.0	-7.0	2.4	1.1	1.7	0.4	1.6	:	0.4
L	:	-0.6	-1.4	0.7	-1.9	-2.5	-2.5	0.5	0.3	0.5	0.2	:	0.1
NL	-0.1	0.4	-0.3	0.1	-1.5	0.0	1.0	-0.3	1.0	0.2	0.6	:	0.5
A	:	-0.1	-0.6	0.7	-0.4	-1.2	-0.2	0.1	-0.3	-0.4	-0.6	:	-0.5
P	:	2.0	:	:	:	:	:	0.1	1.9	-0.1	0.9	:	-0.4
FIN	:	-0.1	-1.3	2.9	-3.9	-3.5	1.6	-0.7	-0.4	-0.5	0.1	:	0.0
S	:	-0.2	-1.5	-0.7	-2.8	-2.6	-1.0	-0.6	-0.4	-1.7	0.4	:	-0.9
UK	-0.1	-0.4	1.3	1.8	0.4	0.8	0.3	-0.6	3.1	-0.3	-0.1	:	0.3
EU-15	-0.3	0.3	-0.2	2.0	-0.2	-2.9	1.0	0.2	1.4	-0.2	0.4	:	0.2
Euro area	-0.2	0.5	-0.6	1.9	-0.3	-3.8	1.1	0.4	1.2	-0.2	0.6	:	0.2
USA	-1.3	0.2	-0.1	3.0	-1.5	-3.5	2.3	1.3	1.2	-0.1	-0.9	:	-0.7
JAP	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 22 : Compensation of employees per head (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	8.5	4.9	2.4	1.7	3.3	2.5	3.6	3.2	3.6	3.2	3.1	:	3.1
DK	9.8	3.1	3.7	3.8	2.9	3.9	4.5	3.6	3.9	3.8	3.8	:	4.3
D	6.8	5.4	1.3	1.0	1.2	2.0	1.7	2.4	2.0	2.6	2.2	:	2.4
EL	15.7	12.1	7.7	5.3	4.6	6.1	5.4	6.6	6.5	5.8	5.5	:	5.0
E	14.9	7.2	3.2	2.9	2.7	3.7	4.1	3.5	4.2	3.0	3.5	:	3.0
F	10.2	3.1	2.3	1.9	2.5	2.1	2.6	2.5	2.7	2.8	2.6	:	2.9
IRL	12.4	4.5	5.3	4.7	5.2	8.9	9.2	8.1	7.9	6.9	6.7	:	5.9
I	13.6	5.3	2.8	-1.5	2.4	3.0	2.8	2.7	2.9	2.9	2.8	:	2.9
L	7.7	4.6	2.8	1.6	3.4	4.7	4.4	3.7	3.5	4.0	3.0	:	2.3
NL	7.8	3.5	3.0	3.5	3.7	4.6	5.0	5.2	5.1	4.5	4.2	:	3.9
A	7.9	5.2	2.0	2.7	2.3	2.1	1.8	2.4	2.3	2.6	2.1	:	2.4
P	17.0	10.6	6.5	4.0	9.9	6.3	5.0	4.4	4.8	3.7	3.7	:	3.5
FIN	11.5	3.3	2.9	4.1	2.1	3.7	4.5	3.5	3.3	3.8	4.0	:	3.8
S	9.5	4.5	4.5	3.3	1.3	7.3	3.8	3.9	4.1	4.0	4.0	:	4.1
UK	10.4	5.1	4.5	5.1	4.3	5.0	5.3	4.3	3.5	4.5	4.7	:	4.4
EU-15	9.9	5.0	2.7	2.1	2.7	3.3	3.4	3.3	3.1	3.3	3.2	:	3.2
Euro area	9.8	5.0	2.2	1.3	2.3	2.8	2.8	2.9	2.9	3.0	2.8	:	2.9
USA	6.2	3.4	3.9	4.5	4.1	5.4	2.9	3.9	2.4	4.0	4.0	:	4.5
JAP	10.1	2.0	0.3	-0.2	-1.1	0.4	-1.0	-2.9	-1.6	-0.1	-0.3	:	0.2

TABLE 23 : Real compensation of employees per head [1] (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.5	2.7	0.7	0.6	2.0	0.2	1.1	1.5	1.8	1.5	1.3	:	1.2
DK	2.3	0.8	1.4	2.4	0.3	0.8	2.3	1.2	1.6	1.6	1.8	:	2.2
D	3.3	2.0	-0.1	-0.1	0.8	0.5	-0.2	0.7	0.7	1.0	0.8	:	1.2
EL	3.7	-1.5	2.8	0.8	2.4	2.8	2.3	3.2	3.3	2.8	2.3	:	1.8
E	4.5	1.5	0.4	0.6	0.3	0.6	0.8	0.6	0.5	0.3	0.6	:	0.6
F	3.2	0.5	1.1	1.2	2.0	0.6	1.0	1.1	1.1	1.2	0.9	:	1.3
IRL	3.5	1.8	2.0	0.8	2.0	4.6	4.8	3.5	3.1	3.5	2.6	:	2.5
I	3.8	-0.5	0.0	-3.6	0.3	0.2	-0.1	0.4	0.2	0.8	0.5	:	0.8
L	3.0	1.2	1.1	0.5	1.9	2.0	1.5	1.8	1.6	1.8	1.3	:	0.7
NL	2.9	0.9	0.8	1.7	1.9	1.1	0.4	1.8	1.6	2.0	1.5	:	1.6
A	3.4	2.0	0.7	2.2	1.4	0.6	-0.3	0.2	0.5	0.6	0.5	:	0.9
P	4.2	2.8	3.5	1.2	7.5	3.4	0.7	1.3	1.3	1.3	0.8	:	1.0
FIN	3.8	0.2	1.0	2.3	1.0	-0.3	1.6	1.5	1.3	1.8	2.1	:	2.1
S	2.1	-0.2	3.1	2.2	0.2	6.3	2.1	2.0	2.0	2.0	2.2	:	2.1
UK	2.5	0.9	2.4	2.4	2.7	4.3	4.9	2.3	2.6	2.5	3.4	:	2.8
EU-15	3.0	0.9	0.8	0.4	1.4	1.4	1.3	1.2	1.2	1.4	1.4	:	1.5
Euro area	3.2	0.9	0.3	-0.2	1.2	0.6	0.4	0.8	0.8	1.1	0.8	:	1.1
USA	1.5	0.7	2.0	3.4	2.4	2.8	0.9	2.5	1.0	1.7	2.0	:	2.3
JAP	4.4	0.9	0.4	0.0	-0.6	1.5	0.6	-2.0	-0.2	-0.2	1.1	:	1.5

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

TABLE 24 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	3.2	1.7	1.7	0.8	1.7	2.1	-0.4	1.0	0.8	1.9	1.4	:	1.7
DK	2.1	2.2	1.5	0.8	0.8	2.2	0.8	1.6	1.6	2.1	1.8	:	2.0
D	2.8	2.1	1.1	0.9	0.8	1.1	0.1	1.2	0.9	1.9	1.5	:	1.8
EL	4.2	0.7	2.8	-0.7	3.5	4.4	4.4	3.4	3.1	3.7	3.1	:	3.1
E	4.2	1.8	0.8	0.4	0.7	0.8	0.3	0.9	0.5	1.1	0.8	:	0.9
F	3.3	1.3	1.4	1.9	1.3	1.4	-0.2	1.1	0.3	1.6	1.6	:	1.5
IRL	3.9	2.7	3.9	0.2	4.9	5.0	2.6	2.4	2.0	3.9	2.8	:	3.3
I	3.6	1.8	0.9	0.7	0.5	1.0	0.1	0.6	-0.6	1.5	1.4	:	1.4
L	2.5	1.3	2.5	2.9	0.9	3.1	-4.3	0.9	-2.6	2.1	0.8	:	1.8
NL	2.2	0.8	1.1	1.7	1.3	1.1	-0.6	0.9	-0.1	1.8	1.5	:	2.0
A	3.4	1.9	2.1	2.9	1.3	2.8	0.0	1.6	0.6	2.0	1.4	:	1.6
P	4.7	2.3	1.8	1.8	1.3	1.8	0.0	1.2	0.0	1.8	1.0	:	1.3
FIN	3.4	3.2	2.8	3.2	1.3	3.9	-0.4	1.7	1.2	3.0	2.8	:	2.6
S	2.2	2.8	2.2	2.3	2.3	1.5	-0.6	2.1	1.5	2.5	2.3	:	2.2
UK	2.1	2.8	1.5	1.4	1.2	1.9	1.4	1.8	0.9	2.3	1.8	:	1.9
EU-15	3.0	1.9	1.3	1.1	1.1	1.5	0.3	1.2	0.6	1.9	1.5	:	1.7
Euro area	3.2	1.7	1.2	1.0	1.0	1.4	0.1	1.1	0.4	1.8	1.4	:	1.6
USA	1.5	1.3	2.0	2.1	2.3	1.9	0.5	3.5	2.9	2.5	1.9	:	2.2
JAP	5.1	0.6	1.5	-0.4	1.5	2.5	0.4	-0.3	0.6	0.9	1.5	:	1.1

TABLE 25 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	5.1	3.1	0.7	0.8	1.6	0.4	4.0	2.2	2.8	1.2	1.7	:	1.4
DK	7.6	0.9	2.1	3.0	2.0	1.6	3.7	2.0	2.3	1.7	2.0	:	2.3
D	3.9	3.2	0.2	0.2	0.4	1.0	1.5	1.2	1.1	0.7	0.7	:	0.6
EL	11.0	11.4	4.7	6.1	1.0	1.7	0.9	3.1	3.2	2.0	2.3	:	1.8
E	10.2	5.2	2.4	2.5	2.0	2.9	3.8	2.5	3.6	1.9	2.7	:	2.1
F	6.7	1.7	0.9	0.1	1.2	0.7	2.9	1.4	2.4	1.1	1.1	:	1.4
IRL	8.2	1.7	1.3	4.4	0.3	3.6	6.4	5.5	5.8	2.9	3.8	:	2.5
I	9.7	3.4	1.9	-2.3	2.0	2.0	2.6	2.1	3.5	1.5	1.4	:	1.4
L	5.1	3.2	0.3	-1.2	2.4	1.5	9.1	2.9	6.3	1.8	2.2	:	0.5
NL	5.5	2.7	1.9	1.8	2.4	3.5	5.7	4.3	5.2	2.6	2.7	:	1.8
A	4.4	3.2	-0.2	-0.1	0.9	-0.6	1.7	0.8	1.6	0.6	0.7	:	0.8
P	11.8	8.1	4.6	2.2	8.5	4.4	5.0	3.2	4.8	1.8	2.6	:	2.2
FIN	7.8	0.0	0.1	0.9	0.8	-0.2	5.0	1.8	2.1	0.8	1.2	:	1.2
S	7.1	1.7	2.2	0.9	-1.0	5.8	4.4	1.8	2.5	1.4	1.6	:	1.9
UK	8.2	2.2	3.0	3.7	3.1	3.0	3.9	2.5	2.6	2.1	2.8	:	2.4
EU-15	6.7	3.0	1.4	0.9	1.6	1.8	3.0	2.0	2.5	1.4	1.7	:	1.5
Euro area	6.4	3.2	1.0	0.3	1.3	1.4	2.7	1.8	2.5	1.2	1.3	:	1.2
USA	4.6	2.1	1.8	2.3	1.8	3.5	2.3	0.4	-0.4	1.5	2.0	:	2.3
JAP	4.8	1.3	-1.2	0.3	-2.6	-2.1	-1.4	-2.6	-2.2	-1.0	-1.7	:	-0.9

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

TABLE 26 : Real unit labour costs [1] (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.2	0.4	-0.6	-0.8	0.2	-0.9	2.0	0.1	0.8	-0.6	-0.2	:	-0.5
DK	0.1	-1.2	-0.3	2.0	-0.6	-2.0	0.9	-0.2	0.6	-0.8	-0.2	:	-0.2
D	0.0	-0.2	-0.4	-0.9	-0.1	1.2	0.1	-0.2	-0.3	-0.2	-0.3	:	-0.3
EL	-1.1	-2.3	-0.4	0.8	-1.9	-1.7	-2.4	-0.2	0.0	-1.1	-0.8	:	-1.4
E	0.0	-0.1	-0.5	0.1	-0.7	-0.5	-0.4	-0.6	-0.2	-0.7	-0.4	:	-0.6
F	-0.1	-0.4	-0.1	-0.9	0.6	0.0	1.4	0.0	0.6	-0.2	-0.5	:	-0.1
IRL	-0.4	-1.1	-2.7	-1.7	-3.7	-0.6	1.1	0.9	0.3	-0.8	0.0	:	-1.0
I	-0.2	-1.5	-0.9	-4.8	0.3	-0.1	0.0	-0.2	1.0	-0.7	-1.0	:	-0.7
L	0.2	-0.2	-2.2	-3.2	-0.7	-1.2	6.7	0.6	5.4	-1.8	0.2	:	-1.4
NL	0.6	0.4	-0.2	0.1	0.8	-0.6	0.4	1.0	1.3	-0.3	-0.3	:	-0.5
A	-0.2	0.1	-1.1	-0.7	0.3	-2.0	0.1	-0.8	0.2	-0.7	-0.4	:	-0.5
P	-0.1	0.2	1.1	-1.6	5.2	1.3	0.0	-0.1	-0.2	-0.6	0.0	:	0.1
FIN	-0.2	-2.1	-1.3	-2.0	0.9	-2.7	1.9	0.5	1.0	-1.1	-1.3	:	-0.4
S	0.0	-1.6	1.1	0.1	-1.6	4.7	2.3	-0.4	0.1	-0.6	-0.7	:	-0.4
UK	0.1	-1.1	0.2	0.8	0.6	0.8	1.9	0.0	-0.2	-0.4	0.6	:	-0.2
EU-15	-0.2	-0.6	-0.4	-0.9	0.2	0.3	0.7	-0.1	0.2	-0.5	-0.3	:	-0.4
Euro area	-0.2	-0.5	-0.6	-1.4	0.1	0.0	0.3	-0.2	0.3	-0.5	-0.6	:	-0.4
USA	0.0	-0.4	0.1	1.1	0.3	1.4	0.0	-1.0	-1.6	-0.6	0.5	:	0.5
JAP	-0.4	0.3	-0.4	0.3	-1.2	-0.1	0.0	-1.4	-1.3	-1.1	-1.0	:	0.0

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

TABLE 27 : Total employment (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.3	-0.2	1.1	1.2	1.4	1.6	1.2	0.1	0.0	0.9	0.6	:	1.1
DK	0.6	-0.2	1.2	1.7	1.5	0.8	0.2	0.1	0.1	0.4	0.3	:	0.4
D	0.3	-0.1	0.7	1.1	1.2	1.8	0.4	-0.3	-0.5	0.8	0.0	:	0.5
EL	0.3	0.6	0.6	4.1	0.0	-0.2	-0.3	0.3	0.3	0.5	0.8	:	0.6
E	0.4	-0.3	3.0	3.9	3.5	3.4	2.4	1.2	1.3	2.1	1.8	:	2.3
F	0.5	-0.2	1.3	1.5	1.9	2.4	2.1	0.5	0.6	1.2	0.4	:	1.2
IRL	0.2	1.9	5.7	8.6	6.0	4.7	3.0	1.0	1.3	2.1	1.4	:	1.9
I	0.3	-0.6	1.0	1.0	1.1	1.9	1.6	0.8	1.0	1.2	0.4	:	1.0
L	1.2	2.6	4.2	4.5	5.0	5.6	5.6	2.0	2.8	3.0	1.2	:	1.6
NL	1.2	1.3	2.6	2.6	2.6	2.2	1.9	0.6	0.3	0.9	-0.5	:	0.2
A	0.2	0.2	0.6	1.0	1.4	0.8	0.7	-0.4	0.1	0.5	0.4	:	0.6
P	0.1	-0.6	1.9	2.7	2.2	1.7	1.6	0.2	0.7	0.3	0.2	:	1.2
FIN	0.4	-3.8	2.3	2.1	2.7	2.2	1.1	-0.1	0.2	0.3	0.0	:	0.8
S	0.7	-2.2	0.8	1.2	2.2	2.1	1.9	-0.4	0.1	0.3	-0.1	:	0.2
UK	0.4	-1.0	1.4	1.5	1.2	1.1	0.6	0.2	0.7	0.6	0.7	:	0.8
EU-15	0.4	-0.4	1.4	1.8	1.7	1.9	1.2	0.3	0.4	1.0	0.4	:	0.9
Euro area	0.4	-0.2	1.4	1.8	1.8	2.1	1.4	0.3	0.4	1.1	0.4	:	1.0
USA	2.0	1.1	2.0	2.2	1.9	1.9	-0.3	-0.8	-0.5	0.6	0.4	:	0.6
JAP	1.0	0.8	0.0	-0.7	-0.8	-0.1	-0.5	-0.5	-1.2	-0.3	-0.3	:	0.3

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1964-2004) [1] 4.11.2002

	long-term average 1964-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	5.7	8.3	8.7	9.3	8.6	6.9	6.6	6.8	6.8	6.6	6.8	:	6.5
DK	4.1	8.1	5.1	4.9	4.8	4.4	4.3	4.4	4.2	4.3	4.2	:	4.1
D	3.2	6.5	8.7	9.1	8.4	7.8	7.7	8.3	8.1	7.9	8.2	:	7.9
EL	4.5	8.3	10.7	10.9	11.9	11.1	10.5	9.9	9.9	9.3	9.4	:	9.1
E	6.8	17.0	14.9	15.2	12.8	11.3	10.6	12.8	11.4	11.8	10.9	:	10.2
F	5.4	10.7	11.0	11.4	10.7	9.3	8.5	8.8	8.8	8.4	9.0	:	8.3
IRL	9.7	14.5	7.8	7.5	5.6	4.2	3.8	4.5	4.4	4.4	4.9	:	4.8
I	6.7	10.0	11.3	11.7	11.3	10.4	9.4	9.5	8.9	8.9	8.9	:	8.7
L	1.1	2.5	2.6	2.7	2.4	2.3	2.0	2.6	2.3	2.7	2.8	:	2.9
NL	4.9	6.1	4.1	3.8	3.2	2.8	2.4	3.0	3.1	3.5	4.3	:	4.6
A	2.0	3.6	4.2	4.5	3.9	3.7	3.6	4.0	4.3	3.8	4.3	:	4.1
P	5.2	5.7	5.6	5.1	4.5	4.1	4.1	4.6	4.6	5.0	5.5	:	5.5
FIN	3.9	13.3	11.7	11.4	10.2	9.8	9.1	9.3	9.1	9.2	9.3	:	8.9
S	2.2	7.2	8.1	8.3	7.1	5.8	4.9	5.4	4.9	5.2	5.3	:	5.3
UK	5.4	9.3	6.5	6.2	5.8	5.4	5.0	5.3	5.0	5.3	4.9	:	4.8
EU-15	5.1	9.3	9.2	9.4	8.7	7.8	7.4	7.8	7.6	7.5	7.7	:	7.4
Euro area	5.1	9.4	9.9	10.2	9.4	8.5	8.0	8.5	8.2	8.1	8.3	:	8.0
USA	6.1	6.6	4.6	4.5	4.2	4.0	4.8	5.7	5.8	5.6	6.0	:	6.0
JAP	1.9	2.6	4.1	4.1	4.7	4.7	5.0	6.2	5.2	7.1	5.3	:	5.3

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

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1970-2004)

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	44.45	40.50	40.23	40.62	40.34	40.34	40.34	:	:	:	:	:	:
DK	7.65	7.64	7.45	7.50	7.44	7.45	7.45	7.46	7.45	7.46	7.46	:	7.46
D	2.64	1.96	1.95	1.97	1.96	1.96	1.96	:	:	:	:	:	:
EL	80.44	266.37	321.61	330.73	325.76	336.63	340.75	:	:	:	:	:	:
E	102.29	146.41	165.32	167.18	166.39	166.39	166.39	:	:	:	:	:	:
F	6.17	6.71	6.57	6.60	6.56	6.56	6.56	:	:	:	:	:	:
IRL	0.64	0.79	0.78	0.79	0.79	0.79	0.79	:	:	:	:	:	:
I	1137.90	1803.04	1940.89	1943.65	1936.27	1936.27	1936.27	:	:	:	:	:	:
L	44.45	40.50	40.23	40.62	40.34	40.34	40.34	:	:	:	:	:	:
NL	2.83	2.20	2.20	2.22	2.20	2.20	2.20	:	:	:	:	:	:
A	18.83	13.80	13.73	13.85	13.76	13.76	13.76	:	:	:	:	:	:
P	84.58	186.94	199.40	201.70	200.48	200.48	200.48	:	:	:	:	:	:
FIN	4.77	5.88	5.92	5.98	5.95	5.95	5.95	:	:	:	:	:	:
S	6.05	8.53	8.67	8.92	8.81	8.45	9.26	9.17	9.13	9.20	9.14	:	9.19
UK	0.59	0.76	0.69	0.68	0.66	0.61	0.62	0.62	0.63	0.62	0.63	:	0.64
EU-15	:	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.11	1.24	1.10	1.12	1.07	0.92	0.90	0.87	0.94	0.87	0.98	:	0.98
JAP	262.44	141.04	128.47	146.42	121.32	99.47	108.68	114.10	118.59	111.42	118.46	:	115.44

TABLE 30 : Nominal effective exchange rates to rest of 22 [1] industrialised countries (percentage change on preceding year, 1970-2004)

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	1.0	1.9	-2.2	0.3	-1.4	-3.6	0.6	-0.2	0.9	-0.1	0.6	:	0.0
DK	1.4	1.8	-1.9	1.0	-1.6	-4.5	1.5	-0.5	1.0	-0.1	0.4	:	-0.1
D	6.2	2.4	-2.9	0.6	-2.1	-5.0	0.6	-0.4	1.3	-0.1	0.9	:	-0.1
EL	-4.6	-7.2	-3.5	-5.9	-0.5	-6.5	-0.7	-0.3	0.9	-0.1	0.6	:	0.0
E	0.8	-3.9	-1.8	-0.1	-1.6	-3.5	0.4	-0.3	1.0	0.0	0.7	:	0.0
F	-1.2	1.8	-1.9	1.0	-2.0	-4.6	0.5	-0.3	1.3	-0.1	0.9	:	-0.1
IRL	-1.4	-0.6	-1.9	-4.6	-3.1	-5.8	0.7	-0.5	1.7	-0.1	1.2	:	0.0
I	-3.3	-6.9	0.4	0.1	-2.3	-4.4	0.4	-0.3	1.3	-0.1	0.9	:	-0.1
L	1.0	1.9	-2.2	0.3	-1.4	-3.6	0.6	-0.2	0.9	-0.1	0.6	:	0.0
NL	0.9	2.0	-2.2	0.1	-1.3	-3.2	0.6	-0.2	0.7	0.0	0.5	:	0.0
A	1.9	1.7	-1.8	0.4	-1.2	-2.9	0.3	-0.3	0.7	-0.1	0.5	:	-0.1
P	0.5	-1.1	-1.5	-1.1	-1.2	-2.9	0.4	-0.3	0.7	0.0	0.6	:	0.0
FIN	-1.8	-2.7	-2.7	-0.5	-2.1	-4.6	1.2	-0.3	1.3	-0.1	0.8	:	-0.1
S	-0.1	-4.1	0.2	-1.6	-1.7	-0.6	-8.3	0.4	2.6	-0.4	0.8	:	-0.7
UK	-3.6	-3.0	4.6	3.9	-0.5	2.8	-1.7	0.5	0.8	-1.1	0.0	:	-0.8
EU-15	1.6	-2.3	-3.6	2.3	-6.2	-11.2	-0.3	-0.7	4.0	-0.9	2.2	:	-0.7
Euro area	3.5	-0.2	-4.6	0.5	-4.6	-10.0	1.4	-0.8	2.7	-0.2	1.8	:	-0.1
USA	-4.2	0.4	4.7	6.1	-0.5	4.6	5.1	2.7	-0.7	0.1	-1.5	:	0.1
JAP	4.8	9.4	0.3	-5.7	16.8	12.2	-9.4	-6.1	-6.0	2.3	2.6	:	2.7

[1] EUR14 (excl. L), CH, N, USA, CDN, JAP, AUS, MEX, NZL

TABLE 31 : Relative unit labour costs, to rest of 22 [1] industrialised countries (nat. curr.) (percentage change on preceding year, 1963-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1963-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-0.6	0.6	-0.5	-0.2	0.3	-1.4	1.2	0.6	0.9	0.0	0.2	:	:
DK	1.2	-1.5	0.8	1.6	0.9	-0.4	0.8	0.5	0.6	0.5	0.7	:	:
D	-2.8	0.6	-1.3	-1.0	-1.1	-1.0	-1.4	-0.3	-0.9	-0.6	-0.8	:	:
EL	5.5	8.5	3.5	5.5	-0.1	-0.1	-1.7	1.5	1.3	0.8	0.9	:	:
E	3.9	2.2	0.9	1.5	0.2	1.0	0.9	0.9	1.5	0.6	1.2	:	:
F	0.3	-1.5	-0.9	-1.5	-0.4	-1.4	0.0	-0.3	0.5	-0.4	-0.5	:	:
IRL	1.5	-0.8	-0.2	2.8	-1.2	1.5	3.7	4.0	4.3	1.5	2.2	:	:
I	4.2	0.3	0.5	-3.7	0.4	0.1	0.0	0.7	1.9	0.3	0.0	:	:
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-1.0	-0.5	0.7	1.1	0.9	1.5	3.0	2.8	3.4	1.5	1.3	:	:
A	-1.7	0.2	-1.1	-1.0	-0.5	-1.6	-0.8	-0.8	0.2	-0.4	-0.3	:	:
P	5.8	5.3	3.1	0.9	7.0	2.5	2.0	1.4	2.6	0.5	1.0	:	:
FIN	1.6	-2.4	-1.3	-0.5	-0.4	-2.3	2.2	0.3	0.5	-0.4	-0.2	:	:
S	0.8	-0.6	0.8	-0.8	-2.4	3.9	1.5	0.3	0.9	0.2	0.2	:	:
UK	2.2	-0.3	1.7	2.6	2.0	1.1	1.2	1.1	1.1	0.9	1.4	:	:
EU-15	1.2	0.5	0.0	-1.1	0.2	-0.3	1.2	1.8	2.8	0.5	0.7	:	:
Euro area	-0.2	0.6	-0.9	-2.1	-0.4	-1.1	0.3	1.0	1.8	0.0	-0.1	:	:
USA	-2.2	-1.1	-0.5	-0.2	-0.4	1.2	-0.6	-0.9	-2.3	0.5	0.7	:	:
JAP	-1.1	-1.1	-3.0	-1.6	-4.3	-4.9	-4.1	-3.8	-3.2	-2.4	-3.5	:	:

[1] EUR14 (excl. L), CH, N, USA, CDN, JAP, AUS, MEX, NZL

TABLE 32 : Real effective exchange rate : ulc relative to rest of 22 [1] industrialised countries (usd) (percentage change on preceding year, 1963-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1963-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.0	2.4	-2.8	0.1	-1.2	-4.9	1.8	0.3	1.8	-0.1	0.8	:	:
DK	1.4	0.2	-1.1	2.6	-0.7	-4.9	2.3	0.1	1.6	0.4	1.1	:	:
D	0.3	3.1	-4.1	-0.4	-3.2	-5.9	-0.8	-0.7	0.5	-0.8	0.1	:	:
EL	-1.4	0.7	-0.2	-0.8	-0.6	-6.6	-2.4	1.2	2.3	0.8	1.5	:	:
E	1.9	-1.8	-1.0	1.4	-1.4	-2.5	1.3	0.6	2.5	0.6	2.0	:	:
F	-0.7	0.3	-2.7	-0.5	-2.4	-5.9	0.6	-0.6	1.8	-0.5	0.4	:	:
IRL	0.2	-1.4	-2.1	-2.0	-4.2	-4.3	4.4	3.6	6.0	1.5	3.4	:	:
I	1.0	-6.6	0.9	-3.6	-2.0	-4.3	0.4	0.3	3.2	0.2	0.9	:	:
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.6	1.5	-1.5	1.2	-0.4	-1.8	3.6	2.5	4.1	1.4	1.8	:	:
A	0.3	1.9	-2.9	-0.6	-1.7	-4.5	-0.5	-1.1	0.9	-0.5	0.2	:	:
P	-0.3	4.1	1.6	-0.2	5.7	-0.5	2.4	1.1	3.2	0.5	1.5	:	:
FIN	0.6	-5.0	-4.0	-1.0	-2.5	-6.8	3.4	-0.1	1.8	-0.5	0.6	:	:
S	0.0	-4.6	1.0	-2.3	-4.1	3.3	-6.9	0.7	3.5	-0.3	1.0	:	:
UK	0.0	-3.3	6.4	6.5	1.5	3.8	-0.5	1.6	1.9	-0.1	1.4	:	:
EU-15	0.6	-1.8	-3.6	1.2	-5.9	-11.4	0.9	1.2	6.9	-0.4	2.9	:	:
Euro area	0.6	0.4	-5.5	-1.6	-4.9	-11.1	1.7	0.2	4.6	-0.2	1.7	:	:
USA	-1.7	-0.7	4.2	5.9	-1.0	5.8	4.5	1.7	-3.0	0.6	-0.8	:	:
JAP	2.4	8.2	-2.7	-7.2	11.7	6.7	-13.1	-9.6	-9.0	-0.1	-1.0	:	:

[1] EUR14 (excl. L), CH, N, USA, CDN, JAP, AUS, MEX, NZL

TABLE 33 : Short term interest rates (1961-2002)

	long-term average	5-year average											
	1961-90	1991-95	1996-00	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
B	7.9	7.4	3.5	8.1	5.6	4.7	3.2	3.4	3.5	3.0	4.4	4.3	3.3
DK	9.7	8.7	4.0	10.5	6.1	6.1	3.9	3.7	4.1	3.4	5.0	4.7	3.5
D	6.2	7.1	3.5	7.2	5.3	4.5	3.3	3.3	3.5	3.0	4.4	4.3	3.3
EL	:	22.1	11.7	23.5	24.6	16.4	13.8	12.8	14.0	10.1	7.7	4.3	3.3
E	:	11.1	4.9	11.7	8.0	9.4	7.5	5.4	4.3	3.0	4.4	4.3	3.3
F	8.3	8.2	3.7	8.6	5.9	6.6	3.9	3.5	3.6	3.0	4.4	4.3	3.3
IRL	:	8.8	4.9	9.3	5.9	6.3	5.4	6.1	5.5	3.0	4.4	4.3	3.3
I	10.0	11.0	5.5	10.2	8.5	10.3	8.7	6.8	4.9	3.0	4.4	4.3	3.3
L	7.9	7.4	3.5	8.1	5.6	4.7	3.2	3.4	3.5	3.0	4.4	4.3	3.3
NL	5.9	7.0	3.4	6.9	5.2	4.4	3.0	3.3	3.4	3.0	4.4	4.3	3.3
A	:	7.0	3.6	7.2	5.0	4.5	3.3	3.5	3.6	3.0	4.4	4.3	3.3
P	:	13.6	5.0	13.3	11.1	9.8	7.4	5.7	4.3	3.0	4.4	4.3	3.3
FIN	:	9.0	3.6	7.8	5.3	5.8	3.6	3.2	3.6	3.0	4.4	4.3	3.3
S	:	10.1	4.4	8.8	7.6	8.9	5.9	4.5	4.3	3.3	4.1	4.1	4.3
UK	9.7	7.9	6.4	5.9	5.5	6.7	6.0	6.8	7.3	5.5	6.2	5.0	4.0
EU-15	8.4	8.9	4.6	8.6	6.6	7.0	5.4	4.9	4.7	3.5	4.7	4.4	3.4
Euro area	8.0	9.0	4.3	9.1	6.8	7.0	5.3	4.5	4.2	3.1	4.5	4.3	3.3
USA	6.6	4.6	5.7	3.1	4.7	6.0	5.5	5.7	5.5	5.4	6.5	3.8	1.8
JAP	:	3.6	0.5	3.0	2.3	1.2	0.6	0.6	0.8	0.2	0.3	0.2	0.1

TABLE 34 : Long term interest rates (1961-2002) 4.11.2002

	long-term average 1961-90	5-year average 1991-95	1996-00	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
B	8.5	8.1	5.5	7.2	7.8	7.5	6.5	5.8	4.7	4.8	5.6	5.1	5.0
DK	12.1	8.7	5.8	7.2	7.9	8.3	7.2	6.2	4.9	4.9	5.6	5.1	5.0
D	7.4	7.3	5.2	6.4	6.9	6.8	6.2	5.7	4.6	4.5	5.3	4.8	4.8
EL	:	:	:	:	:	:	:	:	8.5	6.5	6.5	6.3	5.1
E	:	11.2	6.0	10.1	10.1	11.3	8.7	6.4	4.8	4.7	5.5	5.1	4.9
F	9.4	7.8	5.3	6.7	7.3	7.5	6.3	5.6	4.6	4.6	5.4	5.0	4.9
IRL	:	8.5	5.7	7.8	8.1	8.3	7.3	6.3	4.8	4.6	5.4	4.9	4.9
I	11.1	12.0	6.2	11.1	10.4	11.9	9.2	6.7	4.8	4.8	5.6	5.2	5.0
L	:	7.5	5.3	6.8	7.2	7.2	6.3	5.6	4.7	4.7	5.4	5.0	4.9
NL	7.5	7.4	5.3	6.3	6.9	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9
A	:	7.5	5.4	6.6	6.7	7.2	6.3	5.7	4.7	4.7	5.6	5.1	4.9
P	:	13.0	6.1	9.5	10.4	11.5	8.6	6.4	5.0	4.8	5.6	5.2	5.1
FIN	9.9	9.8	5.6	8.2	8.4	8.8	7.1	6.0	4.8	4.7	5.5	5.0	4.9
S	9.1	10.0	6.0	8.6	9.5	10.2	8.1	6.7	5.0	5.0	5.4	5.1	5.3
UK	10.1	8.5	6.1	7.3	8.1	8.2	7.8	7.0	5.5	5.0	5.3	4.9	4.8
EU-15	9.4	8.9	5.7	7.8	8.2	8.6	7.3	6.2	4.9	4.7	5.4	5.0	4.9
Euro area	9.1	9.0	5.6	7.9	8.1	8.6	7.2	6.0	4.8	4.7	5.5	5.0	4.8
USA	7.4	7.1	5.9	5.8	7.1	6.6	6.4	6.3	5.3	5.6	6.0	5.0	4.6
JAP	:	4.7	2.0	4.0	4.2	3.3	3.0	2.2	1.3	1.8	1.8	1.3	1.3

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1970-2004) [1]

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	53.0	54.1	50.9	50.6	50.2	49.3	49.0	48.9	49.3	48.3	49.0	:	48.8
DK	50.3	59.4	57.1	57.6	56.0	54.0	53.9	53.3	53.9	52.3	53.2	:	52.4
D	45.8	48.2	48.6	48.8	48.8	45.9	48.3	48.9	48.6	48.0	48.4	:	47.8
EL [2]	33.2	47.6	48.4	47.4	47.9	50.1	48.5	47.4	47.7	46.6	47.2	:	46.5
E	31.6	45.4	41.8	41.7	40.9	40.2	39.9	39.7	39.8	39.6	39.6	:	39.2
F	45.3	53.0	54.1	53.9	53.4	52.8	52.7	52.9	53.7	52.3	53.6	:	53.1
IRL	42.6	39.7	35.8	35.2	34.9	31.9	32.9	35.4	35.2	35.2	35.4	:	35.0
I	44.1	54.6	49.9	49.6	48.9	46.9	48.4	47.3	48.4	46.7	47.8	:	47.7
L	:	:	42.6	42.1	41.7	39.8	40.4	43.2	43.5	42.3	45.2	:	45.2
NL	51.5	53.0	47.5	47.2	46.9	45.3	46.4	44.8	47.0	44.6	47.1	:	46.7
A	46.2	53.3	54.4	54.3	54.0	52.7	52.3	51.6	52.8	50.6	52.6	:	52.0
P	32.8	42.4	45.1	44.1	45.4	45.3	46.2	46.0	46.6	45.9	46.7	:	46.5
FIN	39.2	58.8	54.2	53.2	52.2	48.7	49.1	49.9	50.4	49.6	49.4	:	48.3
S	55.3	66.4	61.5	60.9	60.1	57.7	57.5	57.3	57.6	56.8	57.9	:	57.7
UK	41.5	42.3	40.0	39.8	39.1	36.9	40.3	41.2	41.0	41.1	41.5	:	41.7
EU-15	44.6	50.3	48.4	48.3	47.7	45.8	47.1	47.2	47.6	46.6	47.4	:	47.1
Euro area	44.5	50.8	49.5	49.4	49.0	47.2	48.2	48.1	48.6	47.4	48.3	:	47.8
USA	33.6	35.9	33.1	32.7	32.5	32.3	33.4	33.0	34.6	32.9	35.0	:	35.1
JAP	28.4	33.2	39.1	42.9	39.1	39.8	39.8	41.0	41.0	40.6	41.1	:	41.1

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. Total expenditure includes in 2000-2002 one-off proceeds relative to UMTS licences.
The UMTS amounts as a % of GDP in 2000 would be equal to D : 2.5, E : 0.1, I : 1.2, NL : 0.7, A : 0.4, P : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : B : 0.2, DK : 0.2, EL : 0.5, F : 0.1, EU-15 : 0 and euro area : 0. For 2002 : F : 0, IRL : 0.2, EU-15 : 0 and euro area : 0.

[2] Current expenditure, gross fixed capital formation and net capital transfers.

TABLE 36 : Total revenue, general government (as a percentage of GDP, 1970-2004) [1]

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	46.2	48.3	49.5	49.8	49.7	49.4	49.3	48.8	49.3	48.5	48.9	:	49.1
DK	50.5	57.0	58.3	58.7	59.1	56.6	57.0	55.4	56.0	54.7	55.2	:	54.9
D	43.9	45.1	46.9	46.6	47.3	47.0	45.5	46.1	44.8	45.8	45.4	:	45.5
EL [2]	27.5	36.0	44.9	45.0	46.0	48.3	47.3	47.7	46.5	47.1	46.1	:	45.4
E	29.4	39.8	39.2	39.1	39.7	39.6	39.8	39.6	39.8	39.6	39.3	:	39.3
F	44.1	48.5	51.5	51.2	51.8	51.4	51.3	51.0	51.1	50.5	50.7	:	50.6
IRL	34.9	37.5	37.8	37.6	37.1	36.3	34.4	36.0	34.1	35.4	34.1	:	34.0
I	34.8	45.5	46.9	46.8	47.1	46.3	46.2	46.1	46.0	45.4	45.7	:	44.7
L	:	:	46.0	45.2	45.2	45.4	46.5	45.2	44.1	44.8	43.4	:	43.3
NL	48.5	49.5	47.3	46.4	47.6	47.4	46.5	44.8	46.2	44.2	45.9	:	45.8
A	44.4	49.5	51.9	51.9	51.8	51.2	52.4	51.4	51.0	50.9	51.0	:	50.6
P	28.2	37.4	42.1	41.6	43.0	42.4	42.1	43.4	43.1	43.4	43.9	:	43.9
FIN	43.1	53.8	55.3	54.5	54.1	55.7	54.1	53.2	54.0	52.3	52.5	:	51.8
S	55.8	58.8	61.9	62.9	61.6	61.4	62.3	59.0	58.9	58.6	59.1	:	59.1
UK	39.3	36.6	39.7	40.1	40.3	40.9	41.0	41.0	39.9	40.6	40.1	:	40.3
EU-15	41.6	45.1	46.8	46.7	47.0	46.8	46.3	46.1	45.7	45.7	45.7	:	45.5
Euro area	41.1	45.8	47.4	47.2	47.7	47.3	46.7	46.6	46.3	46.2	46.2	:	46.0
USA	:	31.4	33.0	33.0	33.2	33.8	32.9	32.4	31.4	31.9	31.4	:	31.4
JAP	27.5	32.6	32.4	32.1	32.0	32.4	32.6	34.8	33.0	34.5	32.9	:	32.9

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

[2] Total current receipts.

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2004) [1] 4.11.2002

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	-6.8	-5.9	-1.4	-0.7	-0.5	0.1	0.4	-0.2	-0.1	0.2	0.0	:	0.3
DK [2]	-0.5	-2.4	1.2	1.1	3.1	2.5	3.1	2.1	2.0	2.4	2.0	:	2.5
D	-1.9	-3.1	-1.7	-2.2	-1.5	1.1	-2.8	-2.8	-3.8	-2.1	-3.1	:	-2.3
EL	-5.7	-11.5	-3.5	-2.5	-1.9	-1.8	-1.2	0.3	-1.3	0.5	-1.1	:	-1.1
E	-2.4	-5.6	-2.5	-2.7	-1.1	-0.6	-0.1	-0.2	0.0	0.0	-0.3	:	0.1
F	-1.2	-4.5	-2.6	-2.7	-1.6	-1.3	-1.4	-1.9	-2.7	-1.8	-2.9	:	-2.5
IRL	-7.7	-2.1	2.0	2.4	2.2	4.4	1.5	0.6	-1.0	0.2	-1.2	:	-1.0
I	-9.1	-9.1	-3.0	-2.8	-1.8	-0.5	-2.2	-1.3	-2.4	-1.3	-2.2	:	-2.9
L	:	1.9	3.4	3.1	3.6	5.6	6.1	2.0	0.5	2.5	-1.8	:	-1.9
NL	-3.2	-3.5	-0.2	-0.8	0.7	2.2	0.1	0.0	-0.8	-0.4	-1.2	:	-0.9
A	-1.8	-3.8	-2.4	-2.4	-2.3	-1.5	0.2	-0.1	-1.8	0.3	-1.6	:	-1.5
P	-4.6	-5.0	-3.0	-2.6	-2.4	-2.9	-4.1	-2.6	-3.4	-2.5	-2.9	:	-2.6
FIN	3.9	-5.0	1.1	1.3	1.9	7.0	4.9	3.3	3.6	2.7	3.1	:	3.5
S	0.6	-7.6	0.5	1.9	1.5	3.7	4.8	1.7	1.4	1.9	1.2	:	1.5
UK	-2.2	-5.7	-0.3	0.2	1.1	4.0	0.7	-0.2	-1.1	-0.5	-1.3	:	-1.4
EU-15	-2.9	-5.1	-1.6	-1.6	-0.7	1.0	-0.8	-1.1	-1.9	-0.9	-1.8	:	-1.6
Euro area	-3.4	-5.0	-2.1	-2.2	-1.3	0.1	-1.5	-1.4	-2.3	-1.2	-2.1	:	-1.8
USA	-3.2	-4.5	-0.1	0.3	0.7	1.5	-0.5	-0.7	-3.2	-0.9	-3.6	:	-3.8
JAP	-1.4	-0.8	-6.8	-10.7	-7.1	-7.4	-7.2	-6.3	-8.0	-6.1	-8.1	:	-8.2

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The net lending (borrowing) includes in 2000-2002 one-off proceeds relative to UMTS licences.
The UMTS amounts as a % of GDP in 2000 would be equal to D : 2.5, E : 0.1, I : 1.2, NL : 0.7, A : 0.4, P : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : B : 0.2, DK : 0.2, EL : 0.5, F : 0.1, EU-15 : 0 and euro area : 0. For 2002 : F : 0, IRL : 0.2, EU-15 : 0 and euro area : 0.
[2] For 2001 the retroactive change to the "special pension contribution" is not included.

TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1970-2004) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	6.6	10.1	7.6	7.5	7.0	6.8	6.5	6.2	6.1	5.8	5.7	:	5.3
DK	4.5	6.9	5.2	5.3	4.7	4.2	4.1	3.5	3.6	3.2	3.3	:	3.1
D	2.1	3.2	3.6	3.6	3.5	3.4	3.3	3.3	3.3	3.2	3.3	:	3.3
EL	3.2	11.7	8.1	7.8	7.2	6.9	6.3	5.6	5.6	5.1	5.3	:	5.1
E	1.3	4.6	4.2	4.3	3.5	3.3	3.1	2.9	3.0	2.8	2.8	:	2.7
F	1.8	3.3	3.6	3.6	3.3	3.2	3.2	3.1	3.2	3.1	3.2	:	3.2
IRL	6.2	6.2	3.3	3.4	2.4	2.1	1.6	1.6	1.6	1.5	1.5	:	1.5
I	5.6	11.2	8.4	8.0	6.8	6.5	6.3	5.8	5.9	5.7	5.6	:	5.6
L	:	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.3	:	0.3
NL	4.3	5.9	4.8	4.8	4.5	3.9	3.5	3.0	3.3	2.7	3.0	:	3.0
A	2.4	4.2	3.8	3.8	3.5	3.5	3.4	3.4	3.8	3.3	3.8	:	3.7
P	3.7	6.6	3.9	3.5	3.2	3.2	3.1	3.1	3.0	3.2	3.2	:	3.4
FIN	1.2	3.6	3.6	3.6	3.1	2.8	2.7	2.6	2.6	2.5	2.5	:	2.3
S	4.2	5.9	5.6	5.8	4.8	4.2	3.5	3.1	3.0	2.9	2.8	:	2.8
UK	4.2	3.0	3.3	3.6	2.9	2.8	2.4	2.3	2.2	2.2	2.2	:	2.2
EU-15	3.2	5.1	4.6	4.6	4.1	3.8	3.6	3.5	3.5	3.4	3.4	:	3.3
Euro area	3.0	5.4	4.8	4.7	4.3	4.1	3.9	3.7	3.8	3.7	3.7	:	3.7
USA	3.6	4.9	4.2	4.3	3.9	3.7	3.4	3.0	3.0	2.9	3.0	:	3.0
JAP	2.7	3.6	3.4	3.4	3.4	3.3	3.4	3.4	3.6	3.4	3.7	:	3.8

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

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1970-2004) [1 2]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
B	-0.2	4.2	6.2	6.8	6.5	6.9	6.9	6.1	6.1	6.0	5.7	:	5.6
DK	4.0	4.4	6.4	6.5	7.8	6.7	7.1	5.5	5.7	5.7	5.3	:	5.6
D	0.2	0.1	1.8	1.4	2.0	4.5	0.5	0.5	-0.5	1.1	0.3	:	1.1
EL	-2.4	0.2	4.6	5.3	5.3	5.2	5.1	5.8	4.4	5.7	4.2	:	4.0
E	-1.1	-1.0	1.7	1.6	2.4	2.7	3.0	2.8	3.0	2.8	2.6	:	2.7
F	0.5	-1.2	1.0	0.9	1.7	1.9	1.8	1.2	0.5	1.3	0.3	:	0.7
IRL	-1.5	4.1	5.3	5.8	4.5	6.5	3.1	2.2	0.6	1.7	0.3	:	0.6
I	-3.5	2.1	5.4	5.2	5.0	5.9	4.1	4.5	3.5	4.4	3.4	:	2.6
L	:	2.2	3.7	3.4	3.9	5.9	6.4	2.2	0.8	2.7	-1.5	:	-1.6
NL	1.1	2.4	4.6	4.1	5.1	6.1	3.6	3.0	2.5	2.3	1.8	:	2.1
A	0.6	0.4	1.4	1.4	1.3	2.0	3.6	3.3	2.1	3.6	2.1	:	2.2
P	-0.9	1.6	0.9	0.9	0.8	0.3	-1.1	0.5	-0.5	0.7	0.4	:	0.8
FIN	5.0	-1.4	4.7	4.9	5.0	9.9	7.6	6.0	6.2	5.2	5.6	:	5.9
S	4.8	-1.7	6.1	7.7	6.3	7.9	8.2	4.8	4.3	4.8	4.0	:	4.2
UK	2.0	-2.7	3.1	3.8	4.1	6.8	3.1	2.1	1.1	1.7	0.8	:	0.7
EU-15	0.3	0.0	3.0	3.0	3.4	4.8	2.8	2.4	1.6	2.4	1.6	:	1.7
Euro area	-0.4	0.4	2.7	2.5	3.0	4.2	2.5	2.3	1.5	2.4	1.6	:	1.8
USA	0.4	0.4	4.1	4.5	4.6	5.2	2.9	2.3	-0.1	2.0	-0.6	:	-0.7
JAP	1.3	2.8	-3.4	-7.3	-3.7	-4.1	-3.7	-2.8	-4.4	-2.7	-4.5	:	-4.4

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The primary balance includes in 2000-2002 one-off proceeds relative to UMTS licences.
The UMTS amounts as a % of GDP in 2000 would be equal to D : 2.5, E : 0.1, I : 1.2, NL : 0.7, A : 0.4, P : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : B : 0.2, DK : 0.2, EL : 0.5, F : 0.1, EU-15 : 0 and euro area : 0. For 2002 : F : 0, IRL : 0.2, EU-15 : 0 and euro area : 0.
[2] Net lending/borrowing excluding interest expenditure.

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2004) [1] 4.11.2002

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-6.8	-5.8	-1.5	-0.6	-0.9	-1.1	-0.3	0.2	0.2	0.2	0.2	:	0.1
DK	-0.6	-1.6	0.5	0.5	2.5	1.3	2.6	2.3	2.1	2.4	2.1	:	2.5
D	-1.9	-3.9	-2.1	-1.9	-1.4	-1.9	-2.8	-2.1	-3.3	-1.9	-2.4	:	-1.9
EL	-5.8	-10.8	-2.9	-1.9	-1.6	-1.8	-2.1	-0.1	-1.7	-0.1	-1.8	:	-2.0
E	-2.3	-5.2	-2.4	-2.6	-1.5	-1.4	-0.7	-0.4	-0.1	-0.2	-0.2	:	0.0
F	-1.2	-4.4	-2.5	-2.6	-2.0	-2.1	-2.0	-1.9	-2.7	-1.9	-2.8	:	-2.4
IRL	-7.7	-1.3	1.2	1.9	0.8	2.5	0.2	-0.3	-1.4	-0.3	-0.8	:	-0.2
I	-9.2	-8.9	-3.4	-3.0	-1.9	-2.1	-2.4	-1.0	-1.8	-1.4	-1.6	:	-2.5
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-3.1	-3.5	-1.3	-1.9	-1.2	-0.6	-1.2	0.2	-0.6	-0.3	0.0	:	0.3
A	-1.8	-4.0	-2.5	-2.4	-2.5	-2.5	0.0	0.0	-1.6	0.3	-1.4	:	-1.3
P	-4.5	-4.9	-3.3	-3.0	-3.0	-4.0	-4.3	-2.8	-3.0	-2.6	-1.9	:	-1.5
FIN	3.4	-1.8	-0.2	-0.4	0.3	3.8	3.8	3.2	3.7	2.5	3.3	:	3.6
S	-0.1	-6.0	0.5	2.3	0.6	2.1	4.2	1.8	1.3	1.7	1.3	:	1.5
UK	-2.2	-5.0	-1.1	-0.3	0.8	1.2	0.7	-0.2	-0.6	-0.7	-0.9	:	-1.0
EU-15	-3.1	-5.1	-2.0	-1.7	-1.0	-1.0	-1.2	-0.9	-1.6	-1.0	-1.4	:	-1.3
Euro area	-3.4	-5.1	-2.3	-2.2	-1.6	-1.7	-1.9	-1.2	-2.0	-1.2	-1.7	:	-1.5

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

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2004) [1]

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-0.2	4.3	6.2	6.9	6.1	5.7	6.3	6.4	6.3	6.0	5.9	:	5.3
DK	4.0	5.3	5.8	5.8	7.2	5.5	6.7	5.8	5.8	5.7	5.4	:	5.6
D	0.2	-0.7	1.4	1.7	2.1	1.5	0.5	1.2	0.0	1.4	0.9	:	1.4
EL	-2.6	0.9	5.2	5.9	5.6	5.1	4.2	5.5	3.9	5.1	3.5	:	3.0
E	-0.8	-0.6	1.8	1.7	2.1	1.9	2.4	2.5	2.8	2.6	2.6	:	2.7
F	0.5	-1.1	1.1	1.0	1.4	1.1	1.2	1.3	0.5	1.2	0.4	:	0.8
IRL	-1.5	5.0	4.5	5.3	3.2	4.6	1.8	1.3	0.2	1.2	0.7	:	1.3
I	-3.5	2.3	5.0	5.0	4.9	4.3	4.0	4.8	4.0	4.3	4.0	:	3.1
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	1.2	2.4	3.5	2.9	3.3	3.3	2.3	3.2	2.7	2.4	3.0	:	3.3
A	0.6	0.2	1.3	1.3	1.1	1.1	3.4	3.4	2.2	3.6	2.4	:	2.4
P	-0.8	1.6	0.6	0.5	0.2	-0.8	-1.2	0.3	0.0	0.6	1.3	:	1.9
FIN	4.5	1.8	3.5	3.2	3.4	6.6	6.5	5.8	6.3	5.0	5.8	:	6.0
S	4.1	-0.1	6.2	8.1	5.5	6.3	7.7	4.9	4.3	4.6	4.1	:	4.3
UK	2.0	-2.0	2.2	3.3	3.8	4.0	3.0	2.1	1.5	1.5	1.3	:	1.1
EU-15	0.2	0.1	2.6	2.9	3.0	2.8	2.5	2.6	1.9	2.4	2.0	:	2.1
Euro area	-0.4	0.3	2.4	2.5	2.7	2.4	2.1	2.5	1.8	2.4	2.1	:	2.1

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

TABLE 42 : Gross debt, general government (as a percentage of GDP, 1980-2004) [1]

								2002		2003		2004	
								estimate of		forecast of		forecast of	
	1980	1985	1990	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	78.6	122.3	129.2	119.2	114.9	109.2	107.6	104.3	105.6	99.4	101.7	:	96.8
DK [2]	36.5	70.0	57.8	56.2	52.7	46.8	44.7	43.2	44.0	39.8	42.4	:	39.8
D	31.7	41.7	43.5	60.9	61.2	60.2	59.5	60.8	60.9	60.1	61.8	:	61.1
EL	25.0	53.6	79.6	105.8	105.1	106.2	107.0	97.9	105.8	95.2	102.0	:	98.5
E	16.8	42.3	43.6	64.6	63.1	60.5	57.1	55.5	55.0	53.5	53.2	:	51.1
F	19.8	30.8	35.1	59.5	58.5	57.3	57.3	57.4	58.6	57.2	59.3	:	59.3
IRL	75.2	109.6	101.5	55.2	49.7	39.1	36.4	33.6	35.3	31.4	35.0	:	34.5
I	58.2	81.9	97.2	116.3	114.5	110.6	109.9	107.8	110.3	105.6	108.0	:	106.9
L	9.3	9.7	4.4	6.3	6.0	5.6	5.6	5.2	4.6	5.1	3.9	:	5.4
NL	46.0	70.1	77.0	66.8	63.1	55.8	52.8	50.1	51.0	47.4	50.1	:	48.8
A	36.2	49.2	57.2	63.9	64.9	63.6	63.2	60.2	63.2	57.6	63.0	:	62.3
P	32.3	61.5	58.3	55.0	54.4	53.3	55.5	56.5	57.4	57.2	58.1	:	58.1
FIN	11.5	16.2	14.3	48.8	46.8	44.0	43.4	43.1	42.4	42.9	41.9	:	41.1
S	40.3	62.4	42.3	70.5	65.0	55.3	56.6	52.6	53.8	49.9	51.7	:	50.3
UK	53.2	52.7	34.0	47.7	45.1	42.1	39.1	37.6	38.5	36.1	38.1	:	37.6
EU-15	38.0	53.2	54.4	68.9	67.3	64.1	63.0	61.9	63.0	60.5	62.5	:	61.6
Euro area	34.9	52.4	58.6	73.7	72.5	70.1	69.3	68.6	69.6	67.2	69.1	:	68.2

[1] Government gross debt as defined in Council Regulation (EC) N° 3605/93. ESA 95 from 1996 onwards.
[2] Government deposits with the central bank, government holdings of non-government bonds and public enterprise related debt amounted to 9.1 % of GDP in 2001.

TABLE 43 : Gross national saving (as a percentage of GDP, 1970-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	21.3	24.6	25.6	25.7	26.0	25.9	24.8	25.0	24.4	25.6	24.7	:	25.0
DK	19.6	19.8	21.5	20.8	21.8	23.3	23.7	23.6	23.3	24.2	23.8	:	24.6
D	23.5	22.4	21.2	21.5	20.8	20.8	19.8	20.9	20.5	21.3	20.6	:	21.1
EL	26.7	19.9	18.0	17.8	18.1	18.6	18.2	19.5	18.4	20.4	19.0	:	19.4
E	23.5	20.9	22.4	22.6	22.3	22.2	22.4	22.9	23.2	23.1	23.4	:	23.8
F	22.6	19.8	21.1	21.4	22.3	22.1	21.4	21.7	20.2	21.8	20.1	:	20.3
IRL	18.6	18.0	24.3	25.7	24.6	25.0	23.4	21.6	22.3	21.7	21.9	:	21.6
I	24.2	19.7	21.1	21.2	20.8	20.2	20.4	20.3	20.3	20.9	20.5	:	20.9
L	:	:	:	:	:	:	:	40.9	15.9	41.5	15.7	:	16.6
NL	22.8	25.6	26.8	25.2	26.6	27.6	25.2	26.3	24.5	26.3	24.8	:	25.9
A	25.9	23.0	21.6	21.8	21.3	22.0	21.3	21.5	21.8	21.5	21.8	:	22.0
P	23.3	21.4	19.9	20.6	19.5	19.0	18.9	19.1	18.6	19.2	18.9	:	19.5
FIN	26.3	17.1	24.5	24.9	25.1	27.8	27.5	25.6	26.0	26.4	26.7	:	27.2
S	20.9	16.8	20.5	20.6	21.2	21.6	20.9	20.8	20.5	21.2	21.2	:	21.5
UK	19.1	14.9	16.2	17.6	15.5	15.3	14.5	14.6	13.5	14.8	13.8	:	14.3
EU-15	22.6	20.2	20.9	21.3	20.9	20.9	20.2	20.4	19.8	20.8	20.0	:	20.4
Euro area	23.4	21.3	21.8	21.9	21.8	21.9	21.2	21.7	21.2	22.1	21.3	:	21.7
USA	18.9	16.3	17.4	18.0	17.5	16.7	14.9	15.1	13.8	15.2	13.2	:	12.9
JAP	33.6	32.3	29.6	29.9	28.4	28.5	27.3	26.8	26.3	27.1	26.5	:	26.6

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1970-2004) [1]

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	24.0	28.5	24.5	24.0	24.0	23.2	22.6	23.2	22.5	23.4	22.7	:	22.7
DK	16.5	20.5	18.6	18.0	17.2	19.2	19.2	19.9	19.9	20.2	20.2	:	20.5
D	20.7	21.6	20.7	21.0	19.5	19.4	19.6	20.9	21.4	20.7	20.7	:	20.5
EL	28.7	27.0	18.5	17.8	16.5	16.2	14.9	16.3	15.4	17.0	15.7	:	16.2
E	21.8	21.5	21.1	21.4	19.5	19.0	18.6	18.8	19.2	18.7	19.6	:	19.7
F	20.2	20.7	20.0	20.4	20.1	19.7	18.9	20.1	19.0	20.1	19.2	:	19.1
IRL	21.6	18.5	19.6	21.3	18.0	17.0	17.8	17.1	19.1	17.4	18.6	:	17.9
I	29.4	25.1	21.2	20.9	19.0	18.6	18.8	18.7	19.3	19.2	20.0	:	20.2
L	:	:	:	:	:	:	:	33.2	10.0	33.4	11.8	:	12.8
NL	21.4	26.2	24.5	23.4	23.2	23.0	21.5	23.5	21.7	23.8	22.4	:	23.2
A	21.7	22.0	19.9	19.9	19.7	20.1	17.2	17.3	19.8	17.3	19.7	:	19.9
P	24.1	23.0	18.9	18.7	17.7	18.3	18.9	18.0	19.0	17.9	18.7	:	19.0
FIN	18.4	18.7	20.4	20.7	20.4	18.3	19.8	19.5	19.8	21.1	21.2	:	21.3
S	16.1	20.6	17.5	16.9	16.9	15.6	13.7	16.5	16.5	16.8	17.4	:	17.4
UK	17.9	17.8	15.3	15.8	13.0	12.4	12.2	12.6	12.9	13.0	13.3	:	14.0
EU-15	21.5	21.8	19.9	20.1	18.7	18.4	18.0	18.6	18.7	18.7	18.8	:	19.0
Euro area	22.5	22.5	20.9	21.0	19.9	19.6	19.2	20.0	20.1	20.1	20.1	:	20.1
USA	:	18.5	15.2	15.4	14.3	12.7	12.8	12.5	13.9	12.7	13.7	:	13.6
JAP	28.6	25.9	28.3	28.6	28.5	28.5	28.4	26.6	28.4	27.0	29.0	:	29.3

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

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1970-2004) [1]

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1970-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-2.7	-3.9	1.1	1.7	2.1	2.7	2.2	1.8	1.9	2.3	2.0	:	2.3
DK	3.1	-0.7	2.9	2.8	4.6	4.0	4.4	3.7	3.4	4.1	3.5	:	4.1
D	2.8	0.8	0.5	0.5	1.2	1.4	0.2	0.1	-1.0	0.6	-0.1	:	0.7
EL	-2.1	-7.1	-0.5	0.1	1.6	2.4	3.3	3.2	3.0	3.3	3.3	:	3.3
E	1.7	-0.6	1.3	1.2	2.9	3.3	3.9	4.1	4.0	4.4	3.8	:	4.1
F	2.5	-0.9	1.1	1.1	2.1	2.4	2.5	1.6	1.2	1.7	0.9	:	1.2
IRL	-3.0	-0.6	4.7	4.4	6.6	8.0	5.7	4.5	3.2	4.3	3.3	:	3.7
I	-5.1	-5.5	-0.1	0.4	1.7	1.6	1.6	1.6	1.0	1.7	0.5	:	0.7
L	:	:	8.8	8.6	8.9	10.6	9.7	7.7	5.9	8.1	3.8	:	3.8
NL	1.4	-0.6	2.3	1.8	3.4	4.6	3.7	2.8	2.8	2.5	2.4	:	2.7
A	4.2	1.0	1.6	1.9	1.6	1.9	4.1	4.2	2.0	4.3	2.0	:	2.1
P	-0.8	-1.5	1.1	1.8	1.8	0.7	0.1	1.1	-0.4	1.3	0.1	:	0.5
FIN	7.9	-1.6	4.1	4.2	4.7	9.5	7.6	6.2	6.2	5.4	5.5	:	5.9
S	4.8	-3.8	3.0	3.7	4.2	6.0	7.2	4.2	4.0	4.4	3.8	:	4.1
UK	1.2	-2.9	0.9	1.8	2.6	2.9	2.3	1.9	0.6	1.8	0.4	:	0.4
EU-15	1.2	-1.6	1.0	1.2	2.2	2.5	2.2	1.9	1.1	2.0	1.1	:	1.5
Euro area	0.9	-1.3	0.9	1.0	2.0	2.3	1.9	1.7	1.1	1.9	1.2	:	1.6
USA	:	-2.2	2.2	2.6	3.2	3.9	2.1	2.6	0.0	2.4	-0.5	:	-0.6
JAP	5.0	6.4	1.4	1.3	-0.1	-0.1	-1.1	0.2	-2.1	0.1	-2.5	:	-2.8

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

TABLE 46 : Exports of goods, volume (percentage change on preceding year, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	6.2	4.8	4.9	5.2	4.3	7.2	0.3	1.8	-0.7	5.6	4.8	:	6.0
DK	5.8	3.4	6.0	3.9	7.2	10.2	0.7	2.3	5.5	5.4	5.0	:	5.3
D	6.2	3.6	8.5	7.5	5.6	13.6	5.1	2.4	1.9	7.2	5.2	:	7.5
EL	8.0	4.1	2.4	2.7	-4.2	11.3	-4.6	3.3	-1.0	5.9	2.9	:	5.3
E	:	11.9	10.1	7.1	6.5	10.0	2.3	2.8	-0.8	7.2	5.1	:	6.4
F	7.0	5.9	8.1	9.1	4.9	12.3	1.3	2.3	1.3	6.9	4.7	:	6.2
IRL	8.5	13.2	15.3	15.6	13.7	18.6	5.0	5.1	3.8	9.6	6.2	:	8.1
I	8.1	7.3	4.6	3.5	1.2	11.7	0.2	2.6	-0.6	6.6	4.3	:	7.1
L	3.8	3.6	9.2	11.8	6.1	15.5	4.9	1.3	-3.9	6.6	5.7	:	6.8
NL	6.6	6.5	7.2	7.4	4.4	11.5	1.9	1.1	-1.8	5.3	4.2	:	6.0
A	:	4.6	10.0	8.2	7.9	13.5	7.4	4.1	1.0	7.3	6.0	:	7.8
P	:	6.1	:	:	:	:	:	2.2	2.9	6.7	5.0	:	7.9
FIN	:	7.7	12.4	9.8	7.2	22.6	-1.8	3.1	2.6	6.9	5.9	:	6.7
S	:	7.5	8.4	8.1	5.6	11.2	-4.4	1.6	3.5	7.2	6.2	:	6.0
UK	4.6	5.3	6.6	1.3	4.3	11.5	2.3	1.2	0.6	6.3	5.6	:	6.2
EU-15 [1]	6.6	6.0	7.8	6.7	5.1	12.4	2.4	2.2	0.9	6.7	5.0	:	6.7
Euro area [2]	7.0	6.0	8.0	7.4	5.1	12.6	2.7	2.4	0.7	6.8	4.9	:	6.9
USA	6.2	7.7	8.0	2.1	3.7	11.3	-5.9	-5.2	-2.7	3.2	4.1	:	4.3
JAP	:	1.9	3.8	-1.5	-5.5	12.4	-7.1	12.3	4.9	7.2	5.7	:	6.5

[1] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2000.
[2] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2000.

TABLE 47 : Imports of goods, volume (percentage change on preceding year, 1961-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	5.8	3.8	5.1	7.3	3.3	8.0	-0.5	2.3	-1.0	5.2	4.7	:	6.1
DK	4.8	4.3	7.0	8.8	3.6	9.0	1.8	3.6	5.4	6.2	5.7	:	6.4
D	6.5	3.8	8.1	10.5	7.7	10.7	0.0	-0.5	-2.1	7.7	6.3	:	7.4
EL	8.0	3.9	6.5	9.4	-4.8	14.8	-2.7	5.2	2.5	5.8	5.0	:	5.2
E	:	7.5	11.5	13.4	12.3	10.5	3.0	3.4	-0.5	6.7	5.4	:	7.0
F	7.2	3.8	8.2	12.3	7.6	14.6	0.5	0.6	0.8	7.1	6.2	:	7.5
IRL	6.7	7.9	13.7	18.6	8.3	17.0	-0.1	5.7	3.3	8.1	5.9	:	7.5
I	7.2	3.6	7.2	8.8	7.2	11.0	-0.2	4.9	-0.7	7.0	5.0	:	7.0
L	4.6	3.6	7.2	11.8	8.0	4.1	7.2	2.0	-2.2	7.0	5.8	:	6.6
NL	6.0	5.9	7.7	8.3	5.5	10.3	1.4	0.6	-1.6	6.2	3.8	:	5.2
A	:	3.7	7.9	7.6	7.2	10.8	4.9	3.5	-1.6	7.5	6.2	:	7.8
P	:	6.7	:	:	:	:	:	0.5	0.2	4.7	1.8	:	4.5
FIN	:	0.8	11.2	11.9	2.7	16.8	0.5	3.2	1.8	6.0	6.1	:	6.4
S	:	3.7	7.8	10.9	3.2	11.9	-6.2	-0.1	1.4	6.8	6.4	:	6.3
UK	4.7	3.0	9.6	9.0	7.7	12.1	3.8	2.6	1.2	6.4	5.2	:	5.6
EU-15 [1]	6.4	4.2	8.4	10.2	7.0	11.6	1.0	1.8	-0.3	6.8	5.5	:	6.7
Euro area [2]	6.8	4.4	8.2	10.5	7.2	11.5	0.7	1.6	-0.7	6.9	5.5	:	6.9
USA	6.8	8.2	12.2	11.7	12.2	13.5	-3.3	4.3	3.9	8.0	6.5	:	6.9
JAP	:	5.1	3.5	-4.9	-1.0	11.9	-0.9	2.0	-1.9	5.4	3.0	:	4.2

[1] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2000.
[2] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2000.

TABLE 48 : Trade balance (fob-fob, as a percentage of GDP, 1974-2004)

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1974-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-2.9	2.9	3.5	3.8	3.7	2.1	2.6	2.6	3.0	2.9	3.4	:	3.6
DK	-2.5	3.8	2.6	1.2	2.7	3.2	3.3	2.8	3.3	2.7	3.1	:	2.9
D	4.3	1.9	3.3	3.6	3.4	3.1	4.8	5.9	6.3	5.9	6.3	:	6.7
EL	-9.9	-12.6	-14.2	-14.8	-13.6	-15.7	-14.9	-16.5	-14.3	-16.7	-14.3	:	-14.3
E	-5.2	-3.8	-4.0	-3.6	-5.1	-6.2	-5.7	-5.6	-5.0	-5.7	-4.9	:	-5.1
F	-1.8	-0.1	0.9	1.4	0.9	-0.3	0.1	0.0	0.1	-0.1	-0.1	:	-0.2
IRL	-4.8	15.1	24.0	22.9	25.4	27.3	29.9	28.3	29.6	29.6	29.4	:	30.0
I	-1.1	2.2	3.1	3.4	2.4	1.3	1.9	1.6	2.1	1.7	2.3	:	2.5
L	-8.5	-11.4	-11.4	-11.5	-12.9	-9.2	-12.1	-12.3	-12.4	-12.2	-12.6	:	-12.8
NL	1.1	5.0	5.0	5.2	3.9	5.0	5.6	5.3	5.6	5.1	6.0	:	6.7
A	-5.0	-3.7	-1.9	-1.6	-1.6	-1.3	-0.6	-1.1	0.2	-1.4	-0.1	:	-0.3
P	:	-11.0	-11.0	-11.0	-12.4	-13.6	-12.5	-11.1	-10.0	-11.0	-9.0	:	-8.4
FIN	0.2	6.1	9.8	9.7	9.5	11.4	10.4	10.2	10.2	10.6	10.2	:	10.6
S	:	4.1	7.2	7.2	7.0	6.6	6.4	6.7	6.7	6.5	6.9	:	6.7
UK	-2.1	-1.8	-2.4	-2.5	-3.0	-3.2	-3.4	-3.7	-2.7	-3.9	-2.7	:	-2.6
EU-15	-0.6	0.5	1.3	1.5	1.0	0.4	1.1	1.2	1.7	1.1	1.7	:	1.8
EU-15, adjusted [1]			:	0.6	0.2	-0.7	0.0	0.0	0.7	0.1	0.7	:	0.9
Euro area	-0.3	0.7	1.8	2.2	1.6	1.0	1.9	2.0	2.5	2.1	2.5	:	2.7
Euro area, adjusted [1]			:	1.8	1.2	0.5	1.2	1.3	1.9	1.3	1.9	:	2.1
USA	-1.6	-1.9	-3.2	-2.9	-3.8	-4.7	-4.3	-4.7	-4.6	-5.2	-5.1	:	-5.6
JAP	2.2	2.9	2.5	3.1	2.7	2.4	1.8	2.3	2.6	2.7	3.3	:	3.8

[1] See note 8 on concepts and sources.

TABLE 49 : Balance on current transactions with the rest of the world (as a percentage of GDP, 1961-2004) 4.11.2002

	long-term average	5-year average						2002 estimate of		2003 forecast of		2004 forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	0.4	4.1	5.1	5.3	5.3	4.4	4.5	4.7	5.0	5.0	5.2	:	5.3
DK	-2.6	1.6	0.8	-0.9	1.7	1.6	2.5	2.0	2.1	2.1	2.1	:	2.2
D	1.3	-0.9	-0.5	-0.3	-0.8	-1.0	0.2	1.5	1.9	1.4	1.7	:	1.9
EL	-0.9	-0.5	-3.1	-3.5	-3.3	-4.0	-4.8	-4.7	-4.6	-4.8	-4.7	:	-4.5
E	-1.1	-2.0	-1.1	-0.6	-2.3	-3.3	-2.8	-2.5	-2.2	-2.3	-2.0	:	-1.9
F	-0.7	-0.1	1.9	2.4	2.6	1.2	1.2	2.2	1.1	2.0	1.0	:	0.9
IRL	-4.4	1.9	1.6	0.9	0.4	0.1	-0.3	-1.4	-0.9	-1.1	-1.3	:	-1.6
I	0.2	-0.1	1.7	1.9	1.0	-0.2	0.6	0.3	0.7	0.4	1.0	:	1.1
L	:	:	:	:	:	:	:	19.4	-6.1	20.1	-5.8	:	-5.0
NL	1.5	4.3	4.8	3.0	4.0	5.3	3.3	4.8	3.6	4.6	4.3	:	5.5
A	-0.5	-1.1	-2.6	-2.3	-3.0	-2.6	-2.2	-1.6	-0.7	-1.9	-1.0	:	-1.3
P	-2.5	-2.6	-7.2	-7.1	-8.8	-10.3	-9.3	-8.7	-7.8	-8.6	-6.8	:	-6.5
FIN	-2.0	-1.2	5.7	5.6	6.0	7.6	6.8	6.4	6.9	7.1	7.0	:	7.4
S	-0.4	-0.1	3.8	3.8	4.0	3.6	3.3	3.2	3.6	3.1	3.8	:	3.7
UK	-0.3	-1.6	-1.2	-0.6	-2.2	-2.0	-2.1	-2.5	-1.8	-2.6	-1.8	:	-1.6
EU-15	0.0	-0.3	0.6	0.8	0.3	-0.2	0.2	0.5	0.6	0.5	0.6	:	0.7
EU-15, adjusted [1]			:	0.5	0.0	-0.8	-0.2	-0.2	0.3	-0.2	0.4	:	0.5
Euro area	0.1	-0.2	0.8	1.0	0.6	-0.1	0.4	1.1	1.0	1.0	1.0	:	1.1
Euro area, adjusted [1]			:	0.5	-0.3	-0.9	0.0	0.1	0.6	0.1	0.7	:	0.8
USA	-0.3	-0.9	-2.5	-2.3	-3.0	-4.1	-3.8	-4.6	-4.7	-5.2	-5.2	:	-5.8
JAP	1.0	2.5	2.3	3.0	2.6	2.5	2.1	2.4	3.0	2.8	3.6	:	3.9

[1] See note 8 on concepts and sources.

TABLE 50 : Trade balance (fob-fob, in billions of Ecu/euro, 1996-2004)

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	8.3	8.3	8.5	8.8	5.3	6.7	6.9	7.8	8.0	9.3	:	10.2
DK	4.8	3.7	1.8	4.5	5.6	5.9	5.2	6.2	5.2	6.0	:	5.9
D	55.7	63.1	69.4	66.6	63.0	99.9	123.7	131.8	130.0	136.0	:	148.7
EL	-13.0	-14.4	-16.1	-16.0	-19.1	-19.5	-23.1	-20.0	-25.1	-21.5	:	-23.0
E	-12.8	-12.0	-18.7	-28.6	-37.7	-37.0	-38.5	-34.4	-41.5	-35.6	:	-39.1
F	8.4	21.2	18.3	12.5	-9.1	-4.2	0.2	1.0	-2.2	-1.2	:	-3.8
IRL	12.4	16.3	17.8	22.8	28.1	34.3	35.5	36.9	40.8	39.7	:	44.2
I	46.0	38.6	36.8	26.1	14.8	22.5	20.7	26.4	22.9	30.4	:	34.7
L	-1.6	-1.8	-1.9	-2.4	-1.9	-2.6	-2.8	-2.7	-3.1	-2.9	:	-3.0
NL	17.9	18.6	18.2	14.7	20.1	23.9	23.7	25.1	24.0	27.9	:	32.6
A	-5.4	-3.4	-3.0	-3.1	-2.7	-1.2	-2.3	0.5	-3.1	-0.1	:	-0.6
P	-7.4	-8.9	-11.0	-13.3	-15.0	-14.7	-14.4	-13.0	-14.8	-12.1	:	-11.9
FIN	8.9	10.2	11.2	11.5	14.9	14.1	14.2	14.3	15.5	15.0	:	16.3
S	14.9	16.9	15.5	15.9	16.3	15.1	16.3	16.6	16.7	17.8	:	18.0
UK	-16.9	-17.8	-32.3	-41.6	-49.8	-54.0	-62.5	-45.2	-68.5	-46.6	:	-46.5
EU-15	120.2	138.4	114.6	78.2	32.8	89.7	106.1	151.5	108.0	161.6	:	181.8
EU-15, adjusted [1]	:	62.9	42.4	11.8	-60.2	-0.5	3.8	61.3	5.7	71.4	:	91.5
Euro area	117.3	135.7	129.5	99.4	60.6	122.3	143.8	173.8	151.5	184.7	:	205.0
Euro area, adjusted [1]	:	116.4	109.0	75.6	35.6	79.2	89.9	130.7	97.6	141.6	:	161.8
USA	-149.6	-173.1	-222.1	-326.6	-497.1	-484.7	-576.0	-514.2	-670.8	-566.3	:	-648.5
JAP	65.9	89.8	109.0	115.5	126.5	82.7	97.5	107.7	118.9	137.6	:	165.3

[1] See note 8 on concepts and sources.

TABLE 51 : Balance on current transactions with the rest of the world (in billions of Ecu/euro, 1996-2004)

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	10.8	11.7	12.0	12.5	10.8	11.4	12.6	13.0	13.9	14.0	:	15.1
DK	2.1	0.6	-1.4	2.7	2.8	4.6	3.8	3.8	4.0	4.0	:	4.5
D	-6.2	-1.8	-5.2	-16.1	-21.0	3.1	31.8	40.8	30.7	37.0	:	41.3
EL	-2.3	-2.3	-3.8	-3.9	-4.8	-6.2	-6.5	-6.5	-7.1	-7.1	:	-7.2
E	0.7	2.3	-3.4	-12.9	-20.7	-18.8	-16.9	-15.1	-16.6	-14.4	:	-14.4
F	11.2	31.6	30.8	35.5	17.2	18.3	32.8	16.9	31.0	15.3	:	14.3
IRL	1.9	2.2	0.7	0.4	0.1	-0.3	-1.8	-1.1	-1.5	-1.8	:	-2.4
I	31.1	28.6	20.5	11.0	-1.9	7.6	3.8	8.9	5.8	12.8	:	15.4
L	:	:	:	:	0.7	-0.9	4.5	-1.3	5.0	-1.3	:	-1.2
NL	17.6	20.5	10.5	14.8	20.8	13.9	21.5	16.2	21.6	19.8	:	26.6
A	-4.2	-5.5	-4.4	-5.9	-5.0	-3.4	-3.4	-1.6	-4.4	-2.2	:	-3.0
P	-3.4	-5.7	-7.2	-9.5	-12.0	-11.9	-11.3	-10.1	-11.6	-9.3	:	-9.2
FIN	4.1	6.0	6.4	7.2	9.9	9.3	8.8	9.6	10.4	10.2	:	11.4
S	7.2	9.0	8.1	9.1	9.0	7.7	7.9	9.0	8.0	9.9	:	10.1
UK	-10.7	-2.5	-7.1	-30.0	-31.5	-33.9	-41.4	-29.4	-45.2	-31.3	:	-29.1
EU-15	60.0	94.8	56.7	15.0	-25.7	0.9	47.9	53.8	45.7	56.0	:	72.3
EU-15, adjusted [1]	:	64.4	34.4	-3.4	-67.8	-21.2	-17.3	31.7	-19.5	33.8	:	50.2
Euro area	61.4	87.7	57.0	33.2	-6.0	22.0	75.9	69.9	77.3	73.1	:	86.7
Euro area, adjusted [1]	:	62.1	31.9	-18.3	-59.9	-2.3	9.6	45.6	11.0	48.8	:	62.5
USA	-87.2	-108.6	-178.3	-259.1	-429.5	-421.1	-557.6	-519.1	-663.7	-581.3	:	-674.2
JAP	51.8	85.6	105.9	107.6	129.7	96.8	105.2	127.1	124.2	152.1	:	170.6

[1] See note 8 on concepts and sources.

TABLE 52 : Export markets (a) (percentage change on preceding year, 1996-2004) 4.11.2002

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	4.1	9.3	8.2	6.9	11.9	1.0	2.2	1.1	6.8	5.9	:	6.8
DK	4.7	8.6	6.9	5.0	9.5	0.0	2.0	2.1	5.5	5.1	:	5.4
D	5.1	9.8	7.3	5.9	12.3	0.7	3.1	1.8	6.6	6.0	:	6.8
EL	4.3	8.8	6.0	5.6	9.7	1.3	3.1	1.2	6.8	6.0	:	7.0
E	4.1	9.4	8.5	6.0	10.8	0.5	2.3	0.8	6.7	5.6	:	6.8
F	4.8	9.6	7.3	7.2	10.7	0.6	2.8	1.2	6.6	5.8	:	6.7
IRL	5.6	9.3	7.8	6.9	11.5	0.3	2.6	1.4	6.5	5.6	:	6.3
I	5.5	9.8	7.1	6.4	12.3	0.5	2.7	1.5	6.9	6.2	:	7.0
L (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	4.0	7.9	7.2	4.8	9.6	0.4	2.3	1.3	6.2	5.5	:	6.3
A	3.7	10.3	8.6	6.6	12.5	1.2	2.4	1.0	7.0	6.3	:	7.2
P	4.7	9.8	9.3	8.2	12.5	0.9	2.0	0.4	6.7	5.8	:	6.7
FIN	4.7	10.0	6.0	3.8	11.6	0.6	2.9	2.3	6.3	5.8	:	6.1
S	5.2	9.9	7.3	6.0	11.3	-0.1	2.5	2.3	5.6	5.2	:	5.4
UK	5.4	9.8	7.5	6.5	11.4	0.1	2.9	1.6	6.6	5.8	:	6.6
EU-15 (c)	4.9	9.5	7.4	6.2	11.5	0.5	2.7	1.5	6.6	5.8	:	6.6
Euro area (c)	4.8	9.5	7.5	6.2	11.5	0.6	2.7	1.4	6.6	5.9	:	6.7
USA	6.6	10.0	1.6	6.7	10.8	-2.4	3.4	1.5	6.9	6.4	:	7.2
JAP	6.8	11.6	3.2	9.1	12.5	-2.6	3.8	3.8	7.3	7.0	:	7.5

(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.
(c) Intra- and extra-EU trade.

TABLE 53 : Export performance (a) (percentage change on preceding year, 1996-2004)

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
B	-0.3	-2.7	-3.8	-1.6	-2.5	-0.7	-0.4	-1.8	-1.1	-1.0	:	-0.7
DK	-2.7	-1.9	-5.2	2.3	0.6	0.7	0.3	3.3	-0.1	-0.1	:	-0.1
D	-0.5	1.6	0.2	-0.6	1.1	4.4	-0.7	0.1	0.6	-0.8	:	0.7
EL	-1.8	-4.6	-4.1	-3.1	1.9	-5.8	0.2	-2.2	-0.8	-2.9	:	-1.6
E	6.2	3.6	-3.1	-0.9	-1.4	1.8	0.5	-1.6	0.5	-0.5	:	-0.4
F	-1.0	2.0	-0.5	-3.3	2.2	0.7	-0.5	0.1	0.3	-1.0	:	-0.5
IRL	4.5	5.4	12.6	4.5	5.5	4.7	2.4	2.4	2.9	0.6	:	1.7
I	-5.5	-5.2	-3.4	-5.0	-0.5	-0.3	-0.1	-2.1	-0.3	-1.8	:	0.1
L (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.1	-1.9	-0.7	0.8	0.4	1.5	-1.2	-3.1	-0.8	-1.2	:	-0.3
A	1.9	2.1	-0.4	1.2	0.9	6.1	1.7	0.0	0.3	-0.3	:	0.6
P	5.5	-0.3	-1.5	:	:	:	0.2	2.5	0.0	-0.8	:	1.1
FIN	-0.3	4.7	3.8	3.7	8.1	-2.4	0.2	0.3	0.6	0.1	:	0.6
S	0.7	2.4	-0.5	-1.0	-0.1	-4.3	-0.9	1.2	1.5	1.0	:	0.6
UK	1.4	-1.8	-5.8	-2.8	0.2	2.2	-1.7	-1.0	-0.3	-0.2	:	-0.4
EU-15 (c)	-0.3	-0.2	-1.4	-1.6	0.7	1.9	-0.5	-0.6	0.1	-0.8	:	0.1
Euro area (c)	-0.3	0.2	-0.6	-1.5	0.9	2.1	-0.3	-0.7	0.2	-0.9	:	0.2
USA	0.9	5.0	0.5	-2.5	0.5	-3.6	-8.3	-4.1	-3.5	-2.2	:	-2.7
JAP	-4.4	-1.9	-4.5	-13.4	-0.1	-4.6	8.2	1.1	-0.1	-1.2	:	-0.9

(a) Index for exports divided by an index for growth of markets.
(b) Included in the figures for Belgium.
(c) Intra- and extra-EU trade.

TABLE 54 : World GDP, volume (percentage change on preceding year, 1996-2003) 4.11.2002

							2002 estimate of		2003 forecast of		2004 forecast of	
	(a)	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
EU-15	17.0	2.5	2.9	2.8	3.4	1.5	1.5	1.0	2.9	2.0	:	2.6
Euro area	13.8	2.3	2.9	2.8	3.5	1.5	1.4	0.8	2.9	1.8	:	2.6
Belgium	0.5	3.6	2.0	3.2	3.7	0.8	1.1	0.7	2.8	2.0	:	2.8
Denmark	0.4	3.0	2.5	2.3	3.0	1.0	1.7	1.7	2.5	2.1	:	2.4
Germany	4.4	1.4	2.0	2.0	2.9	0.6	0.8	0.4	2.7	1.4	:	2.3
Greece	0.2	3.6	3.4	3.6	4.2	4.1	3.7	3.5	4.2	3.9	:	3.7
Spain	1.2	4.0	4.3	4.2	4.2	2.7	2.1	1.9	3.1	2.6	:	3.2
France	3.1	1.9	3.4	3.2	3.8	1.8	1.6	1.0	2.8	2.0	:	2.7
Ireland	0.2	10.9	8.8	11.1	10.0	5.7	3.5	3.3	6.1	4.2	:	5.2
Italy	2.3	2.0	1.8	1.6	2.9	1.8	1.4	0.4	2.7	1.8	:	2.4
Luxembourg	0.0	7.7	7.5	6.0	8.9	1.0	2.9	0.1	5.2	2.0	:	3.4
Netherlands	0.8	3.8	4.3	4.0	3.3	1.3	1.5	0.2	2.7	0.9	:	2.2
Austria	0.4	1.6	3.9	2.7	3.5	0.7	1.2	0.7	2.5	1.8	:	2.2
Portugal	0.2	3.9	4.5	3.5	3.5	1.7	1.5	0.7	2.2	1.2	:	2.5
Finland	0.3	6.3	5.3	4.1	6.1	0.7	1.6	1.4	3.3	2.8	:	3.4
Sweden	0.5	2.1	3.6	4.5	3.6	1.2	1.7	1.6	2.8	2.2	:	2.4
United Kingdom	2.3	3.4	2.9	2.4	3.1	2.0	2.0	1.6	3.0	2.5	:	2.7
Candidate Countries	3.8	4.8	3.0	0.1	5.1	0.0	2.8	2.9	3.9	3.8	:	4.4
Acceding Countries	2.2	4.8	3.7	3.1	4.1	3.0	:	2.5	:	3.8	:	4.3
- Cyprus	0.0	2.4	5.0	4.6	5.1	4.0	2.5	2.2	4.0	3.5	:	4.1
- Czech Republic	0.4	-0.8	-1.0	0.5	3.3	3.3	3.4	2.2	3.9	3.2	:	3.8
- Estonia	0.0	9.8	4.6	-0.6	7.1	5.0	3.8	4.5	6.2	4.7	:	5.1
- Hungary	0.3	4.6	4.9	4.2	5.2	3.8	3.3	3.4	4.6	4.5	:	4.9
- Latvia	0.1	8.4	4.8	2.8	6.8	7.7	5.0	5.0	6.0	5.5	:	6.0
- Lithuania	0.1	7.3	5.1	-3.9	3.8	5.9	4.0	5.0	5.0	3.5	:	4.5
- Malta	0.0	4.9	3.4	4.1	4.8	-0.8	3.8	2.8	4.0	3.4	:	3.6
- Poland	1.0	6.8	4.8	4.1	4.0	1.0	1.4	0.8	3.1	3.2	:	3.9
- Slovakia	0.2	5.6	4.0	1.3	2.2	3.3	3.6	3.9	4.2	3.9	:	4.8
- Slovenia	0.1	4.6	3.8	5.2	4.6	3.0	3.2	2.6	4.0	3.6	:	4.0
Other Candidate Countries	1.5	4.7	2.0	-3.9	6.5	-3.2	:	4.0	:	4.1	:	4.6
- Bulgaria	0.1	-5.6	4.0	2.3	5.4	4.0	4.0	4.0	5.0	5.0	:	5.5
- Romania	0.4	-6.1	-4.8	-1.2	1.8	5.3	4.2	4.2	4.9	4.6	:	4.7
- Turkey	1.0	1.3	5.0	-2.8	6.0	-7.4	2.5	3.9	3.7	3.7	:	4.4
USA	22.3	4.5	4.3	4.1	3.8	0.3	2.7	2.3	3.1	2.3	:	2.8
Japan	7.6	1.8	-1.1	0.7	2.4	-0.1	-0.8	-0.6	0.6	1.2	:	1.4
Canada	2.1	4.4	4.1	5.3	4.7	1.4	3.2	3.4	4.4	3.5	:	3.7
Norway	0.3	5.2	2.6	2.1	2.4	1.4	2.4	2.1	2.5	2.6	:	3.5
Switzerland	0.5	1.7	2.4	1.5	3.2	0.9	1.9	0.9	3.3	2.2	:	1.9
Iceland	0.0	4.6	5.7	3.6	5.5	3.0	3.2	-0.8	3.3	2.2	:	2.6
Australia	1.2	4.5	5.3	4.3	1.9	2.4	3.1	5.4	4.1	4.7	:	3.7
New Zealand	0.2	1.9	0.4	4.6	2.5	1.8	2.3	3.4	3.5	2.8	:	2.8
Industrialised countries	55.0	3.5	3.0	3.0	3.5	0.7	1.9	1.6	2.8	2.3	:	2.7
Others	45.0	5.2	2.3	4.5	5.8	4.1	4.2	3.8	5.2	5.1	:	5.5
CIS	4.0	0.7	-3.1	4.4	7.9	6.0	4.1	4.3	4.6	4.5	:	4.3
Russia	2.8	0.9	-4.9	5.4	8.3	5.0	3.7	3.9	4.5	4.3	:	4.0
Ukraine	0.5	-3.2	-1.9	-0.2	5.9	9.1	5.5	4.5	5.0	5.0	:	5.0
Other	0.8	2.2	3.0	4.0	7.4	8.0	4.8	5.4	4.9	4.7	:	4.7
OPEC	4.9	4.1	-3.1	0.6	4.2	3.4	3.0	1.8	3.9	4.5	:	3.8
Indonesia	1.6	4.7	-13.1	0.8	4.8	3.3	3.0	3.8	4.0	4.5	:	5.8
Other emerging markets	36.1	5.9	3.7	5.1	5.8	3.9	4.4	4.0	5.4	5.3	:	5.8
Asia	24.9	6.3	4.1	6.7	6.8	5.0	5.6	5.7	6.2	6.5	:	6.6
- China	12.6	8.8	7.8	7.1	8.0	7.3	7.3	7.1	7.4	7.5	:	7.5
- India	4.9	4.4	6.0	7.1	3.9	4.3	5.8	5.1	6.1	6.2	:	6.3
- Hong Kong	0.4	5.0	-5.3	3.0	10.4	0.2	1.6	1.4	4.0	3.6	:	3.6
- Korea	1.8	5.0	-6.7	10.9	9.3	3.0	4.6	5.6	6.6	6.9	:	6.9
Latin America	8.2	5.1	2.3	0.9	3.6	1.5	1.0	-0.8	3.7	2.3	:	4.3
- Argentina	0.9	8.1	3.8	-3.4	-0.8	-4.5	-6.5	-17.7	2.7	1.3	:	5.5
- Brazil	3.0	3.3	0.2	0.8	4.5	5.5	2.0	1.4	3.8	2.3	:	4.3
- Mexico	2.0	6.8	4.9	3.7	6.6	-0.3	1.9	1.4	4.0	2.5	:	4.5
Africa	3.0	4.4	4.0	3.3	4.1	1.9	3.1	3.2	3.8	3.8	:	3.7
- South Africa	0.8	2.8	0.8	2.1	3.4	2.2	2.3	1.9	2.7	2.3	:	3.3
World	100.0	4.3	2.7	3.7	4.6	2.2	2.9	2.6	3.9	3.6	:	4.0
World excluding EU-15	83.0	4.6	2.7	3.8	4.8	2.3	3.2	2.9	4.1	3.9	:	4.2
World excluding euro area	86.2	4.6	2.7	3.8	4.7	2.3	3.1	2.9	4.0	3.8	:	4.2

(a) Relative weights, based on GDP (at constant prices and pps) in 2001.

TABLE 55 : World exports of goods, volume (percentage change on preceding year, 1997-2004) 4.11.2002

							2002 estimate of		2003 forecast of		2004 forecast of	
	(a)	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
EU-15 (b)	36.9	10.3	6.7	5.1	12.4	2.4	2.2	0.9	6.7	5.0	:	6.7
Euro area (b)	30.0	10.6	7.4	5.1	12.6	2.7	2.4	0.7	6.8	4.9	:	6.9
Candidate Countries	3.0	17.8	8.8	2.1	17.3	13.3	5.9	5.1	9.6	7.6	:	9.2
Acceding Countries	2.1	15.3	10.5	4.0	18.7	11.3	:	4.5	:	7.3	:	9.3
- Cyprus	0.0	:	:	:	:	:	:	:	:	:	:	:
- Czech Republic	0.6	13.7	13.8	8.7	19.9	14.5	8.0	3.8	9.2	7.0	:	9.2
- Estonia	0.1	35.7	18.2	-5.0	39.9	-5.5	6.5	4.8	10.5	10.3	:	12.8
- Hungary	0.4	29.9	17.8	9.8	21.8	13.7	4.8	6.5	12.0	7.8	:	11.2
- Latvia	0.0	24.6	7.0	-2.8	14.1	8.6	3.0	6.0	8.0	8.0	:	9.0
- Lithuania	0.1	18.4	-9.8	-21.5	24.6	24.3	7.2	12.5	8.4	8.5	:	9.4
- Malta	0.0	:	:	:	:	:	:	:	:	:	:	:
- Poland	0.6	5.0	10.6	-6.4	25.0	13.6	5.5	3.6	12.3	8.0	:	10.0
- Slovakia	0.2	3.3	11.7	5.3	17.0	5.8	6.3	3.8	9.5	7.5	:	8.5
- Slovenia	0.2	13.0	9.0	2.6	12.8	6.7	4.4	3.5	5.8	5.5	:	6.1
Other Candidate Countries	0.9	23.8	4.7	-2.7	14.0	18.1	:	6.6	:	8.3	:	8.9
- Bulgaria	0.1	12.8	-22.7	-4.6	25.5	11.2	5.0	1.5	7.0	7.0	:	8.5
- Romania	0.2	11.9	6.3	8.8	24.5	10.7	6.0	14.0	8.6	13.0	:	13.2
- Turkey	0.6	27.6	8.2	-6.1	9.0	21.5	5.0	5.0	8.0	7.0	:	7.5
USA	12.1	14.5	2.1	3.7	11.3	-5.9	-5.2	-2.7	3.2	4.1	:	4.3
Japan	6.4	9.0	-1.5	-5.5	12.4	-7.1	12.3	4.9	7.2	5.7	:	6.5
Canada	4.4	9.6	8.5	10.7	9.0	-4.3	4.6	0.9	7.8	6.2	:	7.0
Norway	1.0	6.6	-1.1	3.2	2.2	5.9	3.1	1.8	5.4	2.7	:	2.5
Switzerland	1.6	7.6	5.3	3.6	9.3	2.1	2.9	3.1	6.6	8.5	:	8.5
Iceland	0.0	19.0	6.1	-2.0	-6.5	-12.2	2.9	1.5	4.8	5.5	:	6.0
Australia	1.0	8.1	0.0	5.2	16.1	9.0	2.0	0.2	6.2	6.5	:	11.2
New Zealand	0.2	5.7	0.1	2.9	5.7	2.6	3.2	3.2	6.0	3.8	:	3.0
Industrialised countries	66.8	11.1	5.0	4.0	12.0	0.1	2.2	0.9	6.3	5.2	:	6.4
Others	33.2	9.7	5.7	5.0	16.5	-2.5	4.6	4.2	6.9	7.7	:	7.9
CIS	2.4	3.1	-6.3	-4.8	28.4	1.5	1.7	3.3	1.2	3.8	:	1.0
Russia	1.7	3.8	-3.2	-3.0	28.6	1.3	0.5	3.3	0.5	3.3	:	0.5
Ukraine	0.3	-6.5	-12.4	-10.2	21.1	10.1	5.0	5.2	4.3	6.0	:	6.0
Other	0.4	7.9	-12.5	-8.1	32.0	-2.6	4.0	2.0	1.9	4.3	:	-0.4
OPEC	5.0	4.0	5.1	-0.3	5.2	0.2	3.1	0.9	5.9	6.1	:	8.6
Indonesia	1.0	12.9	17.2	1.0	26.9	-9.3	3.5	4.0	8.0	7.0	:	8.0
Other emerging markets	25.9	11.5	6.9	6.9	17.5	-3.3	5.1	5.0	7.5	8.3	:	8.4
Asia	19.1	11.9	6.2	8.2	20.2	-5.7	4.6	5.5	7.5	8.9	:	9.1
- China	4.4	26.0	13.4	7.8	27.0	6.1	6.8	16.0	8.6	14.0	:	14.0
- India	0.7	-7.1	4.4	12.8	20.1	2.3	4.0	4.0	4.6	5.5	:	6.0
- Hong Kong	3.2	5.8	-3.8	3.0	16.8	-5.3	3.5	1.0	6.4	6.0	:	7.0
- Korea	2.5	24.4	16.7	7.7	19.4	-13.0	5.0	1.0	9.6	7.0	:	8.0
Latin America	5.4	10.9	11.6	2.0	9.7	2.4	7.3	3.9	8.1	7.5	:	7.0
- Argentina	0.4	15.1	10.5	-25.3	7.5	24.8	9.0	15.0	8.0	17.0	:	8.0
- Brazil	1.0	4.8	10.2	-0.7	7.0	11.4	8.5	2.0	9.5	7.0	:	6.0
- Mexico	2.6	11.9	12.3	14.0	16.0	-6.4	7.0	3.0	8.0	6.5	:	7.6
Africa	1.3	7.1	-1.6	7.1	10.7	6.7	3.6	1.6	6.5	4.0	:	3.7
- South Africa	0.5	8.2	-7.8	7.3	18.4	4.2	7.1	5.2	4.5	6.0	:	4.4
World	100.0	10.6	5.2	4.3	13.5	-0.7	3.0	2.0	6.5	6.0	:	6.9
World excluding EU-15	63.1	10.8	4.4	3.9	14.1	-2.5	3.5	2.6	6.3	6.6	:	7.0
World excluding euro area	70.0	10.6	4.2	4.0	13.9	-2.2	3.3	2.6	6.3	6.5	:	6.9

(a) Relative weights, based on exports (at current prices and current exchange rates) in 2001.
(b) Intra- and extra-EU trade.

TABLE 56 : Export shares in EU trade (goods only - 2000)

	EU-15	USA	Japan	Canada	Candidate Countries	Acceding Countries	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	58.4	8.8	1.7	0.8	5.7	4.1	1.0	2.1	8.7	4.5	2.2	2.0	100
Belgium	69.9	5.5	1.1	0.4	3.1	2.0	0.6	1.2	8.1	5.5	1.1	1.4	100
Denmark	67.9	6.0	3.5	0.7	4.0	3.5	1.3	1.3	5.9	3.5	1.5	0.9	100
Germany	52.0	9.5	2.0	0.7	8.9	7.1	1.5	1.7	8.4	4.8	2.2	1.4	100
Greece	40.9	5.1	0.7	0.6	19.9	7.9	3.2	2.5	9.6	5.1	1.8	2.6	100
Spain	63.7	4.7	0.9	0.5	4.3	2.5	0.6	2.3	10.3	2.6	5.2	2.5	100
France	57.4	8.1	1.5	0.8	4.0	2.6	0.7	2.8	11.1	4.3	2.5	4.2	100
Ireland	60.1	17.0	3.8	0.5	2.0	1.4	0.3	1.1	6.9	4.9	0.9	1.1	100
Italy	50.9	9.6	1.6	0.8	7.3	4.5	1.3	3.1	10.4	4.7	3.3	2.4	100
Luxembourg	82.1	4.0	0.6	0.6	3.0	2.4	0.5	0.6	3.1	1.7	0.7	0.7	100
Netherlands	76.7	4.2	0.9	0.4	3.3	2.3	0.9	1.2	5.0	2.9	1.0	1.1	100
Austria	57.6	4.7	1.2	0.7	13.2	11.6	1.4	1.2	4.2	2.4	0.9	0.8	100
Portugal	76.4	5.8	0.5	0.6	1.7	1.2	0.1	0.6	6.6	1.4	1.5	3.7	100
Finland	50.0	6.7	1.6	0.7	7.9	6.6	4.3	2.2	10.0	6.5	2.0	1.5	100
Sweden	53.6	9.4	2.8	1.1	5.5	4.1	0.9	1.9	10.3	5.8	3.0	1.6	100
United Kingdom	54.2	15.1	1.9	1.8	3.2	2.0	0.5	2.8	9.2	5.8	1.6	1.9	100

TABLE 57 : World imports of goods, volume (percentage change on preceding year, 1997-2004) 4.11.2002

							2002		2003		2004	
							estimate of		forecast of		forecast of	
	(a)	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
EU-15 (b)	35.4	9.5	10.2	7.0	11.6	1.0	1.8	-0.3	6.8	5.5	:	6.7
Euro area (b)	28.8	9.3	10.5	7.2	11.5	0.7	1.6	-0.7	6.9	5.5	:	6.9
Candidate Countries	3.6	18.0	10.8	0.8	18.8	4.1	7.0	6.4	9.0	7.2	:	9.1
Acceding Countries	2.6	17.5	13.4	4.0	15.6	8.6	:	4.8	:	7.0	:	9.1
- Cyprus	0.0	:	:	:	:	:	:	:	:	:	:	:
- Czech Republic	0.6	10.6	8.7	6.0	22.4	15.4	7.5	4.1	8.2	6.0	:	8.0
- Estonia	0.1	33.8	11.8	-8.1	32.4	0.3	7.5	9.0	10.0	7.7	:	13.0
- Hungary	0.5	26.4	23.7	11.1	21.1	11.8	5.5	7.8	11.5	9.2	:	11.0
- Latvia	0.1	13.5	32.3	-3.0	4.2	16.7	2.0	2.0	6.6	7.1	:	7.6
- Lithuania	0.1	24.7	-2.6	-15.1	12.4	20.0	6.0	15.1	8.0	7.5	:	9.1
- Malta	0.0	:	:	:	:	:	:	:	:	:	:	:
- Poland	0.8	16.6	13.0	-0.7	10.5	7.0	6.5	3.0	10.5	8.0	:	12.0
- Slovakia	0.2	-5.9	9.9	-3.5	11.8	12.6	6.4	2.9	8.0	6.0	:	7.0
- Slovenia	0.2	12.5	16.8	7.6	7.4	2.4	4.3	2.8	5.0	5.1	:	5.7
Other Candidate Countries	1.0	19.3	4.4	-7.4	26.7	-7.3	:	10.5	:	7.8	:	9.1
- Bulgaria	0.1	10.9	-1.9	11.1	14.9	13.4	5.0	3.0	6.5	6.2	:	7.0
- Romania	0.2	7.5	19.1	-4.8	30.9	19.2	7.7	11.9	8.0	12.1	:	13.0
- Turkey	0.7	23.5	0.2	-11.7	27.4	-20.7	8.5	11.3	9.0	6.5	:	8.0
USA	19.2	14.2	11.7	12.2	13.5	-3.3	4.3	3.9	8.0	6.5	:	6.9
Japan	5.2	2.4	-4.9	-1.0	11.9	-0.9	2.0	-1.9	5.4	3.0	:	4.2
Canada	3.8	17.1	6.2	8.8	9.5	-5.9	3.6	0.7	6.5	6.5	:	6.6
Norway	0.6	10.3	9.5	-3.4	2.9	0.0	1.6	3.2	3.6	4.0	:	3.5
Switzerland	1.5	7.1	8.4	8.3	8.9	0.2	0.9	1.6	3.5	7.0	:	6.2
Iceland	0.0	3.9	25.6	1.1	-4.0	-27.3	4.4	-4.0	6.2	5.0	:	5.0
Australia	1.0	6.3	6.9	6.6	5.8	5.7	2.5	5.9	5.4	9.1	:	7.4
New Zealand	0.2	3.5	2.5	13.3	-2.7	-4.0	2.5	3.2	7.1	4.0	:	5.0
Industrialised countries	70.4	11.0	9.2	7.6	12.1	-0.5	2.8	1.3	7.0	5.8	:	6.6
Others	29.6	6.3	-1.9	5.9	14.4	-1.4	4.2	3.4	7.1	7.3	:	8.0
CIS	1.6	4.2	-11.4	-25.8	12.2	11.6	6.9	5.6	6.6	6.2	:	4.4
Russia	0.9	4.5	-12.0	-30.0	14.3	16.9	7.6	4.8	9.3	6.5	:	6.0
Ukraine	0.3	-6.5	-14.3	-14.3	6.6	12.7	8.5	7.7	7.0	7.0	:	7.0
Other	0.4	11.1	-8.4	-24.0	11.9	1.4	4.5	5.7	0.9	5.0	:	-0.6
OPEC	3.1	7.7	-3.3	-1.4	11.3	2.5	4.0	-0.4	5.9	4.9	:	4.6
Indonesia	0.6	1.8	-26.4	-10.6	32.6	-3.7	4.0	5.0	8.8	6.0	:	6.0
Other emerging markets	24.9	6.3	-1.1	8.8	14.9	-2.6	4.1	3.7	7.3	7.7	:	8.7
Asia	17.9	6.6	-6.1	11.7	16.1	-5.5	3.9	5.7	6.8	8.2	:	8.7
- China	4.2	7.3	10.8	20.3	18.0	22.3	7.0	14.0	9.5	14.0	:	14.0
- India	0.9	10.8	16.7	3.4	5.3	0.1	5.0	5.0	6.5	6.5	:	7.4
- Hong Kong	3.3	7.7	-6.9	-0.5	18.1	-5.9	3.0	1.0	6.8	6.0	:	7.0
- Korea	2.3	-1.5	-20.9	31.7	16.4	-23.6	3.2	1.0	7.0	6.0	:	8.0
Latin America	5.6	4.2	11.4	1.0	12.7	4.4	4.3	-2.6	9.3	7.5	:	10.0
- Argentina	0.3	30.0	9.2	-13.2	-3.2	-18.3	-12.5	-48.0	15.0	16.0	:	36.0
- Brazil	0.9	-15.6	0.9	-6.3	8.5	-9.8	6.0	-3.0	9.0	6.0	:	9.0
- Mexico	2.8	23.3	17.3	14.8	21.5	11.9	6.0	3.0	8.5	7.5	:	8.5
Africa	1.4	10.4	11.7	3.7	8.6	4.8	5.7	3.0	6.0	2.0	:	3.3
- South Africa	0.3	7.0	-3.7	-3.1	15.8	1.7	7.3	0.5	7.7	1.6	:	4.7
World	100.0	9.6	5.9	7.1	12.8	-0.8	3.2	1.9	7.0	6.2	:	7.1
World excluding EU-15	64.6	9.7	3.6	7.1	13.5	-1.7	4.0	3.1	7.2	6.6	:	7.3
World excluding euro area	71.2	9.7	4.1	7.1	13.3	-1.4	3.9	3.0	7.1	6.5	:	7.1

(a) Relative weights, based on imports (at current prices and current exchange rates) in 2001.
(b) Intra- and extra-EU trade.

TABLE 58 : Import shares in EU trade (goods only - 2000)

	EU-15	USA	Japan	Canada	Candidate Countries	Acceding Countries	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	53.9	7.7	3.3	0.7	4.5	3.4	2.0	3.2	10.6	7.0	1.9	1.8	100
Belgium	62.5	6.9	2.7	0.7	2.4	1.6	0.9	1.4	10.4	6.2	1.7	2.4	100
Denmark	68.1	4.2	1.5	0.6	4.4	3.7	1.0	0.7	7.9	6.1	1.4	0.4	100
Germany	46.5	7.7	4.4	0.6	8.6	7.1	2.9	1.7	10.3	7.5	1.6	1.1	100
Greece	54.4	3.0	2.8	0.3	5.5	1.9	4.5	9.7	8.9	6.3	1.0	1.6	100
Spain	58.3	4.1	2.1	0.3	1.7	1.1	1.6	7.6	11.5	5.5	3.5	2.5	100
France	61.4	7.0	2.2	0.6	2.6	1.7	1.5	3.4	9.8	5.5	1.8	2.5	100
Ireland	56.3	16.3	4.1	0.9	1.4	1.1	0.0	0.2	9.8	8.5	0.6	0.6	100
Italy	51.8	4.9	2.3	0.7	4.8	2.8	3.9	7.4	10.7	5.8	2.2	2.7	100
Luxembourg	86.9	3.6	1.6	0.3	1.3	1.3	0.2	0.4	2.2	1.4	0.6	0.2	100
Netherlands	46.4	9.3	4.3	0.5	2.4	1.8	1.7	4.2	14.8	10.8	2.8	1.2	100
Austria	63.9	3.8	1.4	0.6	11.1	10.0	2.2	1.3	2.9	2.2	0.4	0.4	100
Portugal	69.6	2.9	2.4	0.3	1.7	1.2	0.8	4.7	8.2	3.5	2.6	2.1	100
Finland	58.1	4.7	3.6	0.4	5.1	4.8	9.4	0.4	6.8	4.9	1.4	0.5	100
Sweden	65.7	7.2	3.2	0.4	5.4	4.7	0.8	1.2	5.7	4.3	1.0	0.4	100
United Kingdom	47.7	12.9	4.6	1.8	2.6	1.8	0.8	1.8	13.1	9.1	1.8	2.2	100

TABLE 59 : World trade balances (fob-fob, bn. US dollars, 1996-2004) 4.11.2002

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
EU-15	152.5	156.9	128.3	83.4	30.2	80.3	92.7	142.1	94.0	157.8	:	177.4
EU-15, adjusted [1]	:	71.3	47.5	12.6	-55.6	-0.4	3.4	57.4	5.0	69.7	:	89.3
Euro area	148.9	153.8	145.0	105.9	55.9	109.5	125.7	163.0	131.8	180.4	:	200.0
Euro area, adjusted [1]	:	132.0	122.2	80.6	32.9	70.9	78.5	122.6	84.9	138.3	:	157.9
Candidate Countries	-38.3	-50.4	-46.0	-41.4	-55.7	-35.9	-37.8	-41.9	-44.0	-47.4	:	-51.1
Acceding Countries	-24.4	-25.4	-27.8	-27.7	-29.4	-25.7	:	-28.8	:	-32.9	:	-35.2
Other Candidate Countries	-13.9	-25.0	-18.2	-13.7	-26.4	-10.2	:	-13.1	:	-14.4	:	-15.9
USA	-189.9	-196.2	-248.7	-348.0	-458.0	-433.8	-503.3	-482.2	-583.6	-552.9	:	-632.8
Japan	83.6	101.7	122.1	123.0	116.6	74.0	85.2	101.0	103.4	134.3	:	161.3
Canada	31.1	18.5	16.0	27.1	41.3	40.5	39.8	35.3	46.6	39.5	:	43.6
Norway	12.3	11.3	1.7	10.7	26.1	25.7	21.8	24.8	25.2	24.1	:	22.1
Switzerland	1.2	0.9	1.2	0.1	-1.7	0.2	2.3	1.6	4.4	3.3	:	6.0
Iceland	0.0	0.0	-0.4	-0.3	-0.4	0.0	-0.5	0.1	-0.4	0.3	:	0.3
Australia	-0.6	1.8	-5.3	-9.7	-4.2	2.6	-8.2	-0.5	-7.3	-1.9	:	0.7
New Zealand	0.5	0.9	0.9	-0.4	0.6	1.5	1.6	1.5	1.8	1.8	:	1.9
Industrialised countries	52.4	45.5	-30.2	-155.7	-305.3	-244.8	-306.3	-218.2	-360.0	-241.2	:	-270.7
Others	51.0	68.7	106.4	202.2	285.5	209.5	250.1	231.0	281.5	244.5	:	240.2
CIS	11.5	5.3	6.7	33.8	63.2	48.5	42.6	41.9	41.2	38.7	:	31.2
OPEC	91.6	85.2	35.2	83.3	148.4	114.1	90.8	116.7	99.3	114.4	:	113.2
Other emerging markets	-52.1	-21.8	64.5	85.2	73.9	46.9	116.8	72.4	141.0	91.4	:	95.8
Asia	-33.6	12.4	118.6	113.3	97.6	69.0	148.5	76.3	179.2	100.0	:	125.2
Latin America	-10.3	-25.3	-40.1	-16.6	-15.1	-14.8	-9.4	6.0	-14.9	1.7	:	-17.2
Africa	-8.1	-8.9	-14.0	-11.6	-8.6	-7.3	-22.3	-9.9	-23.4	-10.4	:	-12.2
World	103.4	114.2	76.3	46.5	-19.7	-35.3	-56.2	12.8	-78.6	3.4	:	-30.5

[1] See note 8 on concepts and sources.

TABLE 60 : World current account balances (bn. US dollars, 1996-2004)

							2002 estimate of		2003 forecast of		2004 forecast of	
	1996	1997	1998	1999	2000	2001	IV-2002	XI-2002	IV-2002	XI-2002	IV-2002	XI-2002
EU-15	76.2	107.5	63.4	16.0	-23.7	0.8	41.8	50.5	39.7	54.7	:	70.6
EU-15, adjusted [1]	:	73.0	38.6	-3.6	-62.6	-19.0	-15.1	29.7	-17.0	33.0	:	49.0
Euro area	77.9	99.4	63.8	35.4	-5.5	19.7	66.3	65.5	67.2	71.4	:	84.6
Euro area, adjusted [1]	:	70.4	35.8	-19.5	-55.3	-2.1	8.4	42.8	9.6	47.7	:	61.0
Candidate Countries	-24.2	-23.6	-18.2	-24.4	-34.4	-11.7	-17.6	-19.1	-22.9	-22.3	:	-24.0
Acceding Countries	-12.9	-14.3	-16.0	-19.7	-21.2	-13.6	:	-16.3	:	-18.1	:	-18.5
Other Candidate Countries	-11.3	-9.2	-2.2	-4.7	-13.3	1.9	:	-2.8	:	-4.2	:	-5.6
USA	-110.7	-123.1	-199.7	-276.0	-395.7	-376.8	-487.3	-486.9	-577.5	-567.6	:	-657.8
Japan	65.8	97.0	118.6	114.6	119.5	86.6	91.9	119.3	108.1	148.5	:	166.5
Canada	4.7	-6.7	-6.6	3.8	13.1	18.1	17.0	15.3	24.5	16.1	:	20.6
Norway	11.0	10.0	0.1	8.5	25.0	26.0	19.1	25.1	22.3	24.7	:	25.0
Switzerland	22.6	27.0	28.7	31.0	33.6	34.3	33.3	30.0	34.4	31.5	:	34.7
Iceland	-0.1	-0.1	-0.6	-0.6	-0.8	-0.3	-0.4	0.2	-0.2	0.5	:	0.5
Australia	-15.8	-12.4	-18.0	-23.0	-15.4	-9.2	-24.2	-12.5	-23.3	-13.9	:	-11.3
New Zealand	-4.0	-4.4	-2.2	-3.6	-2.7	-1.6	-1.8	-1.5	-1.5	-1.3	:	-1.2
Industrialised countries	25.5	71.2	-34.4	-153.7	-281.8	-233.7	-328.1	-279.6	-396.5	-329.1	:	-376.5
Others	-57.2	-37.2	-12.0	97.0	162.3	95.8	179.2	156.2	205.1	185.6	:	194.0
CIS	6.2	-4.3	-6.1	22.7	48.4	35.8	27.8	27.4	25.8	24.3	:	16.6
OPEC	25.3	18.5	-18.5	27.5	82.5	49.5	78.4	86.0	87.7	92.8	:	96.5
Other emerging markets	-88.6	-51.4	12.5	46.7	31.4	10.5	72.9	42.7	91.6	68.5	:	80.9
Asia	-34.0	25.5	109.8	112.1	95.4	70.0	123.2	83.6	151.2	108.0	:	134.1
Latin America	-47.9	-69.4	-87.1	-59.6	-58.5	-57.5	-51.8	-32.5	-62.6	-32.4	:	-46.1
Africa	-6.7	-7.4	-10.2	-5.8	-5.5	-2.1	1.5	-8.4	3.0	-7.2	:	-7.2
World	-31.7	34.0	-46.4	-56.7	-119.4	-137.9	-148.9	-123.4	-191.4	-143.5	:	-182.6

[1] See note 8 on concepts and sources.

TABLE 61 : Primary commodity prices (in US dollars, percentage change on preceding year, 1996-2004) 4.11.2002

SITC Classification	1996	1997	1998	1999	2000	2001	2002 estimate of IV-2002	2002 estimate of XI-2002	2003 forecast of IV-2002	2003 forecast of XI-2002	2004 forecast of IV-2002	2004 forecast of XI-2002
Food (0 + 1)	7.4	-5.6	-14.5	-15.2	-2.4	1.2	2.1	7.9	3.3	8.2	:	3.5
Basic materials (2 + 4)	-4.8	-2.1	-14.8	-2.1	4.5	-8.1	-1.0	-3.2	5.5	2.2	:	5.1
- of which :												
Agricultures non-food	-1.2	-5.9	-14.3	-3.1	0.4	-6.9	-1.6	-0.9	4.5	4.7	:	5.1
- of which :												
Wood and pulp	-4.6	-6.4	-13.1	8.8	2.7	-9.9	-4.8	-11.9	3.4	-2.0	:	7.0
Minerals and metals	-10.0	3.7	-15.4	-0.8	10.3	-9.7	-0.1	-6.3	6.9	-1.2	:	5.1
Fuel products (3)	17.1	-6.1	-26.7	25.6	47.5	-10.4	-5.3	0.1	1.6	-3.8	:	-5.9
- of which :												
Crude petroleum	21.1	-7.5	-33.4	41.1	59.1	-12.4	-4.7	2.1	1.3	-5.5	:	-6.7
Primary commodities												
- Total excluding fuels	-0.8	-3.4	-14.7	-6.7	2.3	-5.3	0.0	0.3	4.8	4.3	:	4.5
- Total including fuels	6.5	-4.8	-21.0	6.6	26.0	-8.1	-2.2	1.1	3.0	-0.4	:	-1.3
					Crude petroleum - price per barrel (us dollar)							
Brent	20.7	19.1	12.7	17.9	28.5	25.0	23.8	25.5	24.1	24.1	:	22.5

Note on concepts and sources

1. Directorate General "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 European Union as a whole, the euro area and the international environment.

2. Data for 2002, 2003 and 2004 are estimates and projections. The sources for all tables are the Commission services, except where it is stated otherwise. In general, the historical data for the Member States are based on the ESA 95 system. For D, IRL, P and L, data start in the late 1980s or early 1990s. For all other Member States most data have been reported for longer periods in the past. For the USA and Japan the definitions are as in the SNA.

3. Tables 4 and 5 on domestic demand and final demand respectively present data including inventories.

4. In Table 17 national index for USA and Japan, and for EU Member States and aggregates before 1996.

5. The potential output gap is calculated with reference to potential output estimated in a production function where the increase in the capital stock and the difference between actual unemployment and the NAIRU play a key role. The cyclical adjustment of budgetary balances is based on this concept, except for D, E and A. In Table 14 output gaps are calculated according to the alternative method using the Hodrick-Prescott filter, which is used for the cyclical adjustment in the case of D, E and A.

6. Employment data are based on numbers of persons employed.

7. The nominal short term interest rates are defined as the 3-month interbank rates. The nominal long term interest rates are defined as the central government benchmark bond of 10 years from 1995.

8. EU-15 and euro area data are aggregated using exchange rates. World GDP is aggregated at Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is done on the basis of current exchange rates. Tables 48 - 51, 59 and 60 show also EU-15 and euro area "adjusted" balances. Theoretically, balances of EU-15 and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU-15 or euro area aggregate. However, intra-EU-15 or intra euro area balances are, due to reporting errors, non-zero. The creation of the internal market in 1993 reduced border controls and formalities, and thereby 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. The "adjusted" balances are eurostat (for EU-15) and ECB (for euro area) estimates for the past. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2001 (preliminary data).

9. Tables 37, 39 and 42 are based on Excessive Deficit Procedure data for 1998-2001, as reported in the second notification in 2002. (See Eurostat news release Nº 116, September 2002).

10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000, 2001 and 2002. 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.

11. German, EU-15 and euro area figures concern unified Germany from 1991 onwards; for percentage changes from 1992 onwards.

12. Geographical zones are defined as follows :
   Euro area :
   EUR-12 (EU-15 excluding DK, S and the UK)
   Acceding Countries (AC) :
   Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
   Candidate countries :
   AC, Bulgaria, Romania and Turkey.
   Industrialised Countries :
   EU-15, Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.
   OPEC :
   Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.
   Asia :
   all except Indonesia, Iran, Iraq, Japan, Kuwait, Qatar, Saudi Arabia and UAE.
   Latin America :
   all except Venezuela.
   Africa :
   all except Algeria, Libya and Nigeria.

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