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Economic forecasts Spring 2003

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

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EUROPEAN ECONOMY

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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
RUR	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

The euro area and EU economy ended 2002 on a very weak note due to global uncertainties and persistent structural rigidities that reduce the EU capacity to react to shocks. Continued sluggishness is expected to prevail in the first half of this year. Assuming that geo-political tensions abate before the summer, the return of confidence and lower oil prices would trigger a moderate recovery in the second half of 2003. It is unlikely to be a vigorous rebound as the rise in unemployment weighs on consumption, the protracted fall in stock markets affects corporate balance sheets and oil prices continue to put pressure on inflation. Consequently, for a third consecutive year growth is likely to disappoint: the average growth rate is expected to be a meagre 1 % in 2003 in the euro area (1.3 % in the EU). A more solid average growth rate of 2.3-2.4 % is projected in the euro area and EU next year, when employment creation resumes, investment picks up and the international environment is more supportive. However, given the high level of uncertainty, a further delay in the acceleration of growth cannot be excluded.

Geo-political tensions, volatile oil prices and the protracted fall in stock markets cloud the short-term outlook

At the present juncture uncertainty is particularly high and the outlook depends more than ever on the views one takes on exogenous factors. Underlying the Commission projections is the assumption that the geo-political tensions related to the war in Iraq will have ended by mid-year leading to an improvement in confidence and a normalisation of international relations.

The oil price assumptions suggest a gradual decline from USD 31 (brent crude) in the first quarter of this year towards USD 25.5 per barrel in the last quarter of this year resulting in an average oil price of USD 27.5 in 2003. A further easing to USD 23.5 is assumed for next year.

With equity prices falling about 60 % from the peak levels in Spring 2000, the speed and size of the stock market correction are comparable to the 1929 crash. While the reduction in household wealth and the pressure on balance sheets of financial institutions and firms will put a lid on economic expansion, continued low growth is projected in the baseline scenario.

Moderate and unbalanced global recovery

The international tensions are reflected in another year of weak world trade growth at 2.6 % in 2002 after a contraction of 0.5 % in 2001, a trough not seen since 1982-83. Although accelerating to 5.4 %, also this year foreign trade is unlikely to be a motor of the global recovery. World GDP growth has been revised down to 3.2 % in 2003, hardly an acceleration from last year, but in 2004 world GDP should increase by a more robust 3.7 %. The recovery is unbalanced as reflected in the widening current account and government deficits.

In the US, helped by monetary and fiscal policy stimulus and solid underlying productivity growth, the modest recovery is expected to continue with growth at about 2.5 % in 2003 and 2004. GDP growth remains below potential as household balance sheet adjustments, together with remaining under-utilisation of capacity and the drag from the external balance contain the strength of the recovery. The budget deficit widens to 4.8 % of GDP in 2003 and the current account deficit to 6.1 % in 2004.

The economic outlook for Japan remains bleak and the government deficit could widen to 7 % of GDP, but in the rest of Asia growth continues to be buoyant, despite weak export markets outside the region. After a stagnation in 2002, Latin America is expected to recover moderately, benefiting from the currency depreciation, a pick-up in the world economy and the gradual resolution of the financial crises which hit several countries in the region. Growth is expected to remain robust in Canada and Australia. Also in the countries preparing for accession on 1 May 2004, continued strong growth is forecast supported by domestic demand and structural change, notwithstanding the weakness in the EU.

The euro area and EU recovery lost momentum in the second half of 2002

The euro area economy grew by a meagre 0.9 % in 2002 (1.1 % for the EU) and momentum faded in the second half of that year. Euro area GDP expanded by 0.2 % in the last quarter of 2002 compared to 0.4 % in the previous quarter.

While the driving forces of the recovery shifted promisingly to domestic demand, private consumption failed to strengthen and remained at 0.7 % in 2002 in the euro area (1.4 % in the EU). Higher than expected inflation eroded purchasing power, poor job creation dampened real disposable income growth and the continued decline in equity prices reduced household wealth. This is, however, not enough to explain sluggish consumer spending. An important factor is uncertainty which reduces confidence and pushes up the savings rate. There are the geo-political tensions linked to Iraq and the uncertainties related to future labour and pension income. Recently, in particular the latter has become a source of concern because of the diminished equity value of pension funds and the deterioration of public finances in some Member States.

Investment barely turned the corner, after one year and a half of continuous decline. There was just a stabilisation in the last quarter of 2002 partially linked to a better control of unit labour costs and for the year as a whole investment contracted by 2.3 % in the euro area (-2.4 % in the EU).

Prospects remain bleak in the very short run, but a recession is likely to be avoided

Consumer confidence continued to decline in the beginning of this year and is now at levels observed in September 1992, when the EU entered a recession. However, consumers may overreact to the military conflict in the Middle East. In addition, business confidence is still above recession levels, while industrial production and retail trade, though remaining weak, recovered somewhat from the dramatic fall at the end of last year. Taken together, these indicators suggest continued slow growth in the first half of this year, but a recession in the EU as a whole is unlikely. Only in Germany is GDP forecast to shrink in the second quarter.

It is assumed that geo-political tensions abate in the second half of this year, setting the stage for a rebound in economic activity. Nevertheless, the average growth in the euro area remains limited to 1 % in 2003 and 2.3 % in 2004 (1.3 % and 2.4 % in the EU, respectively).

After last year's decline, investment is forecast to expand by a mere 0.3 % in 2003 in the euro area as demand prospects are weak and balance sheet concerns in the corporate sector remain. On the other hand, some replacement of production capacity is necessary because of depreciation. Furthermore, financial conditions have improved (lower bank lending rates and corporate bond spreads) and also profitability, but this is partly achieved through an intensified labour market adjustment. Consumer spending is expected to increase by 1.2 % on average in the euro area this year as there may be some pent-up demand after several quarters of subdued consumption which could be freed if confidence returns. On the other hand, the rise in unemployment is likely to be a constraining factor on household consumption. World trade is expected to pick up, but euro area exporters are likely to lose some market share due to the appreciation of the euro. However, the strengthening of the euro reduces inflation in the euro area, thus raising real disposable income.

Table 0.1

Main features of the Spring 2003 forecast [1] - euro area

(Real annual percentage change unless otherwise stated)				Spring 2003			Difference with Autumn 2002 (a)	
	1999	2000	2001	2002	2003	2004	2003	2004
GDP growth	2.8	3.5	1.5	0.9	1.0	2.3	-0.8	-0.3
Investment in equipment	8.3	9.1	-0.9	-4.3	0.7	4.9	-1.9	-1.2
Employment	1.8	2.1	1.4	0.3	-0.1	0.6	-0.5	-0.4
Unemployment rate (b)	9.4	8.5	8.0	8.3	8.8	8.8	0.5	0.8
Inflation (c)	1.1	2.1	2.4	2.2	2.1	1.7	0.1	-0.1
Government balance (% GDP) (d)	-1.3	0.1	-1.6	-2.2	-2.5	-2.4	-0.4	-0.6
Government debt (% GDP)	72.7	70.2	69.2	69.2	69.9	69.6	0.8	1.4
Current account balance (% GDP)	0.6	-0.1	0.3	0.9	1.0	1.0	0.0	-0.1
p.m. GDP growth EU-15	2.8	3.5	1.6	1.1	1.3	2.4	-0.7	-0.2

[1] The Commission services' Spring 2003 Forecasts are based on available data up to March 28, 2003.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 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 Spring 2003 forecasts : 1.1%, 0% and 0% , respectively.

The labour market adjustment is starting to bite

In the initial phase of the slow growth period employment held up quite well and the rise in the unemployment rate remained limited. This was the result of the large share of employment in the more stable service sector, the possibility of reducing working hours rather than jobs thanks to less rigid contracts and some labour hoarding as the downturn was expected to be mild. However, now the resilience of the labour market appears to weaken. In 2003 some 100,000 jobs (in net terms) are expected to be lost in the euro area (the first decline since 1994) and the unemployment rate is forecast to increase to 8.8 % (8 % in the EU). Given the sluggish recovery, only modest job creation is foreseen next year which remains outpaced by the increase of the labour force, so that unemployment continues to rise. The number of unemployed people would increase by 1.4 million in the euro area in 2002-2004.

Resilient headline inflation

Despite the economic slowdown, inflation is in general slow to decline in 2003 and is expected to remain at 2.1 % on average in the euro area compared to 2.2 % last year, only falling below 2 % next year. High oil prices and rises in indirect taxes have kept inflation from decreasing more, and it takes time for the strengthened euro and the improved outlook for unit labour costs to exert their downward pressure on prices. In some countries, inflation continues to remain very low due to the sharpness of the slowdown, leading to wide inflation differentials in the euro area.

Further deterioration of the general government deficit, but considerable differences at the Member State level

The general government deficit at the euro area level widened significantly to 2.2 % of GDP in 2002 (1.9 % in the EU). Compared to the Commission Autumn Forecast, the French deficit has been revised up to 3.1 % of GDP, while the Portuguese deficit has been revised down below the 3 % threshold; the German deficit was revised down to 3.6 % of GDP. Better outcomes than expected were noted in Ireland (equilibrium), Austria (smaller deficit) and Finland (larger surplus). The United Kingdom and the Netherlands had worse results.

At the euro area level the deterioration of the general government balance remains contained to 2.5 % of GDP in 2003 (2.3 % in the EU) despite ongoing economic weakness, because some countries plan to limit the effect of the automatic stabilisers on the actual deficit. This is the case of Germany, Ireland and the Netherlands, which all three reduce their cyclically adjusted deficit by at least 0.5 % of GDP; in Italy the effort is smaller. Germany remains, however, in excessive deficit. Conversely, the cyclically adjusted deficit in the UK moves sharply further away from equilibrium. In France and Portugal, the cyclically adjusted deficits remain high and the actual deficits are above the 3 % ceiling, although in the case of Portugal, the authorities are considering measures to avoid such an outcome. Also in Greece, the cyclically adjusted deficit is wide.

The budgetary forecasts for 2004 are made as usual on the basis of unchanged policies and three countries (France, Italy, Portugal) would have a deficit above 3 %, while three other (Germany, Netherlands, United Kingdom) are in the danger zone.

A worse outcome is possible

There is considerable uncertainty around the Commission projection and a worse outcome cannot be excluded as the war against Iraq may last longer than earlier anticipated. Furthermore, conditions are fragile, both globally and in the EU, making economies more sensitive to shocks. In this respect, three issues are of particular concern: (i) weak confidence; (ii) growing budgetary and current account imbalances; (iii) the protracted fall in stock markets impacting negatively on household and corporate balance sheets.

A worst case scenario would include a protracted military conflict, high oil prices, a fall in international travel, a decline in foreign direct investment and world trade and a deterioration of confidence affecting consumption and investment. In such a case, the euro area and EU may face stagnation this year and the return to potential growth would be delayed to later in 2004.

Chapter 1

World economy

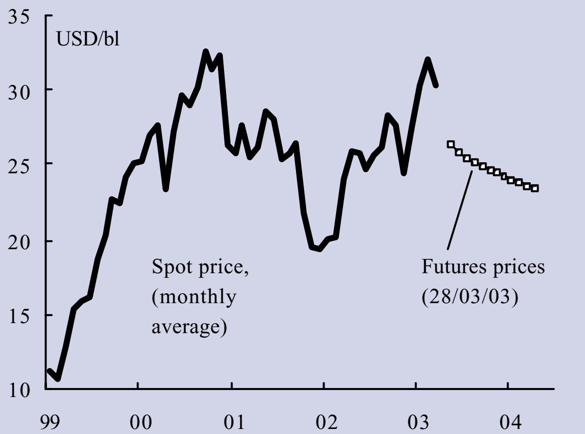
1. Hesitant and unbalanced global recovery

World GDP growth would be 3.2% in 2003, hardly an acceleration after 2.9% in 2002, and far below the 4.1% average over the period 1990-2000. The world economy has found several roadblocks on its way to acceleration. A lack of confidence among economic agents, mainly induced by geopolitical tensions, high oil prices, weak equity markets and concerns about (the impact of) weak growth, has hampered the global recovery.

Geopolitical tensions lead to higher oil prices

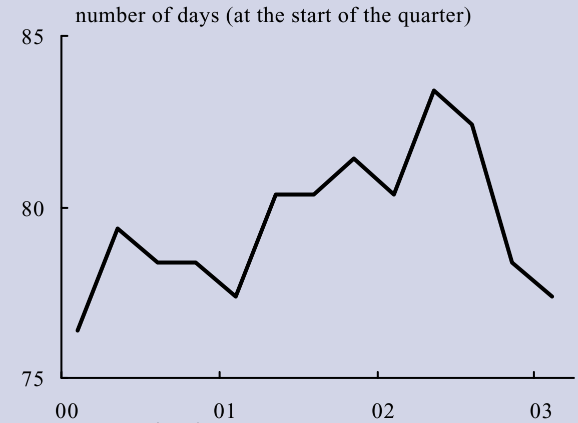
Geopolitical tensions are not confined to the stand-off between the US and Iraq. The Iraq issue has put strains on the transatlantic relationship and prospects for the post-war situation in Iraq remain uncertain. Moreover, the Israel-Palestine conflict, the possibility of new terrorist attacks and the nuclear threat from North Korea add to global worries. The tensions put additional downward pressure on equity markets, that have continued to decline so far in 2003.

Graph 1.1 : **Brent oil price**



A number of factors have contributed to a relatively tight oil market and upward pressure on prices. On the supply side, Venezuelan and Nigerian production and exports have been disrupted, and the probability of a war in Iraq has raised concerns about supply disruptions from the Gulf region. On the demand side, an exceptionally cold winter in the Northern hemisphere has increased demand for heating oil, problems with Japan's nuclear energy production have resulted in some switching to petroleum based energy, and demand from China continues to rise due to its strong economic growth. Amidst the tight oil supply and demand dynamics, and the threat of war, are indications of relatively low industrial stock levels, particularly in the US, and limited spare production capacity.

Graph 1.2 : **Total OECD oil stocks**



Source: International Energy Agency

The forecast of oil prices trends downward from the second quarter. By the end of 2003, prices are expected to be approaching the middle of the OPEC price band (around $25), and by the end of 2004 to be around $22 per barrel (see also Box 2.1).

Economic behaviour is affected by weak growth

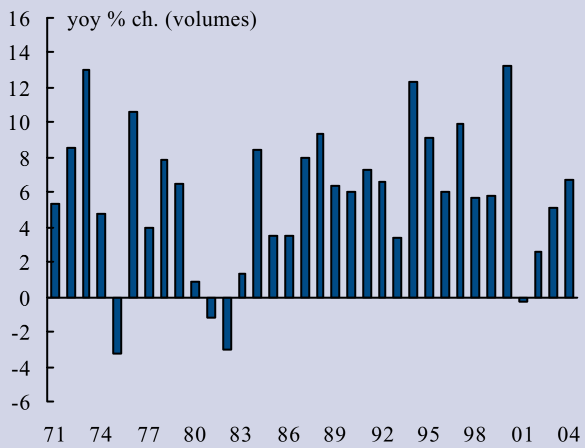
Things will get worse before they get better, as the awareness about the impact of weak growth is affecting the behaviour of economic agents, whose responsiveness is amplified by balance sheet concerns, following three years of declining equity markets.

Consumer spending is harmed (inter alia) by households' concerns about unemployment and about the evolution of real income.

Firms slash costs and postpone investment because of the uncertain outlook, weak equity markets, and profit margins being squeezed by high energy prices. Moreover, a large share of the existing production capacity is still idle and will first be used to meet additional demand, before capacity is extended.

The sluggishness of global demand is reflected in the evolution of world trade. After healthy increases during the first three quarters of 2002, world trade volume shrank by 1.8% q-o-q in 2002Q4, according to preliminary estimates. 2002 was a second consecutive year with world trade volume growth below 3%, a trough not seen since 1982-1983.

Graph 1.3: **World trade in goods**



Hesitant recovery, but no recession

High energy prices and unsatisfactory demand developments encourage firms to cut costs. Part of the adjustment burden has fallen on labour. As a result, the unemployment rate in the OECD rose from 6.2% in March 2001 to 7.1% in December 2002, the highest level since March 1997.

While it is expected that global growth in the first half of 2003 will be slower than in 2002, an escalation of a vicious circle of increasing unemployment, less confidence and weak demand is not assumed.

Confidence is expected to return when geopolitical tensions abate, which would lead to a substantial decline in energy prices. A combination of some pent-up demand, low energy prices and the available policy stimulus will then lead to a recovery in global demand, from the second half of 2003. The global demand recovery will be reflected in a recovery of world trade, with growth around 5% in 2003 and about 6½% in 2004.

Canada remains the G-7 frontrunner

In the *US*, the hesitant recovery is expected to continue in 2003 and 2004, helped by stimulus from monetary and fiscal policies and solid underlying productivity growth. The strength of the recovery is likely to be contained by household balance sheet adjustments, remaining under-utilisation of productive capacity, and a continued drag from the foreign trade side. In 2003, the budget deficit widens to almost 5% of GDP as a result of below-potential growth and the impact of tax cuts and the military conflict in Iraq.

The economic outlook of *Japan* remains bleak, but an imminent recession seems less likely. Inventories have come down to very low levels and although domestic demand continues to be hampered by structural weaknesses, export growth to the rest of Asia is projected to remain strong. Growth in 2003 benefits from a large overhang from 2002 (1.1%), while growth in 2004 is supported by the improved global environment.

Healthy fundamentals, notwithstanding the emergence of some inflationary pressure, suggest that the *Canadian* economy can maintain considerable momentum over the forecast period. The forecast for US import growth allows external trade to contribute positively to Canadian GDP growth in the forecast period.

Imbalances carry risks

Notwithstanding a 24% dollar depreciation against the euro since February 2002, the US current account deficit is forecast to widen further, to 6.1% of GDP in 2004. The deterioration in 2002 is partly due to the J-curve effect, whereby price effects of the depreciation precede the volume effects.

The forecasting assumption of relative stability of the dollar in 2003 and 2004 and demand growth differentials help explain why the forecast deficit continues to widen.

The current account deficit reflects the US savings-investment imbalance for which no improvement is

Table 1.1

International environment

(Real annual percentage change)					Spring 2003			Difference with Autumn 2002	
		1999	2000	2001	2002	2003	2004	2003	2004
					Real GDP growth				
USA		4.1	3.8	0.3	2.4	2.4	2.5	0.1	-0.3
Asia		5.2	5.8	3.9	4.7	5.0	5.2	-0.2	-0.2
of which	Japan	0.1	2.8	0.4	0.3	1.5	1.3	0.3	-0.1
	China	7.1	8.0	7.3	7.9	7.2	7.1	-0.3	-0.4
	ASEAN4 + Korea (a)	4.7	6.4	2.7	4.5	4.8	5.2	-0.7	-0.6
AC (b)		3.0	9.6	2.3	2.4	3.1	4.0	-0.7	-0.3
FSU		4.4	7.9	6.2	4.9	3.9	3.4	-0.6	-0.9
of which	Russia	5.4	8.3	5.0	4.3	3.4	2.6	-0.9	-1.4
OPEC-Indonesia		0.7	4.4	3.0	0.3	0.8	3.9	-3.8	1.0
Latin America		0.5	4.0	1.9	0.1	2.4	4.1	0.1	-0.2
Africa		3.2	4.0	1.9	2.7	3.3	4.3	-0.5	0.6
World		3.6	4.8	2.3	2.9	3.2	3.7	-0.4	-0.3
World excl. euro area		3.8	5.0	2.4	3.2	3.5	4.0	-0.3	-0.2
					World trade				
World import growth		7.1	12.8	-0.5	2.6	5.4	6.6	-0.8	-0.5
World import growth excl. euro area		7.0	13.3	-1.0	3.8	6.2	6.9	-0.3	-0.2
Extra euro area export market growth		11.4	11.7	0.5	4.7	5.6	6.8	-0.7	0.2

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

foreseen. The households saving rate will remain far below its long-term average and fiscal policy is exacerbating the imbalance. The US budget deficit would be 4.8% of GDP in 2003 and 4.6% in 2004.

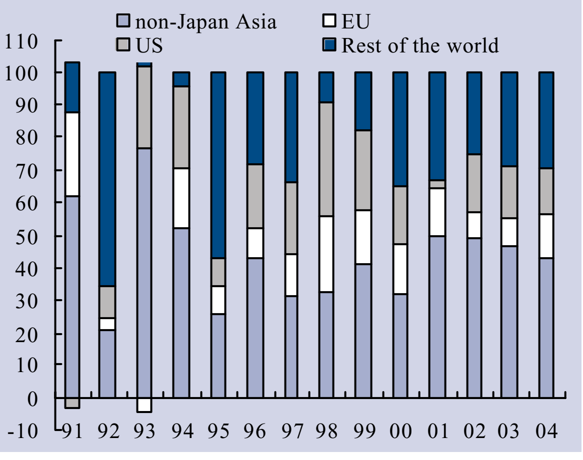
Fragile Latin America, solid non-Japan Asia

After stagnation in 2002, mainly due to the crises in Argentina, Uruguay and Venezuela, Latin America's GDP is expected to recover moderately in 2003, benefiting from the depreciation of many Latin American currencies. Persistent structural and political problems will continue to act as a drag on growth, with GDP expected to decline again sharply in Uruguay and Venezuela. Nevertheless, growth is projected to accelerate to about 4% in 2004, reflecting the expected recovery in the world economy and the gradual resolution of the financial crises in some countries.

Growth in most of non-Japan Asia continues to be buoyant, despite slow growth in the export markets outside the region. The main risks for the growth prospects of the region are a weaker than forecast recovery in the global electronics industry and a prolonged period of high oil prices.

Non-Japan Asia is estimated to have contributed just below half of world GDP growth in 2001 and 2002 and would continue to contribute strongly in 2003 and 2004 (between 40% and 50%). During the last ten years, its contribution always exceeded its share in world GDP, even during the Asian crisis. Possible statistical problems linked to the reliability of Chinese economic data and to PPS-based aggregation may have overstated Asia's contribution.

Graph 1.4 **contributions to world growth (%)**



2. Ten countries on the eve of accession

Withstanding rather well the slowdown in the EU

The forecast for the Acceding Countries (AC-10) remains relatively close to the Autumn 2002 forecast. In some countries, recovery has been slightly faster than foreseen, whereas in others growth has been adversely affected by exceptional domestic circumstances, such as the floods in the *Czech Republic*. GDP growth for the AC-10 in 2003 is expected to be 3.2% and 4.1% in 2004.

For all Acceding Countries, with the notable exception of *Poland*, domestic demand is continuing to support economic growth. Export growth has slowed down, but less than might be expected on the basis of the size of the economic slowdown in the EU, the Acceding Countries' main trading partner. This is most probably due to the improving competitiveness of the export sector, which now benefits from past reforms and is supported by significant and continuing foreign direct investment inflows. Also, exports to some third markets, such as Russia and the countries of former Yugoslavia, have been growing fast, be it from lower starting levels.

The detailed forecast on Acceding Countries can be found in "European Economy – Enlargement Papers". In preparation for accession in May 2004, the detailed forecasts on present Member States, on the one hand, and on Acceding Countries, on the other, will be merged from Autumn 2003 onwards.

Steady progress in trade and financial links

The Acceding Countries become more and more integrated with the EU economy. This can especially be observed in closer trade and financial links. Because of sheer differences in size, the EU is more important for the Acceding Countries than the other way around. GDP in AC-10 represents 8.8% of EU GDP and population represents 19.8%. Nevertheless, trade in goods with the Acceding Countries is already half as important as trade with the US. A recent study of the Commission estimates that enlargement could increase the growth of GDP of the Acceding Countries by between 1.3 and 2.1 percentage points annually, and for the existing members it could increase the level of GDP by 0.7 percentage point on a cumulative basis over the 2000-2009 decade (Enlargement Paper nr. 4, June 2001, European Commission).

Table 1.2

Importance of trade and finance of AC for the EU

(share of extra-EU, percentage)

2002	**MG**	**XG**	**MS°**	**XS°**	**loans**
Cyprus	0.1	0.3	na	na	0.1
Czech Rep.	2.8	2.9	1.0	0.9	1.1
Estonia	0.3	0.4	0.2	0.1	0.2
Hungary	2.6	2.5	1.0	0.9	0.8
Latvia	0.2	0.3	0.1	0.1	0.1
Lithuania	0.3	0.4	0.1	0.1	0.1
Malta	0.1	0.3	na	na	0.2
Poland	2.9	3.8	1.5	1.3	1.7
Slovak Rep.	1.0	0.9	0.4	0.4	0.3
Slovenia	0.7	0.9	0.3	0.3	0.2
AC-10	10.9	12.6	4.7	4.1	4.8
1997	**MG**	**XG**	**MS**	**XS**	**loans***
Cyprus	0.1	0.3	na	na	0.2
Czech Rep.	1.7	2.2	0.9	0.8	0.7
Estonia	0.2	0.3	na	na	0.1
Hungary	1.7	1.9	0.9	0.8	0.7
Latvia	0.2	0.2	na	na	0.0
Lithuania	0.2	0.3	na	na	0.0
Malta	0.1	0.3	na	na	0.2
Poland	2.1	3.5	1.2	1.2	0.8
Slovak Rep.	0.6	0.7	na	na	0.2
Slovenia	0.7	0.9	na	na	0.1
AC-10	7.7	10.5	na	na	3.0

M(X)G(S): imports (exports) of goods (services) of the EU
°MS and XS: 2001; *bank loans: end-1999

Sources: Eurostat and BIS

The importance of Acceding Countries for the EU is relatively high – and increasing – for *trade in goods*. The share of *trade in services* with and of *bank loans* to the Acceding Countries is still less than 5% of extra-EU trade or loans. However, the share of bank loans going to the Acceding Countries has made impressive progress, specifically loans to Poland that almost tripled in less than three years.

Trade in goods between the Acceding Countries and the EU has increased faster than other extra-EU trade in goods over the period 1997-2002. The shares in extra-EU exports and imports both increased by more than 2 percentage points and are now above 10%. The share of the Acceding Countries in extra-EU *trade in services*, on the contrary, has probably made only marginal progress, judged by the results for the three biggest Acceding Countries (Czech Republic, Hungary and Poland, that together account for over three-quarters of AC-10 GDP).

The EU had a merchandise trade surplus of €17.7bn with the Acceding Countries in 2002, down from €24.3bn in 1997. An increase in the chemicals surplus was not able to match a €8.6bn decline in the surplus in machines and transport equipment, as imports of this category almost tripled.

In 2001, the EU had a services deficit of €1.5bn with the Acceding Countries, as a €1.3bn surplus in business and other services (mainly in insurance, financial and computer services) was countered by a €1.9bn deficit in travel and a €0.9bn deficit in transport.

The EU is the single most important trading and banking partner for Acceding Countries

This follows from the increasing integration, the proximity and the sheer size of the EU economy. However, some important country-specific differences remain.

Two-thirds of all Acceding Countries' *exports of goods* go to the EU now. The progress of trade integration between 1997 and 2002 was uneven, as the level of the shares of the EU export market converged: the countries with the lowest integration with the EU were catching-up, except for Malta. A similar catching-up was observed in the EU share of *imports of goods*, with the exception of Latvia.

The average EU share in *trade in services* is much lower than in goods, at 41.3%. The importance of the EU as export market is rather low for the Baltic states and the Slovak Republic, while it is high for Slovenia.

The high level of the EU share in *bank loans* has to be qualified, as the "BIS consolidated international banking statistics" include only a limited number of non-EU providers of bank loans. Moreover, no acceding country is included as provider of bank loans. This could lead to an overestimation of the importance of the EU as a provider of bank loans.

Table 1.3

Importance of trade and finance of the EU for AC

(share of the EU, percentage)

2002	MG	XG	MS°	XS°	loans
Cyprus	54.8	50.0	na	na	88.5
Czech Rep.	72.1	68.9	45.4	41.3	94.6
Estonia	55.4	61.6	29.4	35.4	98.8
Hungary	58.1	75.2	43.7	36.4	90.2
Latvia	52.6	62.7	41.1	21.6	99.3
Lithuania	51.8	46.6	42.8	21.4	94.6
Malta	59.4	44.2	na	na	94.7
Poland	67.9	67.4	41.0	43.6	87.8
Slovak Rep.	52.5	58.5	39.0	28.0	91.7
Slovenia	72.1	62.5	76.7	52.4	97.6
AC-10	63.8	66.9	43.9	38.7	91.3
1997	**MG**	**XG**	**MS**	**XS**	**loans***
Cyprus	48.2	27.3	na	na	93.0
Czech Rep.	52.3	60.3	40.6	32.5	90.4
Estonia	59.4	48.6	na	na	97.7
Hungary	62.8	71.3	61.1	42.5	89.4
Latvia	53.3	48.9	na	na	93.6
Lithuania	44.5	32.5	na	na	75.6
Malta	72.0	54.3	na	na	97.7
Poland	64.4	64.6	56.9	35.7	84.5
Slovak Rep.	44.1	47.1	na	na	80.0
Slovenia	67.7	63.6	na	na	95.4
AC-10	58.2	60.4	na	na	88.8

M(X)G(S): imports (exports) of goods (services) of the AC

°MS and XS: 2001; *bank loans: end-1999

Sources: IMF, Eurostat and BIS

Chapter 2

The economy of the euro area

1. The recovery has lost momentum since the end of 2002

Subdued growth at the end of 2002

The euro area escaped recession in 2001 with a single quarter of slight contraction in GDP. However, the recovery in 2002 failed to gain momentum and growth in the last quarter of 2002 decelerated to 0.2% quarter on quarter (qoq). Previous upturns in the nineties benefited from foreign demand as a driving force in the early stage of the recovery, but this was not the case in 2002. Consumption was somewhat resilient, but the euro area average conceals discrepant situations across countries. Investment was a drag on growth.

Table 2.1

Composition of growth in 2002 - Euro area

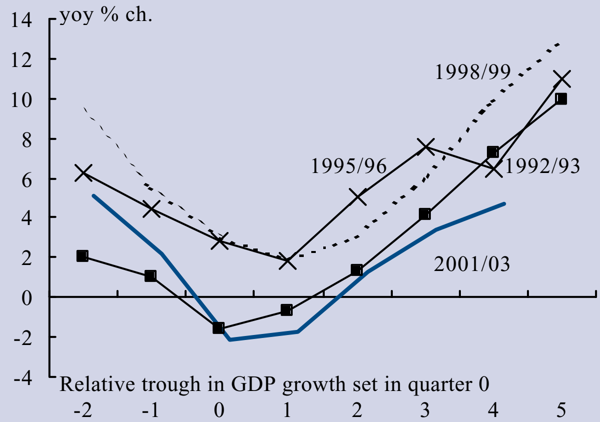
(Seasonally and working day adjusted)	Quarterly % change			
	02Q1	02Q2	02Q3	02Q4
GDP	0.4	0.3	0.4	0.2
Private consumption	-0.2	0.4	0.4	0.4
Government consumption	0.7	0.9	0.3	0.5
Gross fixed capital formation	-0.2	-1.3	-0.2	-0.1
Changes in inventories (% of GDP)	-0.4	-0.3	-0.3	-0.2
Export of goods and services	0.2	1.7	2.1	0.0
Import of goods and services	-1.0	1.5	1.8	0.6
	% contribution			
	02Q1	02Q2	02Q3	02Q4
GDP	0.4	0.3	0.4	0.2
Private consumption	-0.1	0.2	0.2	0.2
Government consumption	0.1	0.2	0.1	0.1
Gross fixed capital formation	0.0	-0.3	0.0	0.0
Changes in inventories	0.0	0.1	0.0	0.1
Net exports	0.4	0.1	0.2	-0.2

Exports: a missing driving force

With an average growth rate of 1.2% in 2002, exports were one of the missing channels of the recovery. In spite of a promising turning point in early 2002, export growth remained moderate in most of 2002 and was flat in the fourth quarter, due to the stagnation of world trade and the appreciation of the euro vs. the US dollar.

In previous upturns of the nineties (1993, 1996 and 1998), foreign demand was an important driving force: rising exports contributed effectively to trigger a reversal in demand and profit expectations.

Graph 2.1: **Exports growth in the euro area across cycles**

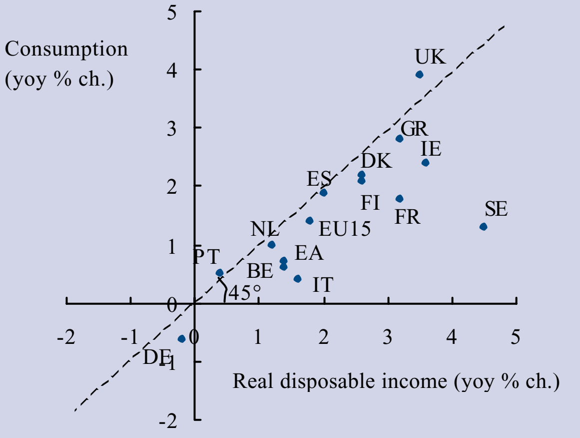


The positive contribution of net exports to growth in 2002 (0.6% points) reflects more the pronounced sluggishness of domestic demand compared to foreign demand than the dynamism of exports. Imports which tend to move alongside with consumption since the 90s, decreased by 0.3% on a yearly basis in 2002.

Weak private consumption

After a slight decline in the first quarter of 2002, private consumption picked up to 0.4% qoq in the three next quarters, and the average growth rate for 2002 was 0.6% in the euro area. Overall, consumption growth was constrained by adverse developments in real disposable income, lower increases in wages, higher unemployment and the erosion of purchasing power due to stubborn inflation.

Graph 2.2: **Household consumption and real disposable income in the EU in 2002**



Furthermore, consumption growth was generally lower than real income growth (see graph), but there are differences across countries. A first reason might be that households perceived the increase in real income as temporary. For example, in Sweden the very strong rise in real income mainly due to income tax cuts and substantially lower taxes paid on capital gains is likely to have been perceived as exceptional.

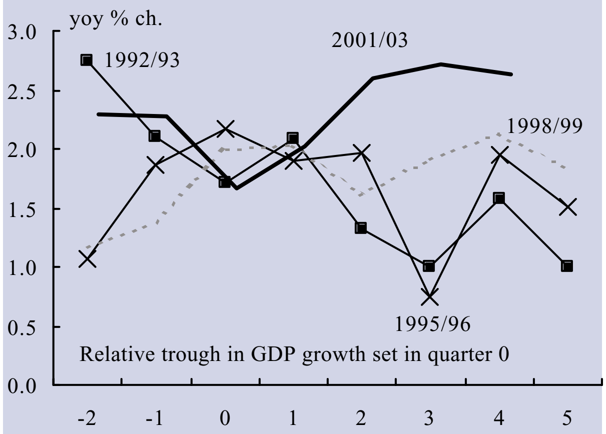
A second reason could be that households adapted spending to changes in their wealth. Two different wealth effects overlapped in 2002. The increase in housing wealth due to rising house prices and amplified by declining real interest rates in such countries as the UK, the Netherlands or Spain might have offset the drop in equities wealth. Households could reduce debt servicing and increase disposable funds. Or they could increase indebtedness for the same installments with the rise in the value of their mortgage collateral. Conversely, the decline in household wealth might have weighed on consumption in other countries (for example in Germany where real estate prices have been stable since the nineties).

Thirdly, confidence effects have interfered in consumption plans in some countries such as France or Italy. Fears about unemployment in the future, and about pension reforms have also weighed on consumption, and more generally explain the gradual rise in the saving rate since the downturn

Thriving government consumption

By contrast to other components of GDP, government consumption generally displays a smooth profile over the cycle because of the relative inertia of public spending related to its operating costs, and tends to be counter-cyclical. Government consumption growth was slightly lower at the 2001 trough than what was observed at previous troughs in the nineties. However, since the second quarter of 2002 it has been growing significantly faster (about 2.6% yoy) than at any period of the nineties. This suggests that the recent budget stance was slightly more counter-cyclical than previously experienced, which can be linked to the efforts to comply with the Maastricht criteria in the nineties.

Graph 2.3: **Government consumption across cycles**



Contracting inventories

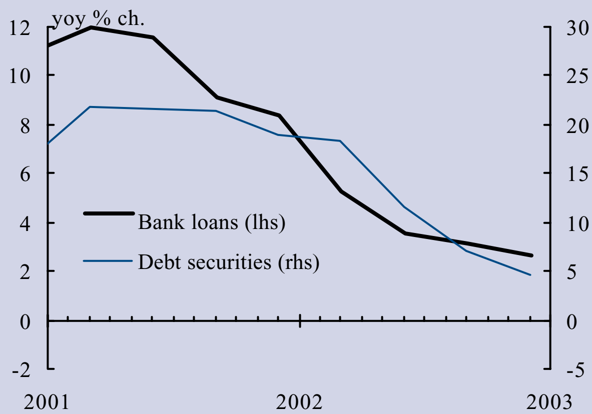
Inventories have been depleted for seven quarters in a row at the end of 2002. It was a major negative force in the downturn. The smaller depletion of inventories in the second half of 2002 could be partially attributed to the pick-up of private consumption. However, against the background of low household spending and weak demand prospects of firms, it may not necessarily signal the end of the contraction in inventories.

Protracted slump in investment

After six quarters in a row of decline, some capital replacement and special factors (the Tremonti law in Italy, reconstruction after the flood in Germany) allowed a stabilisation of investment in the second half of 2002. Nevertheless, capital spending in the euro area was reduced by -2.5% on average in 2002 compared to a slight contraction by -0.3% in 2001.

Sluggish demand, low labour productivity, a rise in input prices (mainly oil) and sluggish producers' prices have put considerable strain on profit margins and investment. But, anecdotal evidence suggests that corporate adjustment has deepened in the second half of 2002 with a reduction in labour hoarding and the cleaning-up of balance sheets.

Graph 2.4: **Corporate indebtedness in the euro area**



Source: ECB

Bank credit sharply decelerated in 2002 in the euro area, with an even more marked slowdown in France or Germany. This trend might reflect either de-leveraging by firms on the demand side or a bank credit crunch on the supply side. Also, the growth rate in the outstanding level of corporate securities (other than shares) dropped considerably in the second half of 2002. The increase in corporate spreads cannot account for this marked slowdown in net corporate debt issuance as bond spreads did not rise above 2001 peaks. However, it should be noted that the shift of corporate bond issuance to special purpose vehicles issuance and anecdotal evidence of companies downgrading by rating agencies might partially explain this trend.

Table 2.2.
Sectoral breakdown of growth in 2002 - Euro area

	Quarterly % change			
(Season. & working day adj.)	02Q1	02Q2	02Q3	02Q4
GDP	0.4	0.3	0.4	0.2
Agriculture	-0.1	-0.3	0.8	-1.1
Industry	0.9	0.6	0.6	-0.4
Construction	-0.7	-1.0	-0.1	-0.2
Wholesale and retail trade	0.4	0.5	0.5	0.5
Financial intermediation	0.2	0.5	0.2	0.3
Public administration and defence	0.6	0.4	0.4	0.7

Renewed weakness in the industrial sector at the end of last year

According to quarterly national accounts, the economic slowdown was more severe in the industrial and agricultural sectors. Output declined notably for mining and manufacturing, especially for durable consumer goods. After a severe contraction that started in the third quarter 2001, the construction sector stabilised somewhat in the second half of 2002. The retail and financial sectors (especially retail banking) were more resilient thanks to private consumption.

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 first quarter of 2003, with historical values up to 28 February and the average of the two weeks period between 17 and 28 February used for the remainder of the quarter. The average USD/EUR rate for that period was 1.07 and the JPY/EUR rate 127.3. This leads to average USD/EUR rates of 1.07 in both 2003 and 2004 and JPY/EUR rates of 126.1 and 124.2 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. In the case of oil prices special attention is also paid to futures prices. Prices for Brent oil are, thus, forecast at 27.6 USD/bl in 2003 and 23.5 USD/bl in 2004.

Prices of primary commodities, excluding fuels, are assumed to increase by a massive 10.3 % in 2003 and to rise by a further 2.5% in 2004. The strongest price increases are forecast for the group of agricultural non-food products. Food and metals are also expected to firm during the forecast horizon but at a slightly slower pace.

Budgetary data

Estimates for 2002 are based on the Excessive Deficit Procedure notification, submitted by the Member States in March 2003. According to Eurostat's report on 17 March (press release 30/2003), the French government deficit series from 1999 to 2002 has been revised upwards (by Eurostat) to include the capital injection by the French state to Réseau ferré de France (RFF). This is the result of recent Eurostat decisions on similar transactions in other Member States, according to which the capital injection is considered as government expenditure in line with ESA 95 rules. As a consequence, the government deficit for 2002 has been revised from 3.0 % of GDP (as notified by the French authorities) to 3.1 % of GDP.

The Portuguese government deficit for 2002 has been revised upwards from 2.6 % to 2.7 % of GDP by Eurostat to exclude revenue received by the Portuguese government at the occasion of the liquidation of the EFTA industrial development fund for Portugal, which had been set up in 1976. According to Eurostat, the ESA 95 rules imply that this kind of liquidation proceeds has no impact on the deficit.

The UK government balance has also been slightly adjusted by 0.1% of GDP to be in line with the Eurostat decision on the UMTS proceeds. In the case of the UK, such proceeds must be recorded in 2000, and cannot be distributed over the years.

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 and trends are extrapolated. The updated Stability and Convergence Programmes which were submitted at the end of 2002 contain data on both GDP and public finance balances which consist in many cases of targets. This means that this data could not be taken at face value in the Spring 2003 forecasts.

The government balances reported in the EDP notification may be different from those published in national accounts, following an amendment to ESA95. According to Regulation (EC) N° 2558/2001 on the reclassification of settlements under swaps agreements and forward rate agreements, interest flows under swaps have been reclassified from income property to the financial account, while stating the need for a specific treatment of these flows for data transmitted under the Excessive Deficit Procedure. In the forecasts it is the EDP definition of general government balances which is presented. Therefore, the calculation of general government expenditure does include swap-related settlements.

Calendar effects on GDP growth and output gaps

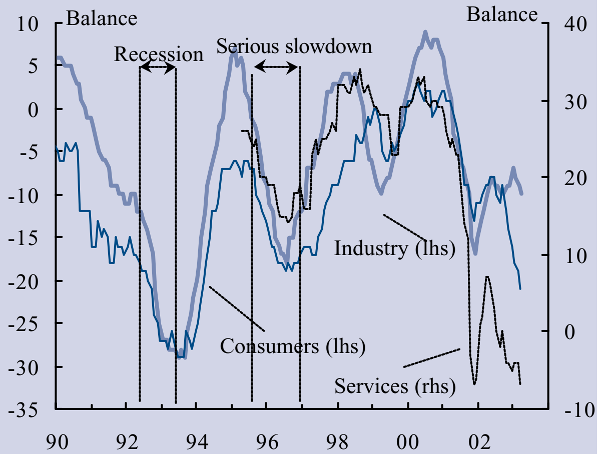
Year 2004 is a leap year. The mere addition of one extra working day implies that the annual output increases, other things being equal. In some countries the addition of this extra working day is compensated by public holidays which fall next year during week ends. In Germany, the impact of extra working days is probably the highest, as it is estimated to amount to about 0.6 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. This implies that the simple addition of the four quarters of a single year may not add up exactly 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 negative output gap is to a certain extent due to this calendar phenomenon.

2. Weak growth and a slow acceleration

2.1. A recession at the beginning of 2003 is likely to be avoided

In the shadow of the military conflict against Iraq and a German economy that is marking time, an issue concerning the near future is whether the euro area will enter a recession or not. Survey indicators and hard data, like industrial production and retail sales, show clear signs of weakness. Confidence indicators are now at levels that are associated with a severe slowdown, but there is still some room left as compared with the trough levels of the recession. Industrial production has started oscillating between positive and negative growth, in line with industrial confidence just moving side ways. All together, a recession during the first half of 2003 is likely to be avoided.

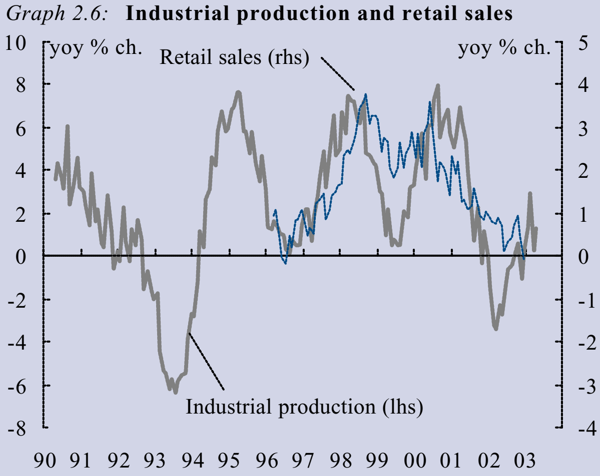
Graph 2.5: **Confidence indicators in the euro area**



Survey indicators paint a bleak picture

Survey indicators paint a bleak picture, with weakening consumer confidence and industrial confidence hovering below average. Consumer confidence dropped significantly in the first quarter of 2003, and it is now standing at a similar level to that recorded during the recession that struck in 1992-93. The continuing decline is a result of negative labour market developments, pointing to sluggish growth in private consumption during the first months of 2003.

Graph 2.6: **Industrial production and retail sales**



Service sector confidence is at an all time low, much below the levels recorded during the slowdown of 1995-96. However, services confidence has only been measured since the beginning of 1995, making earlier comparisons difficult because of the surveys learning process.

Since April 2002, the Commission's industrial confidence indicator has continued to move side ways at a level below the long-term average. The index is now at a similar level as observed just before the recession starting in 1991, but there is still a positive difference as compared to the trough of the slowdown in 1995-96. Industrialists' negative assessment of expected production, stocks and order books keeps the industrial confidence index subdued. Accordingly, industrial production is expected to remain sluggish.

Production and sales figures are weak, but not uncomfortably so

Industrial production seems to be oscillating around zero growth. After a sharp drop in December, industrial production saw a rebound in January. The development of industrial production is comparable to the serious slowdown during 1995-96, but is far from that of the recession of the early nineties. In particular, the German industrial sector seems to have more severe problems than others do.

The development of retail sales reflects the fragility of consumption. In the final quarter of 2002 retail sales declined, and consumption growth decelerated slightly. But, in January 2003 the EU finally saw a rebound in retail trade, with the first positive growth figure (y-o-y) since December 2001, and this could point to a positive first quarter in consumption.

Weak growth with subdued acceleration in 2003 and potential growth appears lower

Growth is expected to be weak during the first half of 2003, before a slow protracted acceleration phase can take place. GDP in 2003 is expected to grow by 1.0 % in the euro area (1.3 % in the EU). Private consumption contributes with two thirds to growth, and government expenditure contributes with another third. The inventory depletion is expected to continue, but is less pronounced than previous years. Foreign trade will resume after a slow 2002, but net exports will contribute negatively to GDP growth, due partially to the stronger euro weighing on exports.

Consumption is expected to start picking up towards the end of 2003 as pent-up demand is released and confidence returns. Furthermore, investment will stop declining and start showing positive growth, so that all final demand components are firmly in positive territory.

Due to a contraction or slow growth in investment there is some evidence that potential growth could be trending lower over the forecast horizon. Potential growth in the euro area is estimated to be 2.1 % in 2004, marginally lower than the potential growth rate in 2001 (2.2 %). It contributes to the explanation why the output gap is closing, despite the weak average growth rate of 2.3 % in 2004.

2.2. Weak driving forces

The forces for economic growth are fragile even without factoring in geopolitical issues. The driving forces include lower interest rates and an improvement of profitability in support of growth, and a worsening of competitiveness and labour market conditions impeding

Table 2.3

Composition of growth - euro area

(Real annual percentage change) **Spring 2003**

	2001		1997	1998	1999	2000	2001	2002	2003	2004
	bn Euro curr. prices	% GDP	Real percentage change							
Private consumption	3919.3	57.4	1.6	3.1	3.5	2.5	1.8	0.7	1.2	2.0
Government consumption	1367.4	20.0	1.3	1.4	1.8	2.1	2.2	2.7	1.6	1.5
Gross fixed capital formation	1437.3	21.1	2.5	5.3	5.9	5.0	-0.3	-2.3	0.3	3.2
- of which : equipment	561.6	8.2	5.4	9.7	8.3	9.1	-0.9	-4.3	0.7	4.9
- of which : construction	725.1	10.6	-0.3	1.8	4.0	2.6	-0.4	-1.5	-0.1	1.7
Change in stocks as % of GDP	-7.7	-0.1	0.1	0.5	0.3	0.2	-0.2	-0.3	-0.2	-0.1
Exports of goods and services	2551.8	37.4	10.5	7.3	5.2	12.6	2.7	1.1	3.1	5.7
Final demand	9268.1	135.7	3.8	4.5	3.9	5.4	1.5	0.5	1.7	3.3
Imports of goods and services	2440.2	35.7	9.1	10.0	7.4	11.3	1.5	-0.4	3.6	6.0
GDP	6827.9	100.0	2.4	2.9	2.8	3.5	1.5	0.9	1.0	2.3
GNI	6773.3	99.2	2.4	2.6	3.1	3.4	1.1	0.8	1.1	2.3
p.m. GDP EU-15	8903.4	130.4	2.5	2.9	2.8	3.5	1.6	1.1	1.3	2.4
			Contribution to change in GDP							
Consumption			1.2	2.0	2.4	1.9	1.4	0.9	1.0	1.4
Investment			0.5	1.1	1.2	1.1	-0.1	-0.5	0.1	0.7
Inventories			0.1	0.4	-0.2	0.0	-0.4	-0.1	0.1	0.1
Exports			3.1	2.4	1.7	4.4	1.0	0.4	1.2	2.3
Final demand			4.9	5.9	5.2	7.2	2.0	0.7	2.3	4.5
Imports (minus)			-2.6	-3.0	-2.3	-3.8	-0.5	0.1	-1.3	-2.2
Net exports			0.6	-0.6	-0.6	0.6	0.5	0.6	-0.1	0.1

growth. On top of this the economy is faced with high uncertainty, and government deficits that weigh on the recovery. Lack of fiscal consolidation during good times may limit the free operation of the automatic stabilisers in some countries.

Graph 2.7 : **Short and long term interest rates in the euro area**

Quick decline in interest rates impeded by resilient inflation, but profit situation improves

Interest rates have continuously been falling since the middle of 2002, and the decline amounts to 1 percentage point in both the short and long-term rates. In the domestic market this should reduce the cost of capital, and thereby support the turnaround in investment growth. However, a further decline in interest rates is constrained by resilient inflation.

Graph 2.8: **Profits* in the euro area**

* GDP price deflator minus unit labour costs

With an increasing part of the capital stock devoted to ICT, it is generally assumed that its life span is shortened, which leads to an increase in the depreciation rate. Now, a few years after the burst of the ICT bubble, the rapid depreciation of the ICT capital stock could fuel an investment recovery once the demand conditions improve towards the end of the year. The combined force of lower interest rates and a higher depreciation rate is still weak, but can partly explain the turnaround in the negative investment cycle. Gross fixed capital formation is expected to grow in 2003 by 0.8 % in the EU and 0.3 % in the euro area.

For investment in 2004, profitability is an important determinant. The low productivity performance registered in the current slowdown has cumbered profitability during the past two years, but there are now signs of a recovery. Profitability is expected to increase over the outlook horizon, such that investment growth is expected to be 3.4 % in the EU and 3.2 % in the euro area.

Neutral fiscal stance for the euro area as a whole

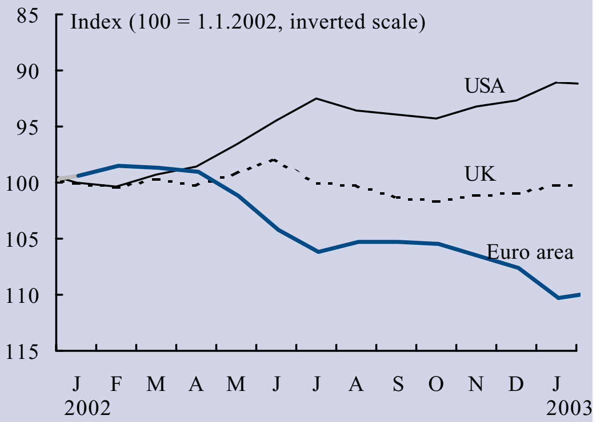
Government consumption continues to grow during 2003 and 2004. Depending on the economic area, the increases are in the order of 1.4 % to 1.9 % for the two years considered in the forecast. Also public investment is expected to increase, although from a low level. The overall deficit in the EU is accordingly expected to rise. However, in some countries the automatic stabilisers are not allowed to operate completely freely, as a further increase in the already high deficits may undermine consumer confidence.

Stronger euro weighs on exports, but should help in bringing inflation down

While the loosening of the monetary conditions combined with a broadly neutral fiscal stance are in support of growth in 2003, other factors confine this policy support. EU and euro area competitiveness has been declining relative to the US since the second quarter of 2002. This is mostly explained by the strengthening of the euro vis-à-vis other currencies. As a consequence, the foreign balance in 2003 is hurt, leaving out the usual strong contribution from net exports to growth in a recovery phase.

This situation is not expected to persist. Productivity gains in the US are higher than in the EU and the euro area, but compensation of employees is even greater (0.8 % in the euro area and 2.3 % in the US). Unit labour costs in the EU are expected to decelerate in both 2003 and 2004, which will improve the ability of firms to compete on export markets. In the long-term, firms making rationalisation investments, which are induced by the stronger euro, can also improve competitiveness.

Graph 2.9: **Competitiveness* of the euro area**



* Real effective exchange rate deflated by unit labour costs

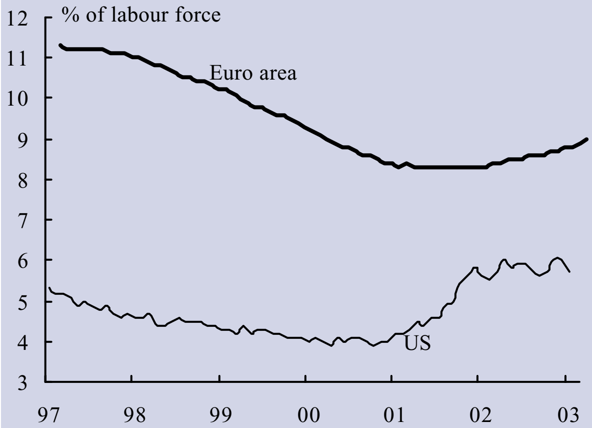
The stronger euro also tightens monetary conditions, curbing inflation and paves the way for lower interest rates. This should allow households to refinance their loans, which supports consumption by increasing households' disposable income. In 2003 private consumption is expected to grow by 1.5 % in the EU and by 1.2 % in the euro area.

Pent-up demand entails a further response of household spending to the future recovery of economic activity, such that private consumption is expected to accelerate to 2.0 % in 2004 in both the EU and the euro area. Due to an over-perception of the price increases following the euro changeover, households have been underestimating recent gains in purchasing power. A correction of this misperception is likely to be associated with some catch-up spending.

Labour market adjustments may bite

High energy prices and unsatisfactory demand developments encourage firms to cut costs. Part of the adjustment burden has fallen on labour. As a result, the unemployment rate in the euro area rose from 8.0 % in February 2001 to 8.7 % in February 2003. Compared with the US, there are variations in the speed of adjustment, as well as structural differences. These differences are reflected in the lags in the increase of the unemployment rate: unemployment was stable in the euro area between December 2000 and December 2001, while it increased by 1.8 percentage points in the US. Since December 2001, however, US unemployment was stable, while it increased by 0.6 percentage points in the euro area.

Graph 2.10: **Unemployment evolution in the euro area and US**



Unemployment is not expected to stabilise before 2004. Besides straining social welfare systems and government budgets, a rising unemployment rate leads to lower disposable income for those that are laid off. It

Table 2.4

Determinants of private consumption expenditure - euro area

(Annual percentage change)				Spring 2003			Difference with Autumn 2002 (a)	
	1999	2000	2001	2002	2003	2004	2003	2004
Real private consumption expenditure	3.5	2.5	1.8	0.7	1.2	2.0	-0.5	-0.3
Compensation per employee	2.3	2.8	2.9	2.7	2.8	2.8	0.0	-0.1
Real compensation per employee	1.2	0.6	0.4	0.5	0.8	1.1	0.0	0.0
Employment	1.8	2.1	1.4	0.3	-0.1	0.6	-0.5	-0.4
Real gross disposable income	1.8	2.0	2.4	1.4	1.3	1.9	-0.3	-0.2
Saving rate of households (b)	14.8	14.4	14.9	15.5	15.6	15.6	0.3	0.4

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

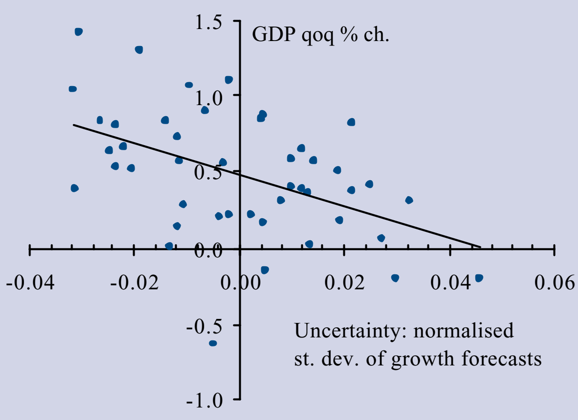
also creates job insecurity that leads to an increased saving rate in 2003. Lower disposable income for some people combined with an increased savings rate (15.6 % in 2003 for the euro area) weakens the initial recovery in domestic demand set out for the second half of 2003.

High uncertainty is associated with low growth

Uncertainty plays an important role in an economy, and it affects individuals' actions and their wellbeing, and in the end GDP growth. There appears to exist a negative relationship between GDP growth and uncertainty.

In particular, investment shows a significant negative relationship with uncertainty, and explains the negative relationship between GDP growth and uncertainty. A higher level of uncertainty could reflect increased underlying risk that requires a higher expected return. This in turn increases the cost of capital and decreases investment.

Graph 2.11: **Uncertainty and GDP growth**



Source: Consensus Forecasts, Commission calculations

2.3. Financial-sector constraints on the real economy

Conditions in the international financial system reflect a continued adjustment of the imbalances which emerged with the deflation of the bubble economy of the late 1990s. The correction in equity prices since the spring of 2000 has been amongst the sharpest on record and has returned valuations to levels not seen since 1996. The decline in equity prices, combined with an associated weakening in global economic activity, has exerted considerable stress on most of the other financial sectors. Problems have emerged in the banking, insurance and pensions sectors amid an abrupt loss in profitability and the negative balance-sheet effects of rapidly declining asset values. The result has been increased selectivity in bank lending and a re-direction of investment flows towards lower-risk assets. While financing conditions for households have remained relatively favourable (helped by generally buoyant housing markets), there is evidence of financing constraints on the corporate sector. These constraints have been aggravated by an overhang of corporate debt accumulated in earlier years, which has resulted in high gearing ratios (debt divided by equity). It resulted in a loss in credit quality as the value of equity has declined.

Corporate sector

The earnings potential of the euro area's non-financial corporate sector is constrained by a weak economy and a substantial overhang of corporate debt accumulated in earlier years. Euro area companies accumulated debt at a faster rate than their US counterparts during the second half of the 1990s and stepped up both real and financial investment. Much of the increase in debt has been concentrated in a few sectors, such as telecommunications, automobiles, and aviation.

Table 2.5
Sectoral balance sheets in the euro area

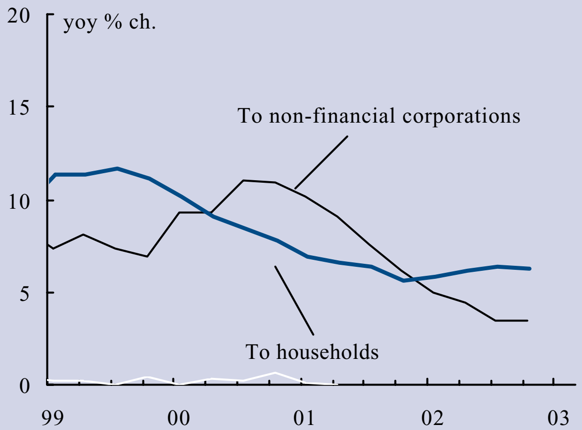
	1998	1999	2000	2001	2002 Q3
Non-financial corporations					
Debt /GDP	53.8	54.8	59.3	62.9	63.4
Debt / equity	111.7	80.7	94.6	120.0	189.3
Short-term debt/Total debt	18.9	19.2	19.9	19.6	19.0
Net incurrence liabilities/GDP	7.9	11.3	15.8	10.5	
debt financing	4.6	7.6	9.4	6.7	
equity financing	3.3	3.7	6.4	3.8	
*Households**					
Debt/disposable income	74.3	76.8	78.2	76.9	
Net fin. wealth/dispos. income	232.1	263.1	259.6	232.8	
of which Equities	104.8	140.4	137.8	110.3	
Non-fin.wealth/dispos. income	366.0	375.6	379.2	381.8	

* GDP weighted average of France, Germany and Italy

Source: ECB, Eurostat, OECD and Commssion calculations

The increase in debt appeared sustainable while equity prices were rising and investors remained optimistic about future earnings. However, the correction in equity prices since March 2000 has resulted in high gearing ratios, a consequent loss in credit quality and increased financing costs. In the context of sustained economic weakness, companies have been using most of their available cash flow to adjust balance sheets rather than to finance investment. In addition, they are exploiting the available opportunities to lengthen the maturity structure of their debt, so as to avoid a liquidity crunch should market conditions be unfavourable at the time when the debt needs to be refinanced.

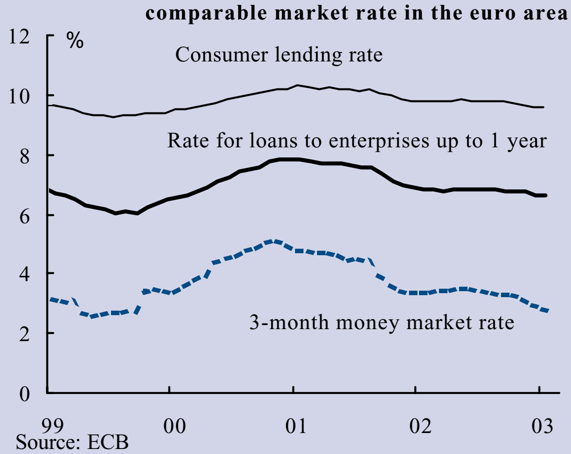
Graph 2.12 : **Bank lending in the euro area**



Source: ECB

Bank financing of the corporate sector has slowed, reflecting reduced demand as well as more selective lending. In light of the unfavourable investment environment in the past two years, it is not surprising that the rate of growth of bank lending to enterprises – which remains by far the main source of EU corporate financing - has declined sharply. In the euro area, the growth rate in bank lending to companies has declined from above 9% at the beginning of 2001 to below 4% at the end of 2002.

Graph 2.13: **Short-term bank lending rates and comparable market rate in the euro area**

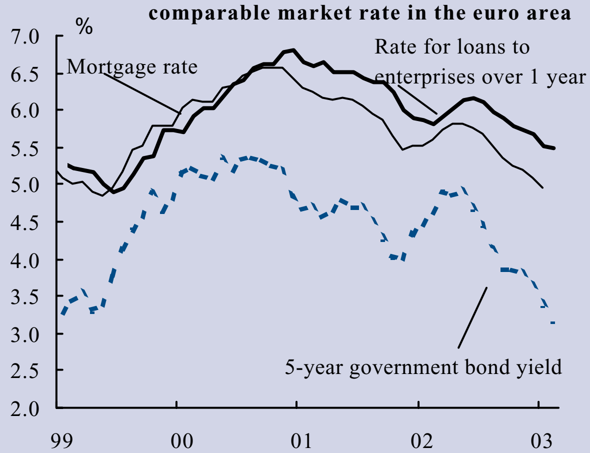


Source: ECB

These average growth rates hide uneven developments across the Member States, with lending growth having slowed particularly in Belgium and in Germany over recent quarters. Although lending rates have fallen to the level of early-2000, banks appear to have tightened their lending terms, at least for riskier borrowers. Supporting evidence is to be found in the fact that the fall in risk-less interest rates has been transmitted only partially and with a lag to lending rates.

Companies' reliance on bank financing has nevertheless increased in 2002 as developments in the EU corporate bond market have been generally unfavourable, in contrast to developments in the government bond segment. A deteriorating economic climate and concerns about the reliability of corporate balance sheets meant that corporate bond markets were closed to all but the highest-rated issuers in 2002. Risk aversion among investors has been reflected either in rising yields or in a sharp widening in corporate bond spreads.

Graph 2.14: **Long-term bank lending rates and comparable market rate in the euro area**

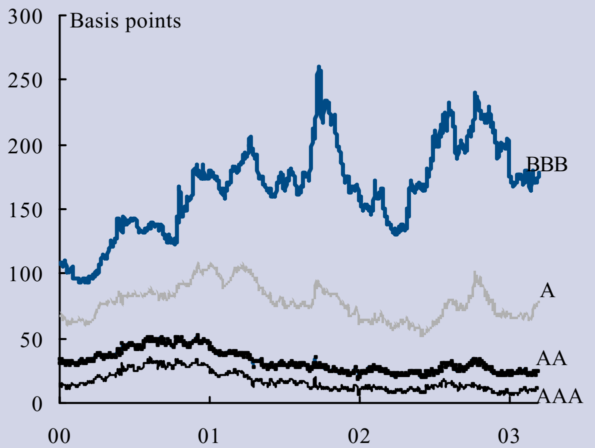


Source: ECB

However, conditions have improved in the last months of 2002 and early-2003, when a market rally brought spreads back to the level prevailing for most of the period since early-2000. Factors underlying the rally may be a stabilisation in equity prices in late-2002 and progress in resolving the financing difficulties in the telecom sector (despite further heavy losses). In addition, some market analysts have suggested that the worst may be over in terms of corporate consolidation and that investors have returned to corporate debt in search of higher returns. Issuance levels in the euro-denominated corporate bond market have risen from December onwards and reached more normal levels at the beginning of 2003. Higher issuance also reflects the fact that companies are seeking to extend the maturity of their debt.

Financing opportunities for companies have also been curtailed in equity markets by the persistence of negative sentiment, even after one of the sharpest price corrections in history. Indeed, the scale of decline in equity prices in the past three years is comparable to that of 1929-1932. Beginning with the deflation of the bubble in TMT[1] stocks, the fall in prices has spread to all sectors, reflecting investors' concern about the prospects for corporate earnings (amid a weak global economy and geo-political uncertainty) as well as a loss of confidence in corporate governance and regulatory oversight.[2]

Graph 2.15: **Corporate bond spreads in the euro area**



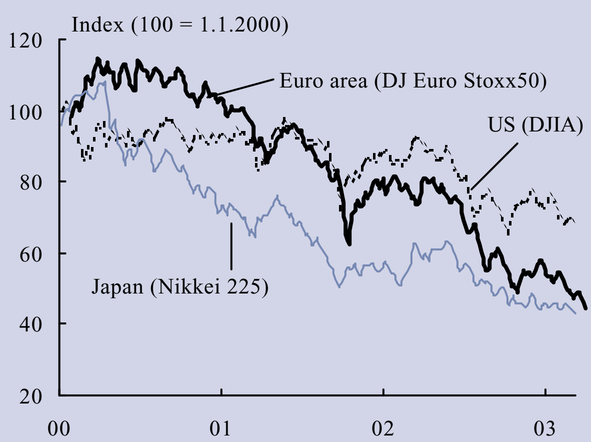
In the second half of 2002, the price fall was accompanied by a sharp increase in volatility. In the more recent period, notwithstanding short-lived rallies in November 2002 and January 2003, global equity prices have remained on a downward trend, with the media, airlines, telecommunications and insurance sectors particularly badly hit. The under-performance of these sectors is explained by specific factors, such as over-reliance on debt financing (e.g. telecommunications), sensitivity to oil prices and political uncertainty (e.g. airlines), and the asset valuation effects of the more generalised decline in equity prices (e.g. insurance).

[1] Technology, Media and Telecom

[2] Although the accounting and corporate governance scandals have been more prominent in the United States, equity markets in general have suffered from heightened concerns about the capacity of shareholders and regulators to exercise effective control on the actions of corporate management. The accounting fraud which has recently emerged at Ahold, a Dutch retailer with operations in the United States, has confirmed the potential for further corporate scandals and that the European Union is not immune from such events.

While equity valuations are now more in line with historical norms (though they remain higher in the US than in the EU), it is difficult to assess whether the correction is complete. In the present uncertain political and economic environment, investors remain unsure about the prospects for corporate earnings. A quick conclusion of the military conflict in Iraq would remove a major source of uncertainty for investors and the consensus among market analysts is that equity prices would rally sharply on such an outcome. Indeed, world equity indices rose by 10-15% in March around the beginning of the conflict. More fundamentally, however, there is a risk that the scale of losses incurred by many investors – including large institutional investors who built up substantial equity portfolios in the 1990s – may imply a more durable shift in investment patterns away from equities into financial assets providing lower price volatility.

Graph 2.16: **Main equity indices**



Taking into account the overall evolution in bank lending, corporate bond and equity markets, it appears that overall financing conditions for the euro area companies are rather difficult. With tighter financing terms and with earnings constrained by sustained weakness in the euro area economy, any recovery in business investment seems likely to proceed at a moderate pace.

Household sector

In contrast to the corporate sector, EU households have continued to borrow eagerly in the slowdown, largely to finance house purchases. Mortgage lending in the euro area grew at annual rates above 7% in 2001 and 2002 (down from about 10% in 2000). Consumer lending on the other hand has decelerated sharply, but it is a relatively small part of overall household liabilities.

Although at present, the interest burden remains contained (due to the low level of interest rates), the higher level of indebtedness exposes both lenders and borrowers to a rise in interest rates or a fall in household income.

The buoyancy in household borrowing has accompanied strong rises in house prices, which have characterised most EU countries, although with varying intensity. The combination of rising house prices and household debt has become a source of concern in some Member States, where there is a suspicion that bubbles have developed. Based on data from the European Mortgage Federation, house prices have risen by 40-50% between 1998 and 2001 in Ireland, the Netherlands, Spain and the UK. Germany, where house prices have been virtually flat for a number of years, is a notable exception to these trends.

The mechanisms which could trigger the bursting of a house price bubble are a rise in unemployment or an increase in interest rates. While higher interest rates seem a remote risk at the present juncture, the dynamics of the labour market are more of a concern. The increased value of the housing stock has been an important offset to the negative effect of falling equity prices on household wealth. Beyond the potential implications for the banking sector, a fall (or even stabilisation) in house prices would remove what has been an important support to consumption in some Member States.

In addition, barring a recovery in equity prices the negative effect of lower financial wealth on, consumption may be felt in the months ahead. QUEST model simulations suggest that a 20% permanent reduction in equity prices could reduce EU GDP by 0.4 percentage points in the first year. The Euro Stoxx 50 index is currently some 45% lower than at the beginning of 2002, and over 60% lower than at its peak in March 2000. The risk is that the losses accumulated on equities will increasingly be considered as permanent by EU households.

2.4. Germany weighs on economic activity in Member States

The subdued growth of the German economy is expected to continue throughout 2003. Growth is expected to be at 0.4 % due to faltering domestic demand. An issue of concern is to what extent this drags down growth in the EU.

No amplifying effect from a negative GDP shock in Germany

Model simulations were made applying a shock of -1.0 % to German GDP in an attempt to examine how this would affect the other Member States. It has to be stressed that the shock mainly applies to Germany, in the form of an increase in the risk premium, but there is a spillover effect that reduces business confidence in the other Member States that affects their investments.

Overall there is a small negative multiplier effect. The multiplier is just above one for the EU and the euro area, i.e. the decline in euro area GDP (-0.34 %) is greater than the magnitude of the shock (-1 %) taking into account the relative weight of the German economy in the euro area (0.29 %). However, at the country level there are differences.

Table 2.6
The spillover effects in the Member States of a shock in Germany (GDP -1%)

(% point change)

	GDP	Cons	Inv	Exp	Imp
BE	-0.14	-0.29	-0.26	-0.29	-0.34
DE	-1.00	-2.06	-1.57	0.34	-1.86
EL	0.03	0.00	-0.20	0.00	-0.23
ES	-0.09	-0.17	-0.03	-0.26	-0.29
FR	-0.03	-0.06	-0.06	-0.20	-0.26
IE	-0.06	-0.34	-0.26	-0.11	-0.31
IT	0.03	-0.03	-0.09	-0.06	-0.20
NL	-0.09	-0.26	-0.26	-0.17	-0.31
AT	-0.11	-0.20	-0.06	-0.29	-0.29
PT	0.06	-0.03	-0.06	-0.03	-0.11
FI	0.00	-0.14	-0.23	-0.03	-0.29
Euro area	-0.34	-0.71	-0.57	0.09	-0.71
DK	-0.14	-0.20	-0.23	-0.37	-0.37
SE	-0.17	-0.11	-0.20	-0.29	-0.20
UK	-0.11	-0.03	-0.11	-0.26	-0.06
EU-15	-0.29	-0.57	-0.49	0.03	-0.57

Source: Commission Quest model

Large and small economies are affected differently

There are two effects at work. The first is a negative trade effect. The shock reduces German demand for imports, which reduces exports for most of the other Member States. The second is an increase in the German risk premium, which reduces investment in Germany. The negative investment effect in Germany also spills over to the other Member States, reducing their investment. But, as investment declines, the demand for foreign inputs also decline, which reduces imports.

Large economies, with big domestic markets that are less dependent on exports and also less sensitive to the investment spillover effect, are in general less affected by the shock. In the model simulation, France and Italy are among those countries that are less affected, but both are expected to grow quite slowly during 2003 due to faltering domestic demand, according to the Commission's Forecast.

Portugal, Greece, and Finland join the large countries by gaining in their net trade, as they are less dependent on exports to Germany. On other areas the Portuguese and Greek economic performance is very different. In 2003 Portugal is expected to continue its struggle with low growth and a high public deficit, while Greece takes the lead in the EU's growth league. Finland's GDP is hardly affected at all in the simulation exercise. Furthermore, Finland is expected to record steady growth well above 2 % in both 2003 and 2004.

In the model simulations, small countries with open economies tend to be hurt more by the negative trade and investment effect: Austria, Belgium, Denmark, Ireland, the Netherlands, and Sweden. In the Commission's outlook for 2003, growth is particularly low in Belgium, Austria, and the Netherlands. The other small countries could partially neutralise the negative impact coming from Germany.

Two large countries, Spain and the UK, join the smaller countries in being negatively affected by the shock to German GDP. However, thanks to resilient domestic demand, both economies are expected to continue to grow faster than the euro area average during 2003. Spanish GDP is expected to grow at a rate of 2.0 %, while the UK economy is expected to grow by 2.2 %, supported by government spending and continuing private consumption.

Box 2.2: **Differences between gross domestic product and gross national income**

Gross National Income

Gross national income (GNI) is the ESA 95 national accounts concept that was previously, under 1979 ESA, identified with gross national product (GNP). It is not a production concept but an income concept. GNI represents total primary income receivable by resident institutional units. The difference between GNI and GDP is net primary income receivable by resident units from the rest of the world.

For most EU countries the difference between GDP and GNI is relatively small because the income flows paid by resident to non-resident units and those received by resident units from the rest of the world are either small or they balance out. The table below shows the relative weight of net income from abroad in terms of GDP. For Ireland and Luxembourg this variable is truly important in size, as it represented almost 18 % and 12 % of GDP respectively in 2002 and it is increasing over the years. For Ireland the large difference between GDP and GNI is due to income payable outside the country, which is linked to foreign firms established in Ireland. For Luxembourg, compensation of non-resident employees working on the territory of the country explains to a large extent the important outward going income flows.

Information on GNI is presented in the country-specific table, which is part of the three page country sections which consist of Chapter 3 of the publication. Income flows can be measured in real terms only if one knows on which basket of goods and services the income is spent (in this way the price index for this basket would be used as the deflator of current income). For this reason the GDP deflator is used in order to deflate the GNI at current prices. In this way annual percentage changes are available for the variable GNI in real terms which can be easily compared with the equivalent growth rates of GDP in constant prices.

Gross National Income and the budget of the EC

The concept of GNP (GNI) is important in the context of the general budget of the European Community. The so-called "fourth resource" is one of the cornerstones of the system for financing the European Community. This resource is a variable resource providing the revenue required to cover expenditure in excess of the amount yielded by traditional own resources and VAT receipts in any particular year. Traditional own resources comprise agricultural duties, sugar levies and customs duties. The "fourth resource" contributes to improving the equity of contributions across Member States which are called to pay according to their ability. The Council decision (2000/597) of 29 September 2000, stipulates that GNP in the context of the "fourth resource" should mean GNI at market prices.

Net primary income from abroad

(% of GDP)	1996	1997	1998	1999	2000	2001	2002
BE	2.0	2.0	2.1	2.0	2.1	1.8	1.9
DK	-1.3	-1.4	-1.0	-0.8	-2.0	-1.4	-1.3
DE	-0.4	-0.5	-0.7	-0.6	-0.5	-0.7	-0.4
EL	2.8	2.8	2.7	1.8	1.2	0.6	0.3
ES	-0.6	-0.9	-1.2	-1.1	-1.0	-1.4	-1.1
FR	-0.1	0.2	0.5	1.1	0.6	0.4	0.1
IE	-8.8	-10.1	-10.7	-13.6	-13.7	-14.6	-17.9
IT	-1.4	-0.9	-1.0	-0.7	-0.8	-0.6	-1.0
LU	7.3	2.6	0.2	-2.7	-9.7	-11.0	-11.7
NL	0.5	1.1	-1.6	0.2	1.0	-1.2	-1.8
AT	-0.7	-1.1	-1.1	-1.5	-1.6	-1.9	-1.1
PT	-0.8	-1.4	-1.5	-1.6	-2.2	-2.7	-2.6
FI	-2.9	-2.0	-2.4	-1.6	-1.3	-0.7	-0.1
SE	-2.6	-2.3	-1.5	-1.0	-0.7	-0.9	-0.9
UK	-0.4	0.2	1.1	0.0	0.6	1.3	1.6
EU-15	-0.5	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4
Euro area	-0.5	-0.4	-0.6	-0.4	-0.4	-0.8	-0.9

3. Two years of restrained employment

3.1. The labour market is set to deteriorate further

The downward adjustment of the labour market accelerated in the second half of 2002

While at the beginning of the slowdown firms concentrated on cutting investment and inventories to adjust their balance sheets and postponed labour cutbacks, there is evidence that adjustments in the labour market have intensified since mid-2002. Following the persistent economic weakness and the high degree of uncertainty about economic prospects, total employment remained unchanged in the second quarter of last year and contracted by 0.1% in the third quarter, for the first time since 1994. Employment growth is likely to have been close to zero in the fourth quarter, according to available information from countries and in line with a worsening of the recent unemployment data.

A breakdown by activity shows that during 2002 employment continued to contract in agriculture for structural reasons and in manufacturing and construction due to the severity of the slowdown in these sectors. In the third quarter of the year, job losses in agriculture (-0.9%) and manufacturing (-0.4%) more than offset continuous job creation in the services sector (0.2%).

Table 2.7

Sectoral employment growth in the euro area

(Quarterly percentage change, seasonally adjusted)

	00	01	01Q3	01Q4	02Q1	02Q2	02Q3
Whole economy	2.1	1.4	0.2	0.2	0.1	0.0	-0.1
Agriculture	-1.6	-0.8	-0.9	-0.5	-0.4	-0.2	-0.9
Industry	0.9	0.3	-0.2	-0.2	-0.4	-0.2	-0.4
Services	2.9	2.0	0.4	0.4	0.3	0.1	0.2

For the year as a whole, however, employment in the euro area is estimated to have grown in 2002, albeit by a modest 0.3%, after growing by 1.4% in 2001. Net job creation is estimated to have continued in several countries despite the prolonged slowdown in economic activity.

Low output growth combined with continuous employment growth leads to low productivity growth, estimated at only 0.5% in 2002 compared to an average growth rate of 1.2% in the second half of the nineties. With wage inflation not departing from recent trends, the rise in unit labour costs by an estimated 2.2% last year (following an increase of 2.8% in 2001 against a previous five-year average of 1.0%), has damaged firms' profitability and is likely to have delayed the recovery of investments and, eventually, of the labour market at a later stage of the cycle.

Paralleling the employment performance, the unemployment rate in the euro area has continued to rise during 2002 to stand at 8.5% in December compared to 8.1% one year before. However, the deterioration has been rather limited so far. It is estimated at 8.3% in 2002, not much different from the previous year (8.0%) and still lower than in 2000 (8.5%).

More labour market adjustment has to come

The unemployment rate for the euro area rose further at the beginning of 2003 to stand at 8.7% in February (last available figure). Both in January and in February, the number of unemployed people increased - vis-à-vis the previous month - at a much faster pace than the monthly average recorded during the second half of the previous year. Recent survey indicators for employment have fallen to very low levels and the deterioration of households' employment and unemployment expectations is consistent with a continuous weakness of the labour market in the coming months. Moreover, the delayed impact of subdued economic growth on the labour market and the limited overhang from the previous year will weigh on overall employment developments in 2003.

Table 2.8

Labour market outlook - euro area

(Annual percentage change)	1991-95	1996-00	2001	Spring 2003 2002	2003	2004	Difference with Autumn 2002 2003	2004
Population in working age (15-64)	0.4	0.2	0.2	0.3	0.2	0.2	-0.1	0.0
Labour force	0.4	1.0	1.0	0.8	0.6	0.9	0.0	0.2
Employment	-0.2	1.4	1.4	0.3	-0.1	0.6	-0.5	-0.4
Employment (change in million)	-2.8	8.1	1.8	0.5	-0.1	0.8	-0.6	-0.5
Unemployment (levels in millions)	12.5	13.3	11.0	11.5	12.3	12.4	0.6	1.1
Unemployment rate (% of labour force)	9.4	9.9	8.0	8.3	8.8	8.8	0.5	0.8
Labour productivity, whole economy	1.7	1.2	0.1	0.5	1.1	1.7	-0.3	0.1
Employment rate (a)	58.6	59.5	62.1	62.2	62.1	62.5	0.7	0.6
p.m. Employment EU-15	-0.4	1.4	1.2	0.4	0.0	0.6	-0.4	-0.3

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

All in all, employment growth is projected to contract this year in the euro area (-0.1%) and to remain flat in the EU as a whole. Job losses will be larger in Germany (-0.8%) and the Netherlands (-0.4%) but employment growth is estimated to be negative also in Portugal, Finland (-0.2%) and, outside the euro area, in Denmark and Sweden (-0.3%). By contrast, employment is forecast to hold up relatively well in Luxembourg (1.1%), Spain (1.0%), and also in Ireland, Italy (0.4%) and the UK (0.5%).

The level of unemployment is projected to increase by about 0.8 million this year, although only 0.1 million is due to the contraction in employment, the rest emanates from the increase in labour supply. This will translate into a deterioration of the unemployment rate from 8.3% in 2002 to 8.8% this year. The unemployment rate worsens in all EU Member States with the exception of Greece and the UK.

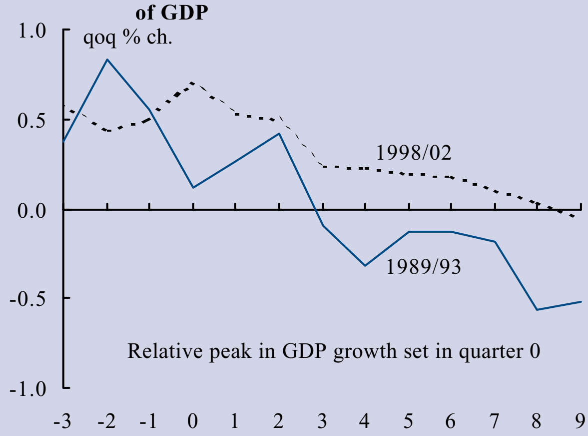
Only next year will the euro area labour market show signs of improvement. However, employment growth is forecast to be only 0.6% both in the euro area and the EU as a whole, as economic activity will remain below potential. Nevertheless, about 0.8 million new jobs will be created in the euro area. The aggregate employment growth rate masks significant differences across countries, with better outcomes for Spain (1.7%), Ireland (1.4%), Luxembourg (1.2%), Italy (1.0%) and Belgium (0.7%), while Portugal, Finland (0.3%), Germany, Sweden (0.2%) and the Netherlands (0.0%) will be lagging behind.

3.2. Comparing two employment downturns

By comparing the reaction of the labour market in the current slowdown with that of the early nineties, there is evidence that employment reacted more quickly this time but the adjustment in terms of job losses has been smaller so far. However, the smaller job losses are partially the result of a less abrupt economic slowdown, while in the early nineties there was a recession.

It took three quarters in the 1988/93 cycle before quarter-on-quarter employment growth reverted to its upward trend but job cutbacks have been severe afterwards. In contrast, during the current slowdown the adjustment in the labour market was more synchronised with the economic cycle but employment growth has remained positive for several quarters after the peak in GDP and started to contract for the first time about two years later. As a consequence, labour shedding in the euro area has been quite limited in the current downturn.

Graph 2.17: **Employment growth from the cyclical peak of GDP**

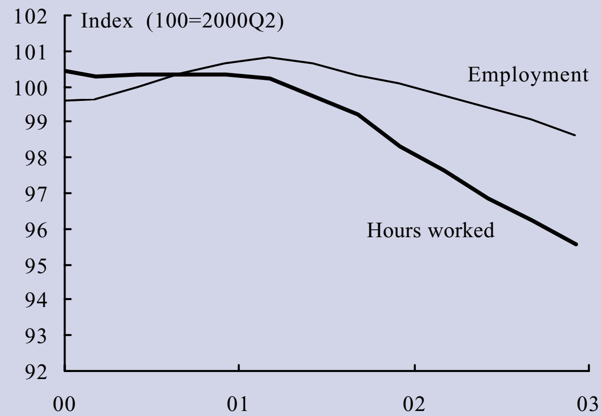


In terms of timing, the reaction of the euro labour market was similar to the US, where GDP and employment typically move together. In terms of quantity, however, employment in the US declined for two consecutive years and the unemployment rate in 2002 was about 2 percentage points higher than in 2000. As a result, the rebound in productivity growth was stronger and faster than in the euro area on average.

Both structural and cyclical factors matter

Structural rigidities in the euro area labour market (i.e. excessive labour market regulations and employment protection, centralised wage bargaining processes, minimum wage settlements) are often claimed to be responsible for the limited adjustment of employment over the business cycle. There is some evidence that during the current downturn at least two other elements mattered:

Graph 2.18: **Employment and hours worked in industry from the cyclical peak of GDP**



- Firstly, most of the jobs created in recent years were in the service sector where employment held up reasonably well during the slowdown. In addition, the limited deterioration of employment and unemployment expectations at least up to the first half of 2002 supports the view that firms decided to keep people on the job as they were expecting a milder downturn than that which actually materialised.
- Secondly, the diffusion of temporary contracts and the increase in part time jobs allowed for more flexible working time arrangements, with firms reacting to the downturn partly by using fewer workers, partly by reducing the number of hours worked. In manufacturing, the decline in the number of hours worked from the peak of the economic expansion has been, in percentage terms, more than twice as large as the change in the number of workers.

3.3. Structural improvements in the labour market should continue

The recent years have been characterised by intensive job creation in Europe. Between 1995 and 2002, it is estimated that about 12 million jobs have been added to total employment in the euro area and about 15 million in the EU as a whole. On average, 1.5 million people have found a job each year (1.8 million in the EU) which corresponds to an average annual growth rate of 1.1%, the same as in the US. Net job creation is projected to continue over the forecasting horizon 2003-2004 although at a much slower average pace.

The much improved performance of the euro area's labour market is partly due to cyclical factors as the period 1998-2000 in particular represented a period of economic expansion well above the long-term trend. But structural factors also played a role. Wage inflation has been low despite the fall in the unemployment rate and wage claims are expected to remain moderate also in 2003 and 2004. More flexible forms of contractual arrangements have been introduced in several Member States and active labour market policies promoted. The tax burden on labour income has been reduced. There are little doubts that these factors contributed to a lowering of the structural component of unemployment, the NAIRU (Non accelerating inflation rate of unemployment). According to simulations by DG ECFIN for the period 1996-2004, the structural unemployment rate for the euro area will decline from 9.8% to 8.7%. This means that a significant proportion of the total decline in the unemployment rate can be attributed to structural factors.

However, while Member States have made progress with labour market reforms, there is still a need to go further in that direction. The weakness of the euro area's labour market is reflected in the employment rate. The latter, defined as total employment divided by the population of working age from 15 to 64 years, is estimated at 62.2% in 2002 and is forecast at 62.1% this year and at 62.5% in 2004. The corresponding projections for the EU as a whole are 64.2% in 2002, 64.1% in 2003 and 64.4% in 2004. Employment rates are very low in some Member States and will not improve much over the forecasting period. New efforts are required to bridge the gap with the employment rate targets set by the European Council in Stockholm (67% overall and 57% for women, by 2005) and Lisbon (70% overall and 60% for women, by 2010).

4. Inflation on a downward trend

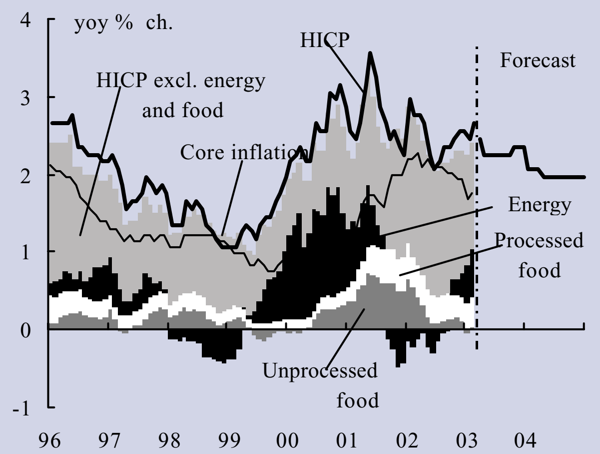
4.1. Sticky inflation in 2002 and beginning of 2003

Temporary factors mattered

Up to mid-2002 headline HICP inflation in the euro area was on a distinct downward trend coming down from an annual growth rate of 2.7% in January to 1.8% in June. However, consumer price inflation has slowly crept upwards in the second half of the year to reach 2.3% in December, reflecting new price increases in energy and unprocessed food. Unfavourable base effects played also a role. The average annual rate of headline HICP inflation in the euro area was 2.2% in 2002, down from 2.4% in 2001, but for the third consecutive year above the ECB's medium term target of price stability.

In January 2003, headline inflation decreased marginally but it rose again to 2.4% in February (last available data). The pick up of inflation resulted from a sizeable rise in the inflation rate of energy (7.6%), tobacco taxes (7.7%) and an uptick of processed food prices (3.3%).

Graph 2.19: **Contributions to euro area HICP inflation**



Core inflation was also high

The 'stickiness' of inflation in the euro area during 2002 was also due to high core inflation, defined as the HICP inflation excluding energy and the unprocessed food component. Core inflation remained above headline inflation for most of last year. The resilience in core inflation is mainly explained by continued high inflation in the services component (accounting for nearly 40% of the HICP basket) while the contribution from the other two core components eased over the year as inflation in both processed food and non-energy industrial goods has been on a declining trend. Different factors are responsible for the stickiness of service inflation:

- Increases in costs can be more easily passed trough due to a lower degree of competitive pressure in services compared to the goods sector.
- Despite lower productivity growth in services, wages tend to growth at the same pace and thus service inflation is structurally higher.
- Demand for services grows at a stronger pace than demand for goods.
- As many services prices are regulated by public authorities there is scope for a policy-driven component of inflation and this may be higher than inflation elsewhere.
- As wages accounts for a higher share of costs in services than in manufacturing and wage setting displays more inertia than that for other inputs, service prices are relatively more sensitive to developments of wages and unit labour costs over the cycle.

Following the protracted downturn in economic activity which limits the ability of firms in general to pass on costs, core inflation started to ease in the fourth quarter of 2002 and the fall continued at the beginning of 2003.

Table 2.9

Inflation outlook - euro area

(Annual percentage change)				Spring 2003			Difference with Autumn 2002	
	1999	2000	2001	2002	2003	2004	2003	2004
Private consumption deflator	1.1	2.2	2.4	2.2	1.9	1.7	-0.1	-0.1
GDP deflator	1.1	1.4	2.4	2.4	2.0	1.7	0.1	0.0
HICP	1.1	2.1	2.4	2.2	2.1	1.7	0.1	-0.1
Compensation per employee	2.3	2.8	2.9	2.7	2.8	2.8	0.0	-0.1
Unit labour costs	1.3	1.3	2.8	2.2	1.7	1.1	0.4	-0.1
Import prices of goods	-0.7	9.1	0.4	-2.4	-1.9	0.5	-2.2	-0.7
p.m. HICP EU-15	1.2	1.9	2.3	2.1	2.1	1.7	0.2	-0.1

4.2 Inflation outlook

Looking at the medium-term outlook for inflation, the trend is expected to be downwards even though in 2003 inflation volatility may be amplified by the timing and base effects of different price shocks. Headline inflation is forecast at 2.1% in 2003 and is projected to come down to 1.7% in 2004, mainly as a result of a lagged response to current low GDP growth.

Different elements contribute to the above inflation outlook. The increase in oil prices and associated second round effects, in producer prices are likely to put some upward pressure on headline inflation in the coming months. However, the declining trend driven by structural factors is expected to prevail in the medium term. Moreover, a negative output gap both this year and the next keeps inflation low.

There are, of course, upside risks associated with a prolonged conflict in Iraq which could cause a sharper increase in oil prices than assumed in the forecasts. An even more serious concern would be if higher inflation feeds through into a wage-price spiral. This event however seems rather unlikely given the current subdued economic conditions.

Headline inflation held up by energy prices

Concerning the non-core components of inflation, last year's sharp increases in unprocessed food prices due to bad weather conditions would this year give rise to favourable base effects. As regards the increases in indirect taxes at the beginning 2003, their effect is expected to be temporary.

By contrast, energy prices are high. The war has pushed the average oil price to around 30USD/bl in March 2003 compared to an average of 25USD/bl in 2002. Despite the outbreak of the war against Iraq on 20 March, oil prices are expected to remain high though declining as uncertainty is expected to diminish.

Core inflation set on a clear downward path

Turning to the core components of inflation, the rise in energy costs is putting some upward pressure on producer prices. Producer price inflation has picked up since the second half of last year, rising to 0.8% January 2003 from –0.9% in June 2002. However, growth in core input prices is still low and should not deviate much from current trends given the business cycle outlook.

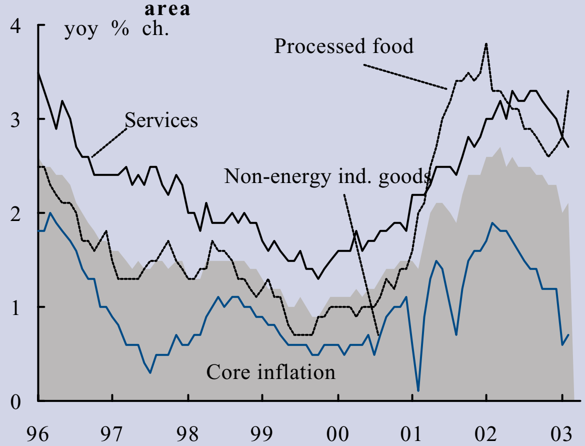
The euro rose by 14% against the dollar in nominal terms last year and has appreciated by about 7% since January 2003. A stronger euro (also compared to the assumption made in last Autumn) helps to keep import prices down and thereby exert downward pressure on manufactured good prices and overall inflation.

Low inflation in input prices paves the way for a reduction in the core components of inflation represented by processed food and non-energy industrial goods while the decline in service inflation is mainly the result of weak economic activity which raises the unemployment rate to 8.8% this year and the next (compared to 8.3% in 2002) and limits wage claims.

Wage inflation is expected to remain moderate over the forecasting period with compensation per head growing at the annual pace of 2.8% both in 2003 and 2004. Given the expected rebound of labour productivity from 0.5% growth in 2002 to 1.7% in 2004, unit labour costs will decelerate from an average growth rate of 2.2% in 2002 to 1.1% in 2004, thus further contributing to a downward pressure on core inflation.

The view of a benign inflation outlook is also supported by surveys on inflation expectations. According to the latest ECB's survey of Professional Forecasters and the February Consensus Forecast, annual inflation is expected to remain below 2% both this year and the next. Information from index bonds anticipates a similar inflation pattern.

Graphs 2.20: **Components of core inflation in the euro area**



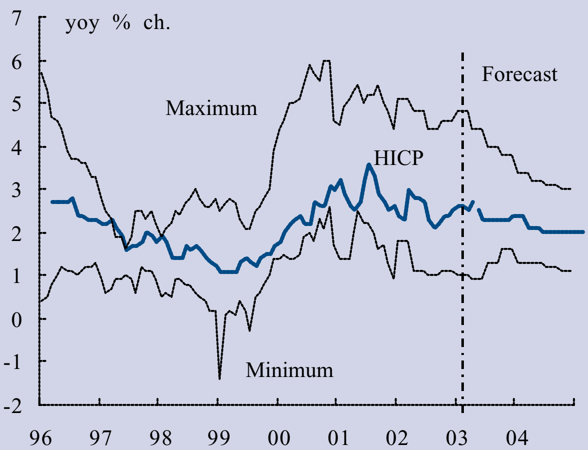
Inflation differentials remain wide

In February this year the inflation differential was 3.8 percentage points, ranging from 1.3% in Germany to 5.1% in Ireland.

The same two countries are forecast to record the lowest and highest inflation rates also over the forecast horizon. The inflation rate in Germany is projected at 1.3% this year and at 1.2% in 2004. In Ireland, headline inflation is forecast to fall from 4.2% this year to 3.2% in 2004. In Italy and Spain the inflation rate is expected to remain above the euro area average while France will continue to be one of the best performing countries. Outside the euro area, inflation is projected to decline in Denmark (from 2.4% to 1.9%), in Sweden (from 2.5% to 1.8%).

Higher inflation rates may be associated to different and sometimes overlapping explanatory factors. Sometimes they seem to reflect higher past growth rates, like in the case of Ireland, Spain, Greece, the Netherlands, Portugal, Finland and Sweden. However, they may also be linked to tight labour markets as could be the case for Denmark and the Netherlands or, by contrast, be the result of still too rigid labour market structures as in the case of Germany, Italy and Spain.

Graph 2.21: **Inflation differentials in the euro area**



5. Public finances: deficits widen

General government deficits increase

The budgetary outcomes for 2002 turned out to be, in general, less favourable than those projected in the 2001 Stability and Convergence Programmes. For the euro area, the deficit was at 2.2 % of GDP, while for the EU as a whole the deficit represented 1.9 % of GDP. For 2003, the Commission forecasts a deficit of 2.5 % of GDP for the euro area and 2.3 % of GDP for the EU as a whole. According to the 2002 updates of the Stability and Convergence Programmes the projected deficit for 2003 amounts to 1.8 % of GDP for the euro area and to 1.7 % for the EU. According to these Programmes, the GDP growth profile is slightly more favourable than in the Commission's forecasts. The main reason behind the more upbeat view about GDP growth in 2003 can be found in the fact that the national assumptions behind the 2003 budgets were worked out at an earlier date than the Commission's forecasts and the economic outlook has worsened recently.

A larger difference is observed between the forecasts and the Stability and Convergence Programmes for 2004 (difference of 1.3 of a point for the euro area), but the Commission forecasts are based on the "no-policy change" assumption but surely the Stability and Convergence Programmes are based on announced policy.

Composition of government accounts

The widening of the general government deficit in 2002 is due to both an increase of total expenditure and a decrease of total revenue. In the euro area total expenditure rose from 48.1 % of GDP in 2001 to 48.4 % of GDP last year, while revenue declined from 46.5 % of GDP in 2001 to 46.2 % in 2002. Total revenues as a percent of GDP are expected to remain broadly unchanged during the forecast horizon. In 2003

Table 2.10

General government balance [1] : Spring Forecast compared to Stability & Convergence Programmes

(% of GDP)	Spring 2003			Stability & Convergence Programmes 2002 updates		
	2002	2003	2004	2002	2003	2004
BE	0.1	-0.2	-0.1	0.0	0.0	0.3
DE	-3.6	-3.4	-2.9	-3.8	-2.8	-1.5
EL	-1.2	-1.1	-1.0	-1.1	-0.9	-0.4
ES	-0.1	-0.4	-0.1	-0.2	0.0	0.0
FR	-3.2	-3.7	-3.5	-2.8	-2.6	-2.1
IE	-0.3	-0.6	-0.9	-0.5	-0.7	-1.2
IT	-2.3	-2.3	-3.1	-2.1	-1.5	-0.6
LU	2.6	-0.2	-1.2	-0.3	-0.3	-0.7
NL	-1.1	-1.6	-2.4	-0.7	-1.0	-0.7
AT	-0.6	-1.1	-0.4	:	:	:
PT	-2.7	-3.5	-3.2	-2.8	-2.4	-1.9
FI	4.7	3.3	3.0	3.8	2.7	2.1
Euro area	-2.2	-2.5	-2.4	-2.2	-1.8	-1.1
DK	2.0	1.8	2.1	1.6	1.9	2.4
SE	1.3	0.8	1.2	1.7	1.5	1.6
UK	-1.3	-2.5	-2.5	-1.8	-2.2	-1.7
EU-15	-1.9	-2.3	-2.2	-2.0	-1.7	-1.0

1. Government balances in 2002 exclude one-off proceeds from the sale of UMTS licences.
The UMTS amounts as a % of GDP would be, according to the Spring 2003 forecasts,
In 2002 : FR : 0%, IE : 0.2%, euro area : 0% and EU-15 : 0%.

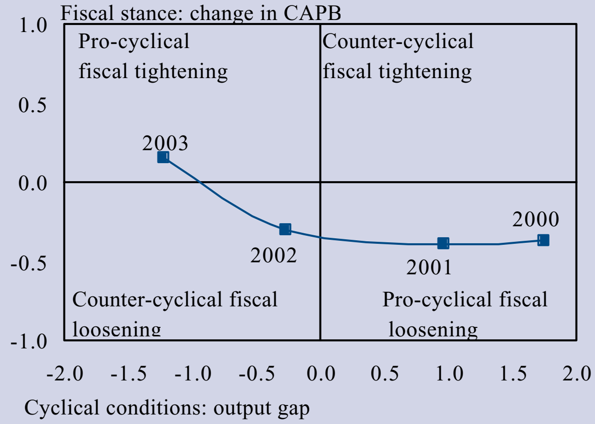
total revenues in the euro area are forecasted at 46.1 % of GDP and at 45.9 % of GDP in 2004. Total expenditure of general government as a percent of GDP is expected to increase in 2003 before declining in 2004 to a ratio similar to that in 2002. In 2002, total expenditure in the euro area represented 48.4 % of GDP, while according to the forecasts this ratio is projected at 48.6 % and 48.3 % of GDP in 2003 and 2004 respectively. Interest expenditure is expected to remain broadly stable at 3.6-3.5 % of GDP in 2003 and 2004, slightly lower compared to 3.7 % of GDP in 2002.

Cyclically adjusted balances

Budgetary stance in the euro area loosened somewhat in 2002, as measured by the change in the cyclically adjusted primary balance (CAPB) which fell to 1.5 % of GDP from 1.8 % in 2001. Most Member States start correcting the deficits in 2003 and the overall budgetary stance in the euro area is expected to be broadly neutral (the CAPB increases slightly by 0.1 of a percentage point according to the forecasts). In 2004, the CAPB hardly changes reflecting the no-policy change assumption.

The cyclically adjusted deficit (CAB) for the euro area was 2.2 % of GDP in 2002. In Germany there was a rise of 0.3 of a percentage point compared to 2001, while for France the cyclically adjusted deficit increased from 2.2 % of GDP in 2001 to 3.3 % of GDP. In Ireland, the rise in the CAB was also sizeable, as it passed from a balance of 0 % of GDP to a deficit of 0.9 % of GDP in 2002.

Graph 2.22: **Euro area fiscal stance and cyclical conditions**



In 2003, in cyclically adjusted terms the German deficit is expected to fall by 0.7 of a percentage point, passing from a deficit of 3.3 % of GDP in 2002 to 2.6 % of GDP. However the actual deficit is forecast to remain above 3% of GDP because growth is much lower than expected (for more details, see country section). In Ireland, there is a 0.6 of a percentage point fall in the structural deficit in the current year, according to the forecasts. For Italy the fall is of only 0.3 of a percentage point in 2003, thus, falling short of the Eurogroup agreement to make an effort of 0.5 % of GDP. Conversely, there is a slight rise of 0.2 of a percentage point in the cyclically adjusted deficit in France and of 0.1 of a point for Portugal in 2003 compared to last year. The largest rise in one year is expected in the UK, where the cyclically adjusted balance passes from a deficit of 1 % of GDP in 2002 to 2 % of GDP. This is associated with an increase in public investment in the UK. Total expenditure of general government in the UK, amounted to 40.7 % of GDP in 2002 and is projected to increase by more than one percentage point in 2003, when it is expected to reach 41.9 % of GDP.

The debt situation

The debt to GDP ratio in the euro area remained unchanged in 2002 compared to 2001, at 69.2 %. In several Member States, the debt/GDP ratio increased last year. In France, Austria and Portugal, although the debt ratio increased, it remained below the 60 % of GDP threshold. In Germany the debt/GDP ratio, which had dropped below the 60 % threshold in 2001, increased to 60.8 % of GDP in 2002. In France, as a consequence of the significant widening of the government deficit and slower growth, the increase was substantial in 2002, with the debt/GDP ratio rising to 59.1 % in 2002 from 56.8 % in 2001. In 2003, according to the forecasts, the debt to GDP ratio in the euro area is expected to further increase, reaching 69.9 % before marginally decreasing to 69.6% in 2004. This is to a large extent due to the expected increases in the debt/GDP ratios in Germany and France, where the ratio will be above 60 % of GDP in both countries.

Uneven evolution across Member States

Most Member States have achieved relatively safe budgetary positions allowing them to let automatic fiscal stabilizers work freely during the current slowdown. In a few others further consolidation is needed in order to reduce the still sizeable deficits, in both actual and cyclical adjusted terms. As large Member States are among the countries that have not yet reached satisfactory budgetary positions, the effects of the automatic stabilizers is hampered in the euro

Table 2.11

General government budgetary position - euro area

(% of GDP)				Spring 2003			Difference with Autumn 2002	
	1999	2000	2001	2002	2003	2004	2003	2004
Total receipts (1)	47.5	47.2	46.5	46.2	46.1	45.9	-0.1	-0.1
Total expenditure (2)	48.9	47.1	48.1	48.4	48.6	48.3	0.3	0.5
Actual balance (3) = (1)-(2)	-1.3	0.1	-1.6	-2.2	-2.5	-2.4	-0.4	-0.6
Interest (4)	4.2	4.0	3.9	3.7	3.6	3.5	-0.1	-0.2
Primary balance (5) = (3)+(4)	2.9	4.1	2.3	1.5	1.1	1.1	-0.5	-0.7
UMTS	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Cyclically adjusted balance (6)	-1.7	-1.8	-2.1	-2.2	-2.0	-2.0	-0.3	-0.5
Cyclically adj. prim. balance = (6)+(4)	2.6	2.2	1.8	1.5	1.6	1.5	-0.5	-0.6
Change in actual balance :	1.0	1.4	-1.7	-0.6	-0.3	0.1	-0.5	-0.2
Due to - Cycle	0.3	0.5	-0.4	-0.6	-0.4	0.1	-0.3	0.0
- UMTS	0.0	1.1	-1.1	0.0	0.0	0.0	0.0	0.0
- Interest	0.6	0.2	0.1	0.2	0.1	0.1	0.0	0.1
- Cycl. adj. primary balance	0.1	-0.4	-0.4	-0.3	0.1	-0.1	-0.2	-0.1
Gross debt	72.7	70.2	69.2	69.2	69.9	69.6	0.8	1.4
p.m. Actual balance EU-15	-0.7	0.9	-0.9	-1.9	-2.3	-2.2	-0.5	-0.6
p.m. Primary balance EU-15	3.3	4.8	2.7	1.5	0.9	1.0	-0.7	-0.7
p.m. Cycl. adj. prim. balance EU-15	3.0	2.7	2.3	1.6	1.5	1.4	-0.5	-0.7

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

area. The economic slowdown is challenging the achievement of the Stability and Growth Pact targets for those countries, where budget balances have not yet reached the goal of close to balance or in surplus.

The Council decided on 21 January 2003 that an excessive deficit exists in *Germany* and issued a recommendation to Germany in order to correct the excessive deficit. Compared to the 2002 deficit, the German authorities projected an improvement in the 2003 nominal deficit by 1 percentage point of GDP, based on their growth forecast of 1½%[3]. However, real GDP is forecast to grow by 0.4 % only, according to the Commission forecast which partially explains the 2003 deficit of 3.4% of GDP.

On 21 January 2003, the Council issued an early warning to *France* in order to prevent the deficit to breach the 3 % of GDP. However, in 2002, the deficit reached 3.1 % of GDP, if UMTS proceeds are included. If the 619 million euros representing the amount linked to the sale of the UMTS license are excluded from the 2002 French accounts, then the deficit represented 3.2 % of GDP. According to the Spring forecasts the deficit will climb to 3.7 % of GDP in 2003, because the budget for 2003 does not contain measures to reduce the cyclically adjusted deficit significantly and the economic slowdown continues to weigh on fiscal revenues (for more details, see country section). In 2004, only a marginal improvement in the deficit to 3.5 % of GDP is projected.

In *Portugal*, the excessive deficit procedure was launched in July 2002 as previously undisclosed information led to a large revision of the deficit for 2001 to 4.2% 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 taken by the Ecofin Council on 5 November 2002. According to Eurostat data, the deficit in 2002 was clearly reduced from the previous year and is below the 3% reference value at 2.7 % of GDP. In 2003, in the absence of additional measures, which the authorities are intended to take but have not yet been announced, the deficit is forecast to be above the 3 % threshold.

In 2002 in *Italy* the general government deficit decreased to 2.3 % of GDP from 2.6 % of GDP in 2001. The improvement is due to a large extent to one off measures which amounted to 1 % of GDP. In 2003, temporary measures to the tune of over 1 % of GDP are expected to keep the deficit from increasing. For 2004, under the “no-policy change” assumption, based on

[3] In its annual economic report published on 30 January, the growth forecast for 2003 was taken down to 1%, with the government sticking to its nominal deficit target.

legislation currently in force and in the absence of new measures, the Italian deficit would breach the 3 % reference value.

In the *Netherlands* a deficit was recorded in 2002 for the first time since 1998. From a comfortable surplus of 2.2 % in 2000, and a marginal surplus of 0.1 % of GDP in 2001, the general government balance moved into a 1.1 % of GDP deficit in 2002. This was the result of the operation of automatic stabilisers in a weak economic environment together with the lagged impact of tax reform and revenue shortfalls. In 2003 and 2004 the deficit is expected to increase further to 1.6 % of GDP and 2.4 % of GDP respectively, under the "no-policy change" assumption.

In the *United Kingdom* (admittedly boosted by UMTS receipts equivalent to 2.2% of GDP) from a considerable surplus of 3.9 % of GDP in 2000 and a small one in 2001 (0.8 % of GDP), a deficit of 1.3 % of GDP was recorded in 2002. This deterioration reflects weaker revenues due to the economic slowdown but also important discretionary expenditure for both current consumption and investment. In 2003 and 2004 the deficit is forecast to reach 2.5 % of GDP as discretionary expenditure will continue to rise strongly according to the plans of the government. Also in 2003, an additional extraordinary expenditure is included in the Spring Forecasts for outlays linked to the cost of the war in Iraq equivalent to around 0.3 % of GDP.

6. A worse outcome cannot be excluded

Difficult times for forecasters

Forecasting is particularly troublesome at the present juncture because several inter-linked events are hard to assess. First, there is the war against Iraq, the economic impact of which largely depends on the duration and scale of the conflict. Second, very much related to the first issue, is the outlook for oil prices. Third, the health of corporate and financial sector balance sheets is uncertain with respect to the protracted fall in equity prices. Fourth, confidence of households and firms is low and the direction of change is difficult to predict. Finally, the room of manoeuvre for economic policy is not immense. Monetary policy has to trend fine line between the inflationary and deflationary effect of an oil price hike. Concerning budgetary policy, the lack of fiscal consolidation during good times may prevent the automatic stabilisers play fully, as a further increase in the already high actual and cyclically adjusted deficits could undermine consumer confidence.

There is considerable uncertainty around the Commission projection regarding oil prices. This assumes oil prices decline as suggested by futures markets. The forecasts in the baseline scenario reflect a dissipation of geo-political tensions in the second half of 2003 and a return of confidence because of this and because stock markets have stabilised. With respect to the war in Iraq, a relatively contained conflict is assumed. The initial reaction of markets in the days just before the outbreak of the fighting on 20 March supported this view: oil prices dropped and equity values increased.

However, after one week of fighting there came an end to the rally in stock markets and oil prices increased again on doubts if the war would be over as quickly as earlier anticipated. Hence, a worse outlook compared to the baseline scenario cannot be excluded. One should also bear in mind that economic conditions are fragile, both globally and in the EU, making economies sensitive to shocks. In this respect, three issues are of particular concern: (i) weak confidence; (ii) growing budgetary and current account imbalances; (iii) the protracted fall in stock markets impacting negatively on household and corporate balance sheets.

It could be much worse

Against this background it is appropriate to present an alternative scenario where some of the downside risks materialise. It should be stressed that it is a worst case scenario, to which only a small subjective probability should be attached leaving a much higher probability for a better outcome.

Table 2.12

Comparison of the baseline with a worse scenario

(Real yoy % ch. unless otherwise stated)	2003		2004	
	worse	base	worse	base
Oil price (a)	35.0	27.6	27.0	23.5
United States				
GDP growth	1.3	2.4	1.7	2.5
Private consumption	1.2	1.9	1.8	3.2
Investment	-2.3	2.0	3.1	4.6
Exports	2.4	2.9	4.5	5.1
Imports	4.6	6.1	4.8	7.0
Unemployment rate (b)	6.1	6.0	6.6	6.2
Inflation (c)	1.9	2.0	0.7	1.7
Government balance (d)	-5.3	-4.8	-5.1	-4.6
Trade balance (d)	-5.6	-5.4	-5.8	-5.8
World				
Trade	4.2	5.4	5.0	6.6
GDP growth	2.2	3.2	2.9	3.7
Euro area				
GDP growth	0.2	1.0	1.5	2.3
Private consumption	0.7	1.2	1.4	2.0
Investment	-2.2	0.3	2.1	3.2
Exports	2.3	3.1	4.2	5.7
Imports	2.7	3.6	5.0	6.0
Unemployment rate (b)	9.0	8.8	9.1	8.8
Inflation (c)	2.1	2.1	0.9	1.7
Government balance (d)	-2.8	-2.5	-2.8	-2.4
Trade balance (d)	2.2	2.4	2.1	2.4

(a): USD per barel, brent crude; (b): % of labour force
(c): nominal change; (d): % of GDP
Source: Commission QUEST-model

The alternative scenario differs from the baseline projection in the assumed evolution of oil prices and in the level of confidence, which have a negative impact on investment, international trade and consumer spending.

In a worse case scenario, which has to be seen as an illustration of what could happen and not as a forecast, the following key assumptions are made:

- The oil price could reach peaks above USD 45 per barrel in the second and third quarter of this year, leading to an average oil price of USD 35 in 2003 which is about 25 % above the baseline. Also next year oil prices stay high at USD 27 (the upper end of the OPEC target band) which is about 15 % above the baseline. These oil price developments could, for example, be the result of a protracted conflict with disruption of production facilities;

- Contrary to the baseline scenario, confidence worsens further in the second half of this year before stabilising and improving in 2004. The deterioration of household confidence affects negatively consumption, tourism and international travel. There is more risk aversion dampening domestic and foreign investment, international trade and capital flows. This may be further exacerbated by troubled international relations following on the failure to agree in the UN on how to handle the Iraq crisis. Stock markets decline putting additional pressure on household wealth and on balance sheets of financial institutions and firms.

In this scenario, the projected acceleration of world growth in 2003 would not materialize and also next year the consequences of the higher oil prices and the general worsening of the international environment would be felt. Both the US and the EU would face a recession (2 quarters of GDP contraction) in 2003, which would be particularly sharp in the euro area because growth in the baseline is already weak. It would imply in the euro area two quarters a serious contraction in GDP of more than ¾ %. Average growth in the euro area would be almost 1 percentage point lower of which 30 % is directly attributable to the rise in oil prices and the remaining 70 % is the consequence of the fall in confidence, the rise in the risk premium and financial stress. The fall of growth would be less sharp in 2004 because the impact of the oil price hike is concentrated in 2003. Investment is particularly hard hit and would contract again this year as it did in 2002.

The impact on inflation is muted in 2003 because the upward pressure from oil prices is offset by the fall in demand. Deflationary pressure is building up leading to a particularly low inflation rate in 2004. Taking into account the size of the shock, the unemployment rate rises in 2003 and increases further in the following year. The additional deterioration of government balances could appear limited, but this is mainly explained by the lower budget sensitivity of adverse trade and investment developments compared to the budgetary impact of a fall in consumption. Nevertheless, the government deficit would be approaching the 3 % of GDP threshold.

The simulations presented on the basis of the Commission QUEST model do not include economic policy reactions. In particular monetary policy is assumed not to react in the first year. If policy changes would be incorporated, the simulations would indicate an economic downturn which is much less severe.

Chapter 3

Member States

1. Belgium

Deceleration in activity linked to the cycle in the Eurozone

Economic situation and prospects

The business cycle in the open economy of Belgium is closely linked to that of its main European partners, in particular those of the euro zone. Since 2001, slower activity and weaker demand in the neighbouring countries, was accompanied by a sharp fall in real GDP growth in Belgium: after being particularly strong in 2000, the increase in real GDP decelerated to 0.8% in 2001 and 0.7% in 2002. In 2001, the quarterly profile was particularly weak, ending by a decline of 0.5% in the fourth quarter. A mild recovery was registered at the beginning of 2002 but the improvement remained weak throughout the year and real GDP growth reached barely 0.2% in the fourth quarter. Declining confidence due to external developments and uncertainties related to geopolitical developments and oil prices are currently delaying prospects of economic recovery: the trough of the cycle is postponed to the end of Spring, two quarters later than expected in Autumn. The synthetic indicator of the Belgian National Bank, which reflects the short term fundamental trend, was still deteriorating at the beginning of 2003. Real GDP growth is forecast to reach 1.2% in 2003 and 2.3% in 2004, under the assumption of improving external prospects. However, significant risks weigh on this forecast, all of them stemming from external developments.

GDP components

In 2002, private consumption was restricted by the increase in unemployment, registered as from 2001 and from worsening expectations; some improvement in confidence indicators in the course of the year did not last. In March 2003, the consumer confidence index was at its lowest since 2001, due to negative expectations concerning economic and employment prospects as well as the financial situation of households. As employment is expected to recover only in late 2003, with delay as against resuming activity, the saving ratio is forecast to remain at a high level throughout the period. Improvement in world economic activity should be translated progressively into higher confidence and stronger consumption in the course of the second half of 2003 and in 2004. In view of the uncertain external environment, weak demand conditions and particularly low capacity utilisation, productive investment was particularly subdued in 2002. In 2003, improvement in export markets and in domestic demand are expected to foster private investment which should gradually strengthen during the year and continue in 2004. Exports, which have been weakening since 2001, should recover in 2003 as a result of recovery in world trade; however, the effective appreciation of the euro will result presumably in market shares losses outside the euro area, while exports to the neighbouring euro partners are not expected to recover strongly. Recovery in Belgian external trade is therefore expected to be relatively slow and contribution to real GDP growth from external demand should be modest.

Labour market, costs and prices

Robust progress in employment is not foreseen in the course of 2003 and, on average, it is expected to continue to decline slightly. As some improvement will be registered in the last part of the year, strengthening in the course of 2004, increase in total employment might reach 0.7% in that year. The unemployment rate, which has been on a slow but continuous increasing path since 2001, will continue to rise in 2003 and stabilise in 2004.

Costs and prices perspectives can be considered relatively positive. Imported inflation is expected to be offset for a large part by the appreciation of the euro; the oil bill, in particular, invoiced in dollars, should be alleviated by the exchange rate effect. However, this assumption encompasses significant risks related to unpredictable surges in oil prices or to oil production disruptions. As far as internal costs are concerned, the framework nominal wage agreement for the private sector, which covers the years 2003-2004, is aiming at preserving cost competitiveness in Belgium, taking as benchmark the three main economic partners of Belgium. A norm for nominal wage increases was set at

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	1.2	2.3
Private consumption		138.5	54.5	1.9	2.1	3.4	0.9	0.6	0.9	1.4
Public consumption		55.1	21.7	1.2	3.6	2.3	2.2	1.9	2.0	1.8
GFCF		52.9	20.8	1.7	4.3	4.1	0.5	-2.7	-0.5	2.8
of which : equipment		-	-	-	-	-	-	-3.5	-0.7	2.8
Change in stocks as % of GDP		-1.1	-0.4	0.1	-0.4	-0.1	-0.7	-0.5	0.0	0.1
Exports (goods and services)		217.1	85.4	4.5	5.0	8.2	1.1	-0.9	2.2	4.8
Final demand		462.4	181.8	2.7	3.6	5.7	0.8	-0.3	1.8	3.3
Imports (goods and services)		208.1	81.8	4.0	4.1	8.4	0.8	-1.6	2.6	4.6
GNI at constant prices (GDP deflator)		258.9	101.8	2.1	3.0	3.8	0.5	0.4	1.2	2.3
Contribution to GDP growth :	Domestic demand			1.7	2.8	3.1	1.1	0.1	0.8	1.7
	Stockbuilding			-0.1	-0.5	0.3	-0.6	0.1	0.5	0.2
	Foreign balance			0.3	0.9	0.3	0.3	0.4	-0.1	0.4
Employment				0.1	1.4	1.6	1.2	-0.1	-0.1	0.7
Unemployment (a)				9.1	8.6	6.9	6.7	7.3	7.8	7.8
Compensation of employees/head				4.7	3.3	2.5	3.6	4.1	2.1	3.1
Unit labour costs				2.8	1.6	0.4	4.0	3.2	0.8	1.5
Real unit labour costs				-0.5	0.2	-0.9	2.0	0.9	-1.0	-0.2
Savings rate of households (b)				-	16.1	15.1	14.9	15.6	16.1	16.8
GDP deflator				3.3	1.4	1.3	2.0	2.3	1.8	1.7
Private consumption deflator				3.2	1.3	2.3	2.5	1.9	1.7	1.3
Harmonised index of consumer prices				-	1.1	2.7	2.4	1.6	1.4	1.3
Trade balance (c)				0.1	3.7	2.1	2.6	2.9	2.7	2.9
Balance on current transactions with ROW (c)				2.1	5.3	4.4	4.5	5.9	6.2	6.9
Net lending(+) or borrowing(-) vis à vis ROW (c)				2.0	5.3	4.3	4.4	5.9	6.2	6.9
General government balance (c)(d)				-6.9	-0.5	0.1	0.4	0.1	-0.2	-0.1
General government gross debt (c)				124.7	114.9	109.6	108.5	105.3	102.7	98.9

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

5.4% for the whole period 2003 and 2004, which, when compared with the 6.4% limit set by the previous agreement covering 2001 and 2002, reflects some resumed wage moderation. Sectoral agreements are expected to be rather moderated in 2003, particularly in view of the situation on the labour market; higher increases might be delayed to 2004. In 2002, underlying inflation decelerated sharply, partly due to the abolition of the television license fee in Flanders and Brussels but also due to weakening demand and import prices. Reduction in inflation is expected to continue in 2003 and 2004 as a result of easing domestic cost pressures and limited increases in non-oil import prices. However, in this respect, large uncertainties exist related to oil prices.

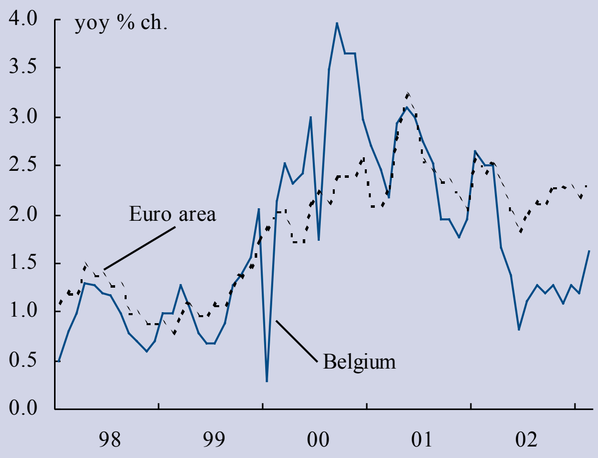
Public finances

In 2002, despite macroeconomic developments less supportive than assumed in the budget, the general government accounts reached a small surplus of 0.1 % of GDP. Budgetary control exercises were organised in March and July associating all levels of government. Expenditure was constrained, while in the social security sector, health spending, after a strong increase in 2001, was better controlled. The implementation of the tax reform resulted in cuts in the personal income tax and in a progressive phasing out of the crisis contribution; social security contributions of the enterprises sector were reduced and some other taxes were eliminated or reduced in Flanders and Brussels. The fall in interest payments cushioned the negative effect of decelerating fiscal revenues. The fall in the government debt ratio, which had decelerated in 2001, resumed in 2002 and its level was reduced to 105.3% if GDP.

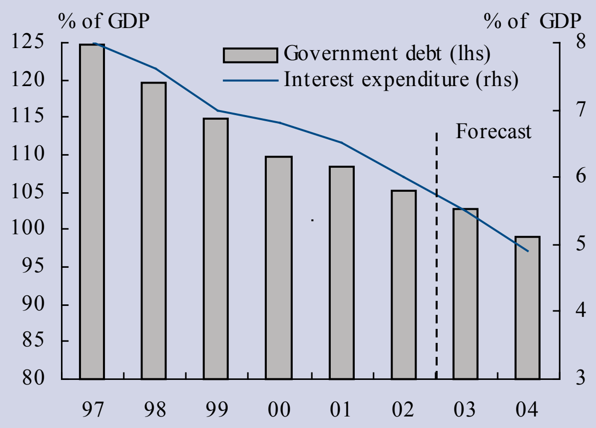
The 2003 budget announced further expenditure restraint while continuing the implementation of the tax reform; the latter would result in further tax cuts amounting to 0.35% of GDP and in reducing tax rates for corporations, a reduction which, combined with offsetting measures will be neutral. Excises on tobacco and some local taxes will be raised. Reaching balance continues to rely critically on further savings on interest payments, expected to continue in 2003 as the government debt ratio declines. However, the 2003 budget was built on a 2.1% real GDP growth assumption; in February this underlying projection was reduced to 1.4% while the government balance objective was maintained. Such an adjustment was made possible by further containment of federal expenditure, applying the "anchor principle" (holding the utilisation rate of credits under or at the rate of 2001 during a number of months); better than expected tax revenues at the end of 2002 were also used to fill the additional gap. An upward correction in savings on interest payments, due to a more favourable spectrum of interest rates, was also instrumental.

Real GDP growth is expected to slow to 1.2% in 2003; consequently, a government deficit of 0.2% of GDP is forecast under the assumption of no further adjustment measures. An improvement should occur in 2004, the government deficit reaching 0.1% of GDP under the same assumption. At the same time, the government debt is expected to continue to decline from 105.3% of GDP in 2002 to 102.7% in 2003 and 98.9% in 2004.

Graph 3.1: **Belgium - HICP inflation**



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



2. Denmark

Riding the tides of the slowdown

The economy in 2002

The Danish economy weathered to a large extent the effects of the international slowdown in 2002. Overall, real GDP grew by 1.6%, mainly supported by a sustained growth in final domestic demand. The quarterly profile of GDP growth during 2002 was very volatile as large movements in stocks to some extent disrupted the picture. The expected acceleration in private consumption finally set in, primarily driven by increases in car sales, but also retail sales increased at stronger rates. Investment growth remained largely unchanged compared to 2001 at just above 1%. Equipment investment grew surprisingly strongly in light of the modest overall growth rate, whereas non-residential investment fell markedly. Housing investment picked up a little bit again, as house prices continued to increase.

The volatile stock movements during the year resulted in stocks putting an overall drag of –½ percentage point on GDP growth. These stock developments are difficult to understand in light of the economic developments during the year, and it seems likely that they include some statistical discrepancies.

Exports held up very well in spite of the international slowdown. Exports of goods grew by more than 4% in real terms, primarily due to a favourable composition of goods, as many of the goods exported are not very sensitive to the cycle, and a reorientation in export markets. Imports grew somewhat less than exports, resulting in a growth contribution from net exports of ½ percentage point. Furthermore, the current account registered another high surplus.

Inflation showed more resilience than expected. After a small decline in the beginning of the year, inflation has come up again and ended the year at the same level as it began.

Prospects

The immediate outlook for the Danish economy is for a moderate growth rate in 2003 of 1½% accelerating to just over 2% in 2004. In both years final domestic demand is expected to be driving growth, primarily led by increases in private consumption on the back of sustained increases in real disposable incomes and the tax reform announced for 2004.

The Danish economy continues to be well balanced. Both public finances and the current account are in large surpluses. Compared to previous forecasts, the situation on the labour market has eased, thereby reducing the risks of overheating.

GDP components

Private consumption is expected to continue to show healthy, but slightly lower growth rates in 2003 compared to 2002, as disposable incomes are set to increase slightly less and inflation remains at a relatively high level. In 2004, the effects of the announced tax reform should refuel private consumption to a growth rate above 2%. Overall investment is likely to remain subdued in the first half of 2003 and then increase gradually in the second half and into 2004. Housing investment is increasing in the entire forecast period, partly as a result of policy induced increases. The large depletion of stocks in 2001 and 2002 should come to an end and positive contributions to GDP growth from stock are expected in both forecast years.

Exports have to some extent so far been sheltered against the international slowdown, but the line is to a large degree expected to run out for these special factors as the slowdown has turned out to be longer than expected. Furthermore, the appreciation of the *krone* and the continued high wage increase put pressure on competitiveness, resulting in loss of market shares in both years. Exports are therefore expected to grow only by 2% in 2003, increasing to just below 5% in 2004. Imports should grow broadly in line with final demand, resulting in a small negative contribution from net exports in both years.

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	1324.5	100.0		1.9	2.6	2.8	1.4	1.6	1.5	2.2
Private consumption	626.5	47.3		1.5	0.7	-1.9	0.4	2.2	1.8	2.3
Public consumption	342.9	25.9		1.5	2.0	1.1	2.1	1.0	0.9	0.9
GFCF	268.5	20.3		2.9	1.4	9.2	1.5	1.1	1.6	3.7
of which : equipment	115.9	8.8		3.9	5.5	12.1	4.4	6.3	2.4	3.8
Change in stocks as % of GDP	1.7	0.1		0.5	0.0	0.6	0.3	-0.3	-0.2	0.0
Exports (goods and services)	599.3	45.2		4.2	12.3	13.1	3.2	3.2	2.0	4.7
Final demand	1838.8	138.8		2.4	3.4	5.3	1.6	1.8	1.8	3.2
Imports (goods and services)	514.3	38.8		4.5	5.5	11.9	1.8	2.3	2.4	5.5
GNI at constant prices (GDP deflator)	1305.8	98.6		1.9	2.9	1.6	2.0	1.6	1.6	2.3
Contribution to GDP growth :			Domestic demand	1.7	1.2	1.3	1.0	1.5	1.4	2.2
			Stockbuilding	0.1	-1.1	0.6	-0.3	-0.5	0.2	0.1
			Foreign balance	0.0	2.6	0.9	0.7	0.5	-0.1	-0.1
Employment				0.4	1.2	0.9	-0.3	-0.7	-0.3	0.4
Unemployment (a)				7.0	4.8	4.4	4.3	4.5	5.0	4.8
Compensation of employees/head				5.2	3.7	3.6	5.2	3.4	3.8	3.9
Unit labour costs				3.7	2.3	1.7	3.4	1.1	2.0	2.0
Real unit labour costs				-0.6	0.4	-1.3	1.3	0.0	-0.2	0.2
Savings rate of households (b)				-	1.7	4.0	7.0	7.4	7.4	6.8
GDP deflator				4.3	1.8	3.1	2.0	1.1	2.3	1.8
Private consumption deflator				4.3	2.4	3.5	2.6	2.3	2.4	1.9
Harmonised index of consumer prices				-	2.1	2.7	2.3	2.4	2.4	1.9
Trade balance (c)				1.2	2.9	3.3	3.5	3.5	3.5	3.4
Balance on current transactions with ROW (c)				-1.1	1.8	1.4	3.0	2.9	3.1	3.1
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.1	2.4	1.4	3.0	2.9	3.2	3.2
General government balance (c)(d)				-1.9	3.3	2.6	3.1	2.0	1.8	2.1
General government gross debt (c)				63.8	53.0	47.4	45.4	45.2	42.7	39.9

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

Costs and prices

The resilience in inflation is expected to continue during most of 2003, as core inflation remains high and the oil price is increasing. From October 1 2003, a reduction in excise duties on strong alcohol, tobacco and soft drinks is implemented – equivalent to a reduction of the inflation rate by ¼ percentage point. Most of the effect of the reduction will only be visible in 2004, where inflation is set to decrease also, as result of the falling oil price. Core inflation is, however, not expected to decrease markedly over the forecast horizon, as wage increases remain high.

Labour market

The recent increase in the number of people unemployed is expected to continue during most of 2003 with the turn-around setting in during the autumn. However, compared to previous downturns in the economy, the increase in unemployment is still only marginal, and it is not expected to affect the increase in wages markedly, as wage increases are set to remain fairly constant around 4% the entire forecast period. Employment creation is set to increase again during 2003 after employment fell in 2002.

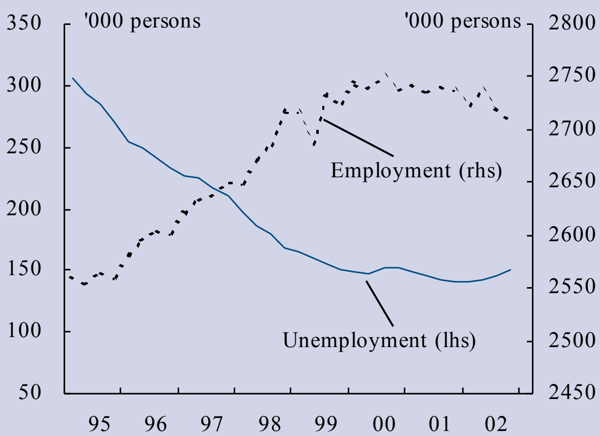
Overall, the Danish labour market is expected to continue to remain tight. However, the recent developments in unemployment and employment has reduced the risk of over-heating.

Public finances

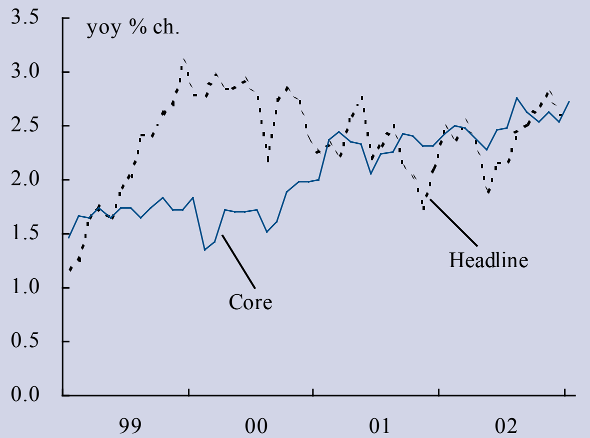
The general government balance showed a surplus of 2.0% of GDP in 2002. In 2003, a slightly smaller surplus of 1.8% of GDP is expected as the larger unemployment increases transfers to households and lowers growth rates of some tax revenues. In 2004, the surplus is set to increase to 2.1% of GDP, despite the implementation of a tax reform which lowers taxes on earned income by 0.4% of GDP. The increase stems from the revenue lost by the tax reform being more than out-weighed by the positive effects on public finances by the increased GDP growth and by the fact that the pension fund yield tax, which has hardly generated any revenue since 2000 as a result of the prolonged downturn in the stock market, should generate revenues amounting to approximately ½% of GDP. This is half the revenue expected in a year with “normal” stock market developments, thereby reflecting the carry-forward of negative tax-balances. The tax reform has been taken into the forecast in the way it was specified in the proposal from the government.

The debt, which currently stands at 45% of GDP is expected to be reduced to 40% of GDP by the end of 2004.

Graph 3.3: **Denmark - Labour market**



Graph 3.4 : **Denmark - HICP inflation**



3. Germany

Stagnation extending into the third year

The economy in 2002

Barely a year after the last contraction, quarterly growth stagnated again in the fourth quarter of 2002, in an economic environment combining a high level of uncertainty related to the outcome of the war in Iraq with a structurally weak economy. Already much earlier, in the second half of 2000, growth in Germany had come to a virtual standstill. Average quarterly growth since then has been less than 0.1%. Despite quarterly growth rates of ¼% in the first to third quarter of 2002 overall GDP last year was merely 0.2% higher than in 2001, which already disappointed with a growth rate of only 0.6%.

Hopes that the long stagnation would soon be overcome have been dashed. Growth in 2002 was positive only as a result of a large external contribution in the order of 1.5 % of GDP, because rising exports combined with a sharp fall in imports. The latter reflected strongly contracting domestic demand, which fell by 1.5%. Contraction was particularly marked for equipment investment, which was more than 9% below the already low 2001 level. This added to the nearly 6% decline in the construction sector and the 0.6% fall in private consumption. Only public consumption posted a slight increase, largely as a result of an unplanned strong rise in health care expenditures.

Prospects

The economic situation at the beginning of 2003 is hardly changed from that of the end of last year. Growth is expected to be zero in the first quarter and might even be negative again in the second quarter. Uncertainty about the Iraq war, high oil prices and a strong euro dampen hopes for an export driven-recovery. This is also reflected in persistently low business confidence indicators, which recently started falling again after notching up slightly around the turn of the year.

In the light of the difficult international environment, and due to the fact that the strong import decline of last year is set to reverse, a pick-up in economic activity, would therefore have to rely largely on domestic impulses. This might be possible in the second half of the year, if the military conflict in Iraq turns out to be benign. However, domestic impulses are likely to remain weak, because, as a result of the prolonged three-year stagnation and the strong fall in stock market values, many companies need to consolidate their balance sheets before being able to embark on major investment programmes. The situation is aggravated by rising levels of bad debt and losses in the German financial sector, which limit its lending capacity, in particular to small and medium-size enterprises. As a result, an economic recovery in Germany is likely to again lag behind those of other European countries.

Despite these potential risks, a restoration of consumer and producer confidence could lead to a revival of domestic demand. The savings rate in Germany has risen substantially over the last two years and equipment investment is nearly one-fifth below its level of the middle of 2000. A modest reversal of these strongly negative developments could bring about an acceleration of private consumption and investment activity. There is even hope that the decline in the construction sector, which has been ongoing since the middle of the 1990s, might slow down somewhat.

However, due to an increase in unemployment by over 350,000 people in 2003 and the above-mentioned financing constraints, a possible economic recovery is unlikely to develop immediately into a boom. Instead, it should take the form of a relatively modest acceleration of economic activity. The overall growth for 2003 is therefore projected to be below ½ %.

Economic reforms, notably in the labour market, could potentially accelerate a recovery, by increasing economic confidence. However, at the present juncture, those proposals that have actually been passed as laws do not yet suffice to herald a significant increase in Germany’s low potential growth, which lingers at

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	0.2	0.4	2.0
Private consumption		1232.2	59.5	2.0	3.7	1.4	1.5	-0.6	0.2	1.5
Public consumption		393.5	19.0	1.4	1.0	1.2	0.8	1.5	0.5	0.8
GFCF		416.3	20.1	1.5	4.1	2.5	-5.3	-6.7	0.0	3.1
of which : equipment		166.3	8.0	2.0	7.2	9.5	-5.8	-9.4	2.2	5.8
Change in stocks as % of GDP		-9.4	-0.5	0.0	-0.3	-0.1	-0.8	-0.7	-0.5	-0.2
Exports (goods and services)		726.9	35.1	5.2	5.6	13.7	5.0	2.6	3.4	6.4
Final demand		2759.5	133.2	2.5	3.4	4.6	0.7	-0.4	1.3	3.2
Imports (goods and services)		688.3	33.2	4.3	8.5	10.5	1.0	-2.1	3.9	6.7
GNI at constant prices (GDP deflator)		2055.8	99.3	2.0	2.1	3.1	0.3	0.5	0.4	2.1
Contribution to GDP growth :	Domestic demand			1.7	3.2	1.6	-0.2	-1.5	0.2	1.6
	Stockbuilding			0.0	-0.4	0.2	-0.6	0.1	0.2	0.2
	Foreign balance			0.4	-0.7	1.0	1.4	1.6	0.0	0.2
Employment				0.3	1.2	1.8	0.4	-0.6	-0.8	0.2
Unemployment (a)				-	8.4	7.8	7.7	8.2	8.9	8.9
Compensation of employees/head				3.7	1.2	2.0	1.7	1.6	2.2	2.3
Unit labour costs				1.9	0.4	1.0	1.5	0.8	0.9	0.5
Real unit labour costs				-0.7	-0.1	1.2	0.1	-0.8	-0.3	-0.3
Savings rate of households (b)				-	15.4	15.4	15.7	16.0	16.0	15.8
GDP deflator				2.7	0.5	-0.3	1.4	1.6	1.2	0.8
Private consumption deflator				2.6	0.4	1.5	1.9	1.4	1.3	1.1
Harmonised index of consumer prices				-	0.6	1.5	2.1	1.3	1.3	1.2
Trade balance (c)				3.8	3.4	3.1	4.8	6.2	6.2	6.2
Balance on current transactions with ROW (c)				1.2	-0.8	-1.0	0.2	2.4	2.5	2.4
Net lending(+) or borrowing(-) vis à vis ROW (c)				1.0	-0.8	-0.3	0.1	2.4	2.6	1.8
General government balance (c)(d)				-2.4	-1.5	1.1	-2.8	-3.6	-3.4	-2.9
General government gross debt (c)				46.0	61.2	60.2	59.5	60.8	62.7	63.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2000. The UMTS amount as a % of GDP would be : 2.5%.

around 1½ %. In any case, noticeable effects would be visible at best in 2004.

Despite a modest tax reduction as from January 2004, the structural problems that held Germany back in the previous three years will therefore largely persist. Consequently, growth in 2004 will also likely be modest. In calendar-adjusted terms, GDP is projected to increase at a rate near Germany's potential growth of about 1½%. Actual growth should, however, attain a rate of around 2% in 2004, because that year will be marked by an unusually strong calendar effect of around 0.6%. This is due simply to having a leap day (29 February) and several holidays falling on a weekend.

The pick-up in growth should translate into a modest relief for the labour market. Effective wage increases are likely to remain moderate, having no significant positive or negative impact on job creation.

Inflation in Germany continues to be low. After a rate of 1.4% in 2002 it is expected to slowly fall to 1.3% in 2003 and 1.2% in 2004. However, a low rate of inflation is problematic insofar as the real interest rates in Germany remain above the levels elsewhere in the Euro Area. On the other hand, Germany is gradually gaining competitiveness vis-à-vis its European neighbours, which all have higher rates of inflation.

Public finances

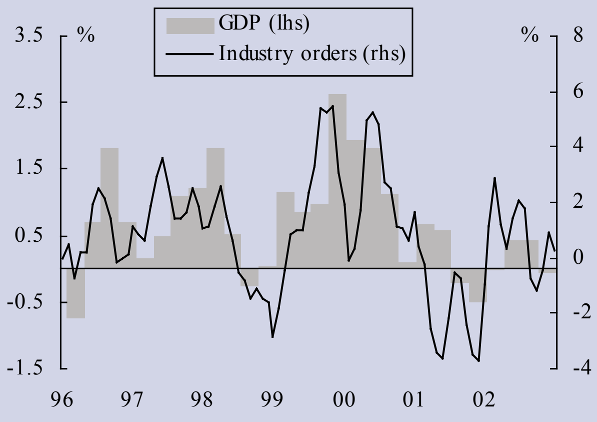
Following a revised 2001 outcome of 2.8% of GDP, the general government deficit is currently estimated to have reached 3.6% of GDP in 2002. This rise is mostly due to a marked shortfall in tax revenues compared with the official May 2002 tax estimate, and another widening of the deficit in social security sectors. Not surprisingly, the debt ratio has also breached the respective Treaty criterion by rising to close to 61% of GDP by end-2002.

While the March 2003 notification by the Federal government implies a decline in the nominal deficit to 2.8% of GDP in the current year, the Commission's deficit forecast is clearly more pessimistic (3.4% of GDP). This is first of all due to the fact that the Commission forecast for nominal GDP growth in 2003 is more than one percentage point of GDP lower than forecasted by the Federal government in its Annual Economic Report in January 2003. Furthermore, the government's deficit projection still incorporates a considerable rise in tax revenues from the tax amnesty and the *'Steuervergünstigungsabbaugesetz*', which was, however, rejected by the Bundesrat on 14 March and is now subject to discussions in the 'Mediation Committee' (Vermittlungsausschuss) between Bundestag and Bundesrat (Chamber of the Länder). Finally, the Commission forecast does not incorporate all of the expenditure savings optimistically projected by the Federal government at the level of the Federal Labour Office.

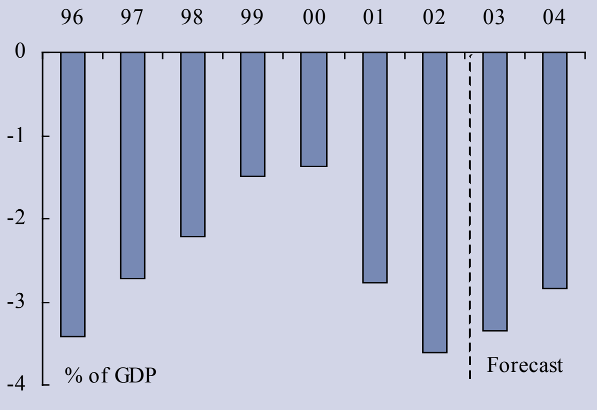
In 2004, accelerating growth conducive to employment creation should make for a more important fall in the nominal deficit, in spite of the implementation of the next step of income tax reform (0.3% of GDP). The debt ratio, however, is projected to rise further to 63% of GDP.

The deficit forecast for 2004 is based on the assumptions of unchanged social security contributions. Furthermore, none of the measures announced by the Federal Chancellor on 14 March could be taken into account, as some of them are not yet very specific or have not yet been introduced into the legislative procedure.

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



Graph 3.6: **Germany - Government net lending**
(without UMTS revenues)



4. Greece

Slower economic growth with persisting price pressures

The economy in 2002

Domestic economic activity continued to grow at a rate well above the EU and euro area average, standing at 4% in 2002. Strong economic growth was supported by domestic demand and in particular by high investment spending linked mostly to the preparations for the 2004 Olympic Games. Moreover, the financial flow from the EU Structural Funds was another important factor contributing to the increase in investment at a rate higher than the real GDP growth rate. Private consumption decelerated as a result of the prevailing economic uncertainty as well as persisting price pressures, despite the beneficial effect of recent tax reform on disposable income. On the external sector, the decline in foreign demand led to a further widening of external transactions deficit due mainly to the significant decrease in exports. Notwithstanding strong domestic activity, imports fell owing to the low import content of investment spending and decelerating private consumption.

The situation in the labour market has remained virtually unchanged as strong domestic activity has not led to employment gains as would have been expected. In fact, total employment is estimated to have been reduced by 0.1% in 2002. The unemployment rate stood at 9.9%, remaining among the highest in the EU and euro area. Furthermore, the persisting high unemployment rates of young workers and females point to structural rigidities impeding the efficient functioning of the labour market that would ensure moderate wage increases. In the private sector, the two year wage agreement signed in April 2002 provided for an increase in the minimum wage in two steps: 3.6% on 1st January 2002 and 1.8% on 1st July 2002. On average, nominal wages are estimated to have risen by 6.7% in 2002 while an increase of 5.5% is projected for 2003.

Consumer price inflation remained well above the euro area average standing at 3.6% in 2002. Bad weather conditions resulted in food price increases which contributed to the rise of inflation in the first months of the year. Price pressures eased temporarily during the Summer months remaining however above 3% due mainly to the considerable increase in prices of services. Furthermore, underlying inflation exceeded the headline rate for a second consecutive year indicating the presence of significant price pressures emanating apparently from services.

Prospects in 2003 and 2004

The basic underlying assumption for the prospects of the Greek economy as they are portrayed in the forecasts is that strong growth of real GDP will continue despite the international economic slowdown. The main driver of this growth will be domestic demand and in particular investment spending, which will be sustained by the preparations for the Olympics and the flows from EU funds. The expected improvement in the international environment from 2004 and low interest rates may help in keeping domestic activity buoyant in the period after the end of the Olympics. Moreover, the Greek economy is very likely to benefit in the longer run from the still unrealised growth potential of its neighbouring countries two of which are scheduled to access EU in 2007. However, the forecasts are subject to considerable risks due to international uncertainties.

In 2003, real GDP is expected to rise albeit at a slower pace reaching 3.6% and remaining above potential. Investment spending will be the main driver of GDP growth whereas private consumption is projected to further decelerate in 2003 and pick up in the last year of the forecast period. Real GDP growth will accelerate to 3.8% in line with the expected external recovery in 2004.

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	4.0	3.6	3.8
Private consumption	89.6	68.4		2.2	2.9	2.6	2.9	2.5	2.3	3.0
Public consumption	20.0	15.3		1.2	1.6	2.0	-0.9	6.2	1.4	1.0
GFCF	29.8	22.8		1.1	6.2	8.0	5.9	6.7	7.9	6.7
of which : equipment	10.8	8.3		5.1	3.5	17.6	3.7	3.4	6.7	6.0
Change in stocks as % of GDP	0.2	0.1		0.0	-0.4	-0.1	0.1	0.2	0.0	0.0
Exports (goods and services)	29.7	22.7		3.5	8.0	19.7	-1.6	-4.5	2.7	6.8
Final demand	169.3	129.3		1.9	3.7	6.6	2.3	2.4	3.2	4.2
Imports (goods and services)	38.3	29.3		5.4	3.8	14.5	-3.4	-2.7	1.8	5.4
GNI at constant prices (GDP deflator)	131.7	100.6		1.1	2.7	3.6	3.5	3.6	3.6	3.8
Contribution to GDP growth :	Domestic demand			1.5	3.7	4.0	3.3	4.1	3.7	3.9
	Stockbuilding			0.0	-0.7	0.3	0.3	0.0	-0.2	0.0
	Foreign balance			-0.6	0.5	-0.1	0.7	-0.2	0.1	0.0
Employment				0.9	0.0	-0.2	-0.3	-0.1	0.3	0.4
Unemployment (a)				7.6	11.8	11.0	10.4	9.9	9.5	9.2
Compensation of employees/head				15.7	4.7	6.0	6.0	6.7	5.5	5.5
Unit labour costs				15.3	1.1	1.6	1.5	2.6	2.1	2.0
Real unit labour costs				-0.4	-1.9	-1.7	-1.9	-1.1	-1.5	-1.6
Savings rate of households (b)				-	19.1	18.9	18.8	18.9	20.0	20.3
GDP deflator				15.7	3.0	3.4	3.4	3.7	3.7	3.7
Private consumption deflator				15.3	2.2	3.2	3.1	3.5	3.3	3.1
Harmonised index of consumer prices				-	2.1	2.9	3.7	3.9	3.8	3.5
Trade balance (c)				-11.6	-13.5	-15.7	-14.5	-14.2	-13.3	-12.8
Balance on current transactions with ROW (c)				-1.2	-3.3	-4.0	-4.4	-4.7	-3.9	-3.2
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	-1.5	-1.6	-2.5	-2.6	-1.6	-1.1
General government balance (c)(d)				-9.7	-1.8	-1.9	-1.4	-1.2	-1.1	-1.0
General government gross debt (c)				75.6	105.1	106.2	107.0	104.9	101.0	97.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2001. The UMTS amount as a % of GDP would be : 0.5%.

Domestic and international uncertainties combined with the persisting inflationary pressures will slow down private consumption despite the beneficial effect of the 2002 tax reform on disposable income. Notwithstanding the possible negative effect of pervasive uncertainties on business investment plans, the acceleration of the preparations for the Olympic Games and increased flows from EU Structural Funds will continue boosting investment spending on non residential construction. The external transactions deficit is expected to decrease slightly as imports of goods and services will rise moderately whereas the gradual elimination of international tensions might boost tourist flows in the second half of 2003. However, the external sector deficit, reflecting domestic macroeconomic imbalances, will continue to be large throughout the forecasting period. The sizeable and chronic external sector imbalances point to the weakening competitiveness of the economy which is intensified by the persistent inflation differential in comparison with the euro area .

Costs and prices

Consumer price inflation is expected to remain high and well above the EU and euro area average, standing at 3.7% in 2003 and declining to 3.5% in 2004. According to underlying assumptions for world primary commodity prices, oil prices and the exchange rate of the euro, the contribution of imported inflation to consumer price inflation should be rather negative.

Furthermore, wage costs in the private sector should increase moderately following the wage agreement signed in early 2002. Thus, minimum nominal wages in the private sector will increase 4.2% in 2003 while compensation per employee for the whole economy is estimated to rise 5.5%. Unit labour costs in the whole economy are expected to decelerate at a rather slow pace due mainly to pressures stemming from the non-manufacturing sector. In fact, price developments by sector in 2001 and 2002 point clearly to the non-tradable sector as the predominant source of persisting price pressures.

Public finances

Government accounts have been revised in 2002 after an agreement with the Commission (Eurostat) which resulted in the reclassification and correction in the treatment of a number of operations. These revisions turned the previously estimated general government surpluses for 2000 and 2001 into deficits, altering thus considerably the budgetary targets set by the 2002 stability programme. Against this background the general government deficit is estimated to have been equal to 1.2% of GDP in 2002 compared to a previously reported surplus of 0.8% of GDP. In 2003, the general government deficit is projected to decline to 0.9% of GDP and stand at 0.4% of GDP in 2004.

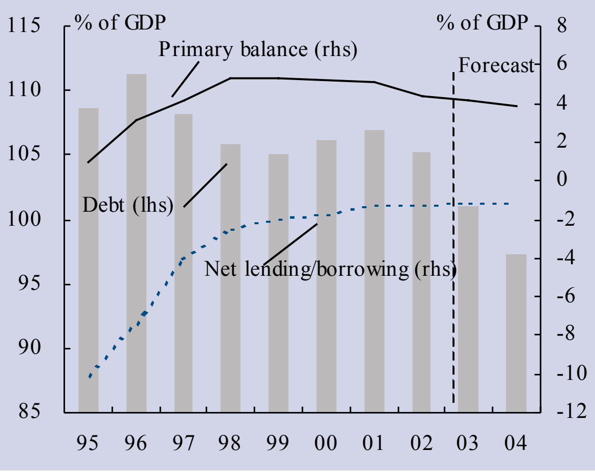
The revision of budgetary data similarly affected developments in the debt ratio which in 2002 is estimated to have been equal to 104.9% of GDP, instead of 97.3% of GDP reported in the 2001 stability programme. The debt ratio is projected to fall to 96.1% of GDP at the end of 2004.

The budgetary strategy adopted by the 2002 stability programme is based on the assumption of a progressive decline in debt servicing costs combined with increasing primary surpluses. Thus, as a result of the deceleration in government spending anticipated by the stability programme, primary surplus is estimated to stand at 4.4% of GDP in 2002 and 4.6% of GDP in 2004.

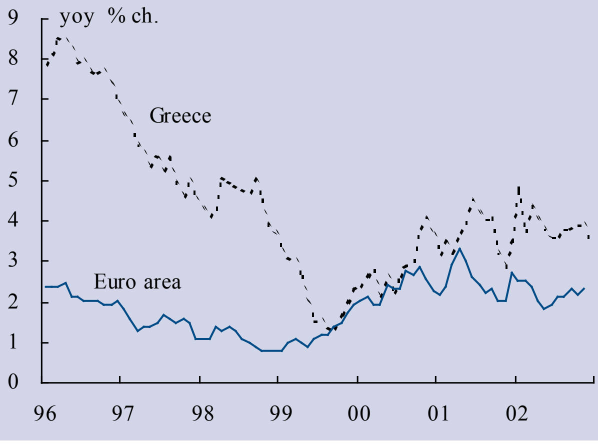
The budgetary adjustment path implied by the stability programme rests heavily on the assumption of a significant improvement in the central government balances which is expected to result from holding back primary spending. However, the deeper-seated spending pressures and the lack of the decisive measures required to tackle in particular the problem of some inelastic categories of government expenditures, render the achievement of the adopted targets uncertain.

Thus, the general government deficit is estimated to stand at 1.1% of GDP in 2003 and fall to 1% of GDP in 2004 with the primary surplus declining from 4.1% of GDP in 2003 to 3.9% of GDP in 2004. The debt ratio is projected to stand at 101% of GDP in 2003 and decrease to 97% of GDP in 2004.

Graph 3.7: **Greece - Public finances**



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



5. Spain

Economy to recover strength in 2004

Following 2.7% growth in 2001, weaker final domestic demand in 2002 led to GDP decelerating significantly to 2.0% for the whole year, broadly as envisaged in the autumn forecast. Weaker private consumption and investment were the main elements of the slowdown. Given current uncertainties, growth for 2003 is expected to remain flat at 2.0%, although rising towards the end of the year and achieving in 2004 3.0%, around that of estimated potential. The output gap, relative to trend, should be at around zero at the end of the forecast period.

Activity in 2002

Despite the slowdown in 2002, mainly driven by private consumption and investment, the still relatively strong domestic demand led GDP to record sounder rates compared to the main EU economies. The relatively good employment behaviour contributed significantly to support private consumption, whereas low growth of gross fixed capital formation can mostly be attributed to negative investment in equipment due to worsened business expectations. As a result, imports decelerated further in the year, offsetting to some extent the weakening of exports that mirrored the downward trend observed in world demand. All in all, the external contribution to GDP growth was slightly negative.

Outlook for 2003 and prospects for 2004

In 2003 private consumption is expected to gain momentum, mainly due to implementation of the personal income tax reform and continuing employment creation. On the other hand, the positive effects on disposable income stemming from reform of the personal income tax are expected to lead to a significant rise in the household saving rate. These trends are foreseen to continue in 2004, with private consumption growing by around 3% from some 2% in 2003. After having weakened sharply in 2002, investment is expected to gain strength in 2003, stemming mainly from higher equipment investment as a result of improved business prospects. On the other hand, given the strength of construction in recent years and the brisk increase in housing prices, a moderation of this component is expected, although it will offset only partially the improvement in equipment. All in all, gross fixed capital formation should accelerate modestly in 2003. This trend should consolidate in 2004, with equipment investment gaining momentum.

Exports and, reflecting a slowdown in final demand, imports are expected to fall sharply in the first half of 2003, although recovering later in the year. On balance, the external contribution to GDP growth is expected to be increasingly negative.

Labour market

The deceleration of activity has slowed employment creation. Employment growth of 1% is expected in 2003 but with this foreseen to recover above 1½% by the end of the forecast period. Despite less buoyant employment growth, the increase in unemployment in 2003 is expected to be limited and short-lived, with the average rate for the year slightly above 11½%, around 0.2 percentage points above that of 2002, and falling below 11½% (Eurostat definition) by the end of 2004. The activity rate is expected to rise by two percentage points over the period.

Costs and prices

Despite the relatively moderate behaviour of unit labour costs, price developments in 2002 were worse than expected, with the HICP inflation rate averaging 3.6%, while core HICP inflation averaged 3.9%. The effects of indirect tax increases at the beginning of the year and the euro changeover effect contributed to this negative result. Core inflation was high in the first months of 2002 although declined thereafter, while an acceleration of prices of unprocessed food and energy in the second half of the year maintained pressure on overall inflation. With wages per head growing by 4% and positive productivity growth, unit labour costs increased by just

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	2.0	2.0	3.0
Private consumption	380.7	58.4	2.2	4.7	3.9	2.5	1.9	2.1	3.1
Public consumption	114.0	17.5	4.0	4.2	5.0	3.1	3.8	3.5	3.2
GFCF	165.6	25.4	3.7	8.7	5.7	3.2	1.4	2.1	4.1
of which : equipment	45.4	7.0	4.2	7.6	4.7	-1.2	-4.1	0.7	5.8
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	1.4	3.3	4.3
Final demand	857.3	131.6	3.5	6.1	5.7	2.9	2.1	2.5	3.6
Imports (goods and services)	205.6	31.6	8.6	12.7	10.6	3.5	2.2	4.2	5.4
GNI at constant prices (GDP deflator)	642.8	98.6	2.6	4.3	4.2	2.3	2.2	2.0	3.1
Contribution to GDP growth :	Domestic demand		2.8	5.6	4.6	2.8	2.1	2.4	3.4
	Stockbuilding		0.0	0.1	-0.1	0.0	0.1	-0.1	0.1
	Foreign balance		-0.1	-1.4	-0.3	-0.1	-0.3	-0.4	-0.5
Employment			0.9	3.6	3.4	2.4	1.3	1.0	1.7
Unemployment (a)			15.8	12.8	11.3	10.6	11.4	11.6	11.4
Compensation of employees/head			8.3	2.7	3.7	4.1	4.0	3.9	3.6
Unit labour costs			6.5	2.1	3.0	3.8	3.2	2.9	2.2
Real unit labour costs			-0.6	-0.6	-0.5	-0.4	-1.1	-0.8	-0.7
Savings rate of households (b)			-	10.7	10.5	10.2	10.3	10.7	10.9
GDP deflator			7.1	2.7	3.5	4.2	4.4	3.7	3.0
Private consumption deflator			7.1	2.4	3.2	3.3	3.6	3.2	2.7
Harmonised index of consumer prices			-	2.2	3.5	2.8	3.6	3.2	2.7
Trade balance (c)			-4.0	-5.1	-6.2	-5.7	-5.3	-5.2	-5.4
Balance on current transactions with ROW (c)			-1.3	-2.1	-3.3	-3.0	-2.7	-2.6	-2.7
Net lending(+) or borrowing(-) vis à vis ROW (c)			-0.9	-1.0	-2.4	-2.1	-1.6	-1.6	-1.7
General government balance (c)(d)			-4.7	-1.2	-0.8	-0.1	-0.1	-0.4	-0.1
General government gross debt (c)			46.9	63.1	60.5	56.9	54.0	52.5	50.5

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

over 3%, below the rise in the GDP deflator and maintaining the trend observed in recent years.

For 2003 HICP inflation is expected again to exceed 3%, easing further to slightly above 2½% in 2004, provided wage moderation continues. The lack of special factors such as those in 2002 should provide some relief to price developments. Consequently, core inflation is also expected to decelerate in 2003 and 2004. On the side of labour costs, the increase in employee compensation per full-time equivalent in 2003 is expected to remain broadly stable despite a weaker labour market than in 2002. However, the growth in unit labour costs is expected to fall, due to rising labour productivity, yielding a further decline in real terms. These trends are expected to extend into 2004, with compensation per employee and unit labour costs moderating further.

External sector

The current account deficit fell to 2.7% of GDP in 2002; growth of merchandise trade slumped. A recovery of exports of goods seems to have started in the second half of 2002 as a result of somewhat stronger world demand, coupled with a recovery of imports. This upward trend is expected to reverse in the first two quarters of 2003 but to recover briskly thereafter for both exports and imports, provided current uncertainties are removed. The current account deficit is foreseen to remain broadly unchanged at around 2½% of GDP as a result of gains in the terms of trade in both 2003 and 2004.

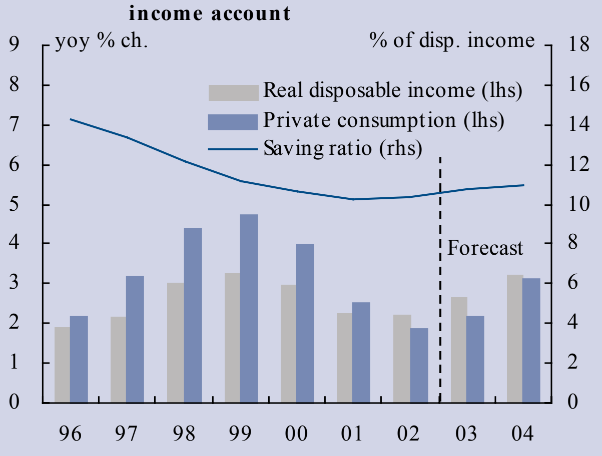
Public finances

In 2002, despite the economic slowdown, the relative buoyancy of tax revenues, particularly corporate income tax, and control of public consumption contributed to alleviate pressure on the budget. Consequently, the general government recorded only a slight deficit of 0.1% of GDP.

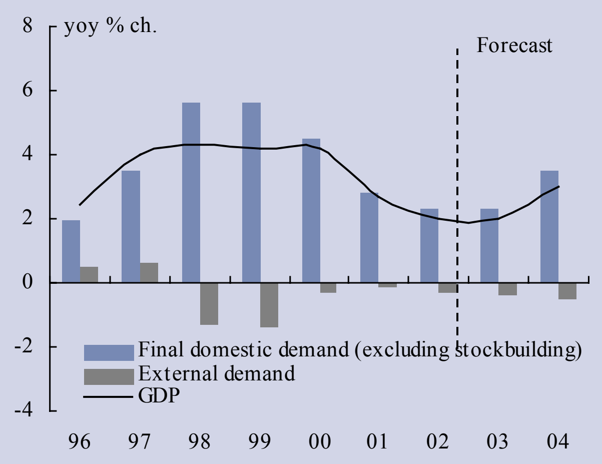
In 2003 reform of personal income tax, including broadly-based cuts, is expected to moderate revenues. The forecast of a less optimistic framework than that envisaged by the authorities in the budget leads to a general government deficit of 0.4% of GDP. Nevertheless, given the recent implementation of the General Law of Budgetary Stability and transfer of major spending powers to regional governments, this forecast is necessarily subject to a high degree of uncertainty.

Assuming no policy changes, the budget is forecast to record a marginal deficit in 2004, broadly in line with Spain's stability programme. The debt-to-GDP ratio is expected to remain below 60% and on a declining path throughout the forecast period, being close to 50% in 2004.

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



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



6. France

Low growth and deteriorating public finances for a second consecutive year in 2003

The economy in the second half of 2002

Real GDP growth decelerated in the second half of 2002 to an annualised pace of 1%, down from 2¼% in the first half. This slowdown is mainly due to the deterioration in the external environment: a sharp slowdown in the export market growth of the French economy was observed from autumn 2002, and the uncertainties surrounding the global economy weighed on industrialists' confidence. Business confidence was also affected by the emergence of some liquidity and profitability difficulties. In this context, the rapid fall in the stock-to-GDP ratio continued and total investment declined by ¾ percentage point per quarter in the second half.

The slowdown in economic activity in 2002 was attenuated by a strong increase in public consumption, which contributed well over half of the increase in real GDP, at the expense of an increase in the general government deficit. Although decelerating, private consumption brought the second main contribution to real GDP growth. In this context, employment creation continued to abate and the unemployment rate to increase.

Current situation and prospects

Several elements currently point to a relatively weak economic activity over the next few quarters. Since last summer, business surveys have shown confidence remaining low both in manufacturing, where output expectations are today below their long-term average, and in the service sector, where indicators are hovering around their long-term average. These developments, coupled with the current low level of margins, suggest that demand from firms will remain subdued.

In the second half of 2003, a recovery in the world economy together with a gradual decline in oil prices and relatively favourable monetary conditions will contribute to the improvement in demand prospects and are expected to trigger a gradual acceleration in economic activity from the end of 2003. Real GDP growth would then resume to a rate close to potential in 2004.

GDP components

The acceleration in export volumes from autumn 2003 should support an upturn in demand expectations, and create the conditions for firms to slow de-stocking. After two years of decline, productive investment is projected to recover gradually from the end of 2003, when the improvement in demand and profitability prospects are confirmed and capacity utilisation rises.

The materialisation of a firm and durable recovery in private consumption should also be relatively gradual and not occur before the end of 2003. Indeed, households' real gross disposable income is currently decelerating due to the slowdown in employment growth, to the temporary impact of the increase in oil prices, and to lower tax cuts. Moreover, the increase in the unemployment rate and the general climate of uncertainty, reflected in the evolution of consumers' confidence, suggest that the increase in the saving rate observed in the last few years will not be reversed until 2004.

Labour market, costs and prices.

The deterioration in economic conditions is impacting the labour market: employment growth was almost nil in the second part of 2002, and is not expected to accelerate before the beginning of 2004, when it should remain relatively modest. This projection of a relatively pronounced productivity cycle reflects the necessity for companies to restore margins after the strong contraction of the last two years, and the gradual fading of the effects of active labour market policies. In this context, the unemployment rate should decline only marginally in 2004.

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	1.2	1.1	2.3
Private consumption		805.8	55.1	1.7	3.2	2.5	2.6	1.8	1.7	1.9
Public consumption		340.6	23.3	2.4	1.5	2.7	2.5	3.5	2.4	2.4
GFCF		295.6	20.2	1.7	8.3	7.7	2.3	-0.6	-1.2	3.0
of which : equipment		110.1	7.5	4.4	11.9	11.5	3.6	-1.4	-0.5	4.7
Change in stocks as % of GDP		-1.3	-0.1	0.1	0.6	0.9	0.2	-0.5	-0.4	-0.2
Exports (goods and services)		408.6	27.9	5.2	4.3	12.7	0.5	1.5	2.9	5.2
Final demand		1849.3	126.3	2.4	3.9	5.8	1.4	1.1	1.6	3.1
Imports (goods and services)		385.6	26.3	4.3	6.2	14.3	0.1	1.3	3.7	6.2
GNI at constant prices (GDP deflator)		1469.2	100.4	2.0	3.8	3.3	1.6	0.9	1.1	2.3
Contribution to GDP growth :	Domestic demand			1.9	3.7	3.5	2.4	1.6	1.2	2.2
	Stockbuilding			0.0	-0.1	0.4	-0.8	-0.6	0.0	0.3
	Foreign balance			0.2	-0.3	-0.1	0.1	0.1	-0.1	-0.2
Employment				0.0	1.7	2.2	2.0	0.6	0.1	0.5
Unemployment (a)				9.9	10.7	9.3	8.5	8.7	9.2	9.1
Compensation of employees/head				5.2	2.5	2.1	2.6	2.9	2.6	2.6
Unit labour costs				3.2	1.0	0.6	2.8	2.3	1.5	0.8
Real unit labour costs				-0.9	0.4	-0.1	1.3	0.5	-0.1	-0.6
Savings rate of households (b)				-	15.3	15.4	15.9	17.1	17.0	17.0
GDP deflator				4.1	0.5	0.7	1.4	1.7	1.6	1.4
Private consumption deflator				4.4	0.4	1.5	1.6	1.5	1.5	1.4
Harmonised index of consumer prices				-	0.6	1.8	1.8	1.9	1.9	1.5
Trade balance (c)				-0.9	0.9	-0.3	0.1	0.1	0.1	0.0
Balance on current transactions with ROW (c)				-0.9	2.6	1.2	1.2	1.2	1.1	1.0
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.0	2.5	1.2	1.2	1.0	1.0	0.9
General government balance (c)(d)				-3.0	-1.8	-1.4	-1.5	-3.1	-3.7	-3.5
General government gross debt (c)				38.9	58.5	57.2	56.8	59.1	61.8	63.1

(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 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. In 2003, the effects of the harmonisation of the different levels of the minimum wage created by the working time reduction laws will be counterbalanced 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, in particular when compared to the relatively dynamic increment observed in 2001 and 2002.

As a consequence, underlying inflationary pressures are projected to remain limited. Price moderation will also result from the appreciation of the euro and, after summer 2003, the normalisation of energy and food prices. Therefore the year-on-year rate of inflation should decrease gradually during 2003, after the temporary acceleration in the first few months of 2003, which was mainly due to the impact of the sharp increase in oil prices. Inflation is projected to remain moderate in 2004.

Public finances

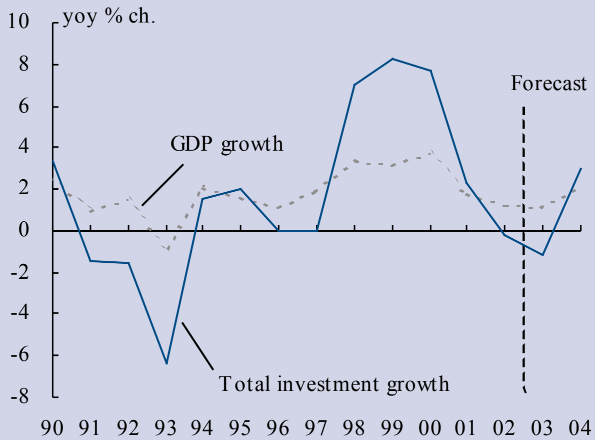
In 2002, French public finances deteriorated markedly. According to Eurostat, the general government deficit reached 3.1% of GDP. This outcome is to be compared with a general government deficit of 1.4% of GDP planned in autumn 2001 by the French authorities in the Finance Law for 2002 and with the commitment made by the new government in July to maintain the 2002 general government deficit below 2.6% of GDP. The larger part of the slippage in the 2002 general government deficit represents a deterioration in the cyclically-adjusted budgetary position.

Under current policies, French public finances are expected to deteriorate further in 2003. The general government deficit is projected by the Commission to reach 3.7% of GDP. Indeed, the budget for 2003 does not contain measures sizeably reducing the cyclically-adjusted deficit and unfavourable cyclical developments will continue weighing on fiscal revenues. The general government debt is projected to increase from 59.1% of GDP to 61.8% of GDP, also due to the impact of the subscription by the State to the recapitalisation of France Telecom worth 0.6 percentage point of GDP. This is the only financial transaction impacting on the debt ratio in this forecast.

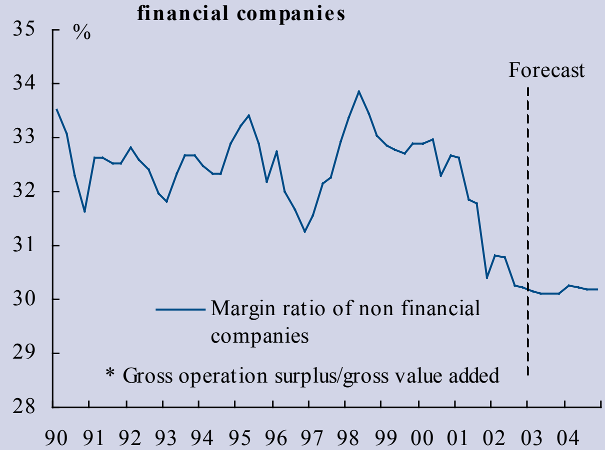
The forecast for 2003 is based on the assumption that general government expenditures in real terms are kept broadly in line with plans, apart from those influenced by the economic cycle, namely unemployment benefits, and apart from a further slippage in the health sector.

In 2004, despite the acceleration in economic activity to a close-to-potential rate, the general government deficit is projected to decrease only marginally to 3.5% of GDP. The decline in the deficit will be burdened next year by the lagged impact on fiscal revenues of the low 2003 GDP growth. Given that no budget has been voted for 2004, a crucial assumption of this forecast is that real government expenditures are projected to increase by 1.9% in real terms, to be compared with a projection of 1.4% embodied in the last update of the stability programme. The projected increase in expenditures is lower than that observed since the inception of stability programmes, in order to take into account the positive structural effects of the measures taken in 2002 on health expenditures and on unemployment benefits.

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



Graph 3.12: **France - Margin ratio* of non financial companies**



7. Ireland

Gradual recovery expected to potential growth

Domestic demand was subdued in 2002 and, while private consumption is forecast to recover somewhat, a further moderation is expected to occur in 2003 in view of limited public consumption and negative investment growth. The contribution to growth from net exports was very strong in 2002, owing mainly to weak imports, and is forecast to remain positive but less pronounced in 2003. As a result, real GDP growth is forecast to fall from around 6% in 2002 to 3.3% in 2003. For 2004, the strengthening world economy should deliver a further pick-up in Irish activity, leading to GDP growth of 4.5%. The forecast in GNI terms sees a gradual recovery from a trough in 2002.

Activity in 2002

Real GDP growth is expected to have averaged some 6% in 2002, in line with preliminary national accounts for the first three quarters and similar to 2001, when growth reached 5.7%. With the exception of public consumption, domestic demand was weak in 2002. The strong economic performance thus mainly stemmed from a very high contribution of net exports, which itself was due more to weak imports than to buoyant exports, although exports of chemicals and of computer services both grew strongly. The fall-off in imports reflected the weakness of domestic demand and very subdued imports of trade-related and other business services. Industry was the strongest sector in 2002 but industrial employment shrank because output gains were concentrated in the chemicals sector, which is not labour-intensive. As the sector is also largely foreign-owned, the impact on Irish incomes of its production boom is likely to have been limited. Given the dominance of such foreign-owned companies in Ireland, it is useful also to consider the change in gross national income (GNI). In 2002, an unusually wide gap seems to have arisen between GNI and GDP growth in view of strong growth in profit outflows and a sharp fall-off in inflows. Real GNI is estimated to have expanded by some 2%, far weaker than in 2001 (4.5%).

The economy in 2003

Domestic demand is forecast to slow further in 2003. Private consumption is expected to recover somewhat but to remain fairly soft, given more moderate disposable income gains than in the recent past, as growth of employment and earnings per capita eases off and the scale of direct tax relief is very modest. Reflecting the announced cap on public sector employment, public consumption is expected to make only a marginal contribution to growth. Overall fixed investment is forecast to shrink, because the projected recovery in investment in equipment (after two years of negative growth) should be more than offset by a drop in construction investment. Growth in housing completions is assumed to taper off as supply constraints start to hit and demand eases due partly to an assumed slowing in net immigration and public investment was cut by 1% in nominal terms in the budget.

The contribution of the external side to growth is forecast to be less pronounced than in 2002. Merchandise exports are expected to stage a modest recovery in line with the international upturn. As the import intensity of economic activity recovers, merchandise imports should also pick up after two years of negative growth. Services credits are expected to continue to post strong growth rates, while debits are forecast to recover gradually from an exceptionally weak 2002.

Taken together, growth is forecast to accelerate as the year progresses and to average 3.3% in GDP terms. With net profit outflows expected to grow less

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		114.6	100.0	4.8	11.1	10.0	5.7	6.0	3.3	4.5
Private consumption		53.6	46.8	3.1	9.3	9.0	5.0	2.4	2.8	3.8
Public consumption		16.9	14.8	1.6	6.7	7.6	10.5	8.4	1.7	1.5
GFCF		26.7	23.3	3.5	14.0	7.0	-0.4	-0.1	-0.2	2.7
of which : equipment		7.8	6.8	4.0	17.3	9.6	-7.4	-3.5	1.5	4.5
Change in stocks as % of GDP		0.3	0.3	0.6	0.5	0.7	0.3	0.1	0.1	0.0
Exports (goods and services)		112.4	98.1	11.0	15.2	20.6	6.7	4.3	4.9	7.5
Final demand		209.9	183.1	6.1	11.8	14.9	5.5	3.6	3.6	5.6
Imports (goods and services)		95.5	83.3	8.5	12.0	21.2	6.1	0.6	3.8	6.8
GNI at constant prices (GDP deflator)		97.8	85.4	4.1	7.5	9.9	4.5	2.0	2.8	3.7
Contribution to GDP growth :	Domestic demand			2.7	8.7	7.1	3.9	2.4	1.6	2.5
	Stockbuilding			0.2	-1.4	0.3	-0.4	-0.1	-0.1	-0.1
	Foreign balance			1.7	4.3	2.4	1.6	4.0	1.8	2.0
Employment				1.4	6.0	4.7	3.0	1.4	0.4	1.4
Unemployment (a)				13.8	5.6	4.3	3.9	4.4	5.6	5.6
Compensation of employees/head				7.0	5.2	8.9	9.2	6.5	5.5	5.2
Unit labour costs				3.5	0.3	3.6	6.4	1.8	2.5	2.1
Real unit labour costs				-1.7	-3.7	-0.6	1.1	-3.6	-0.8	-1.5
Savings rate of households (b)				-	12.8	11.3	12.0	13.5	13.5	13.3
GDP deflator				5.4	4.1	4.3	5.3	5.6	3.4	3.6
Private consumption deflator				5.2	3.1	4.0	4.2	4.6	4.0	3.1
Harmonised index of consumer prices				-	2.5	5.3	4.0	4.7	4.2	3.2
Trade balance (c)				8.3	25.4	27.3	29.9	29.4	28.4	28.5
Balance on current transactions with ROW (c)				-1.7	0.4	0.1	-0.3	-0.3	-0.1	0.3
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	1.0	1.2	0.3	0.1	0.2	0.5
General government balance (c)(d)				-4.9	2.3	4.3	1.1	-0.1	-0.6	-0.9
General government gross debt (c)				96.1	49.3	39.3	36.8	33.3	33.3	33.3

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

dramatically than in 2002, GNI growth is forecast to improve to just below 3%.

Outlook for 2004

The strengthening of the international pick-up in activity in 2004 is expected to pave the way for a further recovery driven by exports and investment. Reflecting improved economic conditions, a modest fall in the savings rate should also support private consumption. By year-end, growth should be close to that commonly thought to be sustainable in the medium term, of some 5% in annualised terms, but, for the year as a whole, the rate of expansion, at 4.5% in GDP terms, will fall somewhat short of this new rate of potential growth for the Irish economy.

Labour market

The unemployment rate has displayed a moderate upward trend since reaching a trough of 3.8% during the first half of 2001 and stood at 4.5% in January/February 2003. The rise in 2002 was stemmed by strong public sector employment growth; excluding the public sector, employment was flat. With the announced cap on public employment, continued weak activity is forecast to lead to employment growth well below labour force growth in 2003, entailing a fairly sharp rise in unemployment, to some 5½%. In 2004, however, the unemployment rate should stabilise. The forecast assumes moderating net immigration flows and slowing population growth.

Costs and prices

Growth in compensation per employee is estimated to have peaked in 2001, at more than 9%. In (delayed) response to weaker activity since early 2001 and in spite of continuing high inflation, wage inflation appears to have eased markedly in 2002. The forecast assumes a further gradual moderation to 2004, although earnings growth is expected to remain among the highest in the euro area because of a relatively tight labour market and high inflation.

Like the previous budget, the budget for 2003 introduced a range of indirect tax increases which are estimated to add just under 1 percentage point to the inflation rate. Various increases in user charges are also putting upward pressure on prices. This is expected to partly counteract the downward pressures stemming from weak activity, easing earnings growth and a stronger currency, so that HICP inflation is forecast to fall from 4.7% in 2002 to 4.2% in 2003. In the absence of further significant indirect tax increases, inflation should ease more markedly in 2004 and the differential with the euro area average should narrow further.

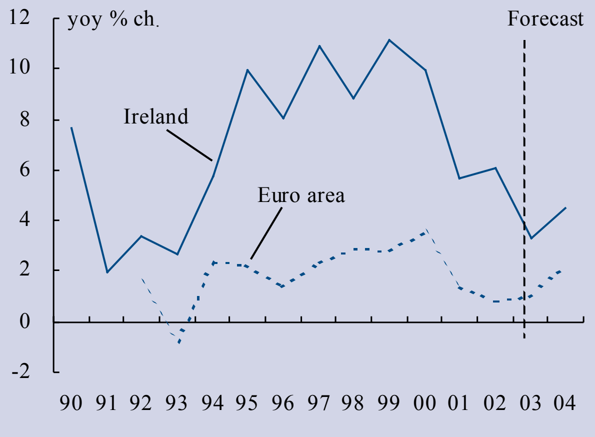
External accounts

The combined external trade and services balance (as a percentage of GDP) continues to rise over the forecast period, although individual components do not follow their respective trends: weak trade is estimated to stem the gradual rise in the trade balance (in 2002-2003) as well as the steady deterioration of the services deficit. With a widening income deficit, the balance of payments is forecast to record a small deficit in 2002-2003 but in 2004 the overall balance should be in the black again thanks to the trade balance resuming its upward trend.

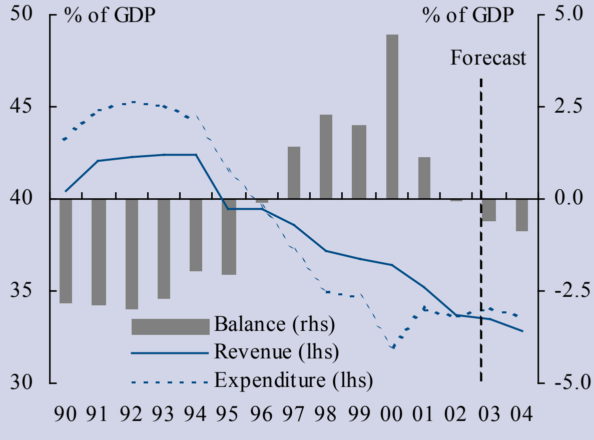
Public finances

The budget for 2003 implemented various revenue-raising measures, while, on the spending side, growth in current discretionary expenditure was nearly halved (from 15% in 2002 to 8%) and capital outlays were cut. The deficit is forecast to attain 0.6% of GDP, somewhat better than estimated by the authorities in March (0.8%). Given the non-indexed tax and social benefit system, the no-policy change assumption for 2004 is made operational by freezing average tax rates and adjusting social transfer payments by the forecast CPI inflation rate (with a small top-up). The projections for 2004 take account of the gradual implementation of the "benchmarking" recommendations (upward adjustments to public sector pay scales from a comparison with rates for similar jobs in the private sector), as foreseen in the new national agreement, and do not include any contingency provisions. On these assumptions, the deficit is forecast to widen to 0.9% of GDP, while the debt-to-GDP ratio broadly stabilises at around 33% 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

Frailty extends well into 2003

Real GDP is projected to increase by only 1% in 2003, half of which is carried over from 2002. An acceleration, sustained by domestic demand, is expected in 2004 in the context of a more general revival in the external environment. Echoing economic activity, job creation in 2003 is forecast to weaken, halting the downward trend in the rate of unemployment. Inflation is expected to ease slowly under the rival influences of high energy prices and rising spare capacity.

Activity in 2002

Following the slowdown in 2001, real GDP remained flat in the first quarter of 2002 before embarking on a cautious growth path in the remainder of the year. In 2002 as a whole economic growth averaged 0.4%, on account of reviving final domestic demand and stock-building. The recovery of domestic demand was particularly evident in the second half of 2002 when private consumption surged despite low confidence levels and accelerating inflation. The increase in consumption was essentially due to durable goods, helped by a fiscal incentive for car purchases. Also helped by a tax incentive, investment expenditure turned out even more buoyant, as firms brought foreword expenditure plans to take advantage of the so-called "Tremonti" law, which expired at the end of December. However, stronger final demand failed to boost production as a large part went into higher imports. The contribution to growth of net exports was negative.

Economic outlook in 2003 and prospects for 2004

The short-term outlook in 2003 remains bleak, with no signs of a swift revival in sight. Industrial production is not expected to pick up before the second quarter and indicators of economic activity in the service sector, the sole driving force of growth in 2002, weakened at the beginning of the year. In spite of the prospect of weak expansion over the course of 2003, economic growth is expected to come close to 1% in the year as a whole, thanks to a carry-over effect of half a decimal point from 2002. In 2004, growth is forecast to rise slightly above 2% in the context of a general improvement of the external economic environment.

As regards GDP components, 2003 is likely to start with a marked weakening of final domestic demand. Private consumption is forecast to recoil following the sharp hike in the final months of 2002. Moreover, the expansionary effect of the income tax cut in the 2003 budget is diminished by payments related to the budget's broad series of tax amnesties and settlements. The bringing forward of investment plans in the second half of 2002 coupled with the bleak economic outlook is also set to trigger a negative reaction of investment expenditure, also corroborated by a further decline in the level of capacity utilisation at the end of 2002. Investment is expected to pick up again in the second half of 2003. The external side will continue to weigh on economic growth, partially offsetting the expansion of domestic demand. The negative contribution from net exports is due to the strong appreciation of the euro amplified by the price sensitivity of labour-intensive Italian exports. In 2004 domestic demand is projected to strengthen on account of recovering confidence along with some improvement in export growth in the context of a general recovery in the global economic environment.

Labour market

Although slowing over the course of the year employment creation continued in 2002. The number of jobs rose by 1.1% compared with 0.3% in the euro area as a whole, confirming the resilience observed in recent years following the successive steps of labour marker reform started in 1998. The rate of unemployment averaged 9%, down from 9.4% in 2001.

However, the sluggish pace of economic growth is likely to leave its mark on the labour market in 2003 as employment expectations of manufacturing and service firms eased towards the end of 2002. The number of full-time equivalents is predicted to increase by only 0.4% in 2003 as a whole, before growing stronger again in 2004. The employment headcount, as measured by the labour force survey, will be slightly more buoyant due to recourse to part-time contracts. Moreover, new legislation passed in 2002 aimed at legalising illegal immigrants attracted an unexpectedly high number of applications, amounting to

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	1220.1	100.0		1.9	1.7	3.1	1.8	0.4	1.0	2.1
Private consumption	732.7	60.0		2.2	2.6	2.7	1.0	0.4	1.8	2.2
Public consumption	229.7	18.8		1.6	1.3	1.6	3.6	1.7	1.8	0.8
GFCF	241.3	19.8		1.2	5.0	7.1	2.6	0.5	1.7	3.1
of which : equipment	116.9	9.6		2.3	7.1	8.7	2.3	0.2	1.6	4.4
Change in stocks as % of GDP	-1.2	-0.1		0.7	1.1	0.0	0.0	0.4	0.1	0.1
Exports (goods and services)	346.0	28.4		5.1	0.1	11.7	1.1	-1.0	2.8	6.0
Final demand	1548.3	126.9		2.4	2.5	4.4	1.6	0.6	1.8	3.0
Imports (goods and services)	328.2	26.9		4.9	5.6	8.9	1.0	1.5	4.6	6.1
GNI at constant prices (GDP deflator)	1211.4	99.3		1.8	2.0	3.0	1.9	0.1	0.9	1.9
Contribution to GDP growth :	Domestic demand			1.8	2.8	3.4	1.8	0.7	1.7	2.1
	Stockbuilding			-0.1	0.3	-1.1	0.0	0.4	-0.2	0.0
	Foreign balance			0.1	-1.4	0.9	0.1	-0.7	-0.5	0.0
Employment				0.2	0.6	1.7	1.7	1.1	0.4	1.0
Unemployment (a)				9.5	11.3	10.4	9.4	9.0	9.1	8.8
Compensation of employees/head				8.4	2.6	3.1	3.0	2.4	3.3	3.1
Unit labour costs				6.6	1.5	1.7	2.9	3.1	2.6	2.1
Real unit labour costs				-1.1	-0.1	-0.4	0.2	0.4	0.2	-0.2
Savings rate of households (b)				-	15.6	14.4	15.5	16.3	16.4	16.2
GDP deflator				7.8	1.6	2.1	2.7	2.7	2.5	2.3
Private consumption deflator				7.6	2.1	2.9	2.7	3.0	2.4	2.1
Harmonised index of consumer prices				-	1.7	2.6	2.3	2.6	2.4	1.9
Trade balance (c)				0.8	2.4	1.3	1.8	1.9	1.7	2.1
Balance on current transactions with ROW (c)				-0.1	1.0	-0.2	0.3	-0.3	-0.6	-0.5
Net lending(+) or borrowing(-) vis à vis ROW (c)				0.0	1.2	0.1	0.4	-0.2	-0.6	-0.4
General government balance (c)(d)				-9.5	-1.7	-0.6	-2.6	-2.3	-2.3	-3.1
General government gross debt (c)				97.0	114.9	110.6	109.5	106.7	106.0	104.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2000. The UMTS amount as a % of GDP would be : 1.2%.

around 3% of employment. To the extent that applicants are accepted statistics for resident population and the labour force will increase. The effect on measured employment is likely to be spread across several years, as the processing of the applications is reported to be slow. With some lag compared to economic growth, the rate of unemployment is forecast to creep up over the course of 2003, averaging 9.1% in the year as a whole, marginally up from 2002, and to resume the downward trend in 2004.

Costs and prices

In 2002, despite significant demand slack and government action in late August aimed at freezing controlled prices of public services for the remainder of the year, inflationary pressure failed to ease, actually rising towards the end of the year. The annual average increase in the HICP was 2.6%, 0.4pp higher than in the euro area as a whole.

After accelerating to 3.0% in December 2002, annual HICP inflation started to ease at the beginning of 2003, helped by a favourable comparison with the months of the euro changeover one year earlier. However, while a widening negative output gap, the stronger euro and rising labour productivity will lower inflationary pressure in the remainder of 2003, the high starting point and higher oil prices are likely to keep HICP inflation well above 2% on average. Despite worsened industrial relations the renewal of important wage contracts in 2003 is assumed to remain in line with the track record of wage moderation observed since the early 1990s. Inflation is forecast to stay on a declining path up until early 2004 as the output gap remains negative and oil prices return to OPEC’s preferred price band of $22-28. In 2004 HICP inflation is forecast to average below 2%.

Public finances

After a deficit of 2.6% of GDP in 2001, in 2002 the deficit was 2.3% (EDP definition). The primary surplus declined from 3.8% to 3.4% of GDP. The budgetary outcome benefited from one-off measures which improved the general government balance by one percentage point of GDP (0.9% sales of publicly-owned real estate and 0.1% a tax amnesty on assets held abroad). Thanks to significantly lower interest rates, interest expenditure was 0.7 percentage points of GDP lower than the previous year. Legislation enforced in the second half of the year also positively contributed to the 2002 budgetary result. The government debt ratio fell to 106.7% of GDP from 109.5% in 2001, thanks also to a conversion operation carried out at the end of the year, which reduced the face value of the debt by 1.9% of GDP.

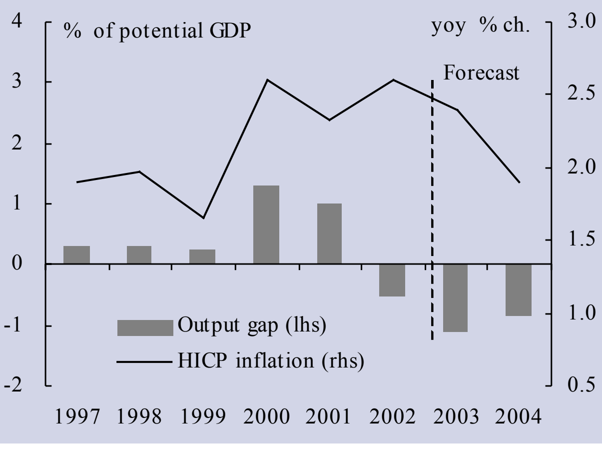
In 2003, the general government deficit is forecast to stabilise at the same level as the previous year, again on the back of substantial temporary measures, estimated to have a positive impact of 1.2% of GDP on the budget balance (0.6% sales of real estate and 0.6% from various tax amnesties). With interest rates at historically low levels, interest payments are expected to keep declining significantly relative to GDP. The primary surplus is forecast to continue to deteriorate, edging down to 3% of GDP. Adjusting for the economic cycle, the budget deficit in 2003 would improve by 0.3 percentage points of GDP; the primary surplus would remain broadly stable.

The Commission forecast is aligned with the officially estimated impact of a number of measures introduced in the Budget Law for 2003. This includes a series of tax settlements and amnesties, all of which have largely transitory effects and are subject to equal measures of upside and downside risks. However, in contrast with the official forecast, planned savings in government purchases of goods and services and in subsidies to enterprises are estimated to total 0.6% of GDP. The forecast also assumes increased social security contributions resulting from measures taken in 2002 to regularise the position of immigrant workers.

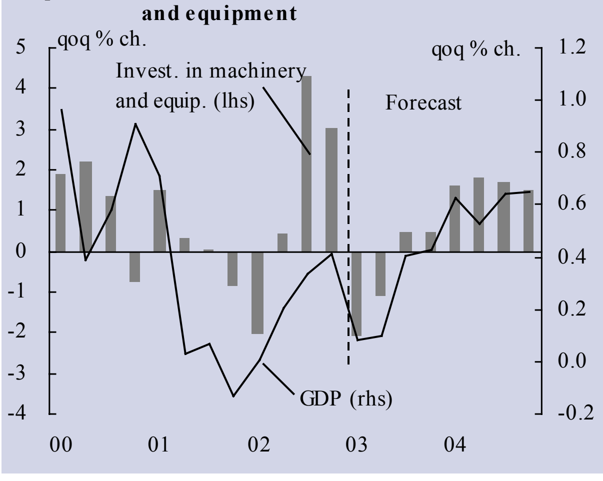
The forecast for 2004 is based on legislation currently in force: in the absence of new policy measures the deficit would touch 3% of GDP. Tax and social security contributions receipts are consistent with the macroeconomic framework and with the estimated effects of the measures in the Budget Law for 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 that part of the increases from the new wage settlement will slide to 2004. Gross fixed capital formation reflects much lower sales of real assets. Capital receipts reflect the expiration of one-off revenue measures.

During the forecast period the debt ratio is expected to continue to decline slowly.

Graph 3.15: **Italy - HICP inflation and demand pressure**



Graph 3.16: **Italy - GDP and investment in machinery and equipment**



9. Luxembourg

Succession of weaker years after golden decade

The economy in 2002 and 2003

In the 10 years from 1991 to 2000, real GDP growth in Luxembourg averaged 5.4%, well above the EU average. In 2001, economic growth slowed down very markedly, to 1.0%, in response to the slowdown in the world economy and the turmoil on financial markets. The negative external shocks first affected exposed sectors such as manufacturing and finance. The adverse impact of developments in financial markets was more profound in Luxembourg than in many other EU countries, due to the large size of the financial sector. In 2002 and 2003, the slowdown in activity progressively spread to sheltered sectors of the economy, in particular to labour-intensive commercial services that are highly dependent on the financial sector. Overall real GDP growth is estimated to have been around 0.4% in 2002. This is somewhat higher than forecast in the autumn of last year mainly due to a steeper than expected fall in imports and to some signs of a bottoming out of activity in some sectors towards the end of 2002.

The first months of 2003 show some tentative signs of a bottoming-out in industry. Banks appear to have been successful in reducing costs in 2002, but adjustment in many other sectors should continue over most of the forecast horizon. That said, the earlier reduction of corporate tax rates should have a positive impact on economic activity, even though this is difficult to quantify. Real GDP growth in 2003 is forecast at close to 1%, but the high exposure of the economy of developments in the highly volatile financial sector makes for a large margin of uncertainty surrounding this estimate.

As regards trends in expenditure, private consumption growth is forecast to remain weak in 2003, at around 1½%, as is evident from weak retail sales into the early months of this year. Lacklustre private consumption growth reflects the slowdown in the labour market, the decline in consumer confidence and higher household savings. The growth rate of real government consumption should remain high over the forecast horizon. Weak profits, the need to cut down costs and uncertainty as regards the near-term outlook should continue to put downward pressure on corporate investment, even though the growth rate of real public investment should remain high, at around 9%.

Prospects for 2004

In 2004, economic activity is forecast to recover on the back of the expected pick up in world demand. However, the pick up in the rate of real GDP growth, to 2.7%, would be relatively slow compared to previous cyclical upturns, as key sectors of the economy, including the financial sector, are expected to recover only gradually. Private non-residential capital formation is expected to recover gradually in the course of 2004 in line with the upturn in domestic and external demand, whereas public investment should remain strong. The net export contribution should rise in line with the recovery of world trade. Total investment is expected to grow by 3.6%.

Labour market developments

The labour market responds to the economic slowdown with a lag. In Luxembourg, cross-border employment is highly sensitive to cyclical conditions and the sharp deceleration in the inflow of cross-border workers in the course of 2002 illustrates the turnaround in the labour market. Total employment growth is forecast to decelerate to around 1% in both 2003 and 2004. Whereas consolidation measures in the manufacturing and banking sectors already led to substantial job losses in those sectors in 2002, redundancies are expected to spread to other more shielded sectors in the course of 2003 and 2004. This should lead to a rise in the number of resident unemployed, even though this increase is likely to be cushioned by the specific measures for the unemployed already in place. Nevertheless, the unemployment rate is expected to increase appreciably over the forecast horizon, to 3.7% in 2004.

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	0.4	1.1	2.7
Private consumption		9104.2	42.3	3.2	2.6	3.3	3.6	1.2	1.6	2.7
Public consumption		3719.1	17.3	4.0	7.1	4.3	7.5	5.4	6.4	4.5
GFCF		4667.9	21.7	4.6	14.0	-6.3	5.9	-2.4	0.8	3.6
of which : equipment		1673.9	7.8	5.6	25.4	-19.6	7.0	-1.8	-1.3	3.6
Change in stocks as % of GDP		179.4	0.8	1.2	0.5	-0.5	0.9	0.4	0.3	0.3
Exports (goods and services)		32792.4	152.4	6.8	12.0	19.1	1.2	-2.4	1.8	3.1
Final demand		50462.9	234.6	5.4	9.6	11.3	3.2	-1.1	2.0	3.2
Imports (goods and services)		28952.6	134.6	5.9	12.9	14.0	4.5	-2.3	2.8	3.5
GNI at constant prices (GDP deflator)		19154.8	89.0	5.1	2.8	1.1	-0.3	-0.3	1.3	2.8
Contribution to GDP growth :	Domestic demand			3.4	5.7	0.7	4.0	0.9	2.1	2.9
	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	-0.5	-1.0	-0.2
Employment				2.2	5.0	5.6	5.6	2.8	1.1	1.2
Unemployment (a)				2.5	2.4	2.3	2.0	2.4	3.3	3.7
Compensation of employees/head				4.9	3.4	4.7	4.4	3.0	2.5	2.5
Unit labour costs				2.2	2.4	1.5	9.1	5.5	2.5	0.9
Real unit labour costs				-1.4	-0.7	-1.2	6.7	3.7	0.4	-1.1
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.6	3.1	2.8	2.3	1.7	2.1	2.0
Private consumption deflator				3.8	1.4	2.6	2.8	2.0	1.9	1.5
Harmonised index of consumer prices				-	1.0	3.8	2.4	2.1	2.1	1.6
Trade balance (c)				-11.5	-12.9	-9.2	-12.1	-11.5	-11.4	-10.9
Balance on current transactions with ROW (c)				-	-	-	-	-3.7	-3.8	-3.7
Net lending(+) or borrowing(-) vis à vis ROW (c)				-	-	-	-	-3.7	-3.8	-3.7
General government balance (c)				-	3.5	6.1	6.4	2.6	-0.2	-1.2
General government gross debt (c)				7.1	6.0	5.6	5.6	5.3	4.1	3.4

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

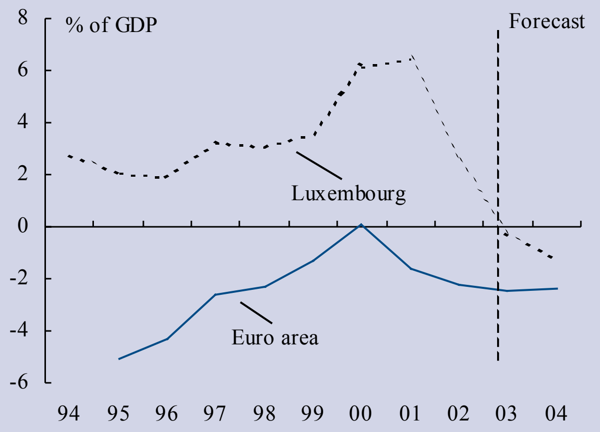
Costs and prices

HICP inflation is expected to decelerate over the forecast horizon from 2.1% in 2003 to 1.6% in 2004. This reflects inter alia the pass-through of declines in import prices, weak demand conditions, and the fading of the upward impact on inflation of the introduction of the cash euro. According to a study carried out jointly by STATEC and the Banque Central du Luxembourg the cash changeover led to a cumulative increase of consumer prices of around 0.7 percentage point between January 2001 and July 2002. The cyclical pickup in productivity and relatively moderate wage increases (in response to the weakening labour market) are expected to contribute also to lower price pressures.

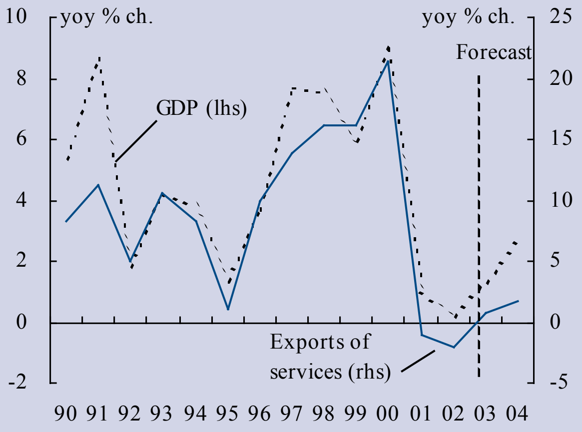
Public finances

The government accounts remained in surplus in 2002: net lending of general government amounted to 2.6% of GDP, compared to 6.4% in 2001. The outcome for 2002 was more favourable than previously expected, largely owing to strong corporate tax revenues reflecting the lagged response of tax receipts to changes in the growth rate, to some increase in the collection of tax arrears, and to lower-than-expected expenditure from special funds. In 2003 and 2004, the general government balance is expected to deteriorate to a deficit of 0.2% and 1.2% of GDP respectively. This reflects the lagged impact of the economic slowdown on tax revenue and social security contributions, a fading of the impact of collecting corporate taxes still due from years with strong activity and profits, and continued high rates of growth of public current and investment expenditure. Adverse developments in the central government accounts will account for most of the deterioration of the general government balance in 2003 and 2004, while local government revenues should be affected negatively by the effects of the earlier tax reforms from 2004 onwards. By contrast, the balance of social security funds should still be positive, albeit to a lesser extent than in recent years. The already low gross government debt ratio is forecast to decline somewhat further to 3.4% of GDP in 2004.

Graph 3.17: **Luxembourg - General government balance**



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



10. The Netherlands

Deterioration of public finances in response to sluggish growth

The situation in 2003

Following a number of years in which real GDP growth exceeded the EU average, the Dutch economy is experiencing a sharp slowdown. In 2002 real GDP growth was no more than 0.3%, compared to 1.3% in 2001. As elsewhere in the EU, the slowdown in activity was initially driven by the deceleration in international trade. The deterioration in external competitiveness, the consequent losses in export market share and the appreciation of the euro contributed to the slowdown in exports. The cyclical downturn worsened in the wake of a marked slowdown in domestic demand and substantial destocking. In 2003, economic growth is expected to remain weak, at 0.5%. Private consumption growth is forecast to remain modest, growing by less than 1%, reflecting significant declines in consumer confidence, a fall in employment and rising unemployment, and the downward impact of tax increases on household real disposable income. Household income will also be affected negatively by substantial increases in pension premiums, as many pension funds faced a fall of reserves below required minimum levels due to the decline in equity prices. In addition, the slump on equity markets and the moderation on the housing market are expected to lead to an end to the wealth effects that boosted private consumption between the mid-1990s and the year 2000. Due to restraints on government spending in the 2003 budget, the growth rate of real government consumption would decrease markedly to 0.0%, compared to close to 4% in 2002. Weak profits, low business confidence and uncertainty as regards the near-term outlook would continue to put downward pressure on corporate investment, even though housing investment is expected to accelerate. 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.

The situation in the labour market is expected to worsen progressively, responding to the cyclical downturn with a lag.

Hesitant recovery in 2004

A rebound in domestic demand and some pick up in export growth would lead to a modest upturn, already starting in the course of 2003 onwards. Real GDP growth is expected to reach 1.7% in 2004. Private consumption growth is expected to increase only modestly to 1.5%, despite a drop in inflation, due to the fading of negative wealth effects, the worsening labour market, and further increases in pension premiums. Private non-residential capital formation is expected to recover gradually in the course of 2004 and grow by around 2%, in line with the modest upturn in domestic and external demand. On the external side, export growth is expected to increase to 5.1% in 2004 in response to projected developments in world demand. However, the recovery of net exports would 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.

Employment and unemployment

Total employment is forecast to decrease by 0.4% in 2003 and to stagnate in 2004. This reflects the lagged response of the labour market to the economic slowdown. The turnaround in the labour market lead to a significant increase in the unemployment rate over the forecast horizon, by around 2.5 percentage point to 5.1% in 2004. 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. Consequently, the unemployment rate should continue to increase in 2004, in spite of the expected cyclical recovery.

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	0.3	0.5	1.7
Private consumption		212.9	49.6	1.8	4.7	3.6	1.2	1.0	0.8	1.5
Public consumption		99.5	23.2	2.1	2.5	1.9	3.1	3.7	0.0	1.4
GFCF		94.1	21.9	2.3	7.8	3.5	-0.8	-3.7	-0.9	2.0
of which : equipment		30.4	7.1	4.0	10.1	4.1	-4.4	-5.7	-5.4	3.0
Change in stocks as % of GDP		-0.1	0.0	0.4	0.1	-0.2	0.0	-0.8	-0.7	-0.6
Exports (goods and services)		280.2	65.3	5.4	5.1	10.9	1.7	-1.3	2.4	5.1
Final demand		686.6	160.0	3.2	4.6	6.0	1.5	-0.7	1.2	3.1
Imports (goods and services)		257.4	60.0	4.6	5.8	10.6	1.9	-2.3	2.4	5.4
GNI at constant prices (GDP deflator)		424.2	98.8	2.3	5.9	4.2	-0.9	-0.3	1.2	2.6
Contribution to GDP growth :	Domestic demand			1.9	4.6	3.0	1.1	0.5	0.2	1.5
	Stockbuilding			-0.1	-0.5	-0.3	0.2	-0.7	0.1	0.1
	Foreign balance			0.5	-0.1	0.8	0.0	0.5	0.1	0.2
Employment				1.0	2.3	1.9	1.8	-0.8	-0.4	0.0
Unemployment (a)				7.0	3.2	2.8	2.4	2.7	4.2	5.1
Compensation of employees/head				2.6	3.7	4.6	5.0	5.5	3.9	3.0
Unit labour costs				1.2	2.1	3.1	5.6	4.3	3.0	1.3
Real unit labour costs				-0.8	0.5	-1.0	0.3	1.1	0.0	-0.3
Savings rate of households (b)				-	15.2	11.8	14.5	14.6	14.9	15.8
GDP deflator				2.0	1.6	4.2	5.3	3.2	3.0	1.6
Private consumption deflator				2.5	1.8	3.5	4.6	3.5	2.3	1.4
Harmonised index of consumer prices				-	2.0	2.3	5.1	3.9	2.7	1.5
Trade balance (c)				3.8	3.9	5.0	5.6	5.6	5.7	5.3
Balance on current transactions with ROW (c)				3.7	4.0	5.3	3.3	2.8	3.8	4.3
Net lending(+) or borrowing(-) vis à vis ROW (c)				3.5	3.8	4.9	3.2	2.7	2.5	2.8
General government balance (c)(d)				-4.0	0.7	2.2	0.1	-1.1	-1.6	-2.4
General government gross debt (c)				71.1	63.1	55.8	52.8	52.6	52.4	52.8

(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%.

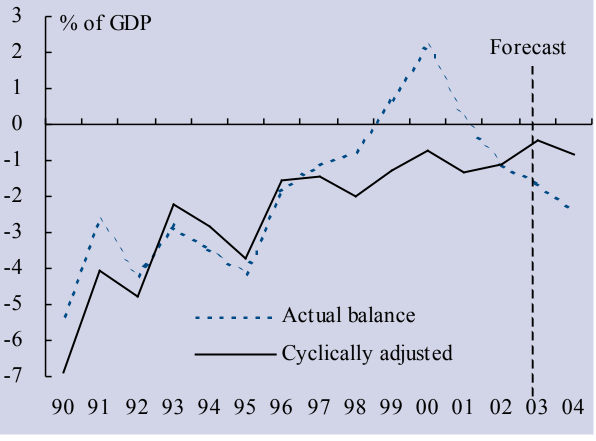
Costs and prices

HICP inflation is expected to decrease markedly over the forecast horizon, from 3.9% in 2002 to 2.7% in 2003 and 1.5% in 2004. This is due to a combination of factors, including the impact of lower import prices, and a substantial easing of unit labour costs. The latter reflects more moderate wage developments in response to weak growth and rising unemployment, along with a cyclical recovery in labour productivity growth. That said, increases in pension premiums are expected to offset part of the beneficial effect of easing wage increases on labour costs. Base effects associated with the cash changeover to the euro, the liberalisation of the gas market for consumers, an intended decrease in petrol taxes, and the fading of some other special factors that put upward pressure on prices in 2002 will also contribute to the deceleration of inflation.

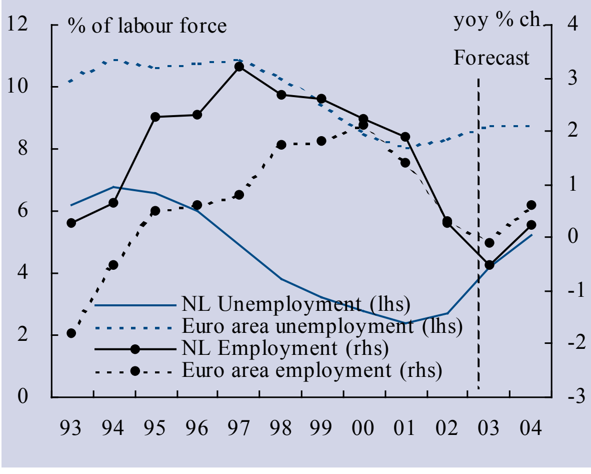
Public finances

The fiscal accounts deteriorated substantially in 2002, after having reached a surplus of 0.1% of GDP in 2001. In 2002, provisional data show a general government deficit of 1.1% of GDP. The deterioration of public finances mainly reflects the operation of automatic stabilisers in a weak economic environment, as well as the lagged impact of tax reforms and some revenue shortfalls related to increases in pension premiums. Significant tax increases and expenditure cuts are being introduced in 2003. Revenue increasing measures include, among other things, the elimination of some income tax deductible items and fast increasing health care contributions. On the other hand, tax receipts are depressed by substantial increases in pension contributions. Expenditure reductions stem, inter alia, from cuts in the number of civil servants and reduced eligibility for unemployment schemes. The weak economic environment implies a further deterioration of the general government balance in 2003, to a deficit of 1.6% of GDP. The fiscal outlook for 2004 is highly uncertain at the time of writing, as negotiations to form a new coalition government following the general elections of 22 January 2002 are still ongoing. Under the technical assumption of no policy changes, the general government balance deteriorates in 2004, to a deficit of 2.4% of GDP. Thus, the budgetary position of the Netherlands would have deteriorated in a few years from a small surplus in 2001 to a substantial deficit. Under a no policy change assumption, the cyclically adjusted general government balance also deteriorates from 2003 to 2004.[1] As a result of projected deficits and low economic growth the gross government debt ratio will increase slightly in 2004, to 52.8% of GDP. An incoming government will most likely announce consolidation measures. Hence, for 2004 the current projected deficit could be interpreted as an upper bound to expected deficits.

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



Graph 3.20: **The Netherlands - The labour market**



[1] Note that the forecast horizon here covers the period up to 2004. Forecasts for the Netherlands by some other institutions may cover a longer time horizon, as may multi-annual projections used, for instance, to prepare stability programmes. Owing to the characteristics of the estimation method, the outcome for the cyclically adjusted balance in *any* year will change when the forecast horizon is altered. This is the case even if the same input data would be used for the period up to and including 2004.

11. Austria

Slow recovery in investment dampens growth

Developments in 2002

Despite having accelerated slightly, the economic performance in 2002 was rather disappointing, because of a weakening in domestic components, due to sluggish household demand and a sharper-than-anticipated fall in investment. Exports, by contrast, although decelerating significantly, developed more favourably than expected thanks to firm demand from central and eastern Europe. Due to a slump in imports, the growth contribution of the external sector increased markedly.

Private consumption grew at a modest rate, with disposable income of households being squeezed by weak employment growth, rising unemployment and higher-than-anticipated inflation. Investment took a dive, with equipment investment plunging due to deteriorating demand expectations, and, possibly, due to having partly been postponed in anticipation of a tax incentive favouring investment undertaken in the year 2003. Construction continued to suffer from excess supply and budgetary restraint, although benefiting, to some extent, from the flood disaster hitting Austria in August 2002. Overall, at 1.0%, output growth in 2002 remained close to the modest expansion of the previous year.

Inflation declined in the course of the year, decelerating by 0.6 percentage points compared with 2001 to 1.7% on average. Weak output growth led to a sharp increase in unemployment, with the jobless rate staying nonetheless significantly below the EU15-average.

Prospects

The economic recovery is weaker than earlier expected due to the delay in the international upswing. Although accelerating slightly in 2003, GDP growth will resume its trend rate only in 2004, thanks to strengthening domestic demand and the expected rebound in exports. Real GDP growth in 2003 is forecast to move up to around 1¼% and to improve further to a rate of 2% in 2004.

Demand components

Household real disposable income should expand only moderately in 2003, owing to unfavourable labour market conditions, before accelerating in 2004, thanks to rising employment and despite sticky inflation. As a result, private consumption, albeit picking up slightly in 2003, is expected to rebound only in 2004. Public consumption is forecast to remain rather subdued throughout the projection period, assuming that the government will make efforts to control budgetary spending. After a nose-dive in 2002, investment should recover, if slowly, in 2003 before gaining momentum in 2004, reflecting the improved outlook for exports. Construction investment, in particular civil engineering but also housing construction, is projected to benefit to some extent from the flood disaster of last summer, with a turnaround of the downward trend expected as of 2003. Although recovering, equipment investment is expected to remain subdued in 2003 reflecting both the delay in the economic upswing and sufficient unused capacity. Towards the end of the year, however, firms, considering the improved economic outlook, could try to take advantage of a tax incentive applicable in 2003 and bring forward investments. Although exports are expected to gain momentum, they should not come into full swing before 2004. With imports also accelerating, reflecting the improvement in domestic demand, the contribution of net exports to GDP growth should turn neutral as of 2003.

Prices and wages

Consumer price inflation is likely to remain rather sticky throughout the forecast period in 2003 due to the increase in oil prices and despite decelerating unit labour costs in 2004 due to an increase in energy taxes.

Nominal increases in contractual wages in 2003 remain below those of the previous year. In 2004, although wage moderation in the private sector is expected to continue, the cyclical upswing should lead to somewhat higher wage settlements. In the public sector, however,

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	1.0	1.2	2.0
Private consumption		121.6	57.4	2.5	2.3	3.3	1.5	0.9	1.2	1.9
Public consumption		40.5	19.1	1.8	3.1	0.0	-0.5	1.3	0.5	0.5
GFCF		49.1	23.2	2.2	2.1	5.9	-2.2	-4.8	1.6	3.1
of which : equipment		19.5	9.2	2.4	4.7	11.5	-4.1	-9.2	2.7	5.7
Change in stocks as % of GDP		0.7	0.3	0.3	1.2	0.5	0.0	0.2	0.3	0.4
Exports (goods and services)		111.1	52.5	4.7	8.5	13.4	7.4	2.6	4.3	7.1
Final demand		323.0	152.5	2.9	4.6	6.0	2.3	0.7	2.3	3.9
Imports (goods and services)		111.2	52.5	4.3	9.0	11.6	5.9	0.0	4.5	7.5
GNI at constant prices (GDP deflator)		207.8	98.1	2.3	2.3	3.5	0.3	1.9	1.2	2.0
Contribution to GDP growth :	Domestic demand			2.3	2.4	3.2	0.2	-0.3	1.1	1.9
	Stockbuilding			0.0	0.5	-0.7	-0.4	0.0	0.0	0.1
	Foreign balance			0.1	-0.2	0.8	0.8	1.4	0.0	0.0
Employment				0.1	1.3	0.9	0.5	-0.4	0.0	0.4
Unemployment (a)				3.4	3.9	3.7	3.6	4.3	4.5	4.4
Compensation of employees/head				4.6	2.1	2.5	1.8	2.2	2.3	2.7
Unit labour costs				2.3	0.7	-0.1	1.6	0.7	1.1	1.1
Real unit labour costs				-0.6	0.0	-1.5	0.0	-0.5	0.0	-0.4
Savings rate of households (b)				-	12.2	11.4	9.9	9.2	8.6	8.7
GDP deflator				3.0	0.7	1.4	1.6	1.3	1.1	1.5
Private consumption deflator				3.0	0.9	1.5	2.0	1.8	1.8	1.7
Harmonised index of consumer prices				-	0.5	2.0	2.3	1.7	1.8	1.8
Trade balance (c)				-3.8	-1.6	-1.3	-0.6	1.7	1.5	1.5
Balance on current transactions with ROW (c)				-1.0	-3.0	-2.6	-2.2	-0.1	-0.3	-0.6
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.0	-3.1	-2.8	-2.5	-0.1	-0.3	-0.6
General government balance (c)(d)				-3.2	-2.3	-1.5	0.3	-0.6	-1.1	-0.4
General government gross debt (c)				56.3	67.5	66.8	67.3	68.7	68.5	66.8

(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 : 0.4%.

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. Overall, wage growth in 2003 should be below that of 2002 and step up somewhat in 2004.

Labour market

In 2002, sluggish output growth had an adverse impact on the labour market, with both dependent and self-employment declining noticeably. With overall output growth remaining subdued in 2003 and given the usual time lag of about six months, a more sustained pick-up in labour demand can be expected only in the course of 2004, when the economic activity should have gained momentum. Total employment growth in 2003 is expected to be dampened by a continued fall in self-employment before strengthening in 2004. As of 2003, labour supply is forecast to change in line with the business cycle, contrary to the counter-cyclical expansion observed in the recent past. Reflecting the projected tendencies of labour demand and supply, the sharp rise in unemployment registered in 2002 is expected to decelerate significantly in 2003 before slowly turning around in 2004.

Current account

In 2002, export growth in combination with a fall in imports yielded a trade surplus, which is a noteworthy event. Despite a pick-up in domestic demand as of 2003 and a projected acceleration in merchandise imports, the trade balance could remain in surplus, albeit declining. As regards the services balance, however, preliminary national accounts data for 2002 appears to be at odds with current account figures as published by the central bank. Preliminary national accounts figures indicate that the traditional Austrian services surplus turned into a deficit, which is rather puzzling. Current account data on an accruals basis up the third quarter plus the preliminary data on a cash basis for the last three months, by contrast, suggest that the services balance in 2002 could have remained in surplus. Although the official current account figures for 2002 will be published only at the end of April, a revision of the national accounts data would not come as a surprise.

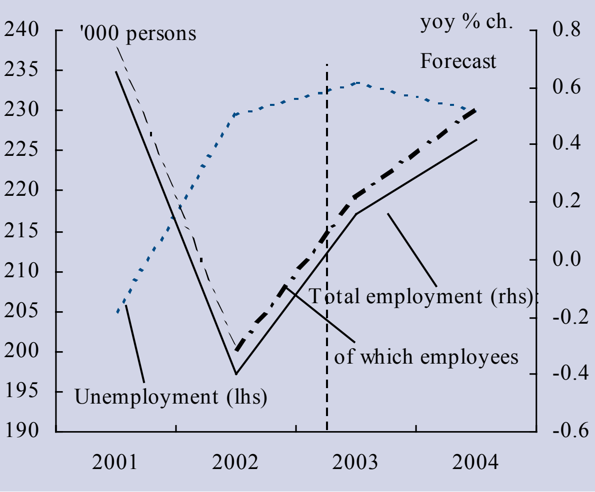
Public finances

In 2002, the budgetary position weakened by almost one percentage point of GDP to a deficit of 0.6% after a surplus of 0.3% of GDP in 2001 (figures in EDP definition, i.e. including swap operations), although output growth accelerated slightly to 1.0% from 0.7% in 2001. This result falls short of the stability programme target (-0.2% of GDP) set in the low growth scenario (assuming real GDP growth at 0.9%). While, in 2001, a strong rise in tax revenues helped to improve the cyclically-adjusted position despite low output growth, the particularly weak domestic demand in 2002 depressed tax revenues. However, a marked increase in “other revenues” and a lower-than-anticipated rise in expenditures – partly due to the flood disaster, which, contrary to earlier expectations, had virtually no budgetary impact in 2002 - entailed a more benign budgetary outcome than projected by the Austrian authorities and forecast by the Commission last autumn. This result was achieved despite a decline in the surplus at the Länder level.

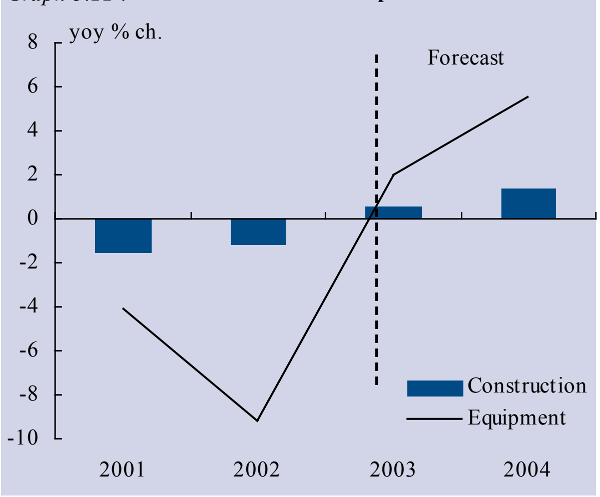
In 2003, the continued alleviating effects of the pension reform 2000 and the cuts in personnel are projected to be offset by additional labour market expenditure, as foreseen in the fiscal stimulus package, topped by flood-related spending, under the assumption that the emergency funds unspent in 2002 will be released in 2003. The tax intake should reflect the rather bleak cyclical situation, despite some pick-up in domestic components. Public sector employees are expected to be granted an additional pay rise, making up for past purchasing power losses. In summary, the expected delay in the cyclical upswing and hence employment growth as well as the continued, if small, rise in unemployment, should cause the deficit in 2003 to widen to around 1% of GDP before narrowing again in 2004. In keeping with the Commission’s no-policy-change assumption, the projection for 2004 does not incorporate the tax reform, which is planned but has not yet been decided.

The government finances forecast for 2003 and 2004 is subject to great uncertainty, since only a few concrete measures were known at the cut-off date. Due to delays in the formation of a government after parliamentary elections held on 24 November 2002, the budget for 2003, and also 2004, was in the drafting process at the cut-off date and should be adopted around mid-June.

Graph 3.21 : **Austria - Employment and unemployment**



Graph 3.22 : **Austria - Gross fixed capital formation**



12. Portugal

Further adjustment towards more sustainable levels of domestic demand

The Portuguese economy

The Portuguese economy is undergoing a process of adjustment. Following a period of strong growth driven by domestic demand (real economic growth averaged 4% in the 1995-2000 period), a number of imbalances have emerged in the Portuguese economy, notably a significant external deficit in percentage of GDP, a rise in the credit-to-income ratios in the private sector above the average level in the euro-area, and a gradual deterioration in the underlying budgetary position, which led to the excessive deficit in 2001. The strong rise in indebtedness in the private sector of the economy is a new phenomenon, the correction of which is likely to lengthen the period of economic recovery beyond what would be normally expected from the developments in the external environment.

GDP growth decelerated from 3.7% in the 1999-2000 period to 1.6% in 2001 and to an estimated ½% in 2002. The weakness of economic activity in the second half of 2002, in line with the slowdown in the EU, limits considerably the growth prospects for 2003. The adjustment in all major components of domestic demand is projected to carry on in 2003. While in the 2001-2002 period private consumption was particularly affected by the decline in the demand for durable goods, in 2003 the demand for non-durables is also expected to falter as the situation in the labour market deteriorated rapidly at the end of 2002. Investment in both construction and equipment is expected to recede for a second consecutive year in 2003, according to the available quantitative and qualitative indicators. Public consumption growth is projected to slowdown during the forecast period, following the ongoing budgetary adjustment. Overall, domestic demand is forecast to recede again in 2003 by about ¼%, following a contraction of some ½% in 2002. Consequently, import growth is expected to virtually stagnate in 2003, which together with the re-orientation of production towards foreign markets and a certain degree of wage moderation is forecast to stimulate export growth, thus leading to an improvement in the external balance. The contribution of net exports to growth is expected to remain at about ¾ pp of GDP in 2003, becoming the driving force of economic activity throughout the forecast period.

A moderate pick-up is expected only from the second half of 2003 onwards, reflecting the gradual improvement of economic conditions in Europe, which is expected to strengthen the export sector. For the whole of 2003, GDP growth is expected at around ½%, partly due to the negative carry over from 2002, accelerating to about 2% in 2004. Domestic demand is forecast to resume growth only in 2004. 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 external deficit is therefore forecast to nearly halve between 2002 and 2004, declining to a value close to 3¼% of GDP in 2004.

GDP components

Private consumption is expected to remain virtually flat in 2003, reflecting the rise in unemployment, the lower wage increases, and the historically low levels of confidence. Total investment is forecast to decline further in 2003, reflecting adverse cyclical conditions, together with the reduction in public investment not co-financed by EU funds 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 1% in 2002 to approximately 5½% on average in the 2003-2004 period. The rebound in foreign demand is expected to lead to a rise in exports as market shares are projected to remain broadly unchanged in 2003-2004 after the gains registered in 2001-2002. The total import elasticity of final demand is estimated to decline in 2002-2003, because of the marked slowdown in demand for durables which have a high import content. With the

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	123.0	100.0	2.9	3.8	3.7	1.6	0.5	0.5	2.0
Private consumption	75.0	60.9	2.8	5.1	2.6	1.2	0.7	0.3	1.2
Public consumption	25.6	20.8	4.0	5.6	4.0	2.8	3.3	1.5	0.8
GFCF	33.5	27.2	3.9	6.4	4.4	0.0	-5.2	-3.0	2.9
of which : equipment	16.3	13.3	3.7	9.2	4.9	-4.0	-6.8	-3.6	3.8
Change in stocks as % of GDP	0.9	0.8	0.5	1.0	0.7	0.6	0.5	0.5	0.5
Exports (goods and services)	38.1	31.0	6.6	2.9	8.0	1.4	2.0	2.5	5.5
Final demand	173.0	140.6	4.0	5.0	4.2	1.1	0.2	0.4	2.5
Imports (goods and services)	50.1	40.8	7.2	8.5	5.4	0.3	-0.4	0.2	3.6
GNI at constant prices (GDP deflator)	119.7	97.3	3.0	3.7	3.0	1.1	0.6	0.5	2.1
Contribution to GDP growth :	Domestic demand		3.4	6.0	3.7	1.3	-0.4	-0.3	1.7
	Stockbuilding		0.0	0.3	-0.3	0.0	0.0	0.0	0.0
	Foreign balance		-0.5	-2.6	0.3	0.4	0.9	0.8	0.4
Employment			0.3	2.2	1.7	1.4	0.2	-0.2	0.3
Unemployment (a)			6.7	4.5	4.1	4.1	5.1	6.5	7.3
Compensation of employees/head			14.3	9.9	6.3	5.3	5.3	2.9	2.3
Unit labour costs			11.3	8.2	4.3	5.0	5.0	2.1	0.5
Real unit labour costs			-0.8	4.9	1.1	0.3	0.4	-1.3	-1.8
Savings rate of households (b)			-	10.7	11.7	12.4	12.6	12.6	12.2
GDP deflator			12.3	3.1	3.2	4.7	4.6	3.4	2.4
Private consumption deflator			12.0	2.1	2.8	4.2	3.6	3.2	2.3
Harmonised index of consumer prices			-	2.2	2.8	4.4	3.7	3.2	2.3
Trade balance (c)			-12.7	-12.3	-13.6	-12.7	-9.7	-8.5	-7.9
Balance on current transactions with ROW (c)			-3.8	-8.7	-10.4	-9.7	-7.9	-6.6	-5.9
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	-6.0	-8.6	-7.8	-5.8	-4.2	-3.3
General government balance (c)(d)			-5.9	-2.8	-2.8	-4.2	-2.7	-3.5	-3.2
General government gross debt (c)			56.6	54.3	53.3	55.6	58.1	59.4	60.2

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2000. The UMTS amount as a % of GDP would be : 0.3%.

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 between ½% and ¾% per year over the forecast period.

Prices

HICP inflation is forecast to decelerate markedly in the second half of 2003, following the rise in 2002 which was largely caused by temporary effects as the 2 percentage points rise in the standard VAT rate to 19% as from mid 2002. 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 3.7% in 2002 to a projected 2¼% in 2004.

Labour Market

The labour market deteriorated rapidly at the end of 2002, with the unemployment rate jumping to 6.2% in the fourth quarter (2 percentage points more than a year earlier). This reflects basically a markedly deceleration in employment creation from 1.4% in 2001 to 0.2% in 2002. This adverse trend is projected to continue during the forecast period, with the unemployment rate expected to exceed 7% in 2004, which is clearly above the estimated NAIRU. 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. The total wage per employee is expected to decelerate from about 5¼% in 2002 to 2¼% in 2004, thus contributing to an improvement in price-competitiveness.

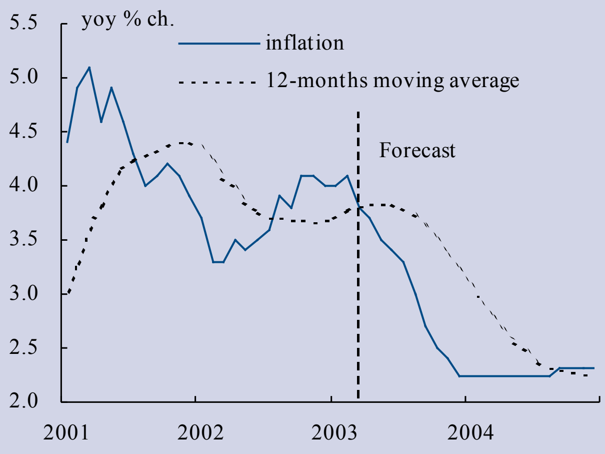
Public finances

The general government deficit in 2002 (the EDP definition) attained 2.7% of GDP, down from 4.2% in 2001. The government deficit target of 2.8% of GDP for 2002 was therefore met despite the unfavourable starting point, and the gradual weakening of cyclical conditions during the year. This reflects the firm commitment of the Portuguese authorities to correct the excessive deficit as soon as possible with a view to regaining policy credibility and preserving the political momentum towards budgetary consolidation. That momentum was initiated with the approval of the rectifying budget for 2002, and continued with the political commitments made in response to the Council recommendation addressed to Portugal in the framework of the excessive deficit procedure. However, compliance with the deficit target for 2002 was only made possible due to the significant amount of one-off measures taken, totalling about 1½% of GDP.

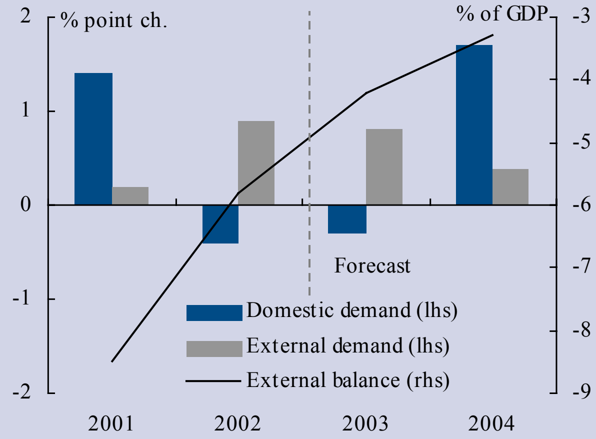
The government deficit forecast for 2003 takes fully into account the state budget for that year. The 2003 budget includes a number of restrictive measures, notably an increase in personal income tax brackets below expected inflation, a substantial increase in instalment payments on account of annual corporate taxes, a moderate growth in investment expenditure, and a virtual wage freeze in the government sector. However, despite the marked restrictive nature of the budget, the government deficit for 2003 is forecast by the Commission at 3½% of GDP, which is above the official target of 2.4%. This difference is basically the outcome of two factors: first, economic activity is forecast to be significantly weaker in 2003 than initially projected in the 2003 budget (0.5% as against 1.3%, respectively), which should cause a considerable tax shortfall; and second, the measures included in the budget for 2003 do not seem sufficient to attain the deficit target, together with the fact that the implementation of the wide ranging programme of structural reforms envisaged in the latest update of the stability programme does not seem to be sufficiently advanced to yield significant savings already in 2003. The Portuguese authorities have, however, made the public commitment to take the necessary additional measures to ensure the achievement of the deficit target for 2003. Such measures were not yet announced.

For 2004, the forecast for the government deficit is based on legislation currently in force: in the absence of new policy measures the deficit is expected to marginally improve to slightly above 3% of GDP.

Graph 3.23 : **Portugal - HICP inflation**



Graph 3.24 : **Portugal - Contributions to GDP growth and the external balance**



13. Finland

Activity picking up in the face of downside risks

Economy in 2002

In 2002, Finland was one of the very few countries in the EU to experience a pick-up in economic activity. Boosted substantially by domestic and external demand alike, real GDP rose by 1.6%, up from 0.6% a year earlier. Yet, a further reduction in inventories shaved 1.8 percentage points off the rate of growth.

Government consumption increased by 4% owing mainly to higher municipal spending, while private consumption rose by 2.1%, benefiting from robust household spending on durable consumer goods. On the other hand, total investment contracted, owing to a slump in private investment, in particular construction, whereas public capital spending grew by a hefty 7%. Exports appear to have been strong as well. Export volumes increased by an estimated 5 ½%, although nominal values decreased by 1 ½%, suggesting a substantial fall in export prices. Imports, due to weak investment, rose by a modest 1.7%. The contribution from stockbuilding to GDP growth was negative for the second consecutive year.

Although output growth has remained well below potential of some 3% for already two years, employment creation has proved highly resilient, suggesting some labour hoarding by firms. Yet, according to national accounts data, company profits rose by about 1 ½% in 2002. Towards the end of the year, though, firms increased dismissals in the manufacturing sector. Nevertheless, employment is estimated to have increased by ¼ % on average in 2002 owing to a rising number of jobs in the service sector. As labour supply increased slightly, unemployment hovered around the level of 2001. Consumer price inflation decelerated by about ½ percentage point to 2.0% in 2002. The moderation followed mainly from easing food prices, but was constrained by a rebound in energy costs and a continued upward drift of services prices.

Prospects

Economic indicators for the first three months paint a mixed picture for 2003. On the one hand, information on consumer confidence and retail trade point to a continued rise in private consumption and imports. However, industry surveys and production data suggest a rather subdued development in the manufacturing sector implying a weaker export performance. Therefore, activity is set to advance at a moderate pace in the first half of 2003. Against a base-line expectation of international uncertainty abating and external demand reviving, a pick-up in activity is expected towards 2004, lifting the annual rate of GDP growth to 2 ¼ % in 2003 and further to some 3% in 2004.

Employment seems to be affected by the weak output growth of the past two years, since firms have started to adjust their workforce to lower demand in particular in manufacturing and transport. Still, domestic demand should hold up relatively well, generating further opportunities for service sector employment. Consequently, employment is projected to slightly dip during the first quarters of 2003. In addition, the delayed recovery and spare capacity in the corporate sector are expected to hold back job creation. In any case, 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

Private consumption is expected to continue driving the economic recovery on the back of steady gains in disposable income following from higher wage increases and further income tax cuts in 2003. Apart from higher income, spending on durables should benefit from a reduction in car taxation and advances in digital communication. Public spending, however, is expected to decelerate based on the efforts at central government expenditure control. Investment activity, lacking the stimulus from external demand and

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		135.8	100.0	2.4	3.4	5.5	0.6	1.6	2.2	2.9
Private consumption		67.8	49.9	2.2	3.5	3.3	1.7	2.1	2.4	2.3
Public consumption		28.3	20.8	2.1	1.4	0.4	1.2	4.0	1.1	1.2
GFCF		27.7	20.4	1.0	1.8	4.0	3.8	-1.0	-1.4	1.6
of which : equipment		8.9	6.6	1.7	-3.3	-1.0	13.8	0.7	-2.2	2.7
Change in stocks as % of GDP		0.9	0.6	0.2	-0.1	0.8	0.6	-1.4	-0.5	-0.1
Exports (goods and services)		54.0	39.8	5.0	6.5	19.3	-2.3	5.6	3.8	6.1
Final demand		178.7	131.6	2.6	2.8	8.2	0.5	1.7	2.8	3.6
Imports (goods and services)		42.9	31.6	3.9	3.5	16.9	-0.2	1.7	4.4	5.6
GNI at constant prices (GDP deflator)		134.8	99.3	2.3	4.3	5.8	1.3	2.3	2.2	2.9
Contribution to GDP growth :	Domestic demand			1.9	2.4	2.5	1.8	1.7	1.1	1.7
	Stockbuilding			0.0	-1.2	1.0	-0.2	-1.8	0.9	0.4
	Foreign balance			0.6	1.6	2.9	-1.0	1.8	0.2	0.8
Employment				-0.4	2.5	2.3	1.2	0.3	-0.2	0.3
Unemployment (a)				8.4	10.2	9.8	9.1	9.1	9.4	9.3
Compensation of employees/head				6.8	2.3	3.7	5.0	2.5	3.5	3.0
Unit labour costs				3.9	1.4	0.5	5.6	1.1	1.0	0.4
Real unit labour costs				-0.9	1.8	-2.3	1.9	-0.1	0.2	-1.1
Savings rate of households (b)				-	9.2	7.7	7.3	7.8	8.0	7.9
GDP deflator				4.8	-0.3	2.9	3.6	1.3	0.9	1.5
Private consumption deflator				4.6	1.2	3.7	3.4	1.7	2.0	1.4
Harmonised index of consumer prices				-	1.3	3.0	2.7	2.0	1.7	1.5
Trade balance (c)				4.0	9.5	11.4	10.4	9.9	9.5	9.9
Balance on current transactions with ROW (c)				-0.7	6.2	7.2	6.8	7.1	6.7	7.1
Net lending(+) or borrowing(-) vis à vis ROW (c)				-0.6	6.2	7.3	6.9	7.2	6.8	7.2
General government balance (c)				0.3	2.0	6.9	5.1	4.7	3.3	3.0
General government gross debt (c)				30.4	47.0	44.5	43.8	42.7	42.3	41.4

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

suffering from excess capacity, is projected to decline further. In particular, capital spending on equipment seems to recede while construction of business premises suffers from rising vacancy rates. Civil engineering and housing construction, on the other hand, should gain from infrastructure improvements and higher housing demand supported by advantageous financing opportunities. Public investment should be restrained by the consolidation efforts of local governments.

The appreciation of the euro has diminished the price competitiveness of Finnish firms markedly, as 67% of goods exports go outside the euro area. Moreover, fragile external demand is not expected to give any significant boost to growth prior to the second half of 2003. In 2004, net exports should gain from higher export market growth and the decline in price competitiveness bottoming out. Prospects for exports of telecommunication equipment, but also of forest products appear promising. On the other hand, higher consumer spending is expected to raise imports, squeezing the contribution from external demand to GDP growth. De-stocking in manufacturing should abate during 2003.

Costs and prices

Lower prices for imported goods are estimated to reduce price pressures, bringing HICP inflation further down to about 1 ¾ - 1 ½ % over the forecast period. In December 2002, a centralised two-year wage agreement provided for general wage rises of 2.9% in 2003 and

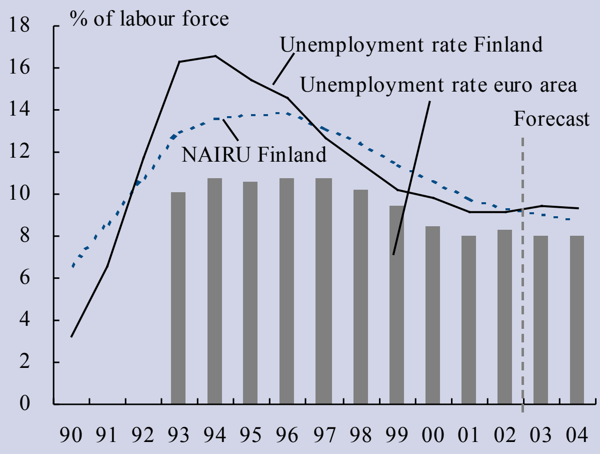
2.2% in 2004. Assuming the usual positive wage drift of about 1 percentage point, per-capita wages are expected to increase by nearly 4% in 2003 and about 3 ½% in 2004, up from 3.3% in 2002. However, higher growth in overall productivity appears likely to curb the rise in unit labour costs.

Public finances

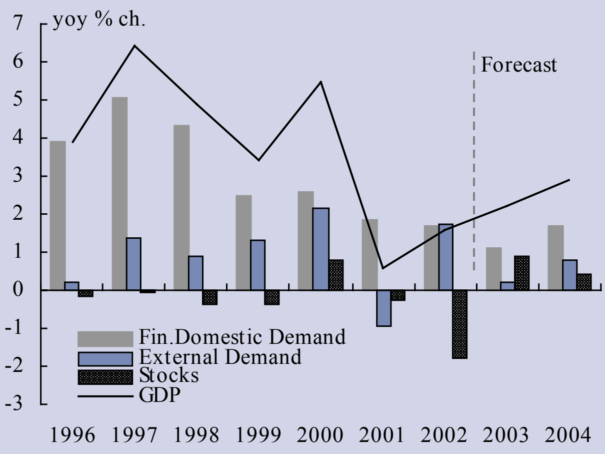
The general government surplus came out significantly higher in 2002 than anticipated, at 4.7% of GDP. This was due to both higher revenue, mainly from taxes, and lower-than-expected expenditure growth. Due to a marked normalisation of corporate and capital tax revenue from 2000, the surplus is estimated to continue moderating. Based on the expenditure restraint implied by the budget for 2003 and central government spending plans for 2004, the general government surplus seems to moderate to around 3 % of GDP by 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 and the ongoing reduction in the holdings of domestic government bonds by social security funds. However, as a consequence of the expected acceleration of GDP growth, the debt ratio is anticipated to fall gradually to just about 41 ½ % of GDP by the end of the forecast period.

Graph 3.26 : **Finland - Unemployment**



Graph 3.27: **Finland - Contributions to GDP growth**



14. Sweden

Broad recovery in 2004, as exports and investment gain momentum

The economy in 2002

The Swedish economy showed resilience in 2002 and GDP growth was 1.9%, up from 1.1% in 2001. Despite the fact that exports remained weak, the contribution to growth from net exports was highly positive, due to very low imports. The prolonged global slump, particularly in the telecom sector, has weighed heavily on Swedish exports and on manufacturing. On the domestic side, economic activity was mixed. Private consumption accelerated and grew by 1.3% in 2002, up from a mere 0.2% in 2001, aided by a very strong increase in disposable incomes. Lower taxes and a resilient labour market contributed to this. On the other hand, share prices continued to fall substantially in 2002. This led households to substantially increase the saving rate. Also, public consumption rose markedly in 2002. Investment was very poor, influenced by uncertain business prospects. With decent GDP growth and at the same time almost flat employment growth, productivity growth per person rose sharply in 2002. Inflation fell sharply in early 2002 and, as inflationary pressures should remain subdued, the repo-rate was cut twice towards the end of 2002.

Prospects

Recent indicators are somewhat mixed and the geo-political uncertainty weighs on consumer and business expectations. Consumer confidence indicators have stabilised at a relatively low level recently. However, consumer's views on the prospects for their own financial situation have fared better than their views on the general economic situation. Business confidence indicators are at a low level, but the latest results show a positive shift in sentiment. Indications of a recovery in the world economy too appear to be very uncertain indeed in the short-term. The Swedish economy is very open with exports about 50% of GDP. These prospects, both domestically and externally, are expected to result in a gradual recovery of GDP growth in 2003. Private consumption growth should be fairly stable and a turnaround in investment is expected during 2003. External demand growth should pick up during 2003, resulting in stronger exports. In 2004, economic growth is expected to strengthen and to be close to potential. Overall, GDP is expected to grow by 1.4% in 2003 and 2.7% in 2004.

Inflation is expected to fall below the Riksbank's inflation target of 2% towards the end of 2003, as the temporary rises in electricity and energy prices subside. Wage increases are expected to fall slightly in 2003 and 2004, as the labour market deteriorates somewhat in 2003. Upside risks to wage rises exist, with new wage negotiations starting in autumn 2003, but are not assessed to be very great.

GDP components

Private consumption is expected to continue to grow steadily in 2003. While employment should fall slightly in 2003, the rise in household disposable income should support sustained consumption growth. Moreover, the saving rate of households is expected to remain broadly stable in 2003, after having risen very sharply in 2001 and 2002, totalling close to 6 percentage points. Consumer confidence has stabilised recently and households' expectations regarding their own financial situation have improved, in contrast to expectations regarding the general economic situation. On the downside, the prolonged fall in equity prices, in fact larger between the peak in 2000 and 2003 than during the depression in 1929-32, results in negative wealth effects. House prices, however, have continued to rise slowly and should partially offset this. These overall negative wealth effects are expected to subside in 2003 and further in 2004, suggesting some increase in private consumption. Investment growth is expected to be negative, while gradually improving, in 2003, as business prospects are very uncertain and also due to

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		2266.6	100.0	2.0	4.6	4.4	1.1	1.9	1.4	2.7
Private consumption		1102.6	48.6	1.3	3.8	4.9	0.2	1.3	1.8	2.3
Public consumption		617.5	27.2	1.6	1.7	-1.1	0.9	2.1	0.7	0.5
GFCF		403.9	17.8	1.9	8.2	6.6	0.8	-2.5	-0.4	4.1
of which : equipment		186.7	8.2	4.5	11.8	6.8	-1.1	-4.0	-1.0	4.6
Change in stocks as % of GDP		6.3	0.3	0.0	0.3	0.7	0.3	0.2	0.2	0.2
Exports (goods and services)		1027.4	45.3	5.6	7.4	11.3	-0.8	0.4	2.5	6.5
Final demand		3157.8	139.3	2.5	4.8	6.5	-0.2	0.6	1.6	3.5
Imports (goods and services)		891.2	39.3	4.3	4.9	11.5	-3.5	-2.7	2.2	5.9
GNI at constant prices (GDP deflator)		2247.2	99.1	1.9	5.1	4.6	1.0	1.9	1.5	2.7
Contribution to GDP growth :	Domestic demand			1.4	3.7	3.2	0.5	0.8	1.0	1.9
	Stockbuilding			0.0	-0.5	0.4	-0.4	-0.1	0.1	0.0
	Foreign balance			0.6	1.5	0.9	1.1	1.2	0.3	0.7
Employment				-0.2	2.1	2.4	1.9	0.1	-0.3	0.2
Unemployment (a)				5.0	6.7	5.6	4.9	4.9	5.3	5.3
Compensation of employees/head				6.8	1.2	7.0	5.0	4.1	3.9	3.9
Unit labour costs				4.5	-1.2	5.0	5.8	2.3	2.2	1.4
Real unit labour costs				-0.8	-1.8	3.7	3.7	1.0	0.0	-0.8
Savings rate of households (b)				-	7.8	6.8	9.5	12.3	12.2	11.7
GDP deflator				5.3	0.7	1.3	2.0	1.3	2.2	2.2
Private consumption deflator				6.0	1.1	1.2	2.1	2.0	2.0	1.6
Harmonised index of consumer prices				-	0.6	1.3	2.7	2.0	2.5	1.8
Trade balance (c)				3.3	6.7	6.2	6.2	6.4	6.6	7.0
Balance on current transactions with ROW (c)				0.4	4.2	4.0	4.2	4.2	4.4	4.9
Net lending(+) or borrowing(-) vis à vis ROW (c)				-0.4	3.0	3.8	4.1	4.1	4.4	4.8
General government balance (c)				-2.6	1.5	3.4	4.5	1.3	0.8	1.2
General government gross debt (c)				60.7	62.7	52.8	54.4	52.6	50.9	49.5

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

negative overhang into 2003. The latest investment survey reveals that industry does not plan any expansion in 2003. A rise in investment is foreseen for 2004, as economic activity gathers momentum. Stocks are expected to contribute positively to growth in 2003, as de-stocking should be completed. As external demand growth is expected to strengthen in 2003, Swedish exports should pick-up further. Export of goods turned positive in 2002 and some further growth is expected in 2003 whereas export of services fell markedly in 2002 and the foreseen improvement is not sufficient to result in positive growth in 2003. In 2004, a further recovery in exports is expected, in line with world markets. Imports too should pickup, as final demand recovers in 2003 and 2004.

Costs and prices

Inflation has risen considerably since the beginning of this year, due to strong price rises on electricity and energy. These factors are expected to be temporary and should subdue later this year and inflation should fall below 2% towards the end of 2003, as inflationary pressures are largely absent. Wage increases are expected to be somewhat below 4% in 2003 and 2004. New wage negotiations, foreseen to start in autumn 2003, are not expected to result in higher wage increases, in part due to some deterioration in the labour market in 2003. 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 fall below 2% in the end of 2003 and to gradually reach 2% in the end of 2004.

Labour market

Employment growth eased during 2002 and was marginally positive for the year. A fall in private sector employment was countered by a rise in public sector employment. Some evidence suggests that there has been an element of labour hoarding in 2002 and employment is expected to fall somewhat in 2003. This should result in a slight increase in the unemployment rate this year. In 2004, some employment growth is expected, as economic activity gains momentum.

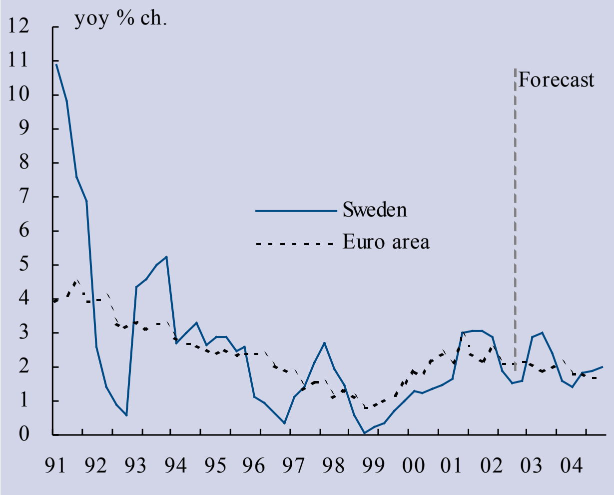
Public finances

Swedish public finances have been in surplus each year since 1998 and a surplus of 1.3% of GDP was posted in 2002. The fiscal policy framework has contributed to the strong fiscal position. In 2003, the surplus in public finances is expected to be slightly

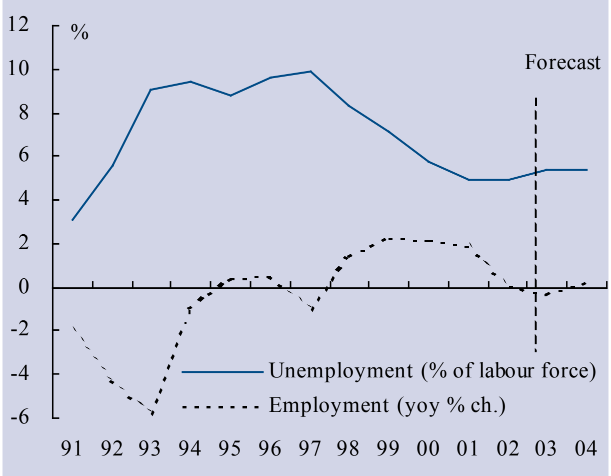
lower. Lower economic growth contributes to this. Higher tax rates levied by the local government sector in 2003 contribute to a rise in the tax ratio this year. Overall revenues are expected to rise broadly in line with nominal GDP in 2004. On the expenditure side, the government remains committed to 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 areas, such as sick insurance, is likely to be higher than planned on current policies. Overall, the expenditure ratio is expected to rise in 2003 and to fall slightly in 2004, as economic activity revives.

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 containing expenditure in the medium-term. This helps keeping the public finances in good shape and budget surpluses of close to 1% of GDP are expected over the forecast period. Gross debt was 52.4% of GDP in 2002. The debt-to-GDP ratio is expected to fall over the forecast period and to be below 50% of GDP in 2004, as the budget surpluses described above take effect.

Graph 3.27: **Sweden - HICP inflation**



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



15. United Kingdom

Gradual recovery, as investment and net exports revive

The economy in 2002

The British economy has weathered the global weakness rather well. Overall, growth was in 2002 was 1.8%, slightly above the Commission's Autumn forecast. Weakness in exports and investment, associated with the global slowdown, have been offset by strong household consumption and a fiscal loosening in the form of planned rises in general government spending.

The celebrations of the Queen's Jubilee affected the quarterly path of GDP within 2002. Thus, although GDP grew by 0.4% in Q4, the Office for National Statistics noted that the underlying rate could have been as high as 0.6%. Growth in Q4 was again largely sustained by household consumption and public expenditure.

Although household expenditure was subdued early in 2002, it picked up so that it became the biggest contributor to GDP growth in the year. Fixed investment, already declining in 2001, was a drag on growth throughout the year. General government consumption was a modest contributor to GDP growth. Net exports of goods and services strengthened during the first half of the year, due to a rebound in export growth in Q2 while import growth declined, but this was not maintained. Recorded net exports in Q4 were especially weak. For the year as a whole, net exports were the largest negative drag to GDP growth.

On the output side, services output became more subdued in Q4. Construction peaked early in 2002 and grew well during the year, but manufacturing output continued to fall in all quarters except Q3. The labour market has stayed strong. Productivity growth (in terms of output per head) was low for 2002 as employers held on to labour in the face of a slowdown in growth. However, growth picked up strongly in the second half of the year. Inflationary pressures remained low - on the HICP measure, inflation in 2002 was 1.3%, around the lowest in the EU. RPIX inflation has risen a little above the 2.5% target in recent months, but it is well within the permitted one percentage point symmetrical margin.

Prospects

Growth for 2003 on average is forecast to be 2.2%, with the rate rising to 2.6%, around trend, in 2004. It is expected that the global economic climate will revive during the second half of 2003 and boost 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 measures in the form of lower interest rates and continued strong growth in public expenditure, especially fixed investment. Household consumption growth is expected to slow from recent, unsustainable growth rates. With growth well below trend (put at around 2½ to 2¾%) in 2002, a negative output gap of around 1% of GDP has emerged, so supply constraints, overall, should not constrain growth. Unemployment is expected to remain close to its NAIRU level throughout the forecast period. A small pick-up in wage increases is expected, up from recent rates that have been depressed by low bonus payments. This is accompanied by a pick-up in labour productivity growth (on a per head basis), so growth in unit labour costs will remain 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 2002. Real wage earnings are expected to grow moderately and low interest rates will support growth. The rise in house prices, still racing along at over 20% year on year, is offsetting the negative impact the recent falls in equity markets may have on consumption out of wealth. Nevertheless, the ongoing falls in financial wealth associated with equity market weakness, combined with the rise in gross debt associated with rapidly rising house prices are expected to affect the savings rate,

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		993.1	100.0	2.5	2.4	3.1	2.1	1.8	2.2	2.6
Private consumption		658.1	66.3	3.0	4.5	5.2	4.1	3.8	2.3	2.2
Public consumption		191.5	19.3	1.0	3.1	2.1	2.5	3.8	4.0	1.0
GFCF		164.3	16.5	3.6	0.6	1.9	1.0	-3.2	3.4	4.2
of which : equipment		77.7	7.8	4.6	7.9	1.8	0.3	-8.8	0.7	4.7
Change in stocks as % of GDP		1.8	0.2	0.2	0.8	0.7	0.1	0.0	-0.1	0.2
Exports (goods and services)		267.7	27.0	4.5	5.3	10.1	0.9	-1.0	1.9	5.6
Final demand		1283.5	129.2	3.1	4.0	5.4	2.2	1.7	2.6	3.2
Imports (goods and services)		289.9	29.2	5.6	8.7	11.7	2.3	1.5	3.6	4.9
GNI at constant prices (GDP deflator)		1006.0	101.3	2.6	1.4	3.7	2.9	2.0	1.8	2.7
Contribution to GDP growth :	Domestic demand			2.7	3.6	4.2	3.4	2.8	3.0	2.5
	Stockbuilding			0.1	0.2	-0.1	-0.6	-0.1	0.0	0.2
	Foreign balance			-0.3	-1.4	-1.1	-0.6	-0.9	-0.8	-0.1
Employment				0.4	1.2	1.1	0.6	0.7	0.5	0.5
Unemployment (a)				9.1	5.9	5.4	5.0	5.1	5.1	5.1
Compensation of employees/head				6.8	4.3	5.0	5.6	3.6	4.5	4.6
Unit labour costs				4.6	3.1	3.0	4.0	2.5	2.8	2.5
Real unit labour costs				-0.3	0.6	0.8	1.6	-0.7	0.0	0.4
Savings rate of households (b)				-	4.8	4.3	5.7	5.1	5.3	5.9
GDP deflator				5.0	2.5	2.2	2.3	3.2	2.8	2.1
Private consumption deflator				5.0	1.6	0.7	0.9	0.8	1.1	1.2
Harmonised index of consumer prices				-	1.3	0.8	1.2	1.3	1.9	1.8
Trade balance (c)				-1.9	-3.0	-3.2	-3.4	-3.3	-3.4	-3.5
Balance on current transactions with ROW (c)				-1.1	-2.2	-2.0	-1.3	-0.8	-1.5	-1.4
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.3	-2.1	-1.8	-1.1	-0.7	-1.3	-1.2
General government balance (c)(d)				-3.0	1.1	3.9	0.8	-1.3	-2.5	-2.5
General government gross debt (c)				47.2	45.1	42.1	38.9	38.4	39.0	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 2000. The UMTS amount as a % of GDP would be : 2.4%.

raising it by the end of the forecast period. 2003 will see a reversal in the current decline of fixed investment, which will benefit from strong planned boosts to general government investment and an end to the fall in business investment. The latter is in line with a better financial position of companies. Government consumption will be an important contributor to demand growth, as planned. This will be further boosted by expenditure from the Ministry of Defence's special reserves of £3bn announced by the Chancellor to cover the military campaign in Iraq. Export growth is expected to recover during the forecast period. Import growth will, on the whole, be a little weaker than export growth. This is despite slightly higher growth in domestic demand compared to 2002, and is due to the lower import content of that part of domestic demand which will accelerate the most, namely government expenditure (current and capital).

Labour Market

The labour market has remained strong despite the global slowdown, with the unemployment rate being around twenty-seven year lows in 2002. Rises in wage earnings continue to be moderate, and are expected to stay that way, although compensation of employees per head will be boosted this year as a result of the introduction of higher employers' national insurance contributions in April. Employment has grown moderately, by 0.7% in 2002, but is expected to slow a little this year. Unemployment is expected to remain stable over the forecast period. This year, productivity growth is expected to be higher than the low rate observed in 2002 as a whole, given the stronger expected GDP growth and the tight 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 rise a little throughout the forecast period to around 1½% of GDP by 2004. Nevertheless, 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

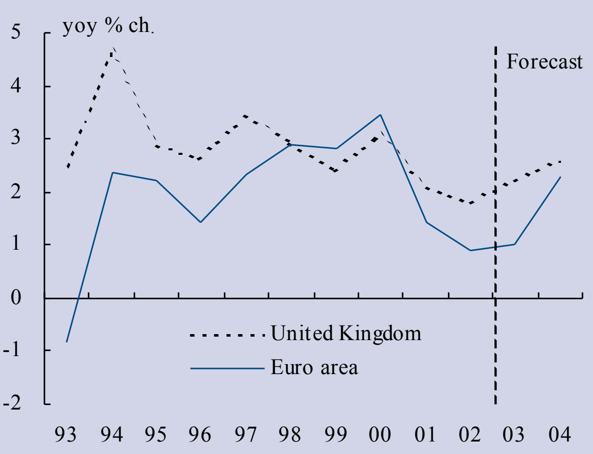
HICP inflation was low at around 1.6 % in February - among the lowest in the EU. Recently, UK inflation on the RPIX measure has been slightly above the Bank of England's 2½% target rate. Much of the upwards pressure, year on year, has come from the oil price and feedback from the buoyant housing market (through the housing depreciation component of the RPIX measure). However, there are already signs that the housing market is slowing down, and oil prices are forecast to fall. Benign developments in unit labour costs should continue in the face of an economy operating a little below potential and with unemployment close to the NAIRU. RPIX inflation is thus expected to meet the government's 2 ½ % target.

Public finances

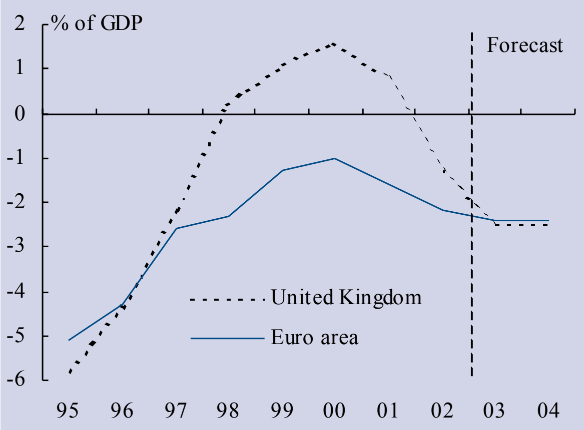
The general government finances recorded a deficit of 1.3% of GDP in 2002. The deficit is expected to widen further in 2003 as some tax revenues, notably corporation tax, are weak, while discretionary expenditure growth, especially fixed investment, is forecast to rise strongly as planned. It is assumed that expenditure will turn out broadly as projected by the authorities, in nominal terms. The Commission is thus projecting deficits of around 2½% of GDP in the forecast years. The continuation of a significant negative output gap of around 1% of GDP throughout the forecast period results in a cyclically adjusted balance of close to 2%. The ratio of gross debt to GDP will rise to around 40% by the end of 2004.

The forecast is based on announced policy and does not take account of any new policy measures contained in Budget 2003, to be presented by the Chancellor on April 9th.

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



Graph 3.30 : **United Kingdom - Government net lending**
(without UMTS revenues)



Chapter 4

Non-EU countries

1. United States

A halting recovery and growing deficits

The economy in 2002

After the recession in 2001 the US economy has been recovering at an uneven pace. It showed unexpected strength in the winter of 2001/2002 and again in the early summer of 2002, before it fell into what the Federal Reserve called a "soft spot" last autumn. The halting nature of the recovery process left the annual increase in real GDP at 2.4%, ie below long-term potential. Private consumption was once again the main engine of growth, well supported by government spending. Business fixed investment continued to decline on an annual average basis, but in terms of contribution to GDP growth the negative impact was completely offset by the upturn in the business inventory cycle. The major drag on GDP growth came from a further decline in net exports: while imports surged back to the peaks from before the recession, exports were recovering much more slowly and still registered a fall on an annual average basis.

With growth being below-par there was no net employment gain and the unemployment rate fluctuated between 5.6% and 6%. Inflation was subdued with 'core' inflation declining to just below 2% by the end of the year. The trade deficit rose to new record heights, pushing the current account deficit to 5.2% of GDP in the final quarter. The dollar's trade-weighted exchange value reached a peak in February 2002, but has been trending downwards since then. Equity prices fell even more than in the preceding two years, but the negative wealth effect was counterbalanced by continuing price gains in the housing market.

The halting recovery was supported by highly stimulative macro-economic policies. The Federal Reserve, after having lowered the federal funds rate to 1.75% in 2001, reduced it further to 1.25% in November, resulting in real short-term rates close to zero. On the fiscal side, the strongest impact came from the tax cuts adopted in 2001, the stimulus package from March 2002, and higher defence spending. These measures alone injected a fiscal stimulus corresponding to 1.5% of GDP. Overall, the balance of general government finances declined to -3.3% of GDP.

Prospects clouded by geopolitical uncertainties

The lack of growth momentum in the US economy which became evident last autumn has continued in the early months of 2003. Economic indicators have shown a weakening of demand, consumer confidence has fallen to a ten-year low, payroll employment has started to decline again and industrial production is virtually stagnant.

Many attribute the "soft spot" in the recovery to heightened geopolitical risks relating mainly to the Iraq-crisis. Business and consumer confidence are indeed likely to strengthen when the perception of such risks should fall again. But apart from this, the future path of the US economy depends on how a number of underlying forces and processes will play out. On the positive side, there is not only the accommodative stance of monetary policy and an expansionary fiscal policy, but also an underlying trend of strong productivity growth. The average annual increase in output per hour has been about 2½ % in the non-farm business sector in the past seven years. Following the latest recession, productivity growth even surged to an annual average of 4.8% in 2002. A considerable slowdown is likely in the second and third years of the recovery in line with the profile of past business cycles. Evidence of this can already be seen in the sharp deceleration in productivity growth in the final quarter of last year. But the higher level of the underlying trend growth rate for productivity seems to remain intact.

However, there are also a number of constraining factors. Firstly, growth in personal consumption expenditure will be limited by balance sheet adjustments in the household sector. This will be a reaction to: (a) the negative wealth effect from the decline in equity prices over the past three years which has not yet played out fully; (b) the still relatively high levels of household indebtedness and debt-service burden; (c) the inevitable slowing in mortgage

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	10082.0		100.0	3.1	4.1	3.8	0.3	2.4	2.4	2.5
Private consumption	6987.0		69.3	3.3	4.9	4.3	2.5	3.1	1.9	3.2
Public consumption	1522.1		15.1	1.8	3.1	2.8	4.0	4.5	7.2	-1.4
GFCF	1982.2		19.7	4.2	7.9	5.6	-2.9	-2.2	2.0	4.6
of which : equipment	1019.5		10.1	6.7	11.6	8.1	-5.4	-1.0	4.8	6.5
Change in stocks as % of GDP	-60.3		-0.6	0.4	0.7	0.7	-0.7	0.1	0.3	0.5
Exports (goods and services)	1034.0		10.3	6.3	3.4	9.7	-5.4	-1.7	2.9	5.1
Final demand	11465.0		113.7	3.5	4.9	4.9	-0.4	2.5	2.9	3.2
Imports (goods and services)	1383.0		13.7	7.6	10.9	13.2	-2.9	3.6	6.1	7.0
GNI at constant prices (GDP deflator)	10103.9		100.2	3.0	4.4	3.8	0.2	2.1	2.4	2.4
Contribution to GDP growth :		Domestic demand		3.2	5.4	4.5	1.6	2.3	2.8	2.9
		Stockbuilding		0.1	-0.2	0.0	-1.4	0.7	0.2	0.2
		Foreign balance		-0.2	-1.2	-0.9	-0.2	-0.8	-0.7	-0.6
Employment				1.7	1.9	1.9	-0.3	-0.6	0.4	0.5
Unemployment (a)				6.6	4.2	4.0	4.8	5.8	6.0	6.2
Compensation of employees/head				4.5	4.1	5.4	2.9	2.6	4.2	3.1
Unit labour costs				3.0	1.8	3.5	2.3	-0.5	2.1	1.1
Real unit labour costs				-0.3	0.3	1.4	0.0	-1.6	0.7	-0.3
Savings rate of households (b)				-	2.6	2.9	2.4	4.0	4.9	4.2
GDP deflator				3.4	1.4	2.1	2.4	1.1	1.4	1.4
Private consumption deflator				3.5	1.6	2.5	2.0	1.4	1.9	1.5
General index of consumer prices				-	2.2	3.4	2.8	1.6	2.0	1.7
Trade balance (c)				-2.2	-3.8	-4.7	-4.3	-4.7	-5.4	-5.8
Balance on current transactions with ROW (c)				-1.5	-3.0	-4.1	-3.8	-4.7	-5.6	-6.1
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.5	-3.0	-4.1	-3.8	-4.7	-5.6	-6.1
General government balance (c)				-3.8	0.7	1.5	-0.5	-3.3	-4.8	-4.6
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.

refinancing activity with associated cash-out payments which was an important support for consumer spending in 2002. Secondly, the upturn in business fixed investment is being held back by a considerable degree of unused capacity in the manufacturing sector and in non-residential structures. Finally, the international competitiveness of US goods and services continues to be weak: the dollar's depreciation in trade-weighted terms over the past year is still rather trivial compared to the appreciation in the 1995-2001 period.

The recovery is likely to continue at a subdued pace

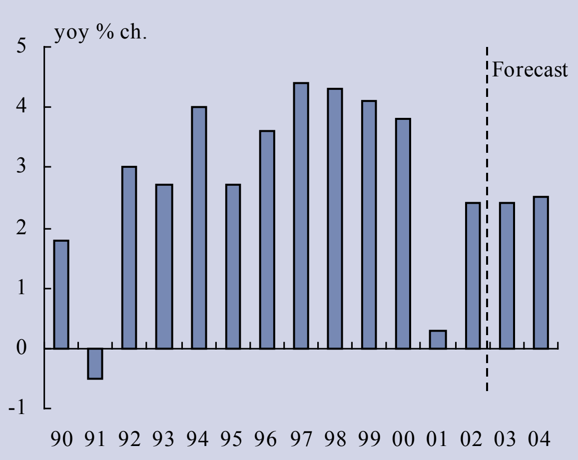
Taking both the positive and the negative conditions into account, the forecast expects the recovery to proceed at a somewhat restrained pace. Consumer spending is expected to be weak in the first half of 2003, but the additional public spending in connection with the war in Iraq should more than offset the effect on growth, particularly in the second quarter. Assuming that the military expenditure and the related costs will be limited to the $75 billion requested by the Administration and that it will be largely spent before the end of the year, it is projected that the fiscal stimulus will peter out in the second half of the year.[2] This should lower GDP growth towards the end of the

[2] This forecast does not factor in the possible adoption and implementation of the Administration's proposal of 7 January 2003 to cut taxes, including the taxation of dividend income, at a budgetary costs of about $670 billion over ten years.

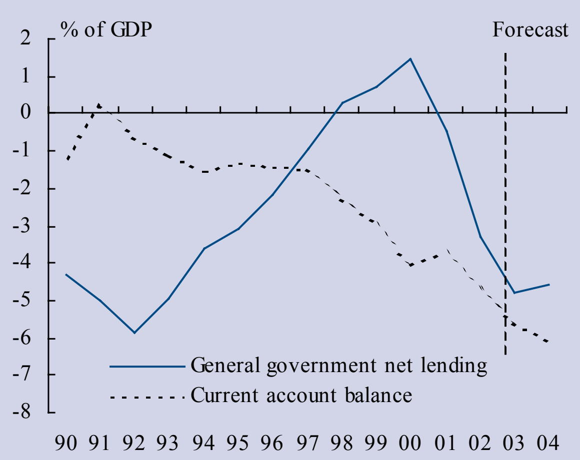
year in spite of an expected pick-up in private consumption and business investment from the summer onwards. In the course of 2004 GDP growth should gradually become more robust. Such a development would result in annual growth rates of 2.4% for 2003 and 2.5% for 2004. Unemployment would increase slightly to about 6% while inflation would remain below 2%. The fiscal deficit of general government would reach 4.8% of GDP this year and 4.6% next year. The current account deficit would continue to rise and exceed 6% of GDP next year.

The development in private consumption expenditure will be the key determinant for the strength of the recovery going forward. Consumer spending is expected to grow by just under 2% in 2003 which would allow an improvement in household balance sheets. Subsequently, a gradual pick-up in consumer spending to just above 3% in 2004 is expected. Business investment in equipment and software should continue its slow recovery as excess capacity is gradually absorbed, but remain far below the double-digit growth rates of the late 1990s. Last year's sizeable contribution to growth from the inventory turnaround will diminish over the forecast period. Investment in non-residential structures is likely to remain weak for another year. Residential investment stayed on a high level during the recession and has therefore little potential to strengthen the recovery – it is indeed expected to remain flat in 2004 in conjunction with firming interest rates. Growth in government consumption expenditure is projected to fall back next year after this year's surge due to the Iraq war. Finally, the continuing decline in net exports will subtract about two thirds of a percentage point from annual GDP growth within the forecast period.While this is considered the most likely scenario, there are both downside and upside risks to such an outcome. A serious retrenchment in household demand, for instance in the context of a discontinuation of house price rises, may be the biggest negative risk. The projected development of consumer spending in the forecast period implies a modest rise in the household saving rate from 4% to 4.9% this year, but then a renewed decline to 4.2% next year. If households should want 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 the possibility that additional tax cuts, as proposed by the Administration in January 2003, will be adopted.

Graph 3.31: **USA - Real GDP growth rate**



Graph 3.32: **USA - The 'twin deficits'**



2. Japan

Moderate growth outlook with downside risks

Current situation

National account data suggest that the Japanese economy continued to expand in the fourth quarter of 2002 by a quarterly (non-annualised) growth rate of 0.5%. Overall, real GDP followed a fairly strong quarterly growth path in 2002, with private consumption and net exports being the two main factors supporting the expansion. Nevertheless, due to a large negative carry-over from 2001, annual growth in 2002 stood at only 0.3%.

Japanese national account data need to be interpreted with caution, however, as they are frequently up for significant revisions. The all-industries activity index, one of the best output based measures of economic activity, shows a more moderate quarterly growth path in 2002 and a quarter-on-quarter fall of 1.0% in the last quarter. Also, the household survey, which serves as the basis to more than half of the private consumption component, registered a strong fall in the fourth quarter. Accordingly, a future downward revision of GDP growth in the fourth quarter should not be excluded.

Prospects

The growth outlook for the Japanese economy remains bleak, but an imminent recession appears rather unlikely, partly as inventories have come down to very low levels. Indicators for the first two months of the year, including industrial production and machinery orders, seem to indicate a moderate output expansion in the first quarter of this year.

The strong growth in private consumption which took place in the first three quarters of last year, despite flat real take-home pay, a continued fall in housing prices and an uncertain labour market, is unlikely to continue. In addition, consumer confidence has declined somewhat on the back of the current geopolitical uncertainties. A longer period of high oil prices would take its toll on private consumption, which constitutes more than half of Japanese GDP.

Due to the supplementary budget for FY 2002, government consumption should continue to support growth in the current year. Profits in the manufacturing sector regained some strength last year, which normally should encourage stronger private investment. Nevertheless, as the corporate sector as a whole continues to be faced with excessive capacity and the need to reduce its debt, it is uncertain to what extent these higher profits will translate into stronger private capital expenditure.

Despite a delayed global recovery, export growth is still forecast to be robust. In particular the rest of Asia, which is the largest export destination for Japanese goods, is expected to continue to perform well. In 2004, export growth is expected to be somewhat dented by lagged effects of the effective appreciation of the yen. Import growth is also projected to recover, in tandem with domestic demand. Overall, net exports are forecast to give a positive contribution to growth, although declining over the period.

Real GDP is projected to grow at some 1.5% in the current year, facilitated by a sizeable overhang, and to slow down slightly to around 1.3% in 2004, helped by the leap-year.

Labour market and wages

The situation in the labour market remains difficult and unemployment has continued to linger around historically high levels. Employment fell in the first half of last year, mainly due to a scaling down of labour in the manufacturing and wholesale/retail sales sectors, and remained roughly flat during the second half of the year. However, new job offers have risen since the beginning of the year, pointing to a possible improvement in the near term.

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	507455.2	100.0	2.9	0.1	2.8	0.4	0.3	1.5	1.3
Private consumption	286240.0	56.4	2.8	0.2	1.0	1.7	1.5	0.6	1.2
Public consumption	88097.7	17.4	3.3	4.4	4.7	2.6	2.3	1.5	1.8
GFCF	130035.7	25.6	2.9	-0.9	2.7	-0.9	-4.2	0.8	-0.2
of which : equipment	-	-	5.3	0.1	9.7	-	-	-	-
Change in stocks as % of GDP	-92.4	0.0	0.4	-0.3	0.0	0.0	-0.4	-0.1	0.1
Exports (goods and services)	52567.0	10.4	4.6	1.5	12.4	-6.1	8.2	7.9	6.1
Final demand	556848.0	109.7	3.0	0.3	3.3	0.4	0.5	1.8	1.7
Imports (goods and services)	49392.8	9.7	4.4	3.0	9.5	0.1	2.1	5.3	5.0
GNI at constant prices (GDP deflator)	515775.9	101.6	3.0	0.0	2.8	0.8	0.3	1.4	1.2
Contribution to GDP growth :	Domestic demand		2.8	0.5	2.0	1.1	0.1	0.8	0.9
	Stockbuilding		0.0	-0.3	0.3	0.0	-0.4	0.3	0.1
	Foreign balance		0.1	-0.1	0.5	-0.7	0.7	0.4	0.3
Employment			0.8	-0.8	-0.1	-0.5	-1.2	-0.5	-0.2
Unemployment (a)			2.7	4.7	4.7	5.0	5.2	5.4	5.4
Compensation of employees/head			2.9	-1.1	0.2	-0.3	-1.5	-0.9	-0.1
Unit labour costs			0.7	-2.0	-2.7	-1.2	-3.1	-2.9	-1.7
Real unit labour costs			-0.6	-0.5	-0.8	0.4	-1.5	-1.9	-1.0
Savings rate of households (b)			-	-	16.0	13.4	12.8	12.9	13.0
GDP deflator			1.3	-1.5	-1.9	-1.6	-1.6	-1.0	-0.7
Private consumption deflator			1.5	-0.7	-1.3	-1.5	-1.4	-1.0	-1.1
General index of consumer prices			-	-0.3	-0.7	-0.6	-0.9	-0.6	-0.7
Trade balance (c)			2.8	2.8	2.4	1.8	2.4	2.9	3.4
Balance on current transactions with ROW (c)			2.3	2.6	2.5	2.1	2.8	3.1	3.4
Net lending(+) or borrowing(-) vis à vis ROW (c)			2.6	2.2	2.3	2.0	2.7	3.0	3.3
General government balance (c)			-1.7	-7.2	-7.4	-6.1	-6.7	-7.0	-7.0
General government gross debt (c)			71.5	116.4	123.6	132.3	140.4	147.1	153.7

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

Nominal wages seem to be fairly flexible in Japan, with the bonus system facilitating downward adjustments in the overall compensation to employees. Compensation of employees per head fell by 1.5% in 2002 and is also expected to fall somewhat in the current year, keeping real compensation per employee basically unchanged.

Deflation and monetary policy

The Japanese economy continues to struggle with deflation. Prices are currently falling on its 5th (as measured by the consumer price index) to 9th year (as measured by the GDP deflator). The year-on-year change in core CPI (excluding energy and fresh food) remained fairly stable at around –0.9% up to last Autumn, but the decline recently eased slightly to -0.6% in December and remained at this level in January.

Deflationary expectations now seem entrenched. With nominal short-term interest rates at the zero floor, persistent deflation has contributed to bringing the economy into a liquidity trap, which together with the vast amount of non-performing loans in the banking sector impair the transmission mechanisms of monetary policy. In a recent speech to a Parliamentary committee, the new Bank of Japan Governor, Mr Fukui, who took up office in the middle of March, indicated that he might conduct a somewhat more expansionary monetary policy than his predecessor.

General government finances

Public finances remain in a poor state and the absence of any medium-term consolidation strategy is striking. In 2002, the general government deficit is estimated to have amounted to close to 7% of GDP and the consolidated gross debt to have exceeded 140% of GDP. With the supplementary budget for FY 2002 and the tax cuts included in the budget for FY 2003, the fiscal stance is likely to be slightly expansionary in the current year.

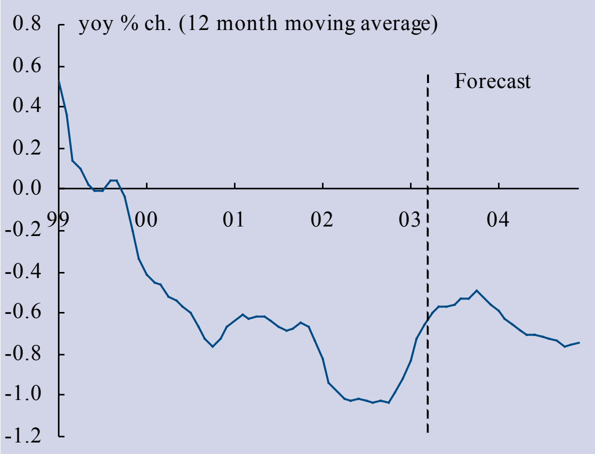
Risks to the forecast

There are sizeable risks to the forecast, with a bias to the downside. The two main downside risks are linked to geo-political developments and the financial sector.

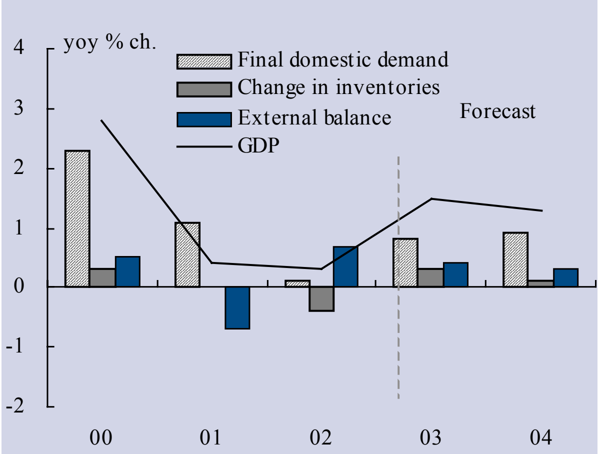
Firstly, a prolonged intervention in Iraq, with a long period of sustained high oil prices, would take its toll on the Japanese economy. Secondly, the financial sector is still in a very fragile state and concerns that some of the major banks would turn out to be undercapitalised at the closing of the financial year (end of March) have again been mounting. However, the newly established financial framework incorporates specific measures to limit the impact of such a risk.

On the upside, if the downside risks do not to materialise and if the current national account data are not revised downwards, growth in 2003 could turn out stronger than projected in the forecast. Corporate profits in the manufacturing sector could, as seems to have been the case in the second half of 2002, continue to support an expansion of private capital expenditure.

Graph 4.3 : **Japan - CPI**



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



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STATISTICAL ANNEX : SPRING 2003 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.4	1.6	2.7	2.0	3.2	3.7	0.8	0.7	0.7	2.0	1.2	2.8	2.3
DK	2.7	2.0	2.7	2.5	2.6	2.8	1.4	1.7	1.6	2.1	1.5	2.4	2.2
DE	3.1	2.0	1.8	2.0	2.0	2.9	0.6	0.4	0.2	1.4	0.4	2.3	2.0
EL	4.5	1.2	3.4	3.4	3.6	4.2	4.1	3.5	4.0	3.9	3.6	3.7	3.8
ES	4.6	1.5	3.8	4.3	4.2	4.2	2.7	1.9	2.0	2.6	2.0	3.2	3.0
FR	3.8	1.1	2.7	3.4	3.2	3.8	1.8	1.0	1.2	2.0	1.1	2.7	2.3
IE	4.2	4.7	9.8	8.8	11.1	10.0	5.7	3.3	6.0	4.2	3.3	5.2	4.5
IT	3.9	1.3	1.9	1.8	1.7	3.1	1.8	0.4	0.4	1.8	1.0	2.4	2.1
LU	3.7	3.9	6.8	7.5	6.0	8.9	1.0	0.1	0.4	2.0	1.1	3.4	2.7
NL	3.4	2.1	3.7	4.3	4.0	3.3	1.3	0.2	0.3	0.9	0.5	2.2	1.7
AT	3.6	2.0	2.8	3.9	2.7	3.5	0.7	0.7	1.0	1.8	1.2	2.2	2.0
PT	4.8	1.7	3.9	4.6	3.8	3.7	1.6	0.7	0.5	1.2	0.5	2.5	2.0
FI	3.8	-0.6	4.8	4.9	3.4	5.5	0.6	1.4	1.6	2.8	2.2	3.4	2.9
SE	2.9	1.3	3.3	3.6	4.6	4.4	1.1	1.6	1.9	2.2	1.4	2.4	2.7
UK	2.5	1.8	2.9	2.9	2.4	3.1	2.1	1.6	1.8	2.5	2.2	2.7	2.6
EU-15	3.4	1.5	2.6	2.9	2.8	3.5	1.6	1.0	1.1	2.0	1.3	2.6	2.4
Euro area	3.6	1.5	2.6	2.9	2.8	3.5	1.5	0.8	0.9	1.8	1.0	2.6	2.3
US	3.5	2.4	4.1	4.3	4.1	3.8	0.3	2.3	2.4	2.3	2.4	2.8	2.5
JP	6.2	1.5	1.4	-1.1	0.1	2.8	0.4	-0.6	0.3	1.2	1.5	1.4	1.3

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
BE	0.5	0.4	0.5	0.2	0.0	0.3	0.6	0.6	0.5	0.7	0.5	0.8
DK	0.3	1.5	-0.7	0.0	0.3	0.5	0.8	0.8	0.4	0.2	0.5	0.3
DE	0.3	0.2	0.3	0.0	0.0	-0.1	0.3	0.4	0.4	0.3	0.4	0.4
EL	:	:	:	:	:	:	:	:	:	:	:	:
ES	0.5	0.5	0.8	0.3	0.3	0.5	0.6	0.7	0.7	0.9	0.8	0.7
FR	0.7	0.4	0.3	0.2	0.2	0.2	0.3	0.6	0.6	0.7	0.6	0.7
IE	3.9	1.7	0.6	0.6	0.6	0.8	1.1	1.1	1.1	1.1	1.2	1.2
IT	0.0	0.2	0.3	0.4	0.1	0.1	0.4	0.4	0.6	0.5	0.6	0.6
LU	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.0	0.3	0.2	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.6
AT	0.8	0.5	0.1	-0.1	0.1	0.3	0.3	0.4	0.7	0.9	0.9	0.9
PT	0.5	1.7	-2.7	-0.8	0.7	0.3	0.3	0.4	0.5	0.6	0.6	0.7
FI	-0.3	1.8	0.6	0.7	0.2	0.4	0.6	0.6	0.8	0.8	0.7	0.7
SE	0.5	0.6	0.3	0.3	0.2	0.2	0.5	0.6	0.7	0.8	0.8	0.8
UK	0.1	0.6	1.1	0.4	0.2	0.7	0.8	0.6	0.5	0.7	0.8	0.8
EU-15	0.4	0.4	0.4	0.2	0.2	0.3	0.5	0.5	0.6	0.6	0.6	0.6
Euro area	0.4	0.3	0.4	0.2	0.1	0.1	0.4	0.5	0.6	0.6	0.6	0.6
US	1.2	0.3	1.0	0.4	0.5	1.1	0.4	0.1	0.5	0.9	0.9	1.0
JP	0.1	1.4	0.8	0.5	0.3	0.0	0.2	0.3	0.5	0.4	0.4	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
BE	-0.3	0.5	1.0	1.6	1.1	1.0	1.1	1.5	2.0	2.4	2.3	2.5
DK	1.4	3.0	1.1	1.1	1.1	0.2	1.7	2.6	2.7	2.4	2.1	1.6
DE	-0.2	-0.1	0.5	0.7	0.5	0.3	0.3	0.7	1.2	1.6	1.6	1.5
EL	:	:	:	:	:	:	:	:	:	:	:	:
ES	2.0	2.0	1.9	2.1	1.9	1.9	1.8	2.2	2.7	3.1	3.2	3.2
FR	0.7	1.2	1.2	1.7	1.2	0.9	1.0	1.3	1.7	2.3	2.6	2.7
IE	4.7	6.6	6.9	7.0	3.6	2.7	3.3	3.8	4.3	4.5	4.6	4.6
IT	0.0	0.2	0.4	1.0	1.0	0.9	1.0	1.0	1.5	1.9	2.1	2.3
LU	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.1	0.1	0.4	0.5	0.7	0.5	0.5	0.7	1.0	1.5	1.9	2.2
AT	0.3	1.3	1.4	1.3	0.6	0.4	0.6	1.1	1.6	2.2	2.8	3.3
PT	1.3	1.9	0.0	-1.3	-1.2	-2.6	0.5	1.7	1.5	1.9	2.2	2.5
FI	-1.2	2.9	2.1	2.8	3.4	1.9	1.9	1.8	2.4	2.9	3.0	3.1
SE	1.4	2.2	2.1	1.7	1.4	1.0	1.2	1.5	2.0	2.7	3.0	3.1
UK	1.2	1.6	2.2	2.2	2.3	2.4	2.0	2.2	2.5	2.5	2.5	2.7
EU-15	0.4	0.8	1.1	1.4	1.2	1.0	1.1	1.4	1.8	2.2	2.3	2.4
Euro area	0.3	0.6	0.9	1.3	1.1	0.9	0.9	1.2	1.6	2.1	2.2	2.3
US	1.4	2.2	3.3	2.9	2.2	3.0	2.5	2.1	2.2	1.9	2.4	3.4
JP	-2.8	-0.2	1.7	2.8	3.0	1.6	1.0	0.8	1.0	1.4	1.6	1.7

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1961-2004) 28.3.2003

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.1	1.2	2.5	1.8	3.0	3.5	0.4	0.1	0.2	1.8	0.8	2.6	1.9
DK	2.3	1.6	2.3	2.1	2.3	2.5	1.1	1.3	1.2	1.8	1.2	2.1	1.9
DE	2.7	1.4	1.7	2.0	2.0	2.7	0.4	0.3	0.0	1.3	0.4	2.3	2.0
EL	3.9	0.3	2.9	2.8	3.2	3.8	3.9	3.3	3.8	3.7	3.4	3.5	3.6
ES	3.7	1.3	3.5	4.1	3.7	3.4	1.8	1.2	1.3	1.9	1.3	2.6	2.4
FR	3.0	0.6	2.3	3.0	2.8	3.3	1.3	0.5	0.8	1.5	0.7	2.2	2.0
IE	3.4	4.1	8.6	7.3	9.9	8.7	4.2	1.8	4.5	2.9	2.1	3.9	3.4
IT	3.4	1.1	1.8	1.7	1.6	2.9	1.5	0.3	0.2	1.6	0.8	2.2	1.9
LU	3.0	2.5	5.3	6.2	4.5	7.5	0.3	-0.6	-0.3	1.3	0.4	2.6	1.9
NL	2.5	1.4	3.1	3.7	3.3	2.6	0.5	-0.4	-0.4	0.4	-0.1	1.9	1.2
AT	3.2	1.2	2.6	3.8	2.6	3.3	0.4	0.4	0.9	1.5	0.8	1.9	1.6
PT	4.4	1.5	3.5	4.2	3.3	3.1	1.0	0.4	0.0	0.9	0.1	2.2	1.6
FI	3.4	-1.1	4.5	4.6	3.2	5.3	0.4	1.2	1.4	2.6	2.0	3.2	2.7
SE	2.5	0.6	3.2	3.6	4.5	4.2	0.8	1.3	1.5	1.9	1.0	2.0	2.3
UK	2.2	1.4	2.5	2.5	2.0	2.6	1.8	1.3	1.5	2.3	1.9	2.4	2.3
EU-15	2.9	1.2	2.3	2.6	2.5	3.1	1.1	0.6	0.7	1.7	1.0	2.3	2.1
Euro area	3.0	1.1	2.3	2.6	2.5	3.1	1.0	0.5	0.5	1.5	0.7	2.3	2.0
US	2.4	1.1	2.8	3.1	3.0	2.5	-0.9	1.3	1.5	1.5	1.5	2.0	1.5
JP	5.2	1.2	1.2	-1.4	-0.1	2.6	0.2	-0.7	0.2	1.1	1.4	1.3	1.2

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

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.3	1.2	2.5	2.9	2.4	3.6	0.5	0.4	0.3	2.1	1.4	2.7	2.0
DK	2.5	2.3	2.6	4.0	0.1	2.0	0.8	1.8	1.1	2.3	1.7	2.7	2.4
DE	3.0	2.1	1.6	2.4	2.8	1.8	-0.8	-1.1	-1.5	1.7	0.4	2.1	2.0
EL	4.7	1.3	3.6	4.6	2.8	3.9	3.1	3.6	3.9	4.0	3.3	3.5	3.6
ES	4.9	1.0	4.2	5.7	5.6	4.4	2.7	1.8	2.2	2.5	2.3	3.3	3.4
FR	3.8	0.7	2.6	4.0	3.6	4.0	1.7	0.9	1.0	2.3	1.3	3.0	2.5
IE	3.6	2.5	8.9	9.7	8.3	8.5	4.1	3.5	2.7	4.2	1.8	4.8	3.1
IT	3.8	0.3	2.4	3.1	3.2	2.3	1.8	0.7	1.1	1.9	1.5	2.4	2.1
LU	3.5	2.7	4.9	7.4	6.3	0.7	6.1	1.8	1.0	2.6	2.4	3.6	3.3
NL	3.3	1.5	3.7	4.8	4.3	2.7	1.4	0.4	-0.2	0.6	0.4	1.6	1.6
AT	3.4	2.5	2.4	2.9	2.9	2.7	-0.1	-0.3	-0.4	1.8	1.2	2.3	2.0
PT	4.9	2.5	4.8	6.7	5.9	3.1	1.1	-0.1	-0.4	0.4	-0.2	1.8	1.5
FI	4.0	-2.6	3.6	4.0	2.0	3.0	2.0	0.9	-0.1	2.3	2.3	2.7	2.3
SE	2.7	-0.2	2.7	4.3	3.3	3.8	0.1	0.6	0.7	2.0	1.1	2.2	2.1
UK	2.6	1.3	3.9	5.0	3.6	3.9	2.6	2.0	2.5	2.6	2.8	2.7	2.5
EU-15	3.4	1.1	2.8	3.8	3.4	3.1	1.3	0.7	0.7	2.1	1.5	2.6	2.3
Euro area	3.6	1.1	2.6	3.6	3.5	2.9	1.0	0.3	0.3	2.0	1.2	2.6	2.3
US	3.4	2.4	4.7	5.5	5.1	4.4	0.2	2.8	2.9	2.8	2.9	3.4	2.9
JP	6.1	1.5	1.2	-1.5	0.2	2.4	1.1	-1.3	-0.4	0.8	1.1	1.1	1.1

TABLE 6 : Final demand, volume (percentage change on preceding year, 1961-2004)

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	4.2	2.3	3.9	4.2	3.6	5.7	0.8	-0.1	-0.3	3.3	1.8	4.2	3.3
DK	3.1	2.4	4.0	4.1	3.4	5.3	1.6	2.4	1.8	2.9	1.8	3.4	3.2
DE	3.6	2.5	3.1	3.4	3.4	4.6	0.7	-0.3	-0.4	2.6	1.3	3.6	3.2
EL	5.0	1.6	4.8	4.6	3.7	6.6	2.3	3.1	2.4	4.1	3.2	4.2	4.2
ES	5.2	2.4	5.4	6.2	6.1	5.7	2.9	1.3	2.1	3.3	2.5	4.2	3.6
FR	4.2	1.4	3.7	4.9	3.9	5.8	1.4	0.8	1.1	2.8	1.6	3.8	3.1
IE	4.9	6.7	13.1	15.3	11.8	14.9	5.5	4.3	3.6	6.0	3.6	7.3	5.6
IT	4.3	1.6	2.9	3.2	2.5	4.4	1.6	0.4	0.6	2.6	1.8	3.5	3.0
LU	4.2	4.2	9.5	11.3	9.6	11.3	3.2	-1.0	-1.1	2.9	2.0	4.2	3.2
NL	4.1	3.2	5.1	5.8	4.6	6.0	1.5	-0.4	-0.7	2.0	1.2	3.3	3.1
AT	4.2	2.5	4.5	4.5	4.6	6.0	2.3	-0.1	0.7	3.4	2.3	4.2	3.9
PT	5.5	2.6	5.2	7.2	5.0	4.2	1.1	0.6	0.2	1.3	0.4	3.1	2.5
FI	4.1	-0.1	5.8	6.4	2.8	8.2	0.5	1.5	1.7	3.5	2.8	4.1	3.6
SE	3.1	1.7	4.7	5.7	4.8	6.5	-0.2	1.0	0.6	3.3	1.6	3.5	3.5
UK	2.8	2.1	4.6	4.6	4.0	5.4	2.2	1.5	1.7	3.2	2.6	3.5	3.2
EU-15	3.8	2.1	4.0	4.6	4.0	5.5	1.5	0.7	0.8	2.9	1.9	3.7	3.3
Euro area	4.1	2.1	3.9	4.5	3.9	5.4	1.5	0.4	0.5	2.8	1.7	3.8	3.3
US	3.6	2.8	4.9	5.1	4.9	4.9	-0.4	2.4	2.5	2.9	2.9	3.5	3.2
JP	6.3	1.6	1.6	-1.6	0.3	3.3	0.4	-0.7	0.5	1.3	1.8	1.6	1.7

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.2	1.7	2.3	3.0	2.1	3.4	0.9	0.8	0.6	1.9	0.9	2.3	1.4
DK	2.1	2.3	1.3	2.3	0.7	-1.9	0.4	2.1	2.2	2.2	1.8	2.2	2.3
DE	3.5	2.3	1.7	1.8	3.7	1.4	1.5	-0.7	-0.6	1.1	0.2	1.7	1.5
EL	4.8	1.9	2.8	3.5	2.9	2.6	2.9	3.0	2.5	3.2	2.3	3.3	3.0
ES	4.5	1.2	3.7	4.4	4.7	3.9	2.5	1.7	1.9	2.3	2.1	3.1	3.1
FR	3.7	0.7	2.1	3.4	3.2	2.5	2.6	1.7	1.8	2.1	1.7	2.5	1.9
IE	3.1	3.2	7.9	7.7	9.3	9.0	5.0	3.7	2.4	4.8	2.8	5.6	3.8
IT	4.4	0.9	2.6	3.2	2.6	2.7	1.0	-0.1	0.4	1.9	1.8	2.4	2.2
LU	3.8	2.5	4.3	7.8	2.6	3.3	3.6	2.3	1.2	2.0	1.6	3.0	2.7
NL	3.6	1.6	4.0	4.8	4.7	3.6	1.2	1.0	1.0	1.0	0.8	1.5	1.5
AT	3.6	2.3	2.6	2.7	2.3	3.3	1.5	0.8	0.9	1.3	1.2	2.0	1.9
PT	4.0	2.3	3.8	5.0	5.1	2.6	1.2	1.0	0.7	0.9	0.3	1.5	1.2
FI	3.9	-1.1	3.6	4.4	3.5	3.3	1.7	2.7	2.1	2.5	2.4	2.6	2.3
SE	2.3	-0.1	3.2	3.0	3.8	4.9	0.2	1.4	1.3	1.7	1.8	2.2	2.3
UK	2.7	1.5	4.2	3.8	4.5	5.2	4.1	3.5	3.8	2.3	2.3	2.2	2.2
EU-15	3.5	1.4	2.8	3.2	3.7	3.0	2.2	1.2	1.4	1.8	1.5	2.2	2.0
Euro area	3.8	1.4	2.5	3.1	3.5	2.5	1.8	0.6	0.7	1.7	1.2	2.3	2.0
US	3.7	2.6	4.2	4.8	4.9	4.3	2.5	3.1	3.1	2.3	1.9	2.7	3.2
JP	5.7	2.3	0.9	-0.1	0.2	1.0	1.7	0.7	1.5	0.7	0.6	1.0	1.2

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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.5	1.5	1.9	1.0	3.6	2.3	2.2	1.4	1.9	1.5	2.0	2.3	1.8
DK	3.6	2.1	2.1	3.1	2.0	1.1	2.1	1.4	1.0	0.9	0.9	1.0	0.9
DE	3.0	1.9	1.2	1.9	1.0	1.2	0.8	1.0	1.5	1.0	0.5	1.1	0.8
EL	4.6	0.5	1.8	1.7	1.6	2.0	-0.9	1.0	6.2	0.7	1.4	0.6	1.0
ES	4.9	3.0	3.4	3.7	4.2	5.0	3.1	2.2	3.8	3.0	3.5	2.5	3.2
FR	3.4	2.3	1.7	-0.1	1.5	2.7	2.5	3.2	3.5	2.0	2.4	2.4	2.4
IE	3.6	2.7	5.9	6.5	6.7	7.6	10.5	7.0	8.4	3.2	1.7	3.0	1.5
IT	3.4	-0.2	0.9	0.2	1.3	1.6	3.6	1.6	1.7	1.2	1.8	0.8	0.8
LU	3.6	3.7	4.3	1.3	7.1	4.3	7.5	6.0	5.4	7.5	6.4	4.5	4.5
NL	2.8	2.1	2.1	3.6	2.5	1.9	3.1	2.4	3.7	0.3	0.0	1.2	1.4
AT	2.7	3.0	1.1	2.8	3.1	0.0	-0.5	0.2	1.3	0.3	0.5	0.4	0.5
PT	7.6	2.7	3.9	4.1	5.6	4.0	2.8	1.4	3.3	0.2	1.5	0.3	0.8
FI	4.4	-0.5	2.0	2.1	1.4	0.4	1.2	1.9	4.0	1.5	1.1	1.4	1.2
SE	3.5	1.8	0.7	3.4	1.7	-1.1	0.9	1.7	2.1	0.5	0.7	0.5	0.5
UK	1.8	1.2	1.6	1.5	3.1	2.1	2.5	3.7	3.8	3.0	4.0	3.0	1.0
EU-15	3.1	1.6	1.6	1.6	2.0	2.0	2.2	2.2	2.8	1.7	1.9	1.8	1.4
Euro area	3.4	1.7	1.7	1.4	1.8	2.1	2.2	2.0	2.7	1.4	1.6	1.6	1.5
US	2.5	-0.1	1.9	1.5	3.1	2.8	4.0	4.3	4.5	3.7	7.2	3.6	-1.4
JP	4.4	3.2	3.0	2.1	4.4	4.7	2.6	1.9	2.3	1.4	1.5	1.4	1.8

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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.4	-0.4	3.9	3.0	4.3	4.1	0.5	-2.8	-2.7	2.5	-0.5	4.3	2.8
DK	2.7	1.8	7.0	10.0	1.4	9.2	1.5	2.3	1.1	3.8	1.6	5.2	3.7
DE	2.3	1.8	1.8	3.0	4.1	2.5	-5.3	-4.8	-6.7	1.6	0.0	4.2	3.1
EL	3.5	-0.2	8.0	10.6	6.2	8.0	5.9	7.3	6.7	8.3	7.9	5.6	6.7
ES	6.0	-0.5	6.3	10.0	8.7	5.7	3.2	1.5	1.4	2.5	2.1	4.5	4.1
FR	4.5	-1.2	4.5	7.0	8.3	7.7	2.3	0.1	-0.6	1.2	-1.2	3.6	3.0
IE	5.2	2.3	14.1	14.8	14.0	7.0	-0.4	0.8	-0.1	3.9	-0.2	4.6	2.7
IT	2.9	-1.2	4.4	4.0	5.0	7.1	2.6	-2.2	0.5	3.2	1.7	3.9	3.1
LU	3.3	3.2	6.9	11.8	14.0	-6.3	5.9	-2.7	-2.4	-0.3	0.8	4.3	3.6
NL	3.0	0.7	5.7	4.2	7.8	3.5	-0.8	-3.3	-3.7	-0.2	-0.9	2.2	2.0
AT	3.9	2.4	3.2	3.9	2.1	5.9	-2.2	-2.6	-4.8	3.8	1.6	4.6	3.1
PT	4.6	2.2	8.3	11.5	6.4	4.4	0.0	-3.5	-5.2	-1.0	-3.0	3.6	2.9
FI	3.3	-8.6	6.9	8.2	1.8	4.0	3.8	-1.6	-1.0	1.5	-1.4	4.3	1.6
SE	3.1	-3.2	5.3	7.8	8.2	6.6	0.8	-1.6	-2.5	3.8	-0.4	4.1	4.1
UK	3.3	-0.3	5.3	12.8	0.6	1.9	1.0	-4.0	-3.2	2.7	3.4	3.5	4.2
EU-15	3.4	-0.2	4.2	6.5	5.1	4.7	0.0	-2.1	-2.4	2.2	0.8	3.9	3.4
Euro area	3.4	-0.1	4.0	5.3	5.9	5.0	-0.3	-1.9	-2.3	2.0	0.3	4.0	3.2
US	3.6	4.1	8.4	10.5	7.9	5.6	-2.9	-2.4	-2.2	2.1	2.0	4.7	4.6
JP	8.0	-0.8	1.0	-3.9	-0.9	2.7	-0.9	-5.9	-4.2	-2.1	0.8	-0.3	-0.2

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	:	:	:	:	:	:	:	-2.1	-2.4	2.2	-0.1	3.9	2.7
DK	-1.0	-1.8	4.0	4.2	-5.7	7.3	-5.8	-0.7	-3.0	2.7	0.1	3.8	3.2
DE	0.5	4.0	-1.3	-1.0	1.4	-2.6	-6.0	-4.2	-5.9	-0.4	-2.3	0.6	0.2
EL	0.2	-2.8	5.4	9.2	6.1	2.9	7.2	8.2	8.2	10.0	8.7	5.8	7.5
ES	3.1	0.1	4.6	7.8	9.0	6.2	5.8	4.5	4.5	2.9	3.1	3.7	3.0
FR	1.1	-2.1	1.7	1.9	6.1	7.2	1.8	-0.1	-0.6	0.7	-1.5	1.9	2.6
IE	2.3	3.3	13.0	10.0	12.3	6.6	4.6	3.0	2.3	3.5	-1.4	3.7	1.4
IT	0.4	-2.4	1.9	-0.2	2.6	5.9	3.2	0.0	0.3	1.7	1.5	2.0	0.9
LU	2.3	4.4	6.2	16.4	7.0	6.2	6.9	2.1	-2.2	4.4	2.7	4.6	3.6
NL	0.0	0.3	3.6	3.6	6.2	3.6	2.1	-0.7	-2.0	1.3	1.7	2.0	1.5
AT	2.4	3.6	0.6	2.3	0.0	1.2	-1.5	-0.5	-1.2	0.9	0.8	1.5	1.4
PT	:	3.5	6.6	6.9	3.7	4.5	2.7	-1.5	-3.7	-0.4	-2.4	2.5	2.0
FI	2.1	-9.2	8.4	9.4	3.9	6.0	-1.6	-1.4	-2.4	1.7	-1.6	2.4	0.3
SE	0.3	-6.7	-0.3	1.9	0.0	4.2	4.9	0.2	1.4	4.8	0.6	4.9	3.8
UK	1.9	-1.8	2.9	3.5	2.7	4.3	-7.1	0.8	4.1	3.6	6.3	3.9	3.7
EU-15 [1]	1.2	0.3	1.7	2.1	3.6	2.9	-1.1	-0.5	-0.6	1.7	0.9	2.4	2.1
Euro area [1]	1.1	0.7	1.5	1.8	4.0	2.6	-0.4	-0.7	-1.5	1.3	-0.1	2.1	1.7
US	1.7	0.7	4.8	6.0	3.9	2.7	-0.1	-4.1	-4.0	-0.4	-2.0	2.8	1.6
JP	3.8	-1.9	-1.4	-4.2	-1.7	-1.1	:	:	:	:	:	:	:

[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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	:	:	:	:	:	:	:	-2.0	-3.5	2.0	-0.7	4.2	2.8
DK	2.9	1.4	8.6	13.8	5.5	12.1	4.4	6.8	6.3	4.7	2.4	5.9	3.8
DE	2.7	-2.4	6.2	9.2	7.2	9.5	-5.8	-6.8	-9.4	3.7	2.2	7.9	5.8
EL	3.5	4.6	12.9	16.5	3.5	17.6	3.7	6.2	3.4	6.5	6.7	5.5	6.0
ES	4.3	-2.5	9.1	14.5	7.6	4.7	-1.2	-3.9	-4.1	2.0	0.7	6.3	5.8
FR	5.3	-0.1	8.1	12.5	11.9	11.5	3.6	-0.8	-1.4	1.1	-0.5	5.5	4.7
IE	4.5	1.8	15.9	24.9	17.3	9.6	-7.4	-2.5	-3.5	4.5	1.5	6.0	4.5
IT	3.9	-0.1	6.6	7.2	7.1	8.7	2.3	-4.2	0.2	3.9	1.6	5.1	4.4
LU	4.2	2.1	6.9	6.1	25.4	-19.6	7.0	-9.1	-1.8	-7.3	-1.3	3.9	3.6
NL	2.6	1.3	7.0	2.3	10.1	4.1	-4.4	-5.8	-5.7	-2.2	-5.4	2.3	3.0
AT	3.5	0.3	6.2	4.5	4.7	11.5	-4.1	-5.8	-9.2	7.4	2.7	8.3	5.7
PT	:	0.0	11.2	18.5	9.2	4.9	-4.0	-5.5	-6.8	-1.7	-3.6	4.8	3.8
FI	3.4	-9.0	4.4	6.0	-3.3	-1.0	13.8	-2.5	0.7	0.3	-2.2	6.5	2.7
SE	4.7	-0.7	8.3	10.2	11.8	6.8	-1.1	-1.5	-4.0	4.0	-1.0	4.0	4.6
UK	2.9	1.1	9.3	17.2	7.9	1.8	0.3	-7.6	-8.8	2.1	0.7	3.2	4.7
EU-15 [1]	3.8	-0.4	7.7	11.0	8.3	7.9	-0.5	-4.4	-4.8	2.6	0.7	5.5	4.8
Euro area [1]	3.9	-0.9	7.3	9.7	8.3	9.1	-0.9	-4.1	-4.3	2.6	0.7	6.1	4.9
US	5.3	7.7	11.7	14.5	11.6	8.1	-5.4	-1.2	-1.0	3.8	4.8	5.9	6.5
JP	6.1	-0.7	4.4	-6.2	0.1	9.7	:	:	:	:	:	:	:

[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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.6	1.5	1.7	1.6	1.8	1.8	1.5	1.6	1.6	1.6	1.4	1.6	1.5
DK	3.0	1.8	1.8	1.7	1.7	1.7	1.9	1.8	1.7	1.8	1.7	1.8	1.7
DE	3.2	2.6	1.9	1.9	1.9	1.8	1.7	1.6	1.6	1.7	1.6	1.7	1.6
EL	2.8	3.2	3.5	3.6	3.5	4.1	3.9	3.7	3.8	3.9	4.0	3.9	3.9
ES	2.9	4.1	3.2	3.3	3.4	3.1	3.2	3.4	3.3	3.5	3.4	3.5	3.4
FR	3.4	3.3	3.1	2.9	3.0	3.2	3.1	3.4	3.1	3.3	3.1	3.3	3.0
IE	3.9	2.2	2.9	2.7	3.2	3.7	4.6	4.5	4.4	4.6	3.9	4.8	3.8
IT	3.2	2.7	2.3	2.4	2.4	2.4	2.5	2.0	1.8	2.0	2.1	2.5	2.6
LU	:	4.7	4.4	4.5	4.6	4.1	4.3	4.8	4.8	5.2	5.2	5.4	5.5
NL	2.9	2.2	3.0	2.9	3.0	3.2	3.4	3.4	3.5	3.5	3.6	3.5	3.5
AT	4.3	3.2	2.0	1.8	1.7	1.5	1.2	1.2	1.2	1.1	1.1	1.1	1.1
PT	3.1	3.6	4.1	3.9	4.1	3.8	4.1	3.8	3.6	3.8	3.6	3.8	3.6
FI	3.8	3.1	2.9	2.9	2.8	2.6	2.6	2.6	2.8	2.4	2.7	2.4	2.7
SE	3.9	2.5	3.2	3.2	3.2	2.9	3.0	2.7	3.2	2.7	3.3	2.7	3.3
UK	3.0	1.9	1.2	1.2	1.1	1.1	1.2	1.3	1.3	1.5	1.7	1.6	1.9
EU-15	3.3	2.7	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.4	2.4
Euro area	3.3	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.5
US	2.7	2.5	2.6	2.6	2.7	2.7	2.8	3.4	3.4	3.4	3.4	3.4	3.4
JP	5.3	5.8	5.6	5.5	5.8	5.1	4.9	4.6	4.6	4.4	4.3	4.2	4.1

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as percentage of potential GDP, 1986-2004) [1] 28.3.2003

	long-term average 1965-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	0.0	-0.1	0.3	0.0	1.0	2.2	1.0	-0.5	-0.1	-0.4	-0.6	0.3	-0.2
DK	0.1	-1.2	0.9	0.7	1.0	1.4	0.6	-0.1	0.2	-0.1	-0.3	0.1	-0.2
DE	-0.1	1.7	-0.3	-0.7	-0.2	1.1	0.4	-1.3	-0.9	-1.4	-1.8	-0.8	-1.4
EL	0.5	-1.9	-1.5	-1.5	-0.7	-0.1	0.8	1.2	1.4	1.8	1.7	2.4	2.3
ES	-0.1	-1.2	-0.6	-0.3	0.7	1.6	0.9	-0.8	-0.1	-1.5	-1.1	-1.5	-1.0
FR	0.0	-0.2	0.1	0.0	1.0	2.1	1.5	0.0	0.3	-0.3	-0.6	-0.3	-0.6
IE	0.2	-2.0	2.6	1.9	4.4	6.0	3.7	0.8	2.3	-1.4	-1.1	-2.4	-3.1
IT	0.1	-0.5	0.4	0.3	0.2	1.3	1.0	-1.2	-0.5	-1.3	-1.1	-1.0	-0.9
LU	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-0.1	0.1	1.6	1.8	2.8	3.3	1.8	-0.3	-0.2	-1.8	-1.7	-1.8	-2.0
AT	-0.1	0.6	0.1	0.2	0.7	1.9	0.5	-0.3	0.0	-0.4	-0.4	-0.1	-0.1
PT	0.1	-0.1	0.7	1.0	1.7	2.4	1.3	-1.4	-0.8	-2.8	-2.6	-3.1	-3.1
FI	0.5	-4.5	2.0	2.8	2.3	4.3	1.4	-0.1	-0.1	-0.3	-0.6	-0.1	-0.5
SE	0.4	-2.2	0.4	-0.2	1.5	3.0	1.3	0.1	0.6	-0.1	-0.5	-0.1	-0.5
UK	0.3	-1.7	0.7	1.0	0.5	0.8	0.2	-0.9	-0.5	-0.9	-0.9	-0.8	-0.9
EU-15	0.0	-0.1	0.2	0.1	0.6	1.7	0.9	-0.7	-0.3	-1.0	-1.1	-0.7	-1.0
Euro area	0.0	0.3	0.1	0.0	0.6	1.8	1.0	-0.7	-0.3	-1.1	-1.2	-0.8	-1.0

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.
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 1961-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	0.0	0.0	0.2	-0.3	0.8	2.4	1.2	-0.7	-0.1	-0.8	-0.7	-0.1	-0.3
DK	0.2	-1.6	0.8	0.8	1.1	1.6	0.9	-0.2	0.3	-0.3	-0.3	-0.1	-0.2
DE	-0.2	2.1	-0.1	-0.5	0.0	1.4	0.5	-1.2	-0.7	-1.4	-1.7	-0.7	-1.1
EL	0.1	-0.4	-0.9	-0.8	-0.5	0.2	0.8	0.8	1.1	1.1	1.0	1.1	1.2
ES	0.2	0.0	-0.3	-0.2	0.9	2.0	1.7	0.4	0.7	-0.1	-0.2	0.1	0.0
FR	0.1	0.0	-0.6	-0.8	0.2	1.8	1.5	-0.1	0.6	-0.4	-0.4	0.0	-0.1
IE	0.1	-3.5	1.8	1.0	4.3	6.7	5.4	2.8	4.9	0.9	2.0	0.3	0.8
IT	0.1	-0.3	-0.2	-0.3	-0.3	1.1	1.2	-0.6	0.0	-0.6	-0.6	0.0	-0.2
LU	-0.2	1.2	0.5	0.7	2.1	6.9	4.0	0.2	0.9	-1.2	-1.2	-1.1	-1.5
NL	-0.1	-0.4	1.0	1.1	2.5	3.3	2.3	0.1	0.6	-1.0	-0.9	-0.8	-1.0
AT	-0.1	0.8	0.1	0.1	0.7	2.2	1.0	-0.6	0.2	-0.7	-0.3	-0.5	0.0
PT	-0.1	0.0	0.6	0.8	1.9	3.1	2.4	0.1	0.7	-1.0	-0.8	-0.7	-0.7
FI	0.7	-4.9	1.1	2.0	2.2	4.5	2.0	0.2	0.5	-0.3	-0.2	-0.2	-0.4
SE	0.3	-1.9	0.2	-0.5	1.3	3.0	1.5	0.5	0.8	0.3	-0.4	0.3	-0.2
UK	0.2	-1.7	0.4	0.7	0.5	1.1	0.7	-0.3	0.2	-0.1	0.0	0.2	0.3
EU-15	0.1	0.1	0.0	-0.2	0.5	1.8	1.2	-0.4	0.1	-0.6	-0.7	-0.2	-0.4
Euro area	0.0	0.5	-0.1	-0.3	0.4	1.8	1.2	-0.4	0.1	-0.7	-0.8	-0.3	-0.5

[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 1961-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	4.9	2.7	1.3	1.7	1.4	1.3	2.0	2.1	2.3	1.8	1.8	1.8	1.7
DK	7.5	2.1	2.1	1.0	1.8	3.1	2.0	1.6	1.1	2.2	2.3	2.4	1.8
DE	3.9	3.4	0.6	1.1	0.5	-0.3	1.4	1.4	1.6	1.1	1.2	0.8	0.8
EL	12.2	13.9	5.2	5.2	3.0	3.4	3.4	3.3	3.7	3.2	3.7	3.2	3.7
ES	10.3	5.4	2.9	2.4	2.7	3.5	4.2	3.9	4.4	3.1	3.7	2.7	3.0
FR	6.7	2.1	1.0	0.9	0.5	0.7	1.4	1.8	1.7	1.5	1.6	1.5	1.4
IE	8.7	2.9	4.2	6.2	4.1	4.3	5.3	5.5	5.6	3.7	3.4	3.6	3.6
IT	9.9	4.9	2.8	2.7	1.6	2.1	2.7	2.4	2.7	2.4	2.5	2.1	2.3
LU	4.9	3.5	2.6	2.1	3.1	2.8	2.3	0.8	1.7	2.0	2.1	2.0	2.0
NL	4.9	2.3	2.1	1.7	1.6	4.2	5.3	3.8	3.2	2.9	3.0	2.3	1.6
AT	4.6	3.1	1.0	0.5	0.7	1.4	1.6	1.4	1.3	1.0	1.1	1.3	1.5
PT	11.9	7.9	3.4	3.8	3.1	3.2	4.7	4.9	4.6	2.7	3.4	2.1	2.4
FI	8.1	2.2	1.6	3.6	-0.3	2.9	3.6	1.0	1.3	2.5	0.9	1.6	1.5
SE	7.2	3.4	1.1	0.8	0.7	1.3	2.0	2.4	1.3	2.4	2.2	2.3	2.2
UK	8.1	3.4	2.8	2.9	2.5	2.2	2.3	2.8	3.2	2.3	2.8	2.6	2.1
EU-15	6.9	3.6	1.8	1.9	1.4	1.5	2.4	2.3	2.5	2.0	2.2	1.9	1.8
Euro area	6.7	3.7	1.6	1.7	1.1	1.4	2.4	2.2	2.4	1.9	2.0	1.7	1.7
US	4.6	2.5	1.7	1.2	1.4	2.1	2.4	1.2	1.1	1.5	1.4	1.8	1.4
JP	5.1	0.9	-0.8	-0.1	-1.5	-1.9	-1.6	-0.9	-1.6	-0.8	-1.0	-0.8	-0.7

TABLE 16 : Price deflator of private consumption (percentage change on preceding year, 1961-2004) 28.3.2003

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	4.8	2.2	1.7	1.0	1.3	2.3	2.5	1.8	1.9	1.7	1.7	1.9	1.3
DK	7.4	2.3	2.3	1.3	2.4	3.5	2.6	2.3	2.3	2.0	2.4	2.1	1.9
DE	3.4	3.3	1.3	1.1	0.4	1.5	1.9	1.3	1.4	1.4	1.3	1.1	1.1
EL	11.5	13.8	4.7	4.5	2.2	3.2	3.1	3.1	3.5	3.1	3.3	3.1	3.1
ES	10.0	5.6	2.8	2.2	2.4	3.2	3.3	3.6	3.6	2.9	3.2	2.5	2.7
FR	6.7	2.5	1.2	0.7	0.4	1.5	1.6	1.6	1.5	1.7	1.5	1.6	1.4
IE	8.7	2.7	3.2	3.8	3.1	4.0	4.2	4.7	4.6	4.0	4.0	3.3	3.1
IT	9.4	5.8	2.8	2.1	2.1	2.9	2.7	2.7	3.0	2.2	2.4	2.0	2.1
LU	4.6	3.3	1.7	1.2	1.4	2.6	2.8	1.9	2.0	1.7	1.9	1.6	1.5
NL	4.8	2.6	2.2	1.7	1.8	3.5	4.6	3.4	3.5	2.6	2.3	2.2	1.4
AT	4.4	3.1	1.3	0.5	0.9	1.5	2.0	1.7	1.8	1.6	1.8	1.5	1.7
PT	12.2	7.5	2.9	2.8	2.1	2.8	4.2	3.5	3.6	2.9	3.2	2.5	2.3
FI	7.4	3.0	2.1	1.9	1.2	3.7	3.4	2.0	1.7	1.8	2.0	1.7	1.4
SE	7.2	4.8	1.3	0.8	1.1	1.2	2.1	2.0	2.0	1.7	2.0	1.9	1.6
UK	7.7	4.1	2.1	2.7	1.6	0.7	0.9	0.9	0.8	1.2	1.1	1.5	1.2
EU-15	6.7	4.0	1.9	1.7	1.2	1.9	2.1	1.9	1.9	1.8	1.8	1.7	1.6
Euro area	6.4	4.0	1.9	1.5	1.1	2.2	2.4	2.1	2.2	2.0	1.9	1.8	1.7
US	4.6	2.7	1.9	1.1	1.6	2.5	2.0	1.4	1.4	2.0	1.9	2.2	1.5
JP	5.5	1.1	-0.2	-0.1	-0.7	-1.3	-1.5	-1.4	-1.4	-1.4	-1.0	-1.2	-1.1

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

	long-term							2002		2003		2004	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	5.1	2.4	1.6	0.9	1.1	2.7	2.4	1.6	1.6	1.4	1.4	1.7	1.3
DK	7.2	2.0	2.0	1.3	2.1	2.7	2.3	2.4	2.4	2.0	2.4	2.0	1.9
DE	3.5	3.1	1.1	0.6	0.6	1.5	2.1	1.4	1.3	1.5	1.3	1.2	1.2
EL	11.6	13.9	4.6	4.5	2.1	2.9	3.7	3.8	3.9	3.2	3.8	3.3	3.5
ES	10.1	5.2	2.6	1.8	2.2	3.5	2.8	3.6	3.6	2.9	3.2	2.4	2.7
FR	6.7	2.2	1.3	0.7	0.6	1.8	1.8	1.9	1.9	1.8	1.9	1.6	1.5
IE	8.6	2.5	2.6	2.1	2.5	5.3	4.0	4.8	4.7	3.8	4.2	3.1	3.2
IT	9.1	5.0	2.4	2.0	1.7	2.6	2.3	2.6	2.6	2.0	2.4	1.9	1.9
LU	4.6	2.8	1.7	1.0	1.0	3.8	2.4	1.9	2.1	1.8	2.1	1.8	1.6
NL	4.7	2.9	1.9	1.8	2.0	2.3	5.1	3.9	3.9	2.8	2.7	2.4	1.5
AT	4.5	3.2	1.2	0.8	0.5	2.0	2.3	1.9	1.7	1.6	1.8	1.5	1.8
PT	13.2	7.1	2.4	2.2	2.2	2.8	4.4	3.5	3.7	2.9	3.2	2.5	2.3
FI	7.6	2.3	1.6	1.4	1.3	3.0	2.7	1.9	2.0	1.8	1.7	2.0	1.5
SE	6.9	4.2	1.1	1.0	0.6	1.3	2.7	2.1	2.0	2.3	2.5	2.1	1.8
UK	8.0	3.4	1.6	1.6	1.3	0.8	1.2	1.2	1.3	1.5	1.9	1.8	1.8
EU-15	7.1	3.8	1.7	1.3	1.2	1.9	2.3	2.1	2.1	1.9	2.1	1.8	1.7
Euro area	6.9	3.9	1.7	1.2	1.1	2.1	2.4	2.3	2.2	2.0	2.1	1.8	1.7
US	5.1	3.1	2.5	1.6	2.2	3.4	2.8	1.6	1.6	2.3	2.0	2.3	1.7
JP	5.6	1.4	0.3	0.6	-0.3	-0.7	-0.6	-1.0	-0.9	-1.0	-0.6	-0.8	-0.7

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
BE	2.5	1.3	1.2	1.2	1.4	1.0	1.6	1.6	1.5	1.4	1.3	1.1
DK	2.5	2.1	2.4	2.7	2.7	2.5	2.4	2.0	1.8	1.8	1.9	2.1
DE	1.9	1.0	1.1	1.1	1.0	0.9	1.3	2.1	1.3	1.3	1.2	1.1
EL	4.3	3.8	3.7	3.8	3.8	3.8	3.7	3.8	5.1	3.1	2.9	2.9
ES	3.2	3.6	3.6	4.0	3.8	3.3	3.1	2.8	2.7	2.7	2.6	2.6
FR	2.3	1.7	1.7	2.0	2.2	2.0	1.8	1.6	1.5	1.5	1.6	1.6
IE	5.1	4.8	4.4	4.6	4.8	4.4	4.0	3.8	3.4	3.2	3.1	3.0
IT	2.5	2.4	2.6	2.9	2.7	2.5	2.3	2.0	1.9	1.9	1.9	1.9
LU	2.0	1.5	2.0	2.7	2.2	1.7	1.6	1.7	1.7	1.7	1.6	1.6
NL	4.6	3.9	3.8	3.5	3.0	2.8	2.6	2.4	2.1	1.9	1.7	1.6
AT	1.8	1.6	1.7	1.7	1.6	1.9	1.9	2.2	2.1	1.9	1.7	1.5
PT	3.4	3.5	3.8	4.0	4.0	3.5	3.0	2.4	2.3	2.3	2.3	2.3
FI	2.6	2.0	1.7	1.7	1.7	1.6	1.7	1.8	1.6	1.5	1.5	1.5
SE	2.9	1.9	1.5	1.6	2.9	3.0	2.4	1.6	1.4	1.8	1.9	2.0
UK	1.5	0.9	1.1	1.6	1.9	1.9	1.9	2.0	1.7	1.8	1.8	1.9
EU-15	2.4	1.9	1.9	2.2	2.2	2.0	2.0	2.1	1.8	1.7	1.7	1.7
Euro area	2.5	2.0	2.1	2.3	2.2	2.0	2.0	2.1	1.8	1.7	1.7	1.7
US	1.2	1.3	1.6	2.2	2.7	2.1	1.8	1.7	1.4	1.6	1.8	1.9
JP	-1.4	-0.9	-0.8	-0.5	-0.4	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7

TABLE 19 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2004) 28.3.2003

	long-term average 1961-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	4.1	0.5	3.1	-0.9	-0.3	10.0	1.8	-0.3	-2.1	1.0	-2.4	1.6	0.3
DK	:	1.2	1.2	-3.0	-0.6	6.9	2.5	-0.9	-0.3	1.1	0.7	1.9	1.0
DE	2.8	0.9	0.7	0.2	-1.0	3.1	1.5	0.0	-0.6	1.2	-0.6	1.3	0.7
EL	10.0	8.7	4.0	2.3	0.5	8.7	2.2	1.4	8.0	2.3	1.6	2.8	1.3
ES	:	3.1	2.3	-0.1	-1.0	8.4	2.0	0.2	-1.4	1.3	0.7	1.6	1.3
FR	5.0	-1.5	0.5	-1.8	-1.6	2.0	0.2	-0.4	-2.8	0.8	-1.8	1.3	0.6
IE	7.4	1.1	2.5	3.2	3.0	5.9	4.2	0.2	-0.2	0.1	-1.5	1.8	2.3
IT	7.5	5.5	1.1	0.6	-0.4	5.1	3.8	-0.4	-1.9	1.2	-1.9	2.1	1.2
LU	:	-0.3	-0.2	-0.5	-2.8	3.8	0.1	0.6	2.4	1.2	1.7	1.1	1.0
NL	2.8	-0.8	1.9	-1.9	-1.0	9.6	1.1	-0.1	-1.4	-0.2	-2.1	0.9	-0.9
AT	:	-0.1	0.6	0.2	-0.6	2.2	-0.9	-0.8	-1.4	-0.2	-1.7	1.1	-0.1
PT	:	2.7	:	:	:	:	:	-1.2	-0.9	1.4	-1.4	1.0	0.3
FI	:	3.7	-1.4	-1.3	-5.6	2.7	-1.6	-2.8	-7.2	-0.6	-1.5	1.5	1.0
SE	:	3.2	-1.6	-1.8	-2.2	1.8	2.2	-1.7	-2.5	0.1	-0.9	0.6	0.8
UK	6.7	3.0	-2.3	-5.8	-2.9	1.4	-0.2	1.1	-0.4	0.8	2.9	1.7	-0.7
EU-15	4.8	1.4	0.7	-1.1	-1.2	4.4	1.4	-0.1	-1.4	0.8	-0.7	1.4	0.5
Euro area	4.5	1.1	1.2	-0.3	-0.9	4.9	1.5	-0.2	-1.5	0.9	-1.3	1.4	0.6
US	3.9	0.3	-1.7	-3.1	-1.3	1.2	-0.7	-0.5	-0.5	2.0	1.4	1.9	1.5
JP	:	:	:	:	:	:	:	:	:	:	:	:	:

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

	long-term average 1961-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	4.3	-0.7	3.9	-2.7	0.8	12.6	1.8	-0.7	-2.0	0.5	-2.9	1.4	0.4
DK	:	0.5	-0.1	-3.0	-3.9	7.0	1.5	-0.7	0.2	1.2	-0.1	1.8	1.1
DE	2.3	-0.1	1.4	-2.9	-1.5	8.8	0.5	-1.5	-2.0	1.0	-1.2	1.3	1.3
EL	10.6	8.5	4.2	3.6	2.2	7.5	3.1	-0.6	1.7	1.7	-0.5	2.1	-0.8
ES	:	2.3	2.7	-0.7	0.4	10.4	-0.2	-1.5	-1.5	0.5	0.4	1.4	1.0
FR	5.6	-1.7	1.0	-2.9	-1.7	5.7	-0.5	-1.4	-3.8	0.0	-2.3	0.7	0.1
IE	7.2	2.4	2.6	2.3	3.0	8.4	3.0	-1.4	-2.5	-0.4	-2.0	1.5	1.9
IT	7.8	4.9	1.6	-2.6	-0.9	14.0	1.6	-2.1	-3.5	-0.3	-3.3	1.7	-0.4
LU	:	0.3	1.1	-1.2	-0.9	6.5	2.7	0.3	0.2	1.0	1.0	1.0	0.3
NL	2.8	-1.2	2.2	-2.0	0.5	9.5	0.1	-1.1	-1.2	-0.7	-2.9	0.4	-0.4
AT	:	0.1	1.2	-0.5	-0.1	3.5	-0.7	-0.6	-1.4	0.4	-1.5	1.6	0.2
PT	:	0.7	:	:	:	:	:	-3.0	-3.9	0.5	-1.9	1.4	0.3
FI	:	3.7	-0.1	-4.1	-1.7	6.4	-3.1	-2.4	-3.6	-0.7	-0.7	1.5	0.5
SE	:	3.4	-0.1	-1.1	0.8	4.7	3.6	-1.3	-0.3	-0.3	-1.0	1.5	0.4
UK	6.8	3.4	-3.6	-7.4	-3.3	0.6	-0.7	-2.0	-2.6	0.9	1.3	1.5	0.6
EU-15	5.1	1.1	0.9	-3.0	-1.1	7.6	0.4	-1.5	-2.3	0.4	-1.3	1.3	0.5
Euro area	4.7	0.6	1.8	-2.2	-0.7	9.1	0.4	-1.4	-2.4	0.3	-1.9	1.2	0.5
US	5.3	0.1	-1.6	-6.0	0.2	4.8	-2.9	-1.6	-1.7	2.9	3.7	2.6	2.3
JP	:	:	:	:	:	:	:	:	:	:	:	:	:

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

	long-term average 1961-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	-0.2	1.2	-0.7	1.8	-1.1	-2.3	0.0	0.4	-0.1	0.5	0.5	0.2	0.0
DK	:	0.7	1.4	0.0	3.4	-0.1	1.0	-0.2	-0.5	-0.1	0.8	0.1	-0.1
DE	0.4	1.0	-0.7	3.2	0.5	-5.3	1.0	1.6	1.4	0.3	0.6	0.0	-0.6
EL	-0.5	0.2	-0.2	-1.2	-1.6	1.1	-0.9	2.0	6.1	0.6	2.1	0.7	2.1
ES	:	0.8	-0.4	0.6	-1.4	-1.7	2.1	1.7	0.2	0.8	0.3	0.2	0.3
FR	-0.5	0.2	-0.5	1.1	0.2	-3.5	0.7	1.1	1.0	0.8	0.5	0.6	0.5
IE	0.1	-1.2	-0.1	0.9	-0.1	-2.3	1.2	1.7	2.3	0.4	0.6	0.3	0.4
IT	-0.3	0.5	-0.5	3.3	0.4	-7.8	2.2	1.7	1.6	1.6	1.4	0.4	1.6
LU	:	-0.6	-1.4	0.7	-1.9	-2.5	-2.5	0.3	2.2	0.2	0.7	0.1	0.7
NL	-0.1	0.4	-0.3	0.1	-1.5	0.0	1.0	1.0	-0.2	0.6	0.8	0.5	-0.5
AT	:	-0.1	-0.6	0.7	-0.4	-1.2	-0.2	-0.3	-0.1	-0.6	-0.2	-0.5	-0.3
PT	:	2.0	:	:	:	:	:	1.9	3.0	0.9	0.6	-0.4	0.0
FI	:	-0.1	-1.3	2.9	-3.9	-3.5	1.6	-0.4	-3.7	0.1	-0.8	0.0	0.5
SE	:	-0.2	-1.6	-0.6	-2.9	-2.8	-1.4	-0.4	-2.2	0.4	0.1	-0.9	0.4
UK	-0.1	-0.4	1.3	1.8	0.4	0.8	0.5	3.1	2.3	-0.1	1.7	0.3	-1.4
EU-15	-0.3	0.3	-0.2	2.0	-0.1	-3.0	1.0	1.4	0.9	0.4	0.6	0.2	0.0
Euro area	-0.2	0.5	-0.6	1.9	-0.3	-3.9	1.1	1.2	0.8	0.6	0.6	0.2	0.1
US	-1.3	0.2	-0.1	3.0	-1.5	-3.5	2.3	1.2	1.2	-0.9	-2.2	-0.7	-0.7
JP	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 22 : Compensation of employees per head (percentage change on preceding year, 1961-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	8.5	4.9	2.4	1.7	3.3	2.5	3.6	3.6	4.1	3.1	2.1	3.1	3.1
DK	9.8	3.0	3.6	3.4	3.7	3.6	5.2	3.9	3.4	3.8	3.8	4.3	3.9
DE	6.8	5.4	1.3	1.0	1.2	2.0	1.7	2.0	1.6	2.2	2.2	2.4	2.3
EL	15.7	12.1	7.7	5.3	4.7	6.0	6.0	6.5	6.7	5.5	5.5	5.0	5.5
ES	14.9	7.2	3.2	2.7	2.7	3.7	4.1	4.2	4.0	3.5	3.9	3.0	3.6
FR	10.2	3.1	2.3	1.9	2.5	2.1	2.6	2.7	2.9	2.6	2.6	2.9	2.6
IE	12.4	4.5	5.3	4.7	5.2	8.9	9.2	7.9	6.5	6.7	5.5	5.9	5.2
IT	13.6	5.3	2.8	-1.5	2.6	3.1	3.0	2.9	2.4	2.8	3.3	2.9	3.1
LU	7.7	4.6	2.8	1.6	3.4	4.7	4.4	3.5	3.0	3.0	2.5	2.3	2.5
NL	7.8	3.5	3.0	3.5	3.7	4.6	5.0	5.1	5.5	4.2	3.9	3.9	3.0
AT	7.9	5.2	2.0	2.5	2.1	2.5	1.8	2.3	2.2	2.1	2.3	2.4	2.7
PT	17.0	10.6	6.5	4.0	9.9	6.3	5.3	4.8	5.3	3.7	2.9	3.5	2.3
FI	11.5	3.4	2.9	4.3	2.3	3.7	5.0	3.3	2.5	4.0	3.5	3.8	3.0
SE	9.5	4.8	4.5	2.6	1.2	7.0	5.0	4.1	4.1	4.0	3.9	4.1	3.9
UK	10.4	5.1	4.5	5.1	4.3	5.0	5.6	3.5	3.6	4.7	4.5	4.4	4.6
EU-15	9.9	5.0	2.7	2.0	2.7	3.3	3.5	3.1	3.0	3.2	3.2	3.2	3.2
Euro area	9.8	5.0	2.2	1.3	2.3	2.8	2.9	2.9	2.7	2.8	2.8	2.9	2.8
US	6.2	3.4	3.9	4.5	4.1	5.4	2.9	2.4	2.6	4.0	4.2	4.5	3.1
JP	10.1	2.0	0.2	-0.2	-1.1	0.2	-0.3	-1.6	-1.5	-0.3	-0.9	0.2	-0.1

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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.5	2.7	0.7	0.6	2.0	0.2	1.1	1.8	2.2	1.3	0.5	1.2	1.8
DK	2.3	0.6	1.2	2.0	1.3	0.1	2.6	1.6	1.0	1.8	1.3	2.2	1.9
DE	3.3	2.0	-0.1	-0.1	0.8	0.5	-0.2	0.7	0.1	0.8	0.9	1.2	1.1
EL	3.7	-1.5	2.8	0.8	2.5	2.8	2.8	3.3	3.1	2.3	2.1	1.8	2.3
ES	4.5	1.5	0.4	0.5	0.3	0.6	0.8	0.5	0.3	0.6	0.7	0.6	0.9
FR	3.2	0.5	1.1	1.2	2.0	0.6	1.0	1.1	1.3	0.9	1.1	1.3	1.2
IE	3.5	1.8	2.0	0.8	2.0	4.6	4.8	3.1	1.8	2.6	1.5	2.5	2.1
IT	3.8	-0.5	0.1	-3.6	0.4	0.2	0.4	0.2	-0.6	0.5	0.9	0.8	0.9
LU	3.0	1.2	1.1	0.5	1.9	2.0	1.5	1.6	0.9	1.3	0.5	0.7	1.0
NL	2.9	0.9	0.8	1.7	1.9	1.1	0.4	1.6	1.9	1.5	1.6	1.6	1.6
AT	3.4	2.0	0.7	2.0	1.2	1.0	-0.3	0.5	0.3	0.5	0.5	0.9	1.0
PT	4.2	2.8	3.5	1.2	7.6	3.4	1.1	1.3	1.6	0.8	-0.3	1.0	0.0
FI	3.8	0.4	0.8	2.3	1.1	0.0	1.5	1.3	0.9	2.1	1.4	2.1	1.6
SE	2.1	0.0	3.2	1.8	0.1	5.7	2.8	2.0	2.1	2.2	1.8	2.1	2.2
UK	2.5	0.9	2.4	2.4	2.7	4.3	4.6	2.6	2.8	3.4	3.4	2.8	3.4
EU-15	3.0	0.9	0.8	0.3	1.4	1.4	1.4	1.2	1.0	1.4	1.4	1.5	1.6
Euro area	3.2	0.9	0.3	-0.2	1.2	0.6	0.4	0.8	0.5	0.8	0.8	1.1	1.1
US	1.5	0.7	2.0	3.4	2.4	2.8	0.9	1.0	1.2	2.0	2.3	2.3	1.5
JP	4.4	0.9	0.4	0.0	-0.4	1.4	1.2	-0.2	-0.1	1.1	0.1	1.5	1.0

[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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	3.2	1.7	1.7	0.8	1.7	2.1	-0.4	0.8	0.8	1.4	1.3	1.7	1.6
DK	2.1	2.0	1.5	0.9	1.4	1.9	1.8	1.6	2.3	1.8	1.7	2.0	1.8
DE	2.8	2.1	1.1	0.9	0.8	1.1	0.1	0.9	0.8	1.5	1.3	1.8	1.8
EL	4.2	0.7	2.8	-0.7	3.6	4.3	4.5	3.1	4.1	3.1	3.3	3.1	3.4
ES	4.2	1.9	0.7	0.2	0.6	0.7	0.3	0.5	0.7	0.8	1.0	0.9	1.4
FR	3.3	1.6	1.6	2.2	1.5	1.5	-0.1	0.3	0.6	1.6	1.1	1.5	1.8
IE	3.9	2.7	3.9	0.2	4.9	5.0	2.6	2.0	4.6	2.8	2.9	3.3	3.1
IT	3.5	2.1	1.1	0.8	1.1	1.4	0.1	-0.6	-0.7	1.4	0.6	1.4	1.0
LU	2.5	1.3	2.5	2.9	0.9	3.1	-4.3	-2.6	-2.3	0.8	0.0	1.8	1.5
NL	2.7	1.3	1.1	1.4	1.6	1.4	-0.5	-0.1	1.1	1.5	0.9	2.0	1.7
AT	3.5	2.1	2.0	2.4	1.5	2.6	0.2	0.6	1.4	1.4	1.1	1.6	1.6
PT	4.7	2.3	1.9	1.8	1.6	1.9	0.3	0.0	0.3	1.0	0.8	1.3	1.7
FI	3.4	3.1	2.5	2.9	0.8	3.2	-0.6	1.2	1.4	2.8	2.4	2.6	2.6
SE	2.2	3.4	2.5	2.1	2.4	1.9	-0.8	1.5	1.8	2.3	1.7	2.2	2.5
UK	2.1	2.8	1.5	1.4	1.2	1.9	1.5	0.9	1.1	1.8	1.6	1.9	2.0
EU-15	3.0	2.0	1.3	1.1	1.1	1.5	0.3	0.6	0.7	1.5	1.2	1.7	1.7
Euro area	3.2	1.7	1.2	1.0	1.0	1.4	0.1	0.4	0.5	1.4	1.1	1.6	1.7
US	1.5	1.3	2.0	2.1	2.3	1.9	0.5	2.9	3.1	1.9	2.1	2.2	2.0
JP	5.1	0.7	1.4	-0.5	1.0	2.9	0.9	0.6	1.6	1.5	2.1	1.1	1.6

TABLE 25 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	5.1	3.1	0.7	0.8	1.6	0.4	4.0	2.8	3.2	1.7	0.8	1.4	1.5
DK	7.6	1.0	2.1	2.5	2.3	1.7	3.4	2.3	1.1	2.0	2.0	2.3	2.0
DE	3.9	3.2	0.2	0.2	0.4	1.0	1.5	1.1	0.8	0.7	0.9	0.6	0.5
EL	11.0	11.3	4.7	6.1	1.1	1.6	1.5	3.2	2.6	2.3	2.1	1.8	2.0
ES	10.2	5.2	2.5	2.5	2.1	3.0	3.8	3.6	3.2	2.7	2.9	2.1	2.2
FR	6.6	1.4	0.6	-0.2	1.0	0.6	2.8	2.4	2.3	1.1	1.5	1.4	0.8
IE	8.2	1.7	1.3	4.4	0.3	3.6	6.4	5.8	1.8	3.8	2.5	2.5	2.1
IT	9.8	3.1	1.7	-2.3	1.5	1.7	2.9	3.5	3.1	1.4	2.6	1.4	2.1
LU	5.1	3.2	0.3	-1.2	2.4	1.5	9.1	6.3	5.5	2.2	2.5	0.5	0.9
NL	5.0	2.2	1.9	2.0	2.1	3.1	5.6	5.2	4.3	2.7	3.0	1.8	1.3
AT	4.3	3.0	0.0	0.1	0.7	-0.1	1.6	1.6	0.7	0.7	1.1	0.8	1.1
PT	11.8	8.1	4.5	2.1	8.2	4.3	5.0	4.8	5.0	2.6	2.1	2.2	0.5
FI	7.8	0.3	0.4	1.4	1.4	0.5	5.6	2.1	1.1	1.2	1.0	1.2	0.4
SE	7.1	1.3	2.0	0.5	-1.2	5.0	5.8	2.5	2.3	1.6	2.2	1.9	1.4
UK	8.2	2.2	3.0	3.7	3.1	3.0	4.0	2.6	2.5	2.8	2.8	2.4	2.5
EU-15	6.7	2.9	1.4	0.9	1.6	1.8	3.2	2.5	2.3	1.7	1.9	1.5	1.4
Euro area	6.4	3.2	1.0	0.3	1.3	1.3	2.8	2.5	2.2	1.3	1.7	1.2	1.1
US	4.6	2.1	1.8	2.3	1.8	3.5	2.3	-0.4	-0.5	2.0	2.1	2.3	1.1
JP	4.8	1.2	-1.2	0.3	-2.0	-2.7	-1.2	-2.2	-3.1	-1.7	-2.9	-0.9	-1.7

[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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	0.2	0.4	-0.6	-0.8	0.2	-0.9	2.0	0.8	0.9	-0.2	-1.0	-0.5	-0.2
DK	0.1	-1.1	0.0	1.5	0.4	-1.3	1.3	0.6	0.0	-0.2	-0.2	-0.2	0.2
DE	0.0	-0.2	-0.4	-0.9	-0.1	1.2	0.1	-0.3	-0.8	-0.3	-0.3	-0.3	-0.3
EL	-1.1	-2.3	-0.4	0.8	-1.9	-1.7	-1.9	0.0	-1.1	-0.8	-1.5	-1.4	-1.6
ES	-0.1	-0.2	-0.4	0.1	-0.6	-0.5	-0.4	-0.2	-1.1	-0.4	-0.8	-0.6	-0.7
FR	-0.1	-0.7	-0.4	-1.2	0.4	-0.1	1.3	0.6	0.5	-0.5	-0.1	-0.1	-0.6
IE	-0.4	-1.1	-2.7	-1.7	-3.7	-0.6	1.1	0.3	-3.6	0.0	-0.8	-1.0	-1.5
IT	-0.1	-1.7	-1.1	-4.9	-0.1	-0.4	0.2	1.0	0.4	-1.0	0.2	-0.7	-0.2
LU	0.2	-0.2	-2.2	-3.2	-0.7	-1.2	6.7	5.4	3.7	0.2	0.4	-1.4	-1.1
NL	0.1	-0.1	-0.2	0.3	0.5	-1.0	0.3	1.3	1.1	-0.3	0.0	-0.5	-0.3
AT	-0.3	-0.1	-0.9	-0.4	0.0	-1.5	0.0	0.2	-0.5	-0.4	0.0	-0.5	-0.4
PT	-0.1	0.2	1.1	-1.6	4.9	1.1	0.3	-0.2	0.4	0.0	-1.3	0.1	-1.8
FI	-0.2	-1.9	-1.2	-2.2	1.8	-2.3	1.9	1.0	-0.1	-1.3	0.2	-0.4	-1.1
SE	0.0	-2.0	0.9	-0.2	-1.8	3.7	3.7	0.1	1.0	-0.7	0.0	-0.4	-0.8
UK	0.1	-1.1	0.2	0.8	0.6	0.8	1.6	-0.2	-0.7	0.6	0.0	-0.2	0.4
EU-15	-0.2	-0.7	-0.4	-1.0	0.2	0.3	0.8	0.2	-0.2	-0.3	-0.2	-0.4	-0.3
Euro area	-0.2	-0.5	-0.6	-1.4	0.2	0.0	0.4	0.3	-0.2	-0.6	-0.4	-0.4	-0.6
US	0.0	-0.4	0.1	1.1	0.3	1.4	0.0	-1.6	-1.6	0.5	0.7	0.5	-0.3
JP	-0.4	0.3	-0.4	0.4	-0.5	-0.8	0.4	-1.3	-1.5	-1.0	-1.9	0.0	-1.0

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

TABLE 27 : Total population (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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.6	0.4	0.2	0.3	0.2	0.3
DK	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
DE	0.4	0.7	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
EL	0.6	0.7	0.3	0.2	0.2	0.6	0.2	0.2	0.1	0.2	0.2	0.2	0.2
ES	0.8	0.2	0.4	0.3	0.4	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6
FR	0.7	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3
IE	0.7	0.6	1.0	1.2	1.1	1.1	1.4	1.5	1.5	1.3	1.2	1.3	1.1
IT	0.4	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
LU	0.6	1.4	1.3	1.3	1.4	1.2	1.0	0.7	0.7	0.7	0.7	0.8	0.7
NL	0.9	0.7	0.6	0.6	0.7	0.7	0.8	0.7	0.7	0.6	0.6	0.5	0.5
AT	0.3	0.8	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3
PT	0.4	0.3	0.4	0.4	0.4	0.6	0.7	0.5	0.5	0.4	0.4	0.4	0.4
FI	0.4	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SE	0.5	0.6	0.1	0.1	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.4	0.4
UK	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
EU-15	0.5	0.4	0.3	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Euro area	0.6	0.4	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
US	1.1	1.0	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
JP	0.9	0.3	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1

TABLE 28 : Total employment (percentage change on preceding year, 1961-2004) 28.3.2003

	long-term average 1961-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	0.3	-0.2	1.1	1.2	1.4	1.6	1.2	0.0	-0.1	0.6	-0.1	1.1	0.7
DK	0.6	0.0	1.2	1.6	1.2	0.9	-0.3	0.1	-0.7	0.3	-0.3	0.4	0.4
DE	0.3	-0.1	0.7	1.1	1.2	1.8	0.4	-0.5	-0.6	0.0	-0.8	0.5	0.2
EL	0.3	0.6	0.6	4.1	0.0	-0.2	-0.3	0.3	-0.1	0.8	0.3	0.6	0.4
ES	0.3	-0.4	3.1	4.1	3.6	3.4	2.4	1.3	1.3	1.8	1.0	2.3	1.7
FR	0.4	-0.6	1.0	1.2	1.7	2.2	2.0	0.6	0.6	0.4	0.1	1.2	0.5
IE	0.2	1.9	5.7	8.6	6.0	4.7	3.0	1.3	1.4	1.4	0.4	1.9	1.4
IT	0.4	-0.8	0.8	1.0	0.6	1.7	1.7	1.0	1.1	0.4	0.4	1.0	1.0
LU	1.2	2.6	4.2	4.5	5.0	5.6	5.6	2.8	2.8	1.2	1.1	1.6	1.2
NL	0.7	0.8	2.6	2.9	2.3	1.9	1.8	0.3	-0.8	-0.5	-0.4	0.2	0.0
AT	0.1	0.0	0.8	1.5	1.3	0.9	0.5	0.1	-0.4	0.4	0.0	0.6	0.4
PT	0.1	-0.6	1.9	2.7	2.2	1.7	1.4	0.7	0.2	0.2	-0.2	1.2	0.3
FI	0.4	-3.6	2.3	1.9	2.5	2.3	1.2	0.2	0.3	0.0	-0.2	0.8	0.3
SE	0.7	-2.1	0.8	1.5	2.1	2.4	1.9	0.1	0.1	-0.1	-0.3	0.2	0.2
UK	0.4	-1.0	1.4	1.5	1.2	1.1	0.6	0.7	0.7	0.7	0.5	0.8	0.5
EU-15	0.4	-0.4	1.4	1.8	1.7	1.9	1.2	0.4	0.4	0.4	0.0	0.9	0.6
Euro area	0.4	-0.2	1.4	1.8	1.8	2.1	1.4	0.4	0.3	0.4	-0.1	1.0	0.6
US	2.0	1.1	2.0	2.2	1.9	1.9	-0.3	-0.5	-0.6	0.4	0.4	0.6	0.5
JP	1.0	0.8	0.0	-0.7	-0.8	-0.1	-0.5	-1.2	-1.2	-0.3	-0.5	0.3	-0.2

TABLE 29 : Number of unemployed (as a percentage of civilian labour force, 1964-2004) [1]

	long-term average 1964-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	5.7	8.3	8.7	9.3	8.6	6.9	6.7	6.8	7.3	6.8	7.8	6.5	7.8
DK	4.1	8.1	5.1	4.9	4.8	4.4	4.3	4.2	4.5	4.2	5.0	4.1	4.8
DE	3.2	6.5	8.7	9.1	8.4	7.8	7.7	8.1	8.2	8.2	8.9	7.9	8.9
EL	4.5	8.3	10.6	10.9	11.8	11.0	10.4	9.9	9.9	9.4	9.5	9.1	9.2
ES	6.8	17.0	14.9	15.2	12.8	11.3	10.6	11.4	11.4	10.9	11.6	10.2	11.4
FR	5.4	10.7	11.0	11.4	10.7	9.3	8.5	8.8	8.7	9.0	9.2	8.3	9.1
IE	9.7	14.5	7.8	7.5	5.6	4.3	3.9	4.4	4.4	4.9	5.6	4.8	5.6
IT	6.7	10.0	11.3	11.7	11.3	10.4	9.4	8.9	9.0	8.9	9.1	8.7	8.8
LU	1.1	2.5	2.6	2.7	2.4	2.3	2.0	2.3	2.4	2.8	3.3	2.9	3.7
NL	4.9	6.1	4.1	3.8	3.2	2.8	2.4	3.1	2.7	4.3	4.2	4.6	5.1
AT	2.1	3.7	4.2	4.5	3.9	3.7	3.6	4.3	4.3	4.3	4.5	4.1	4.4
PT	5.2	5.7	5.6	5.1	4.5	4.1	4.1	4.6	5.1	5.5	6.5	5.5	7.3
FI	3.9	13.3	11.7	11.4	10.2	9.8	9.1	9.1	9.1	9.3	9.4	8.9	9.3
SE	2.2	7.2	8.0	8.2	6.7	5.6	4.9	4.9	4.9	5.3	5.3	5.3	5.3
UK	5.4	9.3	6.5	6.2	5.9	5.4	5.0	5.0	5.1	4.9	5.1	4.8	5.1
EU-15	5.1	9.3	9.2	9.4	8.7	7.8	7.3	7.6	7.6	7.7	8.0	7.4	8.0
Euro area	5.1	9.4	9.9	10.2	9.4	8.5	8.0	8.2	8.3	8.3	8.8	8.0	8.8
US	6.1	6.5	4.6	4.5	4.2	4.0	4.8	5.8	5.8	6.0	6.0	6.0	6.2
JP	1.9	2.6	4.1	4.1	4.7	4.7	5.0	5.2	5.2	5.3	5.4	5.3	5.4

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

TABLE 30 : Nominal bilateral exchange rates against Ecu/euro (1970-2004)

	long-term average 1970-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	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	7.45	7.43	7.46	7.45	7.46	7.46
DE	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	:	:	:	:	:	:
ES	102.29	146.41	165.32	167.18	166.39	166.39	166.39	:	:	:	:	:	:
FR	6.17	6.71	6.57	6.60	6.56	6.56	6.56	:	:	:	:	:	:
IE	0.64	0.79	0.78	0.79	0.79	0.79	0.79	:	:	:	:	:	:
IT	1137.90	1803.04	1940.89	1943.65	1936.27	1936.27	1936.27	:	:	:	:	:	:
LU	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	:	:	:	:	:	:
AT	18.83	13.80	13.73	13.85	13.76	13.76	13.76	:	:	:	:	:	:
PT	84.58	186.94	199.40	201.70	200.48	200.48	200.48	:	:	:	:	:	:
FI	4.77	5.88	5.92	5.98	5.95	5.95	5.95	:	:	:	:	:	:
SE	6.05	8.53	8.67	8.92	8.81	8.45	9.26	9.13	9.16	9.14	9.19	9.19	9.21
UK	0.59	0.76	0.69	0.68	0.66	0.61	0.62	0.63	0.63	0.63	0.67	0.64	0.67
EU-15	:	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
US	1.11	1.24	1.10	1.12	1.07	0.92	0.90	0.94	0.95	0.98	1.07	0.98	1.07
JP	262.44	141.04	128.47	146.42	121.32	99.47	108.68	118.59	118.06	118.46	126.19	115.44	124.29

TABLE 31 : Nominal effective exchange rates to rest of 22 [1] industrialised countries (percentage change on preceding year, 1970-2004) 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	1.0	1.9	-2.2	0.3	-1.4	-3.6	0.6	0.9	1.0	0.6	2.8	0.0	-0.1
DK	1.4	1.8	-1.9	1.0	-1.6	-4.5	1.5	1.0	1.3	0.4	3.1	-0.1	-0.4
DE	6.2	2.4	-2.9	0.6	-2.1	-5.0	0.6	1.3	1.4	0.9	3.9	-0.1	-0.1
EL	-4.6	-7.2	-3.5	-5.9	-0.5	-6.5	-0.7	0.9	1.0	0.6	2.7	0.0	-0.1
ES	0.8	-3.9	-1.8	-0.1	-1.6	-3.5	0.4	1.0	1.0	0.7	3.0	0.0	0.0
FR	-1.2	1.8	-1.9	1.0	-2.0	-4.6	0.5	1.3	1.4	0.9	3.7	-0.1	-0.1
IE	-1.4	-0.6	-1.9	-4.6	-3.1	-5.8	0.7	1.7	1.8	1.2	5.1	0.0	-0.1
IT	-3.3	-6.9	0.4	0.1	-2.3	-4.4	0.4	1.3	1.4	0.9	3.7	-0.1	-0.1
LU	1.0	1.9	-2.2	0.3	-1.4	-3.6	0.6	0.9	1.0	0.6	2.8	0.0	-0.1
NL	0.9	2.0	-2.2	0.1	-1.3	-3.2	0.6	0.7	0.8	0.5	2.5	0.0	0.0
AT	1.9	1.7	-1.8	0.4	-1.2	-2.9	0.3	0.7	0.7	0.5	2.2	-0.1	-0.1
PT	0.5	-1.1	-1.5	-1.1	-1.2	-2.9	0.4	0.7	0.7	0.6	2.4	0.0	0.0
FI	-1.8	-2.7	-2.7	-0.5	-2.1	-4.6	1.2	1.3	1.4	0.8	3.7	-0.1	-0.2
SE	-0.1	-4.1	0.2	-1.6	-1.7	-0.6	-8.3	2.6	2.2	0.8	4.3	-0.7	-0.5
UK	-3.6	-3.0	4.6	3.9	-0.5	2.8	-1.7	0.8	0.7	0.0	-2.4	-0.8	-1.0
EU-15	1.6	-2.3	-3.6	2.3	-6.2	-11.2	-0.3	4.0	4.0	2.2	9.0	-0.7	-0.9
Euro area	3.5	-0.2	-4.6	0.5	-4.6	-10.0	1.4	2.7	2.8	1.8	8.1	-0.1	-0.3
US	-4.2	0.4	4.7	6.1	-0.5	4.6	5.1	-0.7	-1.0	-1.5	-5.0	0.1	0.4
JP	4.8	9.4	0.3	-5.7	16.8	12.2	-9.4	-6.0	-5.4	2.6	0.4	2.7	2.5

[1] EUR14 (excl. LU), CH, NR, US, CA, JP, AU, MX, NZ

TABLE 32 : Relative unit labour costs, to rest of 22 [1] industrialised countries (nat. curr.) (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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-0.6	0.6	-0.5	-0.2	0.3	-1.3	1.2	0.9	1.6	0.2	-0.8	:	0.4
DK	1.2	-1.5	0.8	1.2	1.2	-0.2	0.4	0.6	-0.2	0.7	0.6	:	1.0
DE	-2.8	0.6	-1.3	-1.0	-1.2	-0.9	-1.4	-0.9	-0.8	-0.8	-0.9	:	-0.8
EL	5.5	8.5	3.5	5.5	-0.1	-0.1	-1.2	1.3	0.9	0.9	0.5	:	0.9
ES	3.9	2.2	0.9	1.5	0.2	1.1	0.8	1.5	1.3	1.2	1.2	:	1.1
FR	0.3	-1.5	-0.8	-1.5	-0.4	-1.4	0.0	0.5	0.8	-0.5	-0.2	:	-0.4
IE	1.5	-0.8	-0.2	2.8	-1.2	1.6	3.6	4.3	0.5	2.2	0.8	:	0.9
IT	4.2	0.4	0.4	-3.7	0.2	-0.1	0.3	1.9	1.8	0.0	1.1	:	1.1
LU	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-1.0	-0.5	0.7	1.1	0.8	1.5	2.9	3.4	2.8	1.3	1.4	:	0.2
AT	-1.7	0.2	-1.0	-0.6	-0.4	-1.7	-0.9	0.2	-0.7	-0.3	-0.3	:	0.1
PT	5.8	5.3	3.0	0.9	6.7	2.4	2.0	2.6	3.1	1.0	0.2	:	-0.8
FI	1.6	-2.1	-1.0	0.0	0.2	-1.5	2.7	0.5	-0.2	-0.2	-0.5	:	-0.7
SE	0.8	-1.0	0.6	-1.2	-2.7	3.2	2.9	0.9	0.8	0.2	0.6	:	0.3
UK	2.2	-0.3	1.7	2.6	2.0	1.1	1.4	1.1	1.3	1.4	1.3	:	1.6
EU-15	1.2	0.5	0.0	-1.1	0.1	-0.3	1.4	2.8	2.5	0.7	0.9	:	0.8
Euro area	-0.2	0.7	-0.9	-1.9	-0.5	-1.1	0.4	1.8	1.5	-0.1	0.1	:	0.0
US	-2.2	-1.1	-0.4	0.1	-0.4	1.5	0.0	-2.3	-1.7	0.7	0.7	:	-0.4
JP	-1.2	-1.2	-3.0	-1.5	-3.7	-5.5	-3.8	-3.2	-3.9	-3.5	-4.8	:	-2.9

[1] EUR14 (excl. LU), CH, NR, US, CA, JP, AU, MX, NZ

TABLE 33 : 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	0.0	2.5	-2.8	0.1	-1.2	-4.9	1.8	1.8	2.6	0.8	1.9	:	0.3
DK	1.4	0.3	-1.1	2.2	-0.5	-4.7	1.9	1.6	1.1	1.1	3.7	:	0.6
DE	0.3	3.1	-4.1	-0.4	-3.3	-5.9	-0.8	0.5	0.6	0.1	3.0	:	-0.9
EL	-1.4	0.7	-0.1	-0.8	-0.6	-6.6	-1.9	2.3	1.9	1.5	3.2	:	0.8
ES	1.9	-1.8	-0.9	1.4	-1.4	-2.4	1.2	2.5	2.4	2.0	4.2	:	1.1
FR	-0.7	0.3	-2.7	-0.5	-2.5	-5.9	0.5	1.8	2.1	0.4	3.5	:	-0.5
IE	0.2	-1.4	-2.1	-2.0	-4.3	-4.3	4.3	6.0	2.3	3.4	6.0	:	0.8
IT	1.0	-6.6	0.8	-3.5	-2.2	-4.5	0.7	3.2	3.2	0.9	4.9	:	0.9
LU	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.6	1.5	-1.5	1.2	-0.4	-1.7	3.5	4.1	3.6	1.8	4.0	:	0.1
AT	0.3	1.9	-2.8	-0.1	-1.6	-4.5	-0.6	0.9	0.0	0.2	1.9	:	0.0
PT	-0.3	4.1	1.5	-0.2	5.3	-0.6	2.4	3.2	3.8	1.5	2.7	:	-0.8
FI	0.6	-4.7	-3.7	-0.5	-1.9	-6.0	3.9	1.8	1.2	0.6	3.2	:	-0.8
SE	0.0	-5.0	0.8	-2.7	-4.4	2.6	-5.6	3.5	3.1	1.0	5.0	:	-0.3
UK	0.0	-3.3	6.4	6.6	1.5	3.9	-0.4	1.9	2.0	1.4	-1.2	:	0.6
EU-15	0.6	-1.8	-3.7	1.2	-6.1	-11.5	1.1	6.9	6.6	2.9	10.0	:	0.0
Euro area	0.6	0.4	-5.5	-1.5	-5.0	-11.0	1.7	4.6	4.4	1.7	8.2	:	-0.3
US	-1.7	-0.7	4.3	6.2	-1.0	6.2	5.1	-3.0	-2.7	-0.8	-4.4	:	0.0
JP	2.3	8.1	-2.7	-7.1	12.4	6.0	-12.8	-9.0	-9.1	-1.0	-4.5	:	-0.6

[1] EUR14 (excl. LU), CH, NR, US, CA, JP, AU, MX, NZ

TABLE 34 : Short term interest rates (1961-2002) 28.3.2003

	long-term average 1961-90	5-year average 1991-95	1996-00	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
BE	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	3.6
DE	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
ES	:	11.1	4.9	11.7	8.0	9.4	7.5	5.4	4.3	3.0	4.4	4.3	3.3
FR	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
IE	:	8.8	4.9	9.3	5.9	6.3	5.4	6.1	5.5	3.0	4.4	4.3	3.3
IT	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
LU	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
AT	:	7.0	3.6	7.2	5.0	4.5	3.3	3.5	3.6	3.0	4.4	4.3	3.3
PT	:	13.6	5.0	13.3	11.1	9.8	7.4	5.7	4.3	3.0	4.4	4.3	3.3
FI	:	9.0	3.6	7.8	5.3	5.8	3.6	3.2	3.6	3.0	4.4	4.3	3.3
SE	:	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	4.1
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	3.5
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
US	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
JP	:	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 35 : Long term interest rates (1961-2002)

	long-term average 1961-90	5-year average 1991-95	1996-00	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
BE	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
DE	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	5.9	5.1
ES	:	11.2	6.0	10.1	10.1	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0
FR	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
IE	:	8.5	5.7	7.8	8.1	8.3	7.3	6.3	4.8	4.6	5.4	4.9	4.9
IT	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
LU	:	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
AT	:	7.5	5.4	6.6	6.7	7.2	6.3	5.7	4.7	4.7	5.6	5.1	5.0
PT	:	13.0	6.1	9.5	10.4	11.5	8.6	6.4	5.0	4.8	5.6	5.2	5.1
FI	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
SE	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	4.9
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
US	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
JP	:	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 36 : 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	53.0	54.1	50.9	50.7	50.1	49.4	49.4	49.3	50.1	49.0	49.7	48.8	49.3
DK	50.3	59.4	57.3	57.6	56.3	54.7	55.0	53.9	54.9	53.2	54.4	52.4	54.0
DE	45.8	48.2	48.6	48.8	48.8	45.9	48.3	48.6	48.6	48.4	48.9	47.8	48.4
EL [2]	33.2	47.3	47.2	46.6	46.5	48.9	47.0	47.7	47.7	47.2	47.1	46.5	46.2
ES	31.6	45.4	41.4	41.4	40.2	39.8	39.3	39.8	39.6	39.6	39.8	39.2	39.6
FR	45.3	53.0	54.1	53.9	53.4	52.6	52.5	53.7	53.7	53.6	54.1	53.1	53.8
IE	42.6	39.7	35.7	35.0	34.7	31.9	34.1	35.2	33.7	35.4	34.0	35.0	33.6
IT	44.1	54.6	50.0	49.9	48.8	46.9	48.5	48.4	47.5	47.8	47.4	47.7	47.5
LU	:	:	42.4	42.1	41.7	39.6	40.2	43.5	45.5	45.2	46.3	45.2	46.4
NL	51.5	53.0	47.5	47.2	46.9	45.3	46.4	47.0	47.2	47.1	47.5	46.7	47.7
AT	46.2	53.3	54.3	54.2	54.0	52.2	52.0	52.8	52.0	52.6	52.1	52.0	51.1
PT	32.8	42.4	45.0	44.1	45.2	45.1	46.3	46.6	46.3	46.7	47.0	46.5	46.9
FI	39.2	58.7	53.9	52.8	52.1	48.9	49.0	50.4	49.2	49.4	49.5	48.3	49.0
SE	55.3	65.6	61.4	60.7	60.2	57.4	57.2	57.6	58.2	57.9	59.1	57.7	58.5
UK	41.5	42.3	40.0	39.8	39.1	36.7	39.9	41.0	40.7	41.5	41.9	41.7	42.2
EU-15	44.6	50.3	48.4	48.3	47.7	45.7	47.0	47.6	47.4	47.4	47.8	47.1	47.6
Euro area	44.5	50.8	49.4	49.4	48.9	47.1	48.1	48.6	48.4	48.3	48.6	47.8	48.3
US	33.6	35.9	33.1	32.7	32.5	32.3	33.4	34.6	34.6	35.0	35.7	35.1	35.3
JP	28.3	33.2	39.1	42.8	39.2	39.9	39.4	41.0	40.2	41.1	40.2	41.1	40.3

[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 DE : 2.5, ES : 0.1, IT : 1.2, NL : 0.7, AT : 0.4, PT : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : BE : 0.2, DK : 0.2, EL : 0.5, FR : 0.1, EU-15 : 0 and euro area : 0. For 2002 : FR : 0, IE : 0.2, EU-15 : 0 and euro area : 0.

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

TABLE 37 : Total revenue, general government (as a percentage of GDP, 1970-2004) [1] 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	46.2	48.3	49.5	50.0	49.6	49.5	49.8	49.3	50.2	48.9	49.5	49.1	49.2
DK	50.5	57.0	58.5	58.7	59.5	57.3	58.1	56.0	57.0	55.2	56.2	54.9	56.1
DE	43.9	45.1	46.9	46.6	47.3	47.0	45.5	44.8	45.0	45.4	45.4	45.5	45.5
EL [2]	27.5	35.8	43.7	44.1	44.7	47.0	45.6	46.5	46.5	46.1	46.0	45.4	45.2
ES	29.4	39.8	38.7	38.3	39.0	39.0	39.2	39.8	39.6	39.3	39.3	39.3	39.5
FR	44.1	48.5	51.5	51.2	51.7	51.2	51.0	51.1	50.5	50.7	50.3	50.6	50.3
IE	34.9	37.5	37.7	37.2	36.7	36.4	35.2	34.1	33.7	34.1	33.4	34.0	32.8
IT	34.8	45.5	46.9	46.8	47.1	46.2	45.8	46.0	45.2	45.7	45.1	44.7	44.3
LU	:	:	46.0	45.1	45.2	45.7	46.6	44.1	48.1	43.4	46.0	43.3	45.1
NL	48.5	49.5	47.3	46.4	47.6	47.4	46.5	46.2	46.1	45.9	45.9	45.8	45.3
AT	44.4	49.5	51.8	51.7	51.7	50.8	52.3	51.0	51.4	51.0	51.0	50.6	50.7
PT	28.2	37.2	41.6	41.0	42.4	42.3	42.1	43.1	43.5	43.9	43.5	43.9	43.6
FI	43.1	53.7	55.2	54.3	54.1	55.9	54.2	54.0	53.9	52.5	52.8	51.8	52.0
SE	55.8	58.1	61.9	63.0	61.6	60.9	61.7	58.9	59.5	59.1	59.9	59.1	59.7
UK	39.3	36.6	39.7	40.1	40.3	40.6	40.7	39.9	39.5	40.1	39.5	40.3	39.7
EU-15	41.6	45.1	46.8	46.6	47.0	46.6	46.1	45.7	45.6	45.7	45.6	45.5	45.4
Euro area	41.1	45.8	47.3	47.1	47.5	47.2	46.5	46.3	46.2	46.2	46.1	46.0	45.9
US	:	31.4	33.0	33.0	33.2	33.8	32.9	31.4	31.3	31.4	30.9	31.4	30.7
JP	27.4	32.5	32.3	32.0	32.1	32.4	33.3	33.0	33.5	32.9	33.2	32.9	33.2

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.
[2] Total current receipts.

TABLE 38 : Net lending (+) or net borrowing (-), 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-6.8	-5.9	-1.4	-0.7	-0.5	0.1	0.4	-0.1	0.1	0.0	-0.2	0.3	-0.1
DK [2]	-0.5	-2.4	1.3	1.1	3.3	2.6	3.1	2.0	2.0	2.0	1.8	2.5	2.1
DE	-1.9	-3.1	-1.7	-2.2	-1.5	1.1	-2.8	-3.8	-3.6	-3.1	-3.4	-2.3	-2.9
EL	-5.7	-11.5	-3.5	-2.5	-1.8	-1.9	-1.4	-1.3	-1.2	-1.1	-1.1	-1.1	-1.0
ES	-2.4	-5.6	-2.6	-3.0	-1.2	-0.8	-0.1	0.0	-0.1	-0.3	-0.4	0.1	-0.1
FR	-1.2	-4.5	-2.6	-2.7	-1.8	-1.4	-1.5	-2.7	-3.1	-2.9	-3.7	-2.5	-3.5
IE	-7.7	-2.1	2.0	2.3	2.3	4.3	1.1	-1.0	-0.1	-1.2	-0.6	-1.0	-0.9
IT	-9.1	-9.1	-3.1	-3.1	-1.7	-0.6	-2.6	-2.4	-2.3	-2.2	-2.3	-2.9	-3.1
LU	:	1.8	3.6	3.0	3.5	6.1	6.4	0.5	2.6	-1.8	-0.2	-1.9	-1.2
NL	-3.2	-3.5	-0.2	-0.8	0.7	2.2	0.1	-0.8	-1.1	-1.2	-1.6	-0.9	-2.4
AT	-1.8	-3.8	-2.4	-2.5	-2.3	-1.5	0.3	-1.8	-0.6	-1.6	-1.1	-1.5	-0.4
PT	-4.6	-5.2	-3.4	-3.2	-2.8	-2.8	-4.2	-3.4	-2.7	-2.9	-3.5	-2.6	-3.2
FI	3.9	-5.0	1.2	1.5	2.0	6.9	5.1	3.6	4.7	3.1	3.3	3.5	3.0
SE	0.6	-7.4	0.5	2.3	1.5	3.4	4.5	1.4	1.3	1.2	0.8	1.5	1.2
UK	-2.2	-5.7	-0.3	0.2	1.1	3.9	0.8	-1.1	-1.3	-1.3	-2.5	-1.4	-2.5
EU-15	-2.9	-5.1	-1.6	-1.7	-0.7	0.9	-0.9	-1.9	-1.9	-1.8	-2.3	-1.6	-2.2
Euro area	-3.4	-5.0	-2.1	-2.3	-1.3	0.1	-1.6	-2.3	-2.2	-2.1	-2.5	-1.8	-2.4
US	-3.2	-4.5	-0.1	0.3	0.7	1.5	-0.5	-3.2	-3.3	-3.6	-4.8	-3.8	-4.6
JP	-1.4	-0.9	-6.8	-10.7	-7.2	-7.4	-6.1	-8.0	-6.7	-8.1	-7.0	-8.2	-7.0

[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 DE : 2.5, ES : 0.1, IT : 1.2, NL : 0.7, AT : 0.4, PT : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : BE : 0.2, DK : 0.2, EL : 0.5, FR : 0.1, EU-15 : 0 and euro area : 0. For 2002 : FR : 0, IE : 0.2, EU-15 : 0 and euro area : 0.
[2] For 2001 the retroactive change to the "special pension contribution" is not included.

TABLE 39 : Interest 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	6.6	10.1	7.6	7.6	7.0	6.8	6.5	6.1	6.0	5.7	5.5	5.3	4.9
DK	4.5	6.9	5.2	5.3	4.7	4.2	3.9	3.6	3.6	3.3	3.3	3.1	3.2
DE	2.1	3.2	3.6	3.6	3.5	3.4	3.3	3.3	3.2	3.3	3.2	3.3	3.3
EL	3.2	11.7	8.2	7.8	7.2	7.0	6.3	5.6	5.5	5.3	5.2	5.1	4.9
ES	1.3	4.6	4.2	4.3	3.5	3.3	3.1	3.0	2.9	2.8	2.6	2.7	2.5
FR	1.8	3.3	3.5	3.6	3.2	3.1	3.1	3.2	3.2	3.2	3.2	3.2	3.3
IE	6.2	6.2	3.3	3.5	2.5	2.0	1.5	1.6	1.3	1.5	1.5	1.5	1.5
IT	5.6	11.2	8.5	8.3	6.7	6.5	6.4	5.9	5.7	5.6	5.3	5.6	5.1
LU	:	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.3	0.2
NL	4.3	5.9	4.8	4.8	4.5	3.9	3.5	3.3	3.2	3.0	3.0	3.0	2.9
AT	2.4	4.2	3.9	3.9	3.6	3.6	3.6	3.8	3.5	3.8	3.5	3.7	3.4
PT	3.7	6.6	3.9	3.5	3.2	3.2	3.1	3.0	3.0	3.2	3.1	3.4	3.0
FI	1.2	3.6	3.6	3.6	3.1	2.9	2.7	2.6	2.2	2.5	2.2	2.3	2.1
SE	4.2	5.8	5.4	5.5	4.6	4.0	3.3	3.0	2.9	2.8	2.7	2.8	2.6
UK	4.2	3.0	3.3	3.6	2.9	2.8	2.4	2.2	2.0	2.2	2.0	2.2	2.1
EU-15	3.2	5.1	4.6	4.6	4.0	3.8	3.6	3.5	3.3	3.4	3.2	3.3	3.2
Euro area	3.0	5.4	4.8	4.8	4.2	4.0	3.9	3.8	3.7	3.7	3.6	3.7	3.5
US	3.6	4.9	4.2	4.3	3.9	3.7	3.4	3.0	3.0	3.0	2.9	3.0	3.0
JP	2.7	3.6	3.4	3.4	3.4	3.3	3.2	3.6	3.3	3.7	3.4	3.8	3.5

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

TABLE 40 : Primary balance, general government (as a percentage of GDP, 1970-2004) [1] [2] 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-0.2	4.2	6.2	6.8	6.5	6.9	7.0	6.1	6.1	5.7	5.3	5.6	4.8
DK	4.0	4.4	6.5	6.5	8.0	6.8	7.0	5.7	5.6	5.3	5.1	5.6	5.3
DE	0.2	0.1	1.8	1.4	2.0	4.5	0.5	-0.5	-0.4	0.3	-0.2	1.1	0.3
EL	-2.4	0.2	4.6	5.3	5.4	5.1	4.9	4.4	4.3	4.2	4.1	4.0	3.9
ES	-1.1	-1.0	1.6	1.2	2.4	2.5	3.0	3.0	2.8	2.6	2.2	2.7	2.4
FR	0.5	-1.2	0.9	0.9	1.5	1.7	1.6	0.5	0.0	0.3	-0.5	0.7	-0.2
IE	-1.5	4.1	5.3	5.7	4.5	6.5	2.7	0.6	1.3	0.3	0.9	0.6	0.6
IT	-3.5	2.1	5.4	5.2	5.0	5.8	3.8	3.5	3.4	3.4	3.0	2.6	2.0
LU	:	2.1	3.9	3.4	3.8	6.4	6.7	0.8	3.0	-1.5	0.0	-1.6	-1.1
NL	1.1	2.4	4.6	4.1	5.1	6.1	3.6	2.5	2.1	1.8	1.5	2.1	0.5
AT	0.6	0.4	1.5	1.4	1.3	2.2	3.8	2.1	3.0	2.1	2.4	2.2	3.0
PT	-0.9	1.4	0.5	0.3	0.4	0.4	-1.1	-0.5	0.3	0.4	-0.4	0.8	-0.2
FI	5.0	-1.4	4.8	5.1	5.1	9.8	7.9	6.2	7.0	5.6	5.4	5.9	5.0
SE	4.8	-1.6	5.9	7.7	6.1	7.5	7.7	4.3	4.2	4.0	3.5	4.2	3.9
UK	2.0	-2.7	3.1	3.8	4.1	6.7	3.2	1.1	0.8	0.8	-0.4	0.7	-0.4
EU-15	0.3	0.0	3.0	3.0	3.3	4.8	2.7	1.6	1.5	1.6	0.9	1.7	1.0
Euro area	-0.4	0.4	2.7	2.5	2.9	4.1	2.3	1.5	1.5	1.6	1.1	1.8	1.1
US	0.4	0.4	4.1	4.5	4.6	5.2	2.9	-0.1	-0.3	-0.6	-1.8	-0.7	-1.6
JP	1.3	2.7	-3.4	-7.3	-3.8	-4.2	-2.9	-4.4	-3.4	-4.5	-3.6	-4.4	-3.5

[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 DE : 2.5, ES : 0.1, IT : 1.2, NL : 0.7, AT : 0.4, PT : 0.3, UK : 2.4, EU-15 : 1.2 and euro area : 1.1.
For 2001 : BE : 0.2, DK : 0.2, EL : 0.5, FR : 0.1, EU-15 : 0 and euro area : 0. For 2002 : FR : 0, IE : 0.2, EU-15 : 0 and euro area : 0.
[2] Net lending/borrowing excluding interest expenditure.

TABLE 41 : Cyclically adjusted net lending (+) or net borrowing (-), 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-6.9	-5.8	-1.6	-0.7	-1.1	-1.2	-0.4	0.2	0.1	0.2	0.2	0.1	0.0
DK	-0.6	-1.5	0.6	0.6	2.5	1.5	2.3	2.1	1.9	2.1	2.0	2.5	2.2
DE	-1.9	-3.9	-2.2	-2.0	-1.5	-2.1	-3.0	-3.3	-3.3	-2.4	-2.6	-1.9	-2.4
EL	-5.8	-10.8	-2.9	-1.9	-1.5	-1.9	-2.3	-1.7	-1.8	-1.8	-1.8	-2.0	-1.9
ES	-2.3	-5.2	-2.5	-2.9	-1.5	-1.6	-0.8	-0.1	-0.4	-0.2	-0.4	0.0	-0.1
FR	-1.2	-4.5	-2.6	-2.7	-2.2	-2.3	-2.2	-2.7	-3.3	-2.8	-3.5	-2.4	-3.3
IE	-7.6	-1.4	1.2	1.6	0.6	2.6	0.0	-1.4	-0.9	-0.8	-0.3	-0.2	0.1
IT	-9.2	-8.9	-3.5	-3.2	-1.8	-2.4	-3.1	-1.8	-2.1	-1.6	-1.8	-2.5	-2.7
LU	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-3.1	-3.6	-1.4	-2.0	-1.2	-0.6	-1.0	-0.6	-1.0	0.0	-0.4	0.3	-1.1
AT	-1.8	-4.0	-2.5	-2.5	-2.5	-2.5	0.0	-1.6	-0.6	-1.4	-1.0	-1.3	-0.4
PT	-4.6	-5.1	-3.7	-3.5	-3.4	-4.0	-4.6	-3.0	-2.5	-1.9	-2.6	-1.5	-2.1
FI	3.3	-1.8	-0.1	-0.3	0.5	4.1	4.2	3.7	4.8	3.3	3.7	3.6	3.3
SE	0.1	-5.9	0.2	2.4	0.4	1.4	3.6	1.3	0.9	1.3	1.1	1.5	1.5
UK	-2.2	-5.0	-1.1	-0.2	0.9	1.2	0.7	-0.6	-1.0	-0.9	-2.0	-1.0	-2.0
EU-15	-3.1	-5.1	-2.0	-1.8	-1.1	-1.1	-1.4	-1.6	-1.8	-1.4	-1.8	-1.3	-1.8
Euro area	-3.4	-5.1	-2.4	-2.3	-1.7	-1.8	-2.1	-2.0	-2.2	-1.7	-2.0	-1.5	-2.0

[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 DE, ES and AT for which the Hodrick-Prescott filter is used.

TABLE 42 : Cyclically adjusted primary balance, 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-0.2	4.3	6.1	6.8	5.9	5.6	6.2	6.3	6.1	5.9	5.7	5.3	4.9
DK	4.0	5.3	5.8	5.9	7.2	5.7	6.3	5.8	5.5	5.4	5.3	5.6	5.4
DE	0.2	-0.7	1.3	1.6	2.0	1.3	0.3	0.0	-0.1	0.9	0.6	1.4	0.8
EL	-2.6	0.9	5.2	5.9	5.7	5.1	4.0	3.9	3.7	3.5	3.4	3.0	3.0
ES	-0.8	-0.6	1.7	1.3	2.0	1.7	2.3	2.8	2.5	2.6	2.3	2.7	2.4
FR	0.6	-1.1	0.9	0.9	1.1	0.9	0.9	0.5	-0.3	0.4	-0.3	0.8	0.1
IE	-1.4	4.8	4.5	5.1	3.1	4.6	1.5	0.2	0.4	0.7	1.2	1.3	1.6
IT	-3.5	2.3	5.0	5.1	4.9	4.1	3.3	4.0	3.6	4.0	3.5	3.1	2.4
LU	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	1.1	2.3	3.4	2.9	3.3	3.3	2.5	2.7	2.2	3.0	2.6	3.3	1.8
AT	0.6	0.2	1.4	1.4	1.1	1.2	3.5	2.2	2.9	2.4	2.5	2.4	3.0
PT	-0.9	1.5	0.2	0.0	-0.2	-0.8	-1.5	0.0	0.5	1.3	0.5	1.9	0.9
FI	4.5	1.8	3.5	3.2	3.6	6.9	7.0	6.3	7.0	5.8	5.8	6.0	5.4
SE	4.3	-0.1	5.6	7.9	5.1	5.5	6.8	4.3	3.8	4.1	3.9	4.3	4.2
UK	2.0	-2.0	2.3	3.3	3.8	3.9	3.1	1.5	1.1	1.3	0.0	1.1	0.0
EU-15	0.2	0.1	2.5	2.8	3.0	2.7	2.3	1.9	1.6	2.0	1.5	2.1	1.4
Euro area	-0.4	0.3	2.4	2.5	2.6	2.2	1.8	1.8	1.5	2.1	1.6	2.1	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 DE, ES and AT for which the Hodrick-Prescott filter is used.

TABLE 43 : Gross debt, general government (as a percentage of GDP, 1980-2004) [1] 28.3.2003

	1980	1985	1990	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	78.6	122.3	129.2	119.6	114.9	109.6	108.5	105.6	105.3	101.7	102.7	96.8	98.9
DK [2]	36.5	70.0	57.8	56.2	53.0	47.4	45.4	44.0	45.2	42.4	42.7	39.8	39.9
DE	31.7	41.7	43.5	60.9	61.2	60.2	59.5	60.9	60.8	61.8	62.7	61.1	63.0
EL	25.0	53.6	79.6	105.8	105.1	106.2	107.0	105.8	104.9	102.0	101.0	98.5	97.0
ES	16.8	42.3	43.6	64.6	63.1	60.5	56.9	55.0	54.0	53.2	52.5	51.1	50.5
FR	19.8	30.8	35.1	59.5	58.5	57.2	56.8	58.6	59.1	59.3	61.8	59.3	63.1
IE	75.2	109.6	101.5	54.9	49.3	39.3	36.8	35.3	33.3	35.0	33.3	34.5	33.3
IT	58.2	81.9	97.2	116.3	114.9	110.6	109.5	110.3	106.7	108.0	106.0	106.9	104.7
LU	9.3	9.7	4.4	6.3	6.0	5.6	5.6	4.6	5.3	3.9	4.1	5.4	3.4
NL	46.0	70.1	77.0	66.8	63.1	55.8	52.8	51.0	52.6	50.1	52.4	48.8	52.8
AT	36.2	49.2	57.2	63.7	67.5	66.8	67.3	63.2	68.7	63.0	68.5	62.3	66.8
PT	32.3	61.5	58.3	55.0	54.3	53.3	55.6	57.4	58.1	58.1	59.4	58.1	60.2
FI	11.5	16.2	14.3	48.6	47.0	44.5	43.8	42.4	42.7	41.9	42.3	41.1	41.4
SE	40.3	62.4	42.3	68.0	62.7	52.8	54.4	53.8	52.6	51.7	50.9	50.3	49.5
UK	53.2	52.7	34.0	47.7	45.1	42.1	38.9	38.5	38.4	38.1	39.0	37.6	39.8
EU-15	38.0	53.2	54.4	68.8	67.3	64.1	62.9	63.0	62.7	62.5	63.5	61.6	63.2
Euro area	34.9	52.4	58.6	73.7	72.7	70.2	69.2	69.6	69.2	69.1	69.9	68.2	69.6

[1] Government gross debt as defined in Council Regulation (EC) Nº 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 44 : Gross national saving (as a percentage of GDP, 1970-2004)

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	21.3	24.6	25.6	25.7	26.0	25.9	24.8	24.4	24.8	24.7	24.8	25.0	25.5
DK	19.6	19.8	21.3	20.8	21.5	22.7	23.4	23.3	22.8	23.8	22.8	24.6	23.0
DE	23.5	22.4	21.2	21.5	20.8	20.8	19.8	20.5	20.5	20.6	20.6	21.1	20.9
EL	26.7	20.1	18.0	17.8	18.1	18.6	18.6	18.4	18.5	19.0	19.8	19.4	20.8
ES	23.5	20.9	22.4	22.4	22.4	22.4	22.7	23.2	23.4	23.4	23.4	23.8	23.6
FR	22.6	19.8	21.1	21.4	22.3	22.1	21.4	20.2	20.3	20.1	19.8	20.3	20.0
IE	18.6	18.0	24.3	25.7	24.6	25.0	23.4	22.3	21.9	21.9	21.2	21.6	21.2
IT	24.2	19.7	21.1	21.2	20.7	20.0	20.0	20.3	19.7	20.5	19.0	20.9	19.1
LU	:	:	:	:	:	:	:	15.9	17.8	15.7	17.4	16.6	17.5
NL	22.8	25.6	26.8	25.2	26.6	27.6	25.2	24.5	23.0	24.8	23.8	25.9	24.6
AT	25.9	23.0	21.6	21.8	21.3	22.0	21.3	21.8	21.9	21.8	21.4	22.0	21.5
PT	23.3	21.4	19.9	20.6	19.6	18.8	18.4	18.6	17.9	18.9	18.2	19.5	19.0
FI	26.3	17.3	25.1	26.0	25.8	27.7	27.9	26.0	27.2	26.7	26.3	27.2	26.7
SE	20.9	17.1	21.2	21.1	21.7	22.5	22.3	20.5	21.4	21.2	21.3	21.5	21.8
UK	18.6	14.9	16.2	17.6	15.5	15.3	15.4	13.5	14.9	13.8	14.6	14.3	15.6
EU-15	22.6	20.2	20.9	21.3	20.9	20.9	20.4	19.8	19.9	20.0	19.8	20.4	20.2
Euro area	23.4	21.3	21.8	22.0	21.9	21.9	21.2	21.2	21.0	21.3	20.9	21.7	21.2
US	18.9	16.3	17.4	18.0	17.5	16.7	14.9	13.8	13.9	13.2	13.0	12.9	12.9
JP	33.6	32.2	29.6	29.8	28.4	28.7	27.7	26.3	26.4	26.5	26.7	26.6	26.6

TABLE 45 : Gross saving, private sector (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 XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
BE	24.0	28.5	24.5	24.0	23.9	23.2	22.6	22.5	22.7	22.7	23.1	22.7	23.6
DK	16.5	20.5	18.3	18.0	16.5	18.4	18.8	19.9	19.5	20.2	19.7	20.5	19.5
DE	20.7	21.6	20.7	21.0	19.5	19.4	19.6	21.4	21.3	20.7	21.3	20.5	21.2
EL	28.7	27.2	18.4	17.8	16.4	16.0	15.8	15.4	15.7	15.7	16.7	16.2	17.8
ES	21.8	21.5	21.1	21.2	19.6	19.2	18.9	19.2	19.2	19.6	19.5	19.7	19.3
FR	20.2	20.7	20.1	20.4	20.1	19.8	19.1	19.0	19.9	19.2	20.2	19.1	20.3
IE	21.6	18.5	19.6	21.5	18.1	17.1	18.0	19.1	18.0	18.6	18.2	17.9	18.4
IT	29.4	25.1	21.2	21.1	18.9	18.6	19.0	19.3	19.2	20.0	18.7	20.2	18.7
LU	:	:	:	:	:	:	:	10.0	9.6	11.8	11.7	12.8	13.8
NL	21.4	26.2	24.5	23.4	23.2	23.0	21.5	21.7	20.5	22.4	21.8	23.2	23.6
AT	21.7	22.0	20.0	20.1	19.7	20.1	17.1	19.8	18.9	19.7	19.1	19.9	18.5
PT	24.1	23.2	19.3	19.4	18.2	18.0	18.5	19.0	18.1	18.7	18.8	19.0	19.4
FI	18.4	18.9	20.9	21.5	21.0	18.3	20.0	19.8	19.9	21.2	20.6	21.3	21.3
SE	16.1	20.7	17.6	16.6	17.0	16.3	14.9	16.5	17.2	17.4	17.2	17.4	17.3
UK	17.5	17.8	15.3	15.8	13.0	12.4	13.1	12.9	14.5	13.3	14.8	14.0	15.6
EU-15	21.4	21.8	20.0	20.1	18.7	18.4	18.3	18.7	19.0	18.8	19.2	19.0	19.4
Euro area	22.5	22.6	20.9	21.0	19.9	19.6	19.4	20.1	20.1	20.1	20.2	20.1	20.3
US	:	18.5	15.2	15.4	14.3	12.7	12.8	13.9	14.1	13.7	14.6	13.6	14.3
JP	28.7	26.0	28.3	28.4	28.6	28.8	27.7	28.4	27.3	29.0	28.2	29.3	28.4

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

TABLE 46 : Gross saving, general government (as a percentage of GDP, 1970-2004) [1] 28.3.2003

	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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-2.7	-3.9	1.1	1.7	2.1	2.7	2.3	1.9	2.1	2.0	1.7	2.3	1.9
DK	3.1	-0.7	3.0	2.8	4.9	4.3	4.6	3.4	3.3	3.5	3.2	4.1	3.5
DE	2.8	0.8	0.5	0.5	1.2	1.4	0.2	-1.0	-0.8	-0.1	-0.6	0.7	-0.2
EL	-2.1	-7.1	-0.5	0.1	1.7	2.6	2.7	3.0	2.7	3.3	3.0	3.3	3.0
ES	1.7	-0.6	1.3	1.2	2.9	3.3	3.9	4.0	4.2	3.8	3.9	4.1	4.3
FR	2.5	-0.9	1.0	1.1	2.1	2.3	2.3	1.2	0.4	0.9	-0.4	1.2	-0.3
IE	-3.0	-0.6	4.7	4.3	6.5	7.9	5.5	3.2	3.9	3.3	3.0	3.7	2.8
IT	-5.1	-5.5	-0.1	0.1	1.7	1.5	1.0	1.0	0.5	0.5	0.2	0.7	0.4
LU	:	:	9.0	8.6	8.8	11.1	10.1	5.9	8.2	3.8	5.7	3.8	3.7
NL	1.4	-0.6	2.3	1.8	3.4	4.6	3.7	2.8	2.5	2.4	2.0	2.7	1.0
AT	4.2	1.0	1.6	1.8	1.6	1.9	4.1	2.0	3.0	2.0	2.3	2.1	3.0
PT	-0.8	-1.7	0.6	1.2	1.3	0.7	-0.2	-0.4	-0.2	0.1	-0.6	0.5	-0.4
FI	7.9	-1.6	4.2	4.4	4.8	9.4	7.9	6.2	7.3	5.5	5.8	5.9	5.4
SE	4.8	-3.6	3.5	4.5	4.7	6.2	7.4	4.0	4.2	3.8	4.0	4.1	4.5
UK	1.2	-2.9	0.9	1.8	2.6	2.9	2.3	0.6	0.4	0.4	-0.2	0.4	0.0
EU-15	1.2	-1.6	1.0	1.2	2.2	2.5	2.1	1.1	1.0	1.1	0.6	1.5	0.8
Euro area	0.9	-1.3	0.9	0.9	2.0	2.3	1.8	1.1	0.9	1.2	0.6	1.6	0.8
US	:	-2.2	2.2	2.6	3.2	3.9	2.1	0.0	-0.2	-0.5	-1.6	-0.6	-1.4
JP	5.0	6.3	1.3	1.3	-0.2	-0.1	0.1	-2.1	-0.9	-2.5	-1.5	-2.8	-1.8

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

TABLE 47 : Exports 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	6.2	4.8	4.9	5.2	4.3	7.2	0.3	-0.7	-0.7	4.8	2.1	6.0	4.9
DK	5.8	3.4	6.2	3.9	8.6	9.9	0.0	5.5	4.2	5.0	2.6	5.3	5.2
DE	6.2	3.6	8.5	7.5	5.6	13.6	5.1	1.9	2.4	5.2	3.5	7.5	6.4
EL	8.0	4.1	2.4	2.7	-4.2	11.3	-5.3	-1.0	-7.9	2.9	1.4	5.3	4.8
ES	:	11.9	10.1	7.1	6.5	10.0	2.3	-0.8	2.3	5.1	3.9	6.4	4.4
FR	7.0	5.9	8.1	9.1	4.9	12.3	1.3	1.3	2.2	4.7	2.9	6.2	5.3
IE	8.5	13.2	15.3	15.6	13.7	18.6	5.0	3.8	1.9	6.2	2.8	8.1	5.0
IT	8.1	7.3	4.6	3.5	1.1	12.0	0.9	-0.6	0.0	4.3	2.7	7.1	6.2
LU	3.8	3.6	9.2	11.8	6.1	15.5	4.9	-3.9	-5.0	5.7	3.4	6.8	5.2
NL	6.6	6.5	7.2	7.4	4.4	11.5	1.9	-1.8	-1.7	4.2	2.3	6.0	5.2
AT	:	4.6	10.0	8.2	7.9	13.5	7.4	1.0	5.5	6.0	3.4	7.8	7.1
PT	:	6.1	:	:	:	:	:	2.9	2.4	5.0	2.8	7.9	6.2
FI	:	7.7	12.4	9.8	7.2	22.6	-1.8	2.6	6.0	5.9	4.0	6.7	6.2
SE	:	7.5	8.5	8.1	5.9	11.4	-3.5	3.5	2.3	6.2	3.8	6.0	6.7
UK	4.6	5.3	6.6	1.3	4.3	11.5	1.3	0.6	-1.9	5.6	1.4	6.2	5.8
EU-15 [1]	6.6	6.0	7.8	6.7	5.1	12.4	2.3	0.9	1.1	5.0	2.9	6.7	5.8
Euro area [2]	7.0	6.0	8.0	7.4	5.1	12.6	2.8	0.7	1.4	4.9	3.0	6.9	5.7
US	6.2	7.7	8.0	2.1	3.7	11.3	-5.9	-2.7	-3.6	4.1	2.3	4.3	5.1
JP	:	1.9	3.8	-1.5	-5.5	12.4	-6.2	4.9	8.5	5.7	8.1	6.5	6.1

[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 : 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	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	5.8	3.8	5.1	7.3	3.3	8.0	-0.5	-1.0	-1.4	4.7	2.7	6.1	4.6
DK	4.8	4.3	7.5	8.8	5.5	9.7	0.3	5.4	3.5	5.7	3.4	6.4	6.0
DE	6.5	3.8	8.1	10.5	7.7	10.7	0.0	-2.1	-1.6	6.3	4.4	7.4	6.5
EL	8.0	3.9	6.5	9.4	-4.8	14.8	-4.7	2.5	1.5	5.0	2.0	5.2	5.4
ES	:	7.5	11.5	13.4	12.3	10.5	3.0	-0.5	2.2	5.4	4.2	7.0	5.4
FR	7.2	3.8	8.2	12.3	7.6	14.6	0.5	0.8	1.6	6.2	3.3	7.5	6.1
IE	6.7	7.9	13.7	18.6	8.3	17.0	-0.1	3.3	-1.1	5.9	2.1	7.5	4.6
IT	7.2	3.6	7.1	8.8	7.6	10.3	0.6	-0.7	0.8	5.0	4.7	7.0	6.3
LU	4.6	3.6	7.2	11.8	8.0	4.1	7.2	-2.2	-3.0	5.8	3.6	6.6	4.7
NL	6.0	5.9	7.7	8.3	5.5	10.3	1.4	-1.6	-2.7	3.8	2.5	5.2	5.8
AT	:	3.7	7.9	7.6	7.2	10.8	4.9	-1.6	-1.1	6.2	3.7	7.8	7.1
PT	:	6.7	:	:	:	:	:	0.2	-0.6	1.8	0.1	4.5	3.8
FI	:	0.6	11.3	11.8	3.6	16.8	0.4	1.8	2.3	6.1	4.7	6.4	6.1
SE	:	3.7	7.8	11.0	3.2	11.9	-5.5	1.4	-1.4	6.4	3.1	6.3	6.2
UK	4.7	3.0	9.6	9.0	7.7	12.1	3.2	1.2	1.2	5.2	3.8	5.6	5.0
EU-15 [1]	6.4	4.2	8.4	10.2	7.1	11.5	0.9	-0.3	-0.1	5.5	3.6	6.7	5.8
Euro area [2]	6.8	4.4	8.2	10.5	7.2	11.4	0.7	-0.7	-0.3	5.5	3.6	6.9	6.0
US	6.8	8.2	12.2	11.7	12.2	13.5	-3.3	3.9	3.9	6.5	6.1	6.9	7.0
JP	:	5.1	3.5	-4.9	-1.0	11.9	0.1	-1.9	2.1	3.0	5.3	4.2	5.1

[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 49 : Trade balance (fob-fob, as a percentage of GDP, 1974-2004) 28.3.2003

	long-term average 1974-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	-2.9	2.9	3.5	3.8	3.7	2.1	2.6	3.0	2.9	3.4	2.7	3.6	2.9
DK	-2.5	3.8	2.6	1.2	2.9	3.3	3.5	3.3	3.5	3.1	3.5	2.9	3.4
DE	4.3	1.9	3.3	3.6	3.4	3.1	4.8	6.3	6.2	6.3	6.2	6.7	6.2
EL	-9.9	-12.6	-14.2	-14.8	-13.5	-15.7	-14.5	-14.3	-14.2	-14.3	-13.3	-14.3	-12.8
ES	-5.2	-3.8	-4.0	-3.6	-5.1	-6.2	-5.7	-5.0	-5.3	-4.9	-5.2	-5.1	-5.4
FR	-1.8	-0.1	0.9	1.4	0.9	-0.3	0.1	0.1	0.1	-0.1	0.1	-0.2	0.0
IE	-4.8	15.1	24.0	22.9	25.4	27.3	29.9	29.6	29.4	29.4	28.4	30.0	28.5
IT	-1.1	2.2	3.1	3.4	2.4	1.3	1.8	2.1	1.9	2.3	1.7	2.5	2.1
LU	-8.5	-11.4	-11.4	-11.5	-12.9	-9.2	-12.1	-12.4	-11.5	-12.6	-11.4	-12.8	-10.9
NL	1.1	5.0	5.0	5.2	3.9	5.0	5.6	5.6	5.6	6.0	5.7	6.7	5.3
AT	-5.0	-3.7	-1.9	-1.6	-1.6	-1.3	-0.6	0.2	1.7	-0.1	1.5	-0.3	1.5
PT	:	-11.0	-10.9	-11.0	-12.3	-13.6	-12.7	-10.0	-9.7	-9.0	-8.5	-8.4	-7.9
FI	0.2	6.1	9.9	9.9	9.5	11.4	10.4	10.2	9.9	10.2	9.5	10.6	9.9
SE	:	4.0	6.9	7.0	6.7	6.2	6.2	6.7	6.4	6.9	6.6	6.7	7.0
UK	-2.1	-1.8	-2.4	-2.5	-3.0	-3.2	-3.4	-2.7	-3.3	-2.7	-3.4	-2.6	-3.5
EU-15	-0.6	0.5	1.3	1.5	1.0	0.4	1.1	1.7	1.5	1.7	1.4	1.8	1.5
EU-15, adjusted [1]			:	0.6	0.2	-0.7	0.0	0.7	0.5	0.7	0.5	0.9	0.6
Euro area	-0.3	0.7	1.8	2.2	1.6	1.0	1.9	2.5	2.4	2.5	2.4	2.7	2.4
Euro area, adjusted [1]			:	1.8	1.2	0.5	1.1	1.9	1.9	1.9	1.9	2.1	1.9
US	-1.6	-1.9	-3.2	-2.9	-3.8	-4.7	-4.3	-4.6	-4.7	-5.1	-5.4	-5.6	-5.8
JP	2.1	2.9	2.5	3.1	2.8	2.4	1.8	2.6	2.4	3.3	2.9	3.8	3.4

[1] See note 8 on concepts and sources.

TABLE 50 : Balance on current transactions with the rest of the world (as a percentage of GDP, 1961-2004)

	long-term average 1961-90	5-year average 1991-95	1996-00	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	0.4	4.1	5.1	5.3	5.3	4.4	4.5	5.0	5.9	5.2	6.2	5.3	6.9
DK	-2.6	1.6	0.8	-0.9	1.8	1.4	3.0	2.1	2.9	2.1	3.1	2.2	3.1
DE	1.3	-0.9	-0.5	-0.3	-0.8	-1.0	0.2	1.9	2.4	1.7	2.5	1.9	2.4
EL	-0.9	-0.5	-3.1	-3.5	-3.3	-4.0	-4.4	-4.6	-4.7	-4.7	-3.9	-4.5	-3.2
ES	-1.1	-2.0	-1.2	-0.9	-2.1	-3.3	-3.0	-2.2	-2.7	-2.0	-2.6	-1.9	-2.7
FR	-0.7	-0.1	1.9	2.4	2.6	1.2	1.2	1.1	1.2	1.0	1.1	0.9	1.0
IE	-4.4	1.9	1.6	0.9	0.4	0.1	-0.3	-0.9	-0.3	-1.3	-0.1	-1.6	0.3
IT	0.2	-0.1	1.7	1.9	1.0	-0.2	0.3	0.7	-0.3	1.0	-0.6	1.1	-0.5
LU	:	:	:	:	:	:	:	-6.1	-3.7	-5.8	-3.8	-5.0	-3.7
NL	1.5	4.3	4.8	3.0	4.0	5.3	3.3	3.6	2.8	4.3	3.8	5.5	4.3
AT	-0.5	-1.1	-2.6	-2.3	-3.0	-2.6	-2.2	-0.7	-0.1	-1.0	-0.3	-1.3	-0.6
PT	-2.5	-2.6	-7.2	-7.1	-8.7	-10.4	-9.7	-7.8	-7.9	-6.8	-6.6	-6.5	-5.9
FI	-2.0	-1.3	5.7	5.7	6.2	7.2	6.8	6.9	7.1	7.0	6.7	7.4	7.1
SE	-0.4	-0.1	4.0	3.9	4.2	4.0	4.2	3.6	4.2	3.8	4.4	3.7	4.9
UK	-0.3	-1.6	-1.2	-0.6	-2.2	-2.0	-1.3	-1.8	-0.8	-1.8	-1.5	-1.6	-1.4
EU-15	0.0	-0.3	0.7	0.8	0.4	-0.2	0.3	0.6	0.7	0.6	0.7	0.7	0.7
EU-15, adjusted [1]			:	0.5	0.0	-0.8	-0.2	0.3	0.6	0.4	0.5	0.5	0.5
Euro area	0.1	-0.2	0.8	1.0	0.6	-0.1	0.3	1.0	0.9	1.0	1.0	1.1	1.0
Euro area, adjusted [1]			:	0.5	-0.3	-0.9	-0.2	0.6	0.9	0.7	0.9	0.8	1.0
US	-0.3	-0.9	-2.5	-2.3	-3.0	-4.1	-3.8	-4.7	-4.7	-5.2	-5.6	-5.8	-6.1
JP	1.0	2.5	2.3	3.0	2.6	2.5	2.1	3.0	2.8	3.6	3.1	3.9	3.4

[1] See note 8 on concepts and sources.

TABLE 51 : Trade balance (fob-fob, in billions of Ecu/euro, 1996-2004)

	1996	1997	1998	1999	2000	2001	2002 estimate of XI-2002	III-2003	2003 forecast of XI-2002	III-2003	2004 forecast of XI-2002	III-2003
BE	8.3	8.3	8.5	8.8	5.3	6.7	7.8	7.5	9.3	7.3	10.2	8.1
DK	4.8	3.7	1.8	4.7	5.6	6.1	6.2	6.5	6.0	6.7	5.9	6.6
DE	55.7	63.1	69.4	66.6	63.0	99.9	131.8	130.3	136.0	132.7	148.7	137.6
EL	-13.0	-14.4	-16.1	-16.0	-19.1	-19.0	-20.0	-20.0	-21.5	-20.1	-23.0	-20.9
ES	-12.8	-12.0	-18.7	-28.6	-37.7	-37.0	-34.4	-36.9	-35.6	-38.5	-39.1	-42.2
FR	8.4	21.2	18.3	12.5	-9.1	-4.2	1.0	1.3	-1.2	1.5	-3.8	0.6
IE	12.4	16.3	17.8	22.8	28.1	34.3	36.9	37.7	39.7	38.9	44.2	42.2
IT	46.0	38.6	36.8	26.1	15.1	22.1	26.4	23.6	30.4	22.5	34.7	28.1
LU	-1.6	-1.8	-1.9	-2.4	-1.9	-2.6	-2.7	-2.5	-2.9	-2.6	-3.0	-2.6
NL	17.9	18.6	18.2	14.7	20.1	23.9	25.1	25.0	27.9	26.3	32.6	25.1
AT	-5.4	-3.4	-3.0	-3.1	-2.7	-1.2	0.5	3.7	-0.1	3.3	-0.6	3.4
PT	-7.4	-8.9	-11.0	-13.3	-14.9	-14.8	-13.0	-12.5	-12.1	-11.4	-11.9	-11.1
FI	9.2	10.4	11.4	11.5	14.9	14.1	14.3	13.9	15.0	13.7	16.3	14.9
SE	14.9	16.9	15.4	15.9	16.2	15.2	16.6	16.3	17.8	17.3	18.0	19.2
UK	-16.9	-17.8	-32.3	-41.6	-49.8	-53.9	-45.2	-54.8	-46.6	-55.7	-46.5	-60.5
EU-15	120.4	138.6	114.7	78.5	33.1	90.0	151.5	138.9	161.6	138.1	181.8	144.5
EU-15, adjusted [1]	:	62.9	42.4	11.8	-60.0	-0.5	61.3	50.6	71.4	49.8	91.5	56.2
Euro area	117.5	135.9	129.7	99.4	61.0	122.3	173.8	171.0	184.7	173.6	205.0	183.3
Euro area, adjusted [1]	:	116.4	109.0	75.7	31.6	75.8	130.7	132.7	141.6	135.3	161.8	145.0
US	-149.6	-173.1	-222.1	-326.6	-497.1	-484.8	-514.2	-518.8	-566.3	-543.7	-648.5	-616.5
JP	65.9	89.8	109.0	115.5	126.5	83.0	107.7	101.7	137.6	115.5	165.3	138.8

[1] See note 8 on concepts and sources.

TABLE 52 : Balance on current transactions with the rest of the world (in billions of Ecu/euro, 1996-2004) 28.3.2003

	1996	1997	1998	1999	2000	2001	2002 estimate of		2003 forecast of		2004 forecast of	
							XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	10.8	11.7	12.0	12.5	10.8	11.4	13.0	15.4	14.0	16.7	15.1	19.5
DK	2.1	0.6	-1.4	2.8	2.4	5.3	3.8	5.2	4.0	5.9	4.5	6.1
DE	-6.2	-1.8	-5.2	-16.1	-21.0	3.1	40.8	50.6	37.0	53.4	41.3	52.7
EL	-2.3	-2.3	-3.8	-3.9	-4.8	-5.7	-6.5	-6.6	-7.1	-5.9	-7.2	-5.2
ES	0.6	1.9	-4.6	-12.0	-20.0	-19.5	-15.1	-18.5	-14.4	-19.4	-14.4	-21.2
FR	11.2	31.6	30.8	35.5	17.2	18.3	16.9	17.8	15.3	17.2	14.3	16.3
IE	1.9	2.2	0.7	0.4	0.1	-0.3	-1.1	-0.4	-1.8	-0.2	-2.4	0.4
IT	31.1	28.6	20.5	11.1	-2.0	3.7	8.9	-3.3	12.8	-8.3	15.4	-6.5
LU	:	:	:	:	0.7	-0.9	-1.3	-0.8	-1.3	-0.9	-1.2	-0.9
NL	17.6	20.5	10.5	14.8	20.8	13.9	16.2	12.6	19.8	17.6	26.6	20.2
AT	-4.2	-5.5	-4.4	-5.9	-5.4	-4.7	-1.6	-0.3	-2.2	-0.7	-3.0	-1.4
PT	-3.4	-5.7	-7.1	-9.4	-12.5	-12.3	-10.1	-10.2	-9.3	-8.8	-9.2	-8.3
FI	4.1	5.9	6.6	7.4	9.4	9.3	9.6	10.0	10.2	9.7	11.4	10.8
SE	7.5	9.4	8.7	10.0	10.5	10.4	9.0	10.6	9.9	11.7	10.1	13.5
UK	-10.7	-2.5	-7.1	-29.9	-31.4	-20.1	-29.4	-13.8	-31.3	-24.4	-29.1	-23.5
EU-15	60.2	94.7	56.1	17.4	-25.3	12.5	53.8	68.9	56.0	62.4	72.3	71.1
EU-15, adjusted [1]	:	64.4	34.4	-3.0	-67.3	-21.2	31.7	51.9	33.8	45.4	50.2	54.1
Euro area	61.3	87.1	55.9	34.4	-6.7	16.2	69.9	66.3	73.1	70.4	86.7	76.4
Euro area, adjusted [1]	:	62.1	31.9	-19.0	-60.4	-13.8	45.6	62.0	48.8	66.1	62.5	72.0
US	-87.2	-108.6	-178.3	-259.1	-429.5	-421.2	-519.1	-519.7	-581.3	-566.7	-674.2	-640.8
JP	51.8	85.6	105.9	107.6	129.7	98.0	127.1	116.7	152.1	122.2	170.6	138.5

[1] See note 8 on concepts and sources.

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

	1996	1997	1998	1999	2000	2001	2002 estimate of		2003 forecast of		2004 forecast of	
							XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	4.1	9.3	8.2	6.9	11.9	1.1	1.1	1.6	5.9	4.5	6.8	6.4
DK	4.7	8.6	6.9	5.0	9.5	0.1	2.1	1.8	5.1	4.6	5.4	6.1
DE	5.1	9.8	7.3	5.9	12.3	0.6	1.8	3.1	6.0	4.8	6.8	6.6
EL	4.3	8.8	6.0	5.6	9.7	1.6	1.2	2.2	6.0	5.1	7.0	6.4
ES	4.1	9.4	8.5	6.0	10.8	0.6	0.8	1.1	5.6	4.2	6.8	6.2
FR	4.8	9.6	7.3	7.2	10.7	0.6	1.2	1.8	5.8	4.7	6.7	6.2
IE	5.6	9.3	7.8	6.9	11.5	0.1	1.4	1.7	5.6	4.5	6.3	6.0
IT	5.5	9.8	7.1	6.4	12.3	0.5	1.5	2.8	6.2	4.9	7.0	6.7
LU (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	4.0	7.9	7.2	4.8	9.6	0.3	1.3	1.0	5.5	4.1	6.3	5.7
AT	3.7	10.3	8.6	6.6	12.5	1.2	1.0	3.4	6.3	5.0	7.2	6.9
PT	4.7	9.8	9.3	8.2	12.5	0.7	0.4	1.0	5.8	4.3	6.7	6.2
FI	4.7	10.0	6.0	3.8	11.6	0.6	2.3	3.4	5.8	5.1	6.1	6.5
SE	5.2	9.9	7.3	6.0	11.3	-0.4	2.3	2.4	5.2	4.8	5.4	6.3
UK	5.4	9.8	7.5	6.5	11.4	0.0	1.6	1.8	5.8	4.7	6.6	6.3
EU-15 (c)	4.9	9.5	7.4	6.2	11.5	0.5	1.5	2.2	5.8	4.7	6.6	6.4
Euro area (c)	4.8	9.5	7.5	6.2	11.5	0.6	1.4	2.3	5.9	4.6	6.7	6.4
US	6.6	10.0	1.6	6.7	10.8	-2.2	1.5	2.7	6.4	5.8	7.2	6.9
JP	6.8	11.6	3.2	9.1	12.5	-2.3	3.8	4.7	7.0	6.5	7.5	7.3

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

	1996	1997	1998	1999	2000	2001	2002 estimate of		2003 forecast of		2004 forecast of	
							XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
BE	-0.3	-2.7	-3.8	-1.6	-2.5	-0.8	-1.8	-2.3	-1.0	-2.3	-0.7	-1.4
DK	-2.7	-1.9	-5.2	2.3	0.6	-0.1	3.3	2.4	-0.1	-1.9	-0.1	-0.8
DE	-0.5	1.6	0.2	-0.6	1.1	4.5	0.1	-0.7	-0.8	-1.2	0.7	-0.2
EL	-1.8	-4.6	-4.1	-3.1	1.9	-6.8	-2.2	-9.9	-2.9	-3.5	-1.6	-1.5
ES	6.2	3.6	-3.1	-0.9	-1.4	1.7	-1.6	1.2	-0.5	-0.3	-0.4	-1.7
FR	-1.0	2.0	-0.5	-3.3	2.2	0.7	0.1	0.4	-1.0	-1.7	-0.5	-0.8
IE	4.5	5.4	12.6	4.5	5.5	4.9	2.4	0.2	0.6	-1.6	1.7	-0.9
IT	-5.5	-5.2	-3.4	-5.0	-0.5	0.4	-2.1	-2.7	-1.8	-2.1	0.1	-0.5
LU (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.1	-1.9	-0.7	0.8	0.4	1.6	-3.1	-2.7	-1.2	-1.7	-0.3	-0.5
AT	1.9	2.1	-0.4	1.2	0.9	6.1	0.0	2.0	-0.3	-1.5	0.6	0.2
PT	5.5	-0.3	-1.5	:	:	:	2.5	1.4	-0.8	-1.4	1.1	0.0
FI	-0.3	4.7	3.8	3.7	8.1	-2.4	0.3	2.5	0.1	-1.0	0.6	-0.3
SE	0.7	2.4	-0.5	-1.0	-0.1	-3.1	1.2	-0.1	1.0	-1.0	0.6	0.4
UK	1.4	-1.8	-5.8	-2.8	0.2	1.3	-1.0	-3.6	-0.2	-3.2	-0.4	-0.5
EU-15 (c)	-0.3	-0.2	-1.4	-1.6	0.7	1.8	-0.6	-1.1	-0.8	-1.7	0.1	-0.6
Euro area (c)	-0.3	0.2	-0.6	-1.5	0.9	2.2	-0.7	-0.9	-0.9	-1.5	0.2	-0.7
US	0.9	5.0	0.5	-2.5	0.5	-3.8	-4.1	-6.1	-2.2	-3.3	-2.7	-1.7
JP	-4.4	-1.9	-4.5	-13.4	-0.1	-4.0	1.1	3.6	-1.2	1.5	-0.9	-1.1

(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 55 : World GDP, volume (percentage change on preceding year, 1997-2004) 28.3.2003

							2002 estimate of		2003 forecast of		2004 forecast of	
	(a)	1997	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
EU-15	17.1	2.5	2.9	2.8	3.5	1.6	1.0	1.1	2.0	1.3	2.6	2.4
Euro area	13.9	2.4	2.9	2.8	3.5	1.5	0.8	0.9	1.8	1.0	2.6	2.3
Belgium	0.5	3.6	2.0	3.2	3.7	0.8	0.7	0.7	2.0	1.2	2.8	2.3
Denmark	0.4	3.0	2.5	2.6	2.8	1.4	1.7	1.6	2.1	1.5	2.4	2.2
Germany	4.5	1.4	2.0	2.0	2.9	0.6	0.4	0.2	1.4	0.4	2.3	2.0
Greece	0.2	3.6	3.4	3.6	4.2	4.1	3.5	4.0	3.9	3.6	3.7	3.8
Spain	1.2	4.0	4.3	4.2	4.2	2.7	1.9	2.0	2.6	2.0	3.2	3.0
France	3.1	1.9	3.4	3.2	3.8	1.8	1.0	1.2	2.0	1.1	2.7	2.3
Ireland	0.2	10.9	8.8	11.1	10.0	5.7	3.3	6.0	4.2	3.3	5.2	4.5
Italy	2.3	2.0	1.8	1.7	3.1	1.8	0.4	0.4	1.8	1.0	2.4	2.1
Luxembourg	0.0	7.7	7.5	6.0	8.9	1.0	0.1	0.4	2.0	1.1	3.4	2.7
Netherlands	0.8	3.8	4.3	4.0	3.3	1.3	0.2	0.3	0.9	0.5	2.2	1.7
Austria	0.4	1.6	3.9	2.7	3.5	0.7	0.7	1.0	1.8	1.2	2.2	2.0
Portugal	0.2	4.0	4.6	3.8	3.7	1.6	0.7	0.5	1.2	0.5	2.5	2.0
Finland	0.3	6.4	4.9	3.4	5.5	0.6	1.4	1.6	2.8	2.2	3.4	2.9
Sweden	0.5	2.4	3.6	4.6	4.4	1.1	1.6	1.9	2.2	1.4	2.4	2.7
United Kingdom	2.3	3.4	2.9	2.4	3.1	2.1	1.6	1.8	2.5	2.2	2.7	2.6
Candidate Countries	3.2	4.8	3.0	0.1	5.1	-0.8	2.9	4.0	3.8	3.5	4.4	4.3
Acceding Countries	1.9	4.8	3.7	3.0	4.1	2.3	2.5	2.4	3.8	3.1	4.3	4.0
- Cyprus	0.0	2.4	5.0	4.6	5.1	4.0	2.2	2.0	3.5	2.0	4.1	3.8
- Czech Republic	0.3	-0.8	-1.0	0.5	3.3	3.1	2.2	2.0	3.2	2.8	3.8	3.9
- Estonia	0.0	9.8	4.6	-0.6	7.1	5.0	4.5	5.6	4.7	4.9	5.1	5.1
- Hungary	0.3	4.6	4.9	4.2	5.2	3.7	3.4	3.3	4.5	3.7	4.9	4.1
- Latvia	0.0	8.4	4.8	2.8	6.8	7.9	5.0	6.1	5.5	5.5	6.0	6.0
- Lithuania	0.1	7.3	5.1	-3.9	3.8	5.9	5.0	5.9	3.5	4.5	4.5	5.0
- Malta	0.0	4.9	3.4	4.1	6.1	-0.8	2.8	3.0	3.4	3.1	3.6	3.7
- Poland	0.8	6.8	4.8	4.1	4.0	1.0	0.8	1.3	3.2	2.5	3.9	3.7
- Slovakia	0.1	5.6	4.0	1.3	2.2	3.3	3.9	4.4	3.9	3.7	4.8	4.5
- Slovenia	0.1	4.6	3.8	5.2	4.6	2.9	2.6	3.0	3.6	3.4	4.0	3.7
Other Candidate Countries	1.3	4.8	1.9	-3.8	6.4	-3.2	4.0	6.7	4.1	4.0	4.6	4.7
- Bulgaria	0.1	-5.6	4.0	2.3	5.4	4.0	4.0	4.3	5.0	4.5	5.5	5.0
- Romania	0.3	-6.1	-4.8	-1.2	1.8	5.3	4.2	4.9	4.6	4.9	4.7	5.0
- Turkey	0.8	7.5	3.1	-4.7	7.4	-7.4	3.9	7.8	3.7	3.7	4.4	4.5
USA	22.5	4.5	4.3	4.1	3.8	0.3	2.3	2.4	2.3	2.4	2.8	2.5
Japan	7.7	1.8	-1.1	0.1	2.8	0.4	-0.6	0.3	1.2	1.5	1.4	1.3
Canada	2.1	4.4	4.1	5.3	4.7	1.4	3.4	3.4	3.5	3.1	3.7	3.5
Norway	0.3	5.2	2.6	2.1	2.4	1.4	2.1	1.5	2.6	2.2	3.5	2.8
Switzerland	0.5	1.7	2.4	1.5	3.2	0.9	0.9	0.0	2.2	1.3	1.9	2.7
Iceland	0.0	4.6	5.8	3.4	5.6	3.0	-0.8	0.0	2.2	1.5	2.6	2.4
Australia	1.2	4.5	5.3	4.0	1.8	3.9	5.4	3.9	4.7	3.7	3.7	4.3
New Zealand	0.2	1.9	0.4	4.7	2.6	3.2	3.4	4.3	2.8	2.7	2.8	2.8
Industrialised countries	54.7	3.5	3.0	2.9	3.8	0.8	1.6	1.9	2.3	2.0	2.7	2.5
Others	45.3	5.2	2.4	4.5	5.9	4.1	3.8	4.1	5.1	4.6	5.5	5.3
CIS	4.0	0.7	-3.1	4.4	7.9	6.2	4.3	4.9	4.5	3.9	4.3	3.4
Russia	2.8	0.9	-4.9	5.4	8.3	5.0	3.9	4.3	4.3	3.4	4.0	2.6
Ukraine	0.5	-3.2	-1.9	-0.2	5.9	9.1	4.5	4.3	5.0	3.9	5.0	4.1
Other	0.8	2.4	3.0	3.9	7.3	8.6	5.4	7.5	4.7	5.6	4.7	5.5
OPEC	5.0	4.6	-3.3	0.7	4.6	3.1	1.8	1.4	4.5	1.7	3.8	4.1
Indonesia	1.6	4.7	-13.1	0.8	4.9	3.3	3.8	3.4	4.5	3.7	5.8	4.5
Other emerging markets	36.3	5.8	3.7	5.0	5.9	4.0	4.0	4.4	5.3	5.0	5.8	5.7
Asia	25.0	6.3	4.0	6.7	6.8	4.9	5.7	6.0	6.5	6.1	6.6	6.3
- China	12.7	8.8	7.8	7.1	8.0	7.3	7.1	7.9	7.5	7.2	7.5	7.1
- India	4.9	4.4	6.0	7.1	3.9	4.1	5.1	4.5	6.2	5.9	6.3	6.4
- Hong Kong	0.4	5.1	-5.0	3.4	10.2	0.6	1.4	2.2	3.6	3.7	3.6	3.3
- Korea	1.8	5.0	-6.7	10.9	9.3	3.0	5.6	6.0	6.9	5.7	6.9	6.1
Latin America	8.3	4.7	2.7	0.5	4.0	1.9	-0.8	0.1	2.3	2.4	4.3	4.1
- Argentina	0.9	8.1	3.8	-3.4	-0.8	-4.5	-17.7	-10.7	1.3	2.1	5.5	5.1
- Brazil	3.0	3.3	0.2	0.8	4.5	5.5	1.4	1.6	2.3	2.6	4.3	4.0
- Mexico	2.0	6.8	5.0	3.6	6.6	-0.3	1.4	1.6	2.5	2.5	4.5	4.2
Africa	3.0	4.3	4.1	3.2	4.0	1.9	3.2	2.7	3.8	3.3	3.7	4.3
- South Africa	0.8	2.6	0.8	2.0	3.5	2.8	1.9	2.4	2.3	3.0	3.3	3.4
World	100.0	4.3	2.7	3.6	4.8	2.3	2.6	2.9	3.6	3.2	4.0	3.7
World excluding EU-15	82.9	4.6	2.7	3.8	5.0	2.4	2.9	3.2	3.9	3.6	4.2	4.0
World excluding euro area	86.1	4.6	2.7	3.8	5.0	2.4	2.9	3.2	3.8	3.5	4.2	4.0

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

TABLE 56 : World exports of goods, volume (percentage change on preceding year, 1997-2004) 28.3.2003

							2002 estimate of		2003 forecast of		2004 forecast of	
	(a)	1997	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
EU-15 (b)	37.1	10.3	6.7	5.1	12.4	2.3	0.9	1.1	5.0	2.9	6.7	5.8
Euro area (b)	30.1	10.6	7.4	5.1	12.6	2.8	0.7	1.4	4.9	3.0	6.9	5.7
Candidate Countries	3.0	17.7	8.9	2.1	17.4	12.5	5.1	9.2	7.6	7.1	9.2	9.1
Acceding Countries	2.1	15.3	10.5	4.0	18.7	10.3	4.5	7.0	7.3	6.6	9.3	8.5
- Cyprus	0.1	:	:	:	:	4.0	:	-4.6	:	-0.5	:	7.7
- Czech Republic	0.5	13.7	13.8	8.7	19.9	14.1	3.8	5.6	7.0	7.3	9.2	9.2
- Estonia	0.1	35.7	18.2	-5.0	39.9	-5.5	4.8	6.0	10.3	8.0	12.8	11.0
- Hungary	0.4	29.9	17.8	9.8	21.8	10.9	6.5	6.5	7.8	6.0	11.2	8.5
- Latvia	0.0	24.6	7.0	-2.8	14.1	8.6	6.0	9.0	8.0	8.5	9.0	9.0
- Lithuania	0.1	18.4	-9.8	-21.5	24.6	24.3	12.5	13.7	8.5	10.0	9.4	10.4
- Malta	0.0	:	:	:	:	-6.3	:	2.0	:	4.5	:	5.9
- Poland	0.6	5.0	10.6	-6.4	25.0	11.9	3.6	9.0	8.0	6.8	10.0	9.0
- Slovakia	0.2	3.3	11.7	5.3	17.0	5.8	3.8	5.9	7.5	6.5	8.5	8.8
- Slovenia	0.1	13.0	9.0	2.6	12.8	6.7	3.5	6.1	5.5	5.7	6.1	6.0
Other Candidate Countries	0.8	23.8	4.7	-2.7	14.0	18.4	6.6	15.1	8.3	8.5	8.9	10.4
- Bulgaria	0.1	12.8	-22.7	-4.6	25.5	13.9	1.5	7.1	7.0	7.7	8.5	8.0
- Romania	0.2	11.9	6.3	8.8	24.5	10.5	14.0	18.7	13.0	10.5	13.2	12.0
- Turkey	0.6	27.6	8.2	-6.1	9.0	21.6	5.0	15.1	7.0	8.0	7.5	10.2
USA	12.1	14.5	2.1	3.7	11.3	-5.9	-2.7	-3.6	4.1	2.3	4.3	5.1
Japan	6.4	9.0	-1.5	-5.5	12.4	-6.2	4.9	8.5	5.7	8.1	6.5	6.1
Canada	4.4	9.6	8.5	10.7	9.0	-4.3	0.9	0.3	6.2	3.4	7.0	7.0
Norway	1.0	6.6	-1.1	3.2	2.2	5.9	1.8	1.3	2.7	2.5	2.5	3.6
Switzerland	1.6	7.6	5.3	3.6	9.3	2.1	3.1	-0.3	8.5	2.9	8.5	4.9
Iceland	0.0	19.0	6.1	-2.0	-6.5	-12.2	1.5	4.2	5.5	3.8	6.0	4.4
Australia	1.0	8.1	0.1	5.2	9.5	1.1	0.2	-1.5	6.5	5.5	11.2	6.5
New Zealand	0.2	5.7	0.1	2.9	5.7	2.6	3.2	5.2	3.8	4.7	3.0	5.2
Industrialised countries	66.9	11.1	5.0	4.0	11.9	0.1	0.9	1.2	5.2	3.5	6.4	5.9
Others	33.1	9.5	6.3	5.3	17.4	-0.3	4.2	5.7	7.7	6.8	7.9	8.1
CIS	2.4	3.0	-6.3	-4.9	28.5	1.7	3.3	0.9	3.8	2.5	1.0	2.5
Russia	1.7	3.8	-3.2	-3.0	28.6	1.3	3.3	0.6	3.3	1.1	0.5	2.9
Ukraine	0.3	-6.5	-12.4	-10.2	21.1	10.1	5.2	5.2	6.0	4.0	6.0	3.5
Other	0.4	7.6	-12.4	-8.6	32.5	-1.3	2.0	-0.6	4.3	6.5	-0.4	0.1
OPEC	4.9	3.7	4.8	-0.2	4.7	-1.7	0.9	-0.2	6.1	0.7	8.6	9.5
Indonesia	0.9	12.9	17.2	1.5	26.9	-10.5	4.0	4.0	7.0	7.0	8.0	8.0
Other emerging markets	25.8	11.2	7.7	7.2	18.7	-0.3	5.0	7.3	8.3	8.4	8.4	8.4
Asia	19.1	11.6	7.3	8.9	21.4	-1.5	5.5	8.6	8.9	9.3	9.1	8.9
- China	4.4	26.0	13.6	8.2	27.0	14.1	16.0	20.4	14.0	12.5	14.0	12.0
- India	0.7	-7.1	4.4	12.8	20.1	9.1	4.0	4.0	5.5	5.5	6.0	6.0
- Hong Kong	3.2	5.9	-3.9	2.9	16.8	-3.7	1.0	6.0	6.0	8.3	7.0	7.5
- Korea	2.5	24.4	21.8	11.2	19.4	-13.0	1.0	7.0	7.0	9.0	8.0	7.7
Latin America	5.4	10.8	11.6	1.1	10.3	2.3	3.9	4.2	7.5	5.9	7.0	7.3
- Argentina	0.4	15.1	10.5	-25.3	7.5	8.5	15.0	3.0	17.0	6.0	8.0	8.0
- Brazil	1.0	4.8	10.2	-0.7	7.0	11.4	2.0	6.5	7.0	7.0	6.0	7.0
- Mexico	2.6	11.9	12.3	14.0	16.5	-2.6	3.0	4.0	6.5	6.0	7.6	7.6
Africa	1.4	7.2	-1.5	8.0	14.1	7.4	1.6	0.6	4.0	5.5	3.7	6.6
- South Africa	0.5	8.2	-7.8	7.3	18.4	4.2	5.2	-1.6	6.0	8.6	4.4	8.6
World	100.0	10.5	5.4	4.4	13.7	-0.1	2.0	2.7	6.0	4.6	6.9	6.6
World excluding EU-15	62.9	10.7	4.7	4.0	14.5	-1.5	2.6	3.6	6.6	5.7	7.0	7.1
World excluding euro area	69.9	10.5	4.5	4.1	14.2	-1.3	2.6	3.2	6.5	5.3	6.9	7.0

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

TABLE 57 : Export shares in EU trade (goods only - 2001)

	EU-15	USA	Japan	Canada	Candidate Countries	Acceding Countries	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	51.2	16.8	1.6	3.1	6.5	4.8	2.2	3.3	15.3	9.9	2.6	2.9	100
Belgium	58.8	10.9	0.8	2.0	5.6	3.9	1.6	2.7	17.5	11.8	2.4	3.3	100
Denmark	58.3	11.9	1.2	6.0	5.5	4.6	2.9	2.3	11.8	7.7	2.3	1.8	100
Germany	46.8	15.4	1.2	3.0	12.6	10.3	3.3	2.8	15.0	9.0	3.6	2.4	100
Greece	26.3	9.2	1.2	1.0	34.6	14.3	7.0	5.3	15.5	8.4	2.6	4.5	100
Spain	53.3	8.4	0.8	1.8	6.7	4.6	1.4	4.5	23.0	6.2	10.6	6.2	100
France	46.4	14.0	1.5	2.5	6.0	4.1	1.5	5.8	22.3	9.0	4.6	8.7	100
Ireland	53.1	25.3	1.0	5.1	2.0	1.4	0.5	1.4	11.6	8.3	1.9	1.4	100
Italy	35.2	16.5	1.6	3.0	12.3	7.2	3.1	6.1	22.1	11.3	5.7	5.2	100
Luxembourg	77.3	6.6	1.1	1.1	4.7	3.9	1.2	1.0	6.9	3.5	1.4	2.0	100
Netherlands	65.4	8.7	0.8	2.1	6.2	4.5	2.3	2.9	11.7	6.8	2.3	2.5	100
Austria	31.6	12.5	1.8	2.9	29.2	24.9	4.7	3.6	13.6	8.5	2.6	2.5	100
Portugal	59.4	13.8	1.3	1.0	3.9	2.8	0.3	1.8	18.4	4.3	4.3	9.9	100
Finland	44.8	14.6	1.2	2.8	5.9	4.8	9.7	3.2	17.8	12.2	3.2	2.3	100
Sweden	49.8	16.7	1.7	4.7	5.7	4.5	2.2	3.0	16.1	10.0	3.9	2.2	100
United Kingdom	40.1	25.5	2.8	3.2	4.6	3.2	1.1	4.7	18.0	12.1	2.5	3.4	100

TABLE 58 : World imports of goods, volume (percentage change on preceding year, 1997-2004) 28.3.2003

							2002 estimate of		2003 forecast of		2004 forecast of	
	(a)	1997	1998	1999	2000	2001	XI-2002	III-2003	XI-2002	III-2003	XI-2002	III-2003
EU-15 (b)	35.7	9.5	10.2	7.1	11.5	0.9	-0.3	-0.1	5.5	3.6	6.7	5.8
Euro area (b)	29.0	9.3	10.5	7.2	11.4	0.7	-0.7	-0.3	5.5	3.6	6.9	6.0
Candidate Countries	3.5	18.0	10.9	0.8	18.7	3.1	6.4	7.8	7.2	7.0	9.1	9.4
Acceding Countries	2.6	17.5	13.4	4.0	15.6	7.9	4.8	5.4	7.0	6.3	9.1	9.0
- Cyprus	0.1	:	:	:	:	3.9	:	-3.0	:	0.2	:	5.3
- Czech Republic	0.6	10.6	8.7	6.0	22.4	15.3	4.1	5.2	6.0	6.8	8.0	9.4
- Estonia	0.1	33.8	11.8	-8.1	32.4	0.3	9.0	10.8	7.7	7.0	13.0	9.0
- Hungary	0.4	26.4	23.7	11.1	21.1	6.1	7.8	8.9	9.2	6.4	11.0	8.3
- Latvia	0.1	13.5	32.3	-3.0	4.2	16.7	2.0	6.0	7.1	10.5	7.6	8.1
- Lithuania	0.1	24.7	-2.6	-15.1	12.4	21.0	15.1	15.1	7.5	6.9	9.1	10.1
- Malta	0.0	:	:	:	:	-9.6	:	0.1	:	4.0	:	5.3
- Poland	0.8	16.6	13.0	-0.7	10.5	3.2	3.0	3.1	8.0	6.5	12.0	11.3
- Slovakia	0.2	-5.9	9.9	-3.5	11.8	12.6	2.9	5.3	6.0	5.6	7.0	7.0
- Slovenia	0.2	12.5	16.8	7.6	7.4	2.4	2.8	4.3	5.1	5.4	5.7	6.5
Other Candidate Countries	1.0	19.3	4.4	-7.5	26.8	-9.3	10.5	14.3	7.8	8.7	9.1	10.4
- Bulgaria	0.1	10.9	-1.9	11.1	14.9	16.5	3.0	6.5	6.2	7.5	7.0	8.0
- Romania	0.2	7.5	19.1	-4.8	30.9	19.0	11.9	12.9	12.1	9.7	13.0	9.7
- Turkey	0.6	23.5	0.2	-11.7	27.4	-23.9	11.3	16.1	6.5	8.5	8.0	11.0
USA	19.3	14.2	11.7	12.2	13.5	-3.3	3.9	3.9	6.5	6.1	6.9	7.0
Japan	5.2	2.4	-4.9	-1.0	11.9	0.1	-1.9	2.1	3.0	5.3	4.2	5.1
Canada	3.8	17.1	6.2	8.8	9.5	-5.9	0.7	0.6	6.5	5.3	6.6	6.6
Norway	0.6	10.3	9.5	-3.4	2.9	0.0	3.2	1.2	4.0	3.2	3.5	4.0
Switzerland	1.6	7.1	8.4	8.3	8.9	0.2	1.6	-1.7	7.0	2.8	6.2	6.0
Iceland	0.0	3.9	25.6	1.1	-4.0	-27.3	-4.0	-3.0	5.0	4.0	5.0	6.9
Australia	1.0	6.4	6.9	6.6	5.5	-5.3	5.9	11.0	9.1	5.5	7.4	5.0
New Zealand	0.2	3.5	2.4	13.3	-2.7	-4.0	3.2	7.3	4.0	5.0	5.0	4.8
Industrialised countries	70.9	11.0	9.2	7.6	12.1	-0.7	1.3	1.7	5.8	4.7	6.6	6.3
Others	29.1	5.7	-1.8	5.6	14.4	0.0	3.4	4.7	7.3	7.3	8.0	7.5
CIS	1.6	3.4	-11.7	-25.8	12.4	12.4	5.6	7.1	6.2	7.8	4.4	4.6
Russia	0.9	4.5	-12.0	-30.0	14.3	16.9	4.8	8.3	6.5	8.5	6.0	5.4
Ukraine	0.3	-6.5	-14.3	-14.3	6.6	12.7	7.7	7.7	7.0	5.5	7.0	5.5
Other	0.4	8.0	-9.5	-24.0	12.6	3.5	5.7	3.9	5.0	7.9	-0.6	2.0
OPEC	3.0	7.2	-2.3	-1.9	9.1	4.6	-0.4	-1.1	4.9	3.0	4.6	3.5
Indonesia	0.6	1.7	-25.9	-10.6	32.5	-4.9	5.0	5.0	6.0	6.0	6.0	6.0
Other emerging markets	24.6	5.7	-1.1	8.6	15.2	-1.3	3.7	5.2	7.7	7.8	8.7	8.2
Asia	17.6	6.2	-6.2	11.5	16.6	-4.2	5.7	8.4	8.2	8.8	8.7	8.2
- China	3.8	7.2	11.5	20.3	18.0	21.4	14.0	20.0	14.0	16.0	14.0	12.5
- India	0.9	10.8	16.7	3.4	5.8	0.5	5.0	5.0	6.5	6.5	7.4	7.4
- Hong Kong	3.3	7.7	-6.9	-0.5	18.1	-2.4	1.0	4.0	6.0	6.5	7.0	7.0
- Korea	2.3	-1.5	-22.7	28.5	17.0	-23.2	1.0	8.7	6.0	7.8	8.0	6.7
Latin America	5.6	4.3	11.5	0.8	12.9	6.7	-2.6	-3.2	7.5	6.0	10.0	9.4
- Argentina	0.3	30.0	9.2	-13.2	-3.2	-17.8	-48.0	-48.0	16.0	16.0	36.0	26.0
- Brazil	0.9	-15.6	0.9	-6.3	8.5	-5.5	-3.0	-7.0	6.0	6.0	9.0	9.5
- Mexico	2.8	23.3	17.3	15.0	21.4	15.9	3.0	3.0	7.5	5.5	8.5	8.5
Africa	1.4	4.7	12.7	2.5	7.7	3.1	3.0	-0.6	2.0	1.8	3.3	4.4
- South Africa	0.3	7.0	-3.7	-3.1	15.8	1.7	0.5	-4.7	1.6	8.3	4.7	8.3
World	100.0	9.4	6.0	7.1	12.8	-0.5	1.9	2.6	6.2	5.4	7.1	6.6
World excluding EU-15	64.3	9.4	3.7	7.0	13.5	-1.2	3.1	4.1	6.6	6.4	7.3	7.1
World excluding euro area	71.0	9.5	4.2	7.0	13.3	-1.0	3.0	3.8	6.5	6.2	7.1	6.9

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

TABLE 59 : Import shares in EU trade (goods only - 2001)

	EU-15	USA	Japan	Canada	Candidate Countries	Acceding Countries	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	43.4	15.7	1.6	5.6	5.6	4.1	2.8	2.9	22.3	15.5	3.2	3.6	100
Belgium	55.4	11.4	1.2	4.7	4.6	3.2	1.8	1.3	19.5	11.8	3.2	4.6	100
Denmark	64.0	7.9	1.0	2.5	6.7	5.3	2.0	0.7	15.1	11.6	2.7	0.8	100
Germany	46.1	11.4	0.8	5.7	13.6	11.2	4.4	1.5	16.6	12.1	2.4	2.1	100
Greece	30.8	5.8	0.5	5.1	10.5	3.1	11.5	15.4	20.3	14.5	2.5	3.3	100
Spain	41.0	7.4	0.7	3.8	4.0	2.3	3.0	12.1	27.9	11.9	6.9	9.1	100
France	52.0	12.2	1.0	3.3	4.5	2.7	2.6	5.3	19.1	9.2	3.4	6.5	100
Ireland	61.3	19.9	1.5	3.8	1.7	1.3	0.1	0.1	11.6	9.8	0.9	0.8	100
Italy	38.0	8.0	1.0	3.9	8.9	4.3	7.1	10.7	22.4	10.9	3.6	7.9	100
Luxembourg	78.1	9.2	1.0	2.2	4.1	4.0	0.2	0.1	4.9	3.8	0.8	0.3	100
Netherlands	35.3	15.5	0.8	7.0	3.8	2.7	3.2	4.9	29.5	20.6	5.3	3.6	100
Austria	34.9	10.2	1.1	3.4	31.0	27.2	5.2	3.3	10.9	8.4	1.1	1.3	100
Portugal	43.4	9.7	0.6	5.0	5.3	3.4	3.1	11.0	21.9	8.3	7.3	6.3	100
Finland	52.2	7.5	0.9	5.5	4.3	3.8	17.9	0.1	11.6	8.2	2.3	1.1	100
Sweden	63.2	10.0	0.7	4.1	5.9	4.8	1.3	2.7	12.1	9.8	1.6	0.7	100
United Kingdom	33.3	22.4	2.7	6.7	4.3	2.6	1.6	1.9	27.1	19.3	2.9	4.9	100

TABLE 60 : World trade balances (fob-fob, bn. US dollars, 1996-2004) 28.3.2003

	1996	1997	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
EU-15	152.8	157.2	128.4	83.6	30.5	80.6	142.1	130.7	157.8	147.8	177.4	153.9
EU-15, adjusted [1]	:	71.3	47.5	12.6	-55.4	-0.4	57.4	47.8	69.7	53.3	89.3	59.9
Euro area	149.2	154.1	145.2	105.9	56.2	109.4	163.0	160.9	180.4	185.7	200.0	195.2
Euro area, adjusted [1]	:	132.0	122.2	80.7	29.2	67.9	122.6	125.5	138.3	144.8	157.9	154.4
Candidate Countries	-38.3	-43.3	-45.9	-41.4	-57.5	-35.5	-41.9	-34.9	-47.4	-43.8	-51.1	-46.2
Acceding Countries	-24.4	-25.4	-27.8	-27.7	-29.4	-25.7	-28.8	-23.4	-32.9	-29.5	-35.2	-30.7
Other Candidate Countries	-13.9	-17.9	-18.1	-13.7	-28.1	-9.7	-13.1	-11.5	-14.4	-14.3	-15.9	-15.5
USA	-189.9	-196.2	-248.7	-348.0	-458.0	-433.8	-482.2	-488.3	-552.9	-581.8	-632.8	-656.5
Japan	83.6	101.7	122.1	123.0	116.6	74.3	101.0	95.7	134.3	123.6	161.3	147.9
Canada	31.1	18.5	16.0	27.1	41.3	40.5	35.3	34.4	39.5	38.5	43.6	42.4
Norway	12.3	11.3	1.7	10.7	26.1	25.7	24.8	25.3	24.1	31.1	22.1	20.9
Switzerland	1.2	0.9	1.2	0.1	-1.7	0.2	1.6	1.5	3.3	1.9	6.0	0.8
Iceland	0.0	0.0	-0.4	-0.3	-0.4	0.0	0.1	0.2	0.3	0.3	0.3	0.2
Australia	-0.6	1.8	-5.3	-9.7	-4.2	2.6	-0.5	-4.3	-1.9	-1.4	0.7	-1.9
New Zealand	0.5	0.9	0.9	-0.4	0.7	1.5	1.5	1.3	1.8	1.3	1.9	1.9
Industrialised countries	52.7	52.8	-29.9	-155.4	-306.6	-243.8	-218.2	-238.3	-241.2	-282.6	-270.7	-336.6
Others	53.0	70.8	109.4	204.9	293.6	241.0	231.0	278.1	244.5	335.5	240.2	315.4
CIS	12.5	7.3	9.1	35.6	65.2	50.3	41.9	46.4	38.7	45.3	31.2	34.2
OPEC	91.6	85.2	35.2	83.3	153.3	115.3	116.7	115.4	114.4	133.0	113.2	117.5
Other emerging markets	-51.1	-21.8	65.1	86.1	75.2	75.5	72.4	116.4	91.4	157.2	95.8	163.8
Asia	-32.7	12.3	118.8	113.1	97.1	92.3	76.3	108.5	100.0	131.8	125.2	164.8
Latin America	-10.3	-25.2	-39.6	-16.0	-14.8	-12.6	6.0	12.0	1.7	24.1	-17.2	0.2
Africa	-8.1	-8.8	-14.1	-11.1	-7.2	-4.2	-9.9	-4.2	-10.4	1.4	-12.2	-1.2
World	105.7	123.6	79.5	49.5	-13.0	-2.8	12.8	39.7	3.4	52.9	-30.5	-21.2

„ See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 1996-2004)

	1996	1997	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
EU-15	76.4	107.3	62.8	18.5	-23.3	11.2	50.5	64.9	54.7	66.8	70.6	75.8
EU-15, adjusted [1]	:	73.0	38.6	-3.2	-62.2	-19.0	29.7	49.1	33.0	48.6	49.0	57.6
Euro area	77.8	98.8	62.6	36.6	-6.2	14.5	65.5	62.4	71.4	75.4	84.6	81.3
Euro area, adjusted [1]	:	70.4	35.8	-20.2	-55.8	-12.4	42.8	58.6	47.7	70.8	61.0	76.7
Candidate Countries	-24.2	-23.6	-18.2	-24.4	-32.7	-13.7	-19.1	-19.4	-22.3	-25.8	-24.0	-25.5
Acceding Countries	-12.9	-14.3	-16.0	-19.7	-19.4	-15.6	-16.3	-15.7	-18.1	-20.0	-18.5	-18.9
Other Candidate Countries	-11.3	-9.2	-2.2	-4.7	-13.3	1.9	-2.8	-3.7	-4.2	-5.8	-5.6	-6.6
USA	-110.7	-123.1	-199.7	-276.0	-395.7	-376.9	-486.9	-489.1	-567.6	-606.3	-657.8	-682.4
Japan	65.8	97.0	118.6	114.6	119.5	87.7	119.3	109.9	148.5	130.8	166.5	147.5
Canada	4.7	-6.7	-6.6	3.8	18.1	20.0	15.3	11.4	16.1	14.6	20.6	17.9
Norway	11.0	10.0	0.1	8.5	25.0	26.0	25.1	25.4	24.7	30.3	25.0	20.3
Switzerland	22.6	27.0	28.7	30.7	33.6	34.3	30.0	25.4	31.5	32.7	34.7	39.8
Iceland	-0.1	-0.1	-0.6	-0.6	-0.8	-0.3	0.2	0.3	0.5	0.5	0.5	0.4
Australia	-15.8	-12.4	-18.0	-23.0	-15.4	-8.9	-12.5	-16.3	-13.9	-13.4	-11.3	-13.9
New Zealand	-3.9	-4.3	-2.1	-3.5	-2.7	-1.4	-1.5	-1.6	-1.3	-1.6	-1.2	-1.0
Industrialised countries	25.8	71.1	-35.0	-151.4	-274.5	-222.1	-279.6	-289.2	-329.1	-371.4	-376.5	-421.2
Others	-56.5	-35.4	-9.5	93.4	167.7	129.3	156.2	208.4	185.6	266.3	194.0	264.1
CIS	6.9	-2.5	-3.7	24.4	49.9	37.3	27.4	32.8	24.3	31.2	16.6	19.7
OPEC	25.3	18.5	-18.5	27.6	88.7	51.2	86.0	83.0	92.8	107.5	96.5	95.8
Other emerging markets	-88.7	-51.4	12.7	41.5	29.1	40.8	42.7	92.6	68.5	127.6	80.9	148.6
Asia	-34.3	25.7	109.7	107.5	90.8	92.5	83.6	116.7	108.0	138.0	134.1	171.6
Latin America	-47.7	-69.6	-86.5	-59.4	-58.1	-54.9	-32.5	-28.7	-32.4	-21.3	-46.1	-32.8
Africa	-6.7	-7.5	-10.5	-6.6	-3.6	3.2	-8.4	4.7	-7.2	10.9	-7.2	9.8
World	-30.7	35.6	-44.4	-57.9	-106.8	-92.8	-123.4	-80.8	-143.5	-105.1	-182.6	-157.1

„ See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 1996-2004) 28.3.2003

SITC Classification	1996	1997	1998	1999	2000	2001	2002 estimate of XI-2002	2002 estimate of III-2003	2003 forecast of XI-2002	2003 forecast of III-2003	2004 forecast of XI-2002	2004 forecast of III-2003
Food (0 + 1)	7.3	-5.7	-14.6	-15.2	-2.4	1.2	7.9	8.8	8.2	8.8	3.5	2.7
Basic materials (2 + 4)	-5.0	-1.7	-14.7	-2.1	4.6	-8.2	-3.2	1.1	2.2	11.0	5.1	2.5
- of which :												
Agricultures non-food	-1.5	-5.3	-14.3	-3.1	0.4	-6.9	-0.9	4.7	4.7	14.2	5.1	1.9
- of which :												
Wood and pulp	-4.6	-6.4	-13.1	8.8	2.7	-9.9	-11.9	-3.1	-2.0	10.2	7.0	3.4
Minerals and metals	-10.0	3.7	-15.4	-0.8	10.5	-9.9	-6.3	-3.7	-1.2	6.5	5.1	3.4
Fuel products (3)	16.4	-6.7	-28.4	25.1	49.5	-9.4	0.1	0.0	-3.8	10.0	-5.9	-13.0
- of which :												
Crude petroleum	21.1	-7.5	-33.4	41.1	59.1	-12.4	2.1	0.2	-5.5	10.3	-6.7	-14.9
Primary commodities												
- Total excluding fuels	-1.0	-3.1	-14.7	-6.7	2.4	-5.4	0.3	3.5	4.3	10.3	4.5	2.5
- Total including fuels	6.5	-4.8	-21.0	6.6	26.0	-8.1	1.1	1.5	-0.4	10.1	-1.3	-6.2
Crude petroleum - price per barrel (us dollar)												
Brent	20.7	19.1	12.7	17.9	28.5	25.0	25.5	25.0	24.1	27.6	22.5	23.5

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 DE, IE, LU and PT 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 5 and 6 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 DE, ES and AT. 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 DE, ES and AT.

6. Employment data are based on numbers of persons employed. The concept of full-time equivalent is used for Spain, France, Italy, the Netherlands and Austria. Tables 22-28 and 32-33 use data on the basis of FTE for these countries.

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 49 - 52, 60 and 61 show also EU-15 and euro area "adjusted" balances. Theoretically, balances of EU-15 and euro area vis- -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 2002.

9. Tables 38, 40 and 43 are based on Excessive Deficit Procedure data from 1999 onwards, as reported in the first notification in 2003 and subsequent revisions. Data before 1999 according to ESA 95. (See Eurostat news release N 30, 17 March 2003). Tables 35, 37, 38 and 40 include swap related settlements.

10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000, 2001 and 2002. Tables 36, 38 and 40 include the amounts from the sale of the licences, while the cyclically adjusted balances in tables 41 and 42 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, SE and the UK)
   - Acceding Countries (AC-10) :
     - Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
   - Candidate countries :
     - AC-10, 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 countries except Indonesia, Iran, Iraq, Japan, Kuwait, Qatar, Saudi Arabia and UAE.
   - Latin America :
     - All countries except Venezuela.
   - Africa :
     - All countries except Algeria, Libya and Nigeria.

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