

# Economic Forecast Spring 2009

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# Economic Forecast

Spring 2009



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## OVERVIEW

The global economy is in deep recession...

The global economy is in the midst of its deepest and most widespread recession in the post-war era. The EU economy is not spared. The marked intensification of the financial crisis last autumn prompted a global economic downturn which, in turn, further weakened the financial sector. While the ambitious policy actions taken by governments and central banks since last autumn have prevented a systemic financial meltdown and have also succeeded in bringing about a certain degree of stabilisation, financial markets and institutions remain under stress.

...with financial sector risks still elevated

The economic situation continues to be exceptionally uncertain. Investor confidence within the banking sector remains fragile, notwithstanding the improvement noted in some market segments. This forecast assumes that the measures already in place to support the banking sector will begin to have a stronger impact in the coming quarters, thereby also facilitating the transmission of the supportive monetary policy stance to the real economy. An improved performance of banks by the end of this year should provide the basis for a pick-up in bank lending.

Recession has hit worldwide...

As the financial crisis intensified, global trade and industrial production virtually collapsed in the final quarter of 2008. Soft and hard indicators suggest that the sharp contraction in real GDP continued in the first quarter of this year. Looking ahead, still tight financial conditions and weak confidence are set to continue to weigh on economic activity, but they are likely to be gradually offset by the impact of strongly expansionary macroeconomic policies.

...with global GDP set to fall by 1½% in 2009...

World GDP is expected to contract by some 1½% in 2009, with the downturn being especially pronounced in advanced economies. GDP is projected to fall by about 3% in the US and by a stark 5¼% in Japan in 2009. Moreover, the economic downturn has increasingly spilled over to emerging and developing economies. Although China seems to be in a relatively good position to counter the global recession in view of the arsenal of policy instruments still available, growth is expected to slow sharply this year (to some 6%). Following the impact of the significant policy stimulus worldwide and gradually resuming trade flows, global growth is expected to recover to close to 2% in 2010.

...and by 4% in the EU, hurting labour markets and public finances alike

Against this backdrop, GDP is forecast to contract by 4% in both the EU and the euro area in 2009, implying a further downward revision of some 2 percentage points (pps.) compared with the interim forecast of January 2009. The downturn is projected to be broadbased, with almost all Member States expected to post negative growth rates this year. For both areas, GDP should stabilise in 2010 with a subdued recovery gradually taking hold on the back of improving financial conditions, stronger external demand, and supportive macroeconomic policies. Inflation is expected to continue to fall rapidly this year, entering negative territory for a few months in the middle of the year, while unemployment soars and budget deficit and debt rise sharply.

The downturn has become broadbased across EU countries...

Although the economic downswing has become more broadbased in recent quarters, differences across EU countries persist. Strongly export-oriented economies have been particularly affected by the collapse in global manufacturing. Some countries remain subject to a deeper and more protracted downturn due to their direct exposure to the financial crisis or a

substantial housing-market correction. Some countries also face a deterioration in external financing conditions following the build-up of imbalances and vulnerabilities, which fuel financial markets' concern.

Among the five largest EU economies, real GDP is expected to contract this year by about 5½% in Germany, some 4-4½% in Italy and the United Kingdom and by about 3% in France and Spain. Activity is expected to broadly stabilise in all of the larger economies in 2010, except Spain where a further contraction of close to 1% is predicted. Moreover, population growth continues to play a positive role in the case of Spain, where GDP per capita growth, at -4½%, is in line with the euro-area average this year and is expected at close to -2% in 2010.

...and across demand components...

The downturn is also expected to be widespread across demand components, with the exception of government consumption and public investment as these are supported by budgetary stimulus proposed in the European Economic Recovery Plan. Exports and investment are set to contract particularly sharply this year (by 12¾% and 10½%, respectively). Export developments mirror the breakdown of world trade (see also Box 1.3.1), while the marked downturn in investment reflects bleak investor confidence and demand expectations, a sharp decline in capacity utilisation and still tight financing conditions. Moreover, while an involuntary accumulation of stocks contributed positively to GDP growth towards the end of last year, a correction is now expected, which could have a significant adverse impact on activity in the near term (which, on the other hand, also implies a positive risk for the following quarters). Private consumption is also set to decline as the labour-market situation deteriorates, although the negative impact on real disposable income growth is partly offset by the rapid fall in the rate of inflation.

...while budgetary stimulus provides some support

Budgetary support should, however, increasingly sustain economic activity this year (see section 1.6). The overall budgetary support, in terms of the estimated change in the general government deficit (that also includes the impact of automatic stabilisers), amounts to about 5 pps. in 2009-2010. Regarding discretionary fiscal measures, some of them aim to stimulate consumption or support income growth. Increased government consumption and public investment should also strengthen economic activity. It is estimated that overall, GDP would have been up to 1 pp. lower this year and by about ⅔ pp. in 2010 in the absence of the stimulus provided by the different discretionary budgetary measures announced in the EU, amounting to a total of 1.8% of GDP in the EU in 2009-2010. The impact may vary across Member States, however, depending on the nature of the measures taken and the economic circumstances (see Box 1.6.1 for a discussion of the impact of discretionary fiscal policies).

Employment set to fall sharply...

Labour markets cannot escape the downturn either. Reflecting the usual lag between changes in employment and output, employment is expected to contract by 2½% in both the EU and the euro area this year and a further 1½% in 2010. Employment could thus fall by some 8½ million in the EU over the forecast period, in sharp contrast with the net job creation of about 9½ million during 2006-2008.

As a result, the unemployment rate is projected to increase to close to 11% in the EU by 2010 (11½% in the euro area), 1½ pps. higher than in the January outlook. While the deterioration is broadbased across countries, the most pronounced increases in unemployment are expected in countries facing

substantial downturns in (construction) activity, notably Estonia, Ireland, Latvia, Lithuania and Spain.

...curbing wage increases ahead...

In view of the emerging slack in labour markets and the fall in capacity utilisation across countries and sectors, nominal wage pressures should ease considerably over the forecast horizon. Growth of compensation of employees per head is predicted to slow to close to 2% in the EU in 2009 before easing further to some 1½% in 2010. Nonetheless, reflecting the expected deceleration in consumer prices, real compensation growth is set to be the highest since 2000. Moreover, taking into account the (cyclical) fall in labour productivity this year, the increase in unit labour costs at 3¼% remains largely unchanged from 2008. A marked easing in unit labour cost growth can be envisaged (being broadly flat in both regions) only by 2010.

...and thus reinforcing the disinflationary process

Consumer-price inflation has fallen sharply in recent months as the global downturn eased pressures stemming from commodity prices. Disinflation is projected to continue during the second and third quarter of this year, due to further base effects, a weaker economic outlook and the assumed profile in commodity prices (as implied by futures). Overall, HICP inflation is projected at close to 1% in the EU (½% in the euro area) in 2009, with a trough in the inflation rate expected in the third quarter of this year in both regions. Particularly sizeable falls are expected in the Baltic economies and Bulgaria, which all experienced double-digit inflation in 2008. As the base effects of past hikes in energy and food prices cease to influence consumer-price inflation this autumn, HICP inflation is expected to gradually pick up to about 1¼% in 2010.

Notwithstanding broadly unchanged trade balances (with imports falling largely in line with exports), the current-account deficit widens somewhat in both the EU and the euro area (to 2% and 1¼% of GDP a year in 2009-2010, respectively). The aggregate current-account development continues to mask significant differences across countries.

Public finances hit hard by the recession

The budget deficit is set to more than double this year in the EU (to 6% up from 2.3% of GDP in 2008), with a broadly similar increase expected for the euro area. The deterioration is in part due to the impact of the economic slowdown, mirroring the importance of automatic stabilisers, but also to significant discretionary measures that were introduced in the context of the

Table 1:

### Main features of the spring 2009 forecast - EU

(Real annual percentage change unless otherwise stated)				Spring 2009 forecast <sup>1</sup>			Difference vs January 2009 (a)	
	2005	2006	2007	2008	2009	2010	2009	2010
GDP	2.0	3.1	2.9	0.9	-4.0	-0.1	-2.2	-0.6
Private consumption	2.0	2.3	2.2	0.9	-1.5	-0.4	-1.1	-0.8
Public consumption	1.6	1.9	1.9	2.2	1.9	1.7	0.4	0.6
Total investment	3.6	6.2	5.4	0.1	-10.5	-2.9	-4.6	-2.3
Employment	0.8	1.5	1.7	0.7	-2.6	-1.4	-1.0	-0.9
Unemployment rate (b)	8.9	8.2	7.1	7.0	9.4	10.9	0.7	1.4
Inflation (c)	2.3	2.3	2.4	3.7	0.9	1.3	-0.3	-0.6
Government balance (% GDP)	-2.4	-1.4	-0.8	-2.3	-6.0	-7.3	-1.6	-2.5
Government debt (% GDP)	62.7	61.3	58.7	61.5	72.6	79.4	5.2	8.5
Adjusted current account balance (% GDP)	-0.7	-1.1	-1.0	-1.5	-1.9	-2.0	-0.4	-0.6

<sup>1</sup> The Commission services' spring 2009 forecast is based on available data up to April 22 2009.

(a) A "+" ("−") sign means a higher (lower) positive figure or a lower (higher) negative one compared to January 2009.

(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.

Recovery Plan. In particular, the expenditure ratio is set to increase by more than 3 pps. of GDP in the EU for 2009 (and by a further 1 pp. next year), partly explained by a rise in social benefits and transfers, as well as by capital expenditure and collective consumption, but also due to the considerable decline in nominal GDP. The revenue ratio is expected to decline, reflecting inter alia the continuing reversal of past revenue windfalls and the erosion of some tax bases. As a result, 21 out of 27 Member States are expected to breach or stay over the 3%-of-GDP reference value in 2009.

A further deterioration in the budgetary outlook is to be expected in 2010, assuming unchanged policies, partly because of growth remaining well below potential, raising the deficit to over 7% of GDP in the EU.

In addition to the weakened budgetary situation, government debt is also affected by sizeable so-called "below-the-line" measures as part of the financial rescue plans, such as bank recapitalisations. Overall, gross debt is expected to increase from 61½% of GDP in 2008 to 72½% this year and to 79½% in 2010 in the EU (and from 69% in 2008 to close to 84% in 2010 in the euro area).

Considerable uncertainties in deep recession territory...

...as regards both the growth outlook...

Substantial uncertainties regarding the economic situation and outlook prevail as the global economy faces its worst recession since the second world war. In such deep recession territory, risks remain sizeable.

The risk of a worse-than-expected outlook for economic activity relates, in particular, to the impact of the financial crisis and the strength of the negative feedback loop between different sectors of the economy. For instance, a sharper deterioration of the real economy may aggravate the housing-market correction in some countries and may also reinforce the banking deleveraging process, pushing the projected recovery further into the future. Some economies with substantial (external) financing needs also face the risk of sudden shifts in investors' risk preferences and difficulties in securing the necessary financing as recently illustrated by developments in some Central and Eastern European economies. Moreover, it cannot be excluded that the widespread economic downturn may trigger trade-distorting protectionist measures.

Table 2:

**Main features of the spring 2009 forecast - euro area**

(Real annual percentage change unless otherwise stated)				Spring 2009 forecast <sup>1</sup>			Difference vs January 2009 (a)	
	2005	2006	2007	2008	2009	2010	2009	2010
GDP	1.7	2.9	2.7	0.8	-4.0	-0.1	-2.1	-0.5
Private consumption	1.8	2.0	1.6	0.5	-0.9	-0.3	-0.8	-0.6
Public consumption	1.5	1.9	2.2	2.0	2.0	1.7	0.4	0.5
Total investment	3.3	5.6	4.4	0.0	-10.4	-2.7	-4.9	-2.0
Employment	0.7	1.4	1.7	0.7	-2.6	-1.5	-1.0	-0.8
Unemployment rate (b)	9.0	8.3	7.5	7.5	9.9	11.5	0.6	1.3
Inflation (c)	2.2	2.2	2.1	3.3	0.4	1.2	-0.6	-0.6
Government balance (% GDP)	-2.5	-1.3	-0.6	-1.9	-5.3	-6.5	-1.3	-2.1
Government debt (% GDP)	70.0	68.3	66.0	69.3	77.7	83.8	5.0	8.0
Adjusted current account balance (% GDP)	0.2	0.1	0.4	-0.7	-1.2	-1.3	-0.5	-0.6

<sup>1</sup> The Commission services' spring 2009 forecast is based on available data up to April 22 2009.

(a) A "+" ("") sign means a higher (lower) positive figure or a lower (higher) negative one compared to January 2009.

(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.

On the other hand, turning points are notoriously difficult to detect. While soft data generally remain at historical lows, a certain stabilisation has recently been noted, with indicators in some sectors pointing to a timid recovery. With unprecedented falls in trade and production during recent quarters, the low point may be within reach. The full and swift implementation of the numerous measures proposed to restore stability in financial markets and support the economy could also prove effective more quickly than currently anticipated, restoring investor and consumer confidence more rapidly. In either of these situations, the recovery could come earlier and/or be more pronounced than projected.

...and the disinflation projection

Turning to inflation, risks partly relate to future commodity price trends, where weaker demand poses a downside risk, while the possibility of further supply restrictions points in the opposite direction. The disinflationary impact of a severe recession on wage and price setting may also prove more pronounced. However, the risk of a deflationary scenario at the EU or euro-area level, i.e. a persistent and self-reinforcing decline in a broad set of prices, appears limited at the current juncture. Inflation expectations remain anchored at levels consistent with price stability; wage growth is expected to remain positive, while both fiscal and monetary policies have turned expansionary.

Regarding the balance of risks, in an environment characterised by exceptional uncertainty, risks to the growth outlook remain somewhat tilted to the downside for 2009, but appear more balanced for 2010. Risks to the projection for inflation are broadly balanced for this year but skewed to the downside for 2010.



# Chapter 1

Economic developments at the aggregated level





## 1. THE GLOBAL RECESSION: HOW BAD, HOW LONG?

While the epicentre of the crisis, which originated in the US subprime markets in 2007, is located in the advanced economies, shockwaves have by now reached all regions of the world. The economic downturn is synchronous, and the magnitude larger than earlier expected in most economies. Given the weakness of both trade and growth at the turn of 2009, prospects for world growth in annual terms have become negative this year, and the range of uncertainty around the growth outlook in 2010 is widening. In 2009, with the exception of China and India, output is expected to contract in the main economies around the world. Given the nature of the current crisis, which is global and originated in the financial and banking system, the recovery will likely be drawn-out and world growth will be sub-par in 2010.

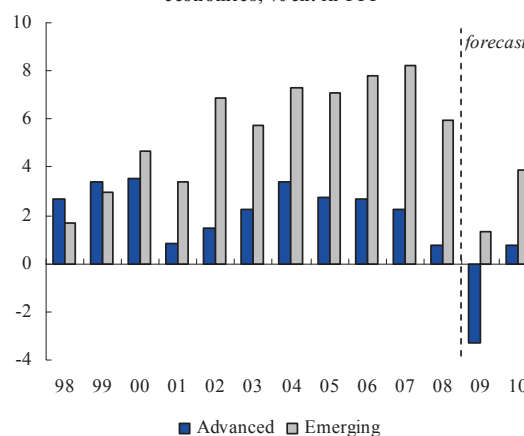
This forecast puts world growth at  $-1\frac{1}{2}\%$  in 2009 and just below 2% in 2010. This has major consequences for jobs, as unemployment rates are forecast to settle above 10% in both the US and the EU in 2010. In China, job losses already amount to at least 20 million. One of the most dramatic developments in this forecast is the fall in world trade, which is expected to contract by 11% in 2009, and to grow at around just  $\frac{3}{4}\%$  in 2010. At the same time, global inflationary pressures have eased rapidly in recent months, as shown in the decline in global input prices. This decline in all main regions is due to lower commodity prices than last year, the slump in demand and weaker labour market conditions. Risks to the global growth and inflation outlook appear relatively balanced.

### The world economy is experiencing its most severe recession since World War II

Activity worldwide is contracting sharply. Industrial production fell in most countries at the end of 2008 and the most recent data, including in the US, indicate that the speed of the downturn has not yet decelerated. US GDP contracted by 1.6% q-o-q in 2008Q4, driven by private consumption and investment, and 2009Q1 is likely to see a contraction of a similar magnitude. Japanese GDP contracted in 2008Q4 for the third quarter in a row, by 3.2% quarter-on-quarter (q-o-q), driven by negative business investment and a markedly negative contribution from net exports. In the EU,

the fourth quarter of 2008 posted a decline of 1.5% q-o-q. The decline in activity generally reflects a sharp collapse in external demand, the impact of large housing market corrections in some countries (e.g. the US, as well as some EU Member States), and more stringent financing constraints. In China, GDP grew by 6.8% year-on-year (y-o-y) in 2008Q4, which probably implies close-to-flat q-o-q growth in that quarter, in the midst of severe disruptions in the Asian supply chain. In 2009Q1 GDP in China decelerated to 6.1% y-o-y. In India, GDP decelerated sharply, to 4.5% y-o-y in 2008Q4, mainly driven down by investment and exports. In both China and India, growth rates at the end of 2008 were half what they were a year earlier. Moreover, double-digit declines in industrial production indices in large emerging market economies (EMEs) such as Brazil, Taiwan, Turkey and Russia proved particularly worrisome.

Graph 1.1.1: Output growth in non-EU economies, % ch. in PPP

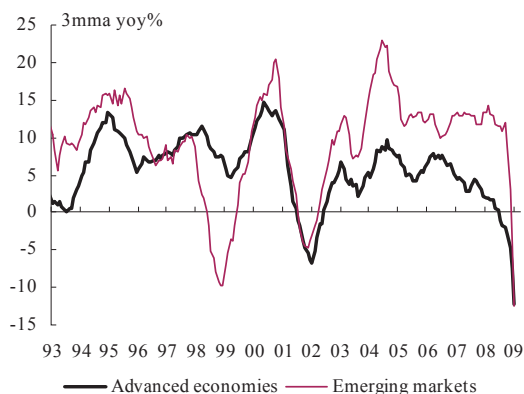


As the recession continued to broaden in the last quarter of 2008, all demand components were affected in advanced economies, and inventories rose steeply (except in the US). Private consumption was affected through adjustments in labour markets and low confidence. Retail sales in both advanced and emerging economies have plummeted. In some countries, such as the US, large-scale job losses, declining equity and housing wealth and tight credit conditions have weighed on consumer confidence and spending. Globally, investment kept declining in 2008Q4, in line with the rapid and dramatic deterioration of the business environment and the erosion of

corporate profits. Industrial production collapsed, while inventories surged. The build-up in inventories in some advanced economies (e.g. Japan and the euro area) appears to have been large in the last quarter of 2008 (whereas this was not the case in the US). In Japan, stock building was the only component contributing positively to growth in 2008Q4. De-stocking has not yet started globally, which will put a further drag on global growth going forward.

The global collapse in industrial production coincided with a sharp decline in international trade flows, which are the main channel through which the recession in advanced economies is affecting emerging market and developing economies, together with the reversal of financial flows. World trade fell at an annualised rate of 24% in the last quarter of 2008 and probably a similar rate in the first quarter of 2009, rates not experienced since World War II. For export-dependent economies, notably in emerging Asia, such developments are particularly dramatic, with most of these small open economies experiencing double-digit contractions in exports. The internationalisation of production over the last two decades has amplified the effect of falling demand in export markets. Limited access to trade finance and trade insurance, in particular for developing economies and small enterprises, has fuelled the precipitous decline in trade. Anecdotal evidence and surveys by the main international institutions indicate that indicators for trade finance fell in 2008. In earlier recession episodes trade appears to have contracted for several quarters in a row, suggesting that the current weakness in trade could go on for some time.

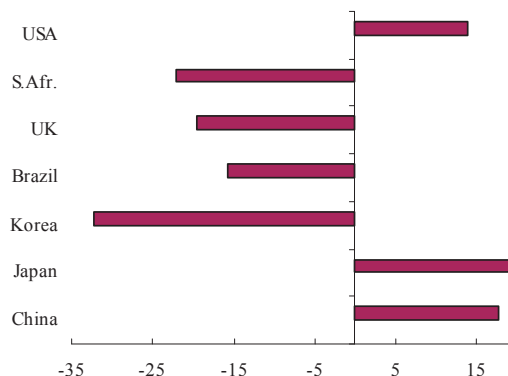
Graph 1.1.2: Imports of goods by region



On top of this contraction in trade, the reversal of capital inflows aggravated the slowdown in

emerging market economies. Risk aversion intensified in the fourth quarter of 2008 and capital fled emerging markets, due to rapid deleveraging and investors reducing exposure in 'riskier' environments. This caused emerging market bond spreads to soar, thereby limiting the capacity of governments in these countries to issue debt. The reversal of capital flows has also put currencies under pressure, triggering substantial depreciations since the second half of 2008 in Asia (e.g. Korea, Indonesia), Russia, Latin America (e.g. Mexico, Brazil), Turkey and Central Europe. Exchange rate adjustments have been fuelled by the continuing financial stress in advanced economies and by commodity price developments in some large emerging economies. The main reserve currencies, viewed as safe havens, have appreciated in nominal effective terms since the beginning of 2008. Against the US dollar, the Chinese renminbi has appreciated in nominal effective terms since the start of 2008, and was kept constant since July 2008. Meanwhile, other emerging and developing market currencies (e.g. the Korean won) have depreciated. Countries with significant current account imbalances and/or heavy commodity export reliance (e.g. Brazil) experienced sharp exchange-rate adjustments.

Graph 1.1.3: Nominal Effective Exchange Rate % ch. from 01/01/2008 to 31/03/2009



While a systemic financial meltdown has been avoided, thanks to the parallel interventions by governments and monetary authorities, severe vulnerabilities remain in several parts of the financial markets. The intensification of a negative feedback loop since the beginning of 2009 has exacerbated these vulnerabilities, further delaying the recovery in the real economy. The banking sector remains fragile, as new concerns have arisen about banks' balance sheets and as projections of future losses have been revised upwards (worldwide write-downs are now estimated at

around \$4 trillion in the IMF's *Global Financial Stability Report* of April 2009). Bank recapitalisation has been considerable, mostly covering the losses and write-downs realised so far. However, a feedback loop from the real side to the financial side is now materialising. Stress is no longer limited to toxic assets, but has spread to other types of assets; while the measures taken so far avoid a meltdown of the financial system, these may not be sufficient to trigger a strong sectoral recovery. Therefore, the financial sector will not contribute positively to growth in either 2009 or 2010. Another negative feedback loop could arise between the financial sectors in industrialised countries and emerging economies, as the former are in some cases highly exposed to the latter, e.g. through bank ownership structure.

Overall, global financial stress remains elevated. Advanced economies are still far from restoring confidence and trust in the interbank markets. Bond markets have been highly volatile, given the changing growth and inflation prospects, concerns about expanding bond supply and rising sovereign default risk. Emerging market economies and developing countries are confronted with a severe shortage of funding, afflicting both portfolio and direct investments, which has led capital flows to reverse. As foreign capital dries up, it will be more difficult to refinance maturing debts, let alone raise new loans. In emerging and developing countries, external financing pressures are acute, especially for corporates with large rollover requirements. These could turn into private-sector defaults. Massive public borrowing in advanced economies

could also make the financing of public and private sector investment in emerging market economies more difficult.

Declining commodity prices since mid-2008 represent a noteworthy external shock, in addition to the financial crisis. Since the autumn forecast, the 2009 oil price projections have halved, and those for non-fuel commodity prices have dropped by around 30%. This represents a sharp decline compared to the oil-price peak in mid-2008, and follows from the sharp slowdown in demand resulting from the deteriorating global economic situation and the maturing financial crisis.

Global demand for commodities has decelerated sharply and this is affecting countries whose main exports are primary commodities (e.g. Brazil, South Africa, Indonesia). Commodity-price swings sometimes lead to abrupt changes in terms of trade, affecting some countries adversely (e.g. Russia), and impacting on exchange rate dynamics, which have been highly volatile amidst the global economic turmoil. In other countries, the financial crisis has brought the impact of commodity-price developments on public finances to the fore: at times of increasing prices, importing countries have seen fiscal positions worsen, while governments of exporting countries have enjoyed surpluses – and a build up of official reserves (e.g. Russia, Saudi Arabia). As a result of the fall in commodity prices, overall global inflation continues to abate, reflecting the sharp slowdown in economic activity. This, in turn, comes in

Table 1.1.1:

### International environment

	(Real annual percentage change)			Spring 2009 forecast			Difference vs autumn 2008	
	2005	2006	2007	2008	2009	2010	2009	2010
<b>Real GDP growth</b>								
USA	2.9	2.8	2.0	1.1	-2.9	0.9	-2.4	-0.1
Japan	1.9	2.0	2.4	-0.7	-5.3	0.1	-4.9	-0.5
Asia (excl. Japan)	8.3	9.1	9.7	6.9	3.3	5.6	-2.9	-1.3
of which								
China	10.4	11.7	13.0	9.0	6.1	7.8	-1.8	-1.0
ASEAN4 (a) + Korea	5.0	5.4	5.7	4.2	-0.3	3.3	-4.3	-1.0
Candidate Countries	8.0	6.7	4.8	1.3	-3.6	2.1	-6.3	-1.8
CIS	6.7	8.4	8.5	5.6	-3.8	1.4	-9.8	-4.9
of which								
Russia	6.4	7.7	8.1	5.6	-3.8	1.5	-9.8	-5.0
MENA	6.8	6.4	7.0	5.9	1.5	1.6	-3.5	-4.0
Latin America	4.6	5.4	5.6	4.2	-1.6	1.6	-3.9	-1.5
Sub-Saharan Africa	5.6	6.5	6.6	5.2	2.5	3.5	-3.0	-2.5
World	4.5	5.1	5.1	3.1	-1.4	1.9	-3.7	-1.3
<b>World merchandise trade</b>								
World import growth	8.5	9.5	6.7	2.6	-11.4	0.9	-13.6	-3.2
Extra EU export market growth	:	9.3	8.9	3.6	-10.7	2.1	-14.8	-3.3

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

support of consumption via higher real disposable income.

### **Ambitious policy responses**

As a reaction to such shocks to the world economy, policy responses have picked up momentum. The focus is on crisis management and ensuring that the economic downturn does not deepen further. Financial rescue packages were implemented early on, the aim being to rapidly fix the dysfunctions in the financial system. On top of these, following calls for macro-economic policy action at EU and international level, the policy response to the financial turmoil and economic downturn has taken the form of fiscal measures on the one hand, and substantial monetary easing on the other. Fiscal stimulus measures are being implemented in both advanced and emerging economies. These measures tend to be relatively similar across countries, usually including actions to stimulate demand, investment in infrastructure and temporary investment subsidies, measures aimed at keeping people in the labour market, and policies aimed at boosting innovation. Overall, the fiscal packages are expected to start bearing fruit from the mid-2009.

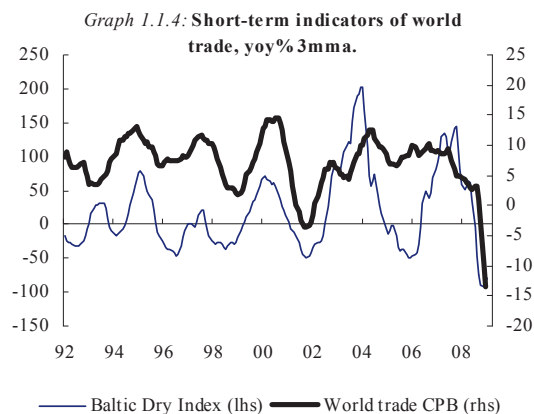
On top of unprecedented monetary policy easing, including in the form of exchange rate adjustment in the case of many emerging market economies, the monetary arm of the response has now entered unconventional territory. Given the deteriorating economic situation, a multitude of policy measures have been enacted to avoid further deepening of the crisis and a prolonged downturn. Monetary authorities all over the world are providing ample liquidity and making use of a wide range of instruments at their disposal. The Federal Reserve has launched a programme to restart trade in securitised assets, by providing low-cost funding to investors (e.g. hedge funds) who purchase asset-backed securities. Most importantly, the Federal Reserve will now purchase longer-term US Treasury securities. This step is widely seen as a partial monetisation of government deficits, posing the question of the timing of the "exit strategy". In addition to policy rate cuts, the Bank of Japan took several measures to provide liquidity and support the financial market, including inter alia increasing the amount of monthly outright purchase of government bonds and taking action to facilitate corporate finance.

The G20 contributed significantly to restoring global financial stability and conditions for economic growth. Following the EU's initiative, in November 2008, G-20 leaders set up a comprehensive agenda to guide the global response to the financial crisis, which included enhanced economic policy coordination, rejecting protectionist measures, principles for strengthening regulatory systems in financial markets, and the reform of global economic governance. At their summit in London in April 2009, leaders agreed on the detailed implementation of those principles. The overall achievements of the London summit are significant and will have a real impact, by (i) doing what is necessary to restore jobs and growth (restoring the credit channel; coordinated fiscal stimulus), (ii) significantly extending the network of financial regulation, reducing pro-cyclicality in the financial system, and strengthening supervisory cooperation, (iii) strengthening the international financial institutions and their resources, (iv) committing to keep markets open and to an ambitious conclusion to the Doha Development Round, (v) and committing to a fair and sustainable, low carbon recovery for all. The EU contributed to making the G-20 summit a success. The strong signal of global unity in the face of the ongoing crisis is helping to lift economic confidence. Initial market reactions in the first days after the summit confirmed this.

### **Very few indications of a turnaround as yet**

Short-term indicators of global activity, world trade and business surveys in most economies are still posting historical lows. They remain in contractionary territory despite some surveys improving slightly in the largest emerging economies in the early months of 2009. The Baltic Dry index of shipping costs reached a low at 663 pts on 5 December 2008, suggesting very weak demand conditions, and then started to increase again (but this index is relatively volatile). Although at still low levels (1797 pts on 21 April), its recent fluctuations reflect somewhat improved conditions compared to the December low. Also, as from February 2009, the Global Manufacturing PMI appeared to stabilise, although at close to its weakest ever level. Components (including new orders and production) declined less steeply, while the employment component dropped to a new record low. As the 'new orders' component remains in contractionary territory, the softness in world trade is expected to persist. The incoming indicators for the first two months of 2009 in a

large number of countries (e.g. Russia) were weak. Taken together, the impacts of the weak 2008Q4 and from a similarly weak 2009Q1 darken the prospects for the year 2009 as a whole. Possibly more clear winds of change are coming from Asia, where incoming trade data, after painting a very bleak picture until now, show some tentative signs of stabilisation. March trade data suggests that, notably within Asia, the pace of decline is moderating. In addition in Korea, where Q1 GDP figures have been released, the economy grew +0.1% q-o-q in 2009Q1, after the sharp contraction by -5.1% q-o-q in 2008Q4, as the economy responded to fiscal stimulus and lower interest rates. A recovery in private consumption underpinned the increase, while the pace of decline of exports slowed to single-digit-negatives, compared with double-digit negatives in the fourth quarter.



High inventories and excess capacity around the world, together with expectations of weak demand, suggest further contractions in industrial production indices in early 2009. In some countries, where the crisis started earlier, de-stocking has already started to take place (US), while in others, stocks have continued to increase in the past months (e.g. Japan). Survey results suggest that managers were taken by surprise and expect weak demand for quite some time. This could translate into further reduced investment and employment in the near term, which in turn could feed into a second-round effect on demand.

Advanced economies continue to be severely affected, notably through the banking sector and in some cases, the large downturn in the housing market, which is weighing on residential investment. Most recently though a few signs of relief in the US housing market seem to have emerged. Yet the increase in the savings rate

observed already in the US and in parts of Europe leaves little hope for support to domestic demand in the very short term. In advanced economies wealth effects are typically larger than in emerging market and developing economies, and falling asset values are continuing to put downward pressure on consumer demand. Conditions in labour markets are expected to deteriorate throughout the forecast horizon, employment will continue to fall substantially, and unemployment is set to further increase. At the beginning of 2010, while European and Japanese economies will be slower to recover, the US and the emerging market economies should grow slightly faster, but still well below long-term averages. But even this very modest recovery is conditional on policy measures being effective, economic agents regaining confidence, credit conditions gradually improving, and trade flows resuming. Compared to the autumn forecast, while the stimulus is expected to support US growth from 2009Q2 onwards, growth below expectations in 2008Q4 and a downward revision of 2009Q1 still leads to a significant downward revision to the US growth forecast for 2009. The additional negative wealth effect related to the drop in equity markets is one reason why the recovery in the US in 2010 is projected to be modest. The repercussions of this crisis are being felt everywhere, from the epicentre to the periphery, in spite of the vigorous policy responses taken so far.

Against this background, GDP growth in advanced economies is expected to contract by 3½% in 2009, while in the emerging and developing economies, the slowdown will result in a growth rate of 1½% in 2009. In most large economies (advanced and emerging alike), policy actions are expected to help economies post less negative growth rates in the second half of 2009, as financial conditions are expected to constitute less of a drag. However, it appears that domestic demand will drag down growth throughout 2009, as the delayed effects of the inventory adjustment and negative feedback loops kick in.

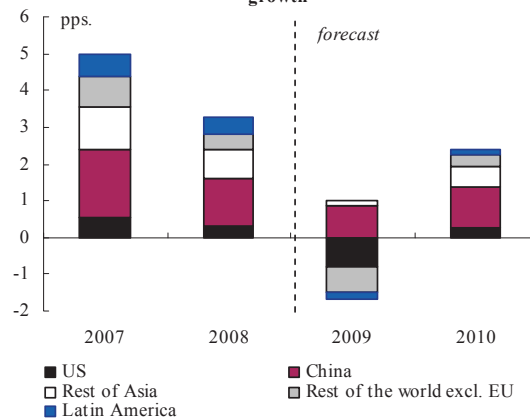
In 2010, GDP growth is projected to reach ½% in the advanced economies and 3¾% in the emerging market economies, as gradually resuming trade flows will support growth in the latter group of countries. Also, due to a lower degree of global integration in trade and finance, low-income countries have been less directly affected by financial contagion and are still expected to grow in 2009, even if many of them are already

suffering from lower demand for primary commodities and worsening terms of trade, foreign investment, remittances, and aid. Overall, as unemployment rates and fiscal positions are likely to have deteriorated markedly during this crisis, a rapid return to growth rates experienced in the past five to six years is not expected in the near future.

Some countries will continue to be particularly vulnerable, and among those, the countries with large external financing needs (the sum of the current-account balance and the stock of short-term debt over the next 12 months) will be particularly at risk. Large foreign exchange reserves in a number of emerging markets countries could help to shelter them in the near term. However, more interventions from international financial institutions, on top of those already agreed to (e.g. to Pakistan, Ukraine), cannot be excluded. The length of the financial crisis will determine whether reserve coverage will be sufficient. Furthermore, these reserves might not allow countries to implement counter-cyclical fiscal policies, given the high level of external liabilities and/or the increased borrowing costs that would reduce the financing of fiscal stimulus measures.

Of the emerging market economies, China seems to be in the best position to counter the negative consequences of the turmoil in the international economy because of the wide arsenal of policy instruments still available. Foreign reserves reached \$1.95 trillion at the end last year, the level of debt is relatively low, monetary policy still has some room to deliver cuts, and fiscal stimulus is being implemented and could be expanded if need be. In the first quarter of 2009 the overall GDP figure showed a further deceleration to 6.1% y-o-y. Due to the implementation of the fiscal stimulus package announced in November though, fixed asset investment and credit growth surged in the first quarter and in March exports and industrial output have recovered clearly compared to the lows reached in the first two months of 2009. It remains to be seen, however, to what extent growth in China can provide a buffer for the rest of Asia.

Graph 1.1.5: Contributions to non-EU GDP growth



Activity in the EU's main trading-partner countries is forecast to decelerate markedly. In the candidate countries, economic activity is expected to shrink by 3½% in 2009 and to recover to around 2% in 2010. The main contributor will be Turkey, where lower private consumption and external demand should lead to a strong output contraction in 2009, while a recovery of domestic demand is expected in 2010. In the potential candidate countries output growth will likely slow down to some +2½% in 2009, reflecting significantly lower global demand. So far the potential candidate countries have not been affected by reduced liquidity, but external financing conditions are likely to deteriorate in 2009 and 2010. The Russian economy was still growing at an estimated 5.6% in 2008, while it is now expected to contract by -3.8% in 2009, and to recover to +1.5% in 2010. Unemployment also reached almost 10% in the first quarter of 2009, or about twice the lowest level observed in 2008. Russia is still adjusting to the large terms-of-trade shock resulting from the fall in commodity prices; this adjustment went through a fall in reserves (by 1/3 since summer 2008) and a depreciation of the exchange rate (by 1/3 since November). Recession is foreseen in all EFTA countries in 2009, mainly driven by the external sector, except in the case of Iceland, where the currency crashed and led to a full-blown economic crisis. The Swiss economy is experiencing one of its deepest recessions in history, and GDP is expected to continue to contract in 2010.

Global current account imbalances are not forecast to diminish significantly during the forecast period, even if the outlook for 2009 and 2010 varies across countries. In the US there should be stabilisation around the level reached in 2008Q4 (-3.7% of GDP) – but no further adjustment. In

China, the current account surplus is not expected to narrow significantly, while in Japan the stabilisation in the income account and cheaper imports should lead to some increase in the current account surplus. Only in the oil-exporting countries will surpluses narrow significantly, with some countries such as Saudi Arabia even projected to experience a significant current account deficit. In the EU as a whole, a moderate deterioration from a relatively balanced position is foreseen.

Looking into 2010 and beyond, there are strong reasons to expect significantly lower annual average world growth rates than those observed in the last 5 years. While it is reasonable to expect that the trough of this recession will eventually come some time this year (possibly in the second half of 2009), the recovery at the global level is likely to be muted. Uncertainty remains high, and the timing of the recovery chiefly depends on the effectiveness and the speed of implementation of the announced measures and the policy actions in the coming months.

Risks to the global growth outlook appear more balanced in 2009-2010. Growth could be stronger than expected if fiscal packages restore confidence among investors and consumers swiftly and if the effects of massive monetary policy easing gain traction faster than assumed. The nature of the recovery in emerging economies will mostly depend on external financing conditions and on how fast capital inflows resume. The fragile financial sector and the possible feedback loops between the financial and the real sector remain the largest downside risk. Also, should emerging economies not have sufficient access to external financing, this could wipe out the little positive growth that these economies are still generating. Moreover, protectionist pressures could further aggravate the picture. On the upside, if the impact of the different measures taken, the recoveries in the largest emerging economies (notably in Asia), in the US housing sector or in the global inventory liquidation would be faster and/or stronger than expected, growth might recover sooner (see also section 1.7 for a more detailed discussion of risks to the current outlook).

### Box 1.1.1: The crisis has caught up with emerging market and developing economies

#### While these countries were initially affected through the collapse in world trade,...

Emerging market economies (EMEs) were hit by the crisis in the last quarter of 2008, initially through the collapse in world trade. The failure of Lehman Brothers resulted in a confidence shock, to which households and firms reacted, inter alia, by postponing expenditure and investment. The associated decline in demand for consumer goods and especially durable goods in advanced economies (those with high import content) led to sharp declines in trade in EMEs, especially in Asia. Trade growth was also driven down by the direct impact from the financial crisis on the availability of trade credit. The fact that trade finance is drying up, in particular for developing economies and small enterprises, has contributed to the precipitous decline in trade. Moreover, currency depreciations have exacerbated the exchange risk taken by corporates in a number of countries.

#### ...they were also hit by the financial channel

On top of this, the reversal of capital inflows has aggravated the slowdown in EMEs, as banks have repatriated cash to cover losses elsewhere and risk aversion has intensified. While such outflows could be manageable in some countries, they may prove disruptive in others and may negatively affect growth in the longer term. The repatriation of capital by foreign banks has been particularly abrupt in some cases. For instance, in Ukraine, real GDP growth is projected to decline by 9½% in 2009, due to a severely curtailed access to external financing, which has triggered the conclusion of a stand-by arrangement (SBA) with the IMF. Noteworthy are the hefty recapitalisation needs of the 17 largest Ukrainian banks, including foreign banks (many of which are home in the EU). Belarus, where the main vulnerability is a weak external position compounded by a large dependence on the Russian market, also concluded an SBA with the IMF. The significant and broad-based slowdown in the CIS could have direct growth effects in Central and Eastern Europe, and the presence of EU banks in the region creates further potential negative spill-overs via the financial channel.

While trade growth is expected to resume gradually as the recovery takes hold in advanced economies, it may take much more time for capital to flow into these countries again.

#### As a result, emerging market and developing economies are facing specific challenges

The severity of the global downturn will cause fiscal positions in EMEs to deteriorate. This may be the result of lower tax revenues (e.g. Russia or Saudi Arabia, where the revenues from oil and gas exports are significant), or increased expenditure (e.g. China, India). This risk is also spilling over to countries that rely on import tax revenues (e.g. the Philippines, Turkey), or tax revenues on exports (e.g. Argentina). In Latin America, fiscal positions are expected to markedly deteriorate, due to weaker activity and lower commodity prices.

Parts of the emerging world, however, have been affected with a lag (e.g. China). In contrast to the past, the emerging and developing countries of Middle-East and North Africa (MENA) are being hit later than the advanced countries. GDP growth is expected to be 1½% in 2009 and economic growth will remain slow in 2010. Latin America had initially shown significant resilience to the global crisis due inter alia to strong domestic demand, sound current account positions, increased foreign reserves, and low public and external debt ratios. However, in 2008Q4 growth started to decelerate and is projected to contract by 1½% in 2009. Low consumer and business confidence point to significant contractions in consumption and investment. Rising unemployment and declining remittances are also taking their toll on EMEs. Under these circumstances, several countries have eased monetary policies and put in place fiscal measures to help mitigate the impact of the economic downturn.

While low-income countries are less directly affected via the financial sector, the global economic downturn is increasingly weighing on growth perspectives. GDP growth is projected to decelerate to 2½% in sub-Saharan Africa, where export growth decreased as global demand for commodities, the region's main exports, fell sharply. In view of the low commodity prices, cancellations and postponements of major investment projects are expected to become more widespread, further subduing investment, while job losses will have an impact on private consumption. In 2010, GDP is foreseen to regain some momentum and grow by around 3½%, mainly owing to an improvement in exports and investment.



## 2. FINANCIAL MARKETS STABILISED BUT SIZEABLE VULNERABILITIES REMAIN

In the aftermath of the bankruptcy of Lehman Brothers in September 2008, the wholesale credit markets became fully dysfunctional and confidence amongst financial market participants completely dissipated. In an effort to avoid a global meltdown of the financial system, central banks and governments intervened in first instance by ensuring bank's access to short-term funding. As shortly thereafter some major banks were forced out of business, also in Europe, governments stepped in with drastic measures to strengthen banks' capital. In this way, they ensured banks' solvency and their capacity to continue supplying credit to the private non-financial sector.

In the euro area, the ECB stepped up efforts to support bank liquidity by easing its monetary policy stance, lengthening the maturity of refinancing operations and adjusting its collateral framework. Over the last seven months, the ECB has brought down its key policy rate in several steps by 300 basis points (bps.), from 4.25 percent on 8 October 2008 to 1.25 percent at end April.

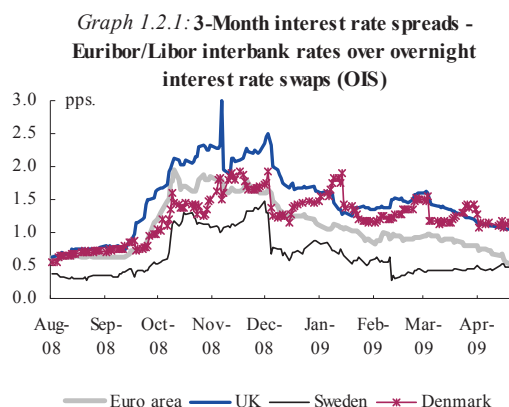
The EU also acted decisively by announcing on 16 October 2008 a co-ordinated package of financial support measures, including reinforced deposit insurance schemes, recapitalisation of banks using public funds, government guarantees for bank borrowing, and asset exchange/purchases to enhance banks' access to liquidity. More recently, the option of providing impaired asset relief has been added to this menu of support measures. So far, Member States have committed about EUR 270 billion for recapitalisation of banks and about EUR 3,200 billion for enhancing bank access to funding (i.e. via guarantees, exchange of assets etc.).

To avoid creating undue distortions of competition amongst Member States, the European Commission and the ECB have provided guidance to the Member States on the different types of State interventions. Further, an impressive set of legal initiatives has been or is being taken by the EU and the Member States in the field of financial services policy and regulatory structures. The EU has also been in the lead at the G20 to agree on a set of principles for reforming the financial sector at a global level.

The actions by governments and central banks worldwide seem to have succeeded in bringing some degree of stabilisation to the financial system, even though the financial markets and institutions remain under considerable stress. Moreover, the large policy interventions have involved governments taking on considerable financial risks and led to deteriorating public finances which are already under heavy stress due to the decline in economic activity. Indeed, problems in the banking system have increasingly spilled over into the real economy with major economies abruptly entering a recession, creating a negative feedback loop back to the financial sector.

### The gradual repair of the interbank market functioning

The ECB's interest-rate cuts and lending rule adjustments have helped unsecured interbank lending rates and spreads to the overnight interest rate swaps to moderate progressively since their peak in October 2008 (these rates serve as a reference rate for financial products worth trillions of euros). The Euribor spread vis-à-vis three-month overnight interest rate swap was about 60 bps at end April, well below autumn 2008 peak of nearly 200 bps. but still above the 10 bps. observed in normal times.



Other indicators of interbank market stress have also improved since they reached extreme values in October 2008. This can be seen in the decline in the number of banks participating in the ECB's weekly main refinancing operation. Moreover,

banks reduced their holdings in the ECB deposit facility. While these developments are encouraging, they are not necessarily an evidence of market-driven normalisation in interbank activity, as they are probably also a direct response to the lowering of the interest rate on ECB deposits to 0.25%.

### **The banking sector remains in the eye of the storm**

Despite the extensive financial support measures put in place by Member States, the EU banking system remains under considerable stress, reflected a.o. in high spreads on credit default swaps. Investor confidence in banks has been undermined by the gradual disclosure of losses related to asset write-downs. EU banks have already disclosed such losses of nearly EUR 290 billion since the beginning of the crisis. However, concern about the impairment of bank assets has spread beyond so-called "toxic" securities to a much broader range of assets, including higher-quality mortgage-backed securities, commercial mortgage-backed securities and automobile loans. As the real economy deteriorates sharply, problems of asset impairment are likely to spread even further to include corporate loans and a broader range of consumer loans.

The consolidated and aggregated capital and reserves of EU banks have improved modestly since October 2008. However, this improvement reflects a substantial injection of capital by governments, without which there would have been a very significant deterioration. Only a few large EU banks have managed to raise private capital since October 2008.

Banks' geographical exposure has also become a source of uncertainty for investors. Banks from the "old" Member States account for about €950 billion foreign claims in the "new" Member States and the other European emerging markets, altogether around 82% of total foreign claims. In absolute terms the largest exposure is by banks from Austria, Germany, Italy and France. In terms of GDP, cross-border banking exposure to the region accounts for 68% of Austrian GDP, 27% for Belgium, 23% for Sweden, 17% for Greece and 14% for the Netherlands.

Challenges to the Central and Eastern European banking sector may arise from both the funding and the asset side. Given the high proportion of

short-term liabilities and longer-term assets on their balance sheets, many banks face risks related to a maturity mismatch. Heavy reliance on short-term foreign funding could make some countries (in particular Bulgaria, Hungary, Romania, and the Baltic States) vulnerable to sudden capital stops. There are also strong downside risks to asset quality. Hence, close monitoring as well as prudent management of non-performing loans will be required.

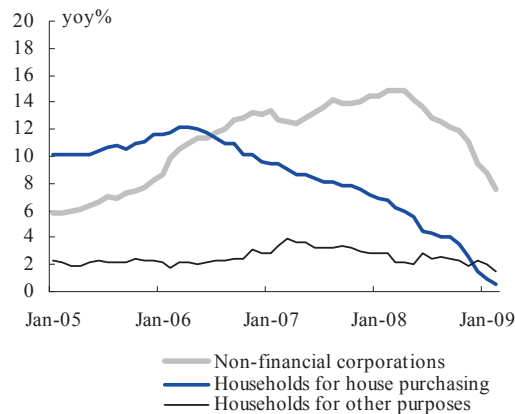
### **Credit conditions remain tight and borrowing cost rise**

As a result of the uncertainty about the quality of bank balance sheets, investors focus increasingly on economic rather than regulatory capital. On this basis, the capital adequacy ratio demanded by markets as evidence of bank solvency appears to have moved well above regulatory minima, which could have significant implications for bank lending activity.

In February, the year-on-year growth rate of outstanding bank loans was still positive, but had slowed down by 0.7 pp. from the previous month. The overall decline in the stock of bank credit to the private sector in the euro area started in the course of 2008 and reflects both supply and demand factors. The problems in the banking system undoubtedly imply constraints on the supply of credit, as banks seek to repair their balance sheet while becoming more risk averse in a weakening economy. However, the slowdown in credit growth is also largely attributable to the slowdown in demand as economic activity decelerated.

Bank credit to households started to decelerate first, and has now been decelerating for more than two years. In February, the annual rate of change reached a new low of 0.7%, which is mainly explained by reduced mortgage lending. Bank lending to non-financial corporations seemed at first to be resilient to the effects of the financial crisis. However, the lending cycle has clearly turned. The decline in year-on-year growth of the stock of credit to non-financial corporations to 7.6% in February 2009 is equivalent to a notable sequential deceleration.

Graph 1.2.2: Loan growth, euro area



### The household sector

The financial position of the household sector has been adversely affected by the crisis through losses in financial and housing wealth. The sharp decline in the price of a broad range of financial assets is impacting significantly on the wealth of households either via direct exposure or indirectly via pension funds. Meanwhile, house prices are either declining or rising more slowly across the EU. Euro-area house-price inflation had fluctuated in a range of 5.5% to 7.5% between 2002 and 2006, but slowed to 2.7% in the first half of 2008. Anecdotal evidence suggests that house prices have softened further and sales volumes have dropped significantly. In some Member States, where more recent data are available, a significant decline in price levels has been recorded (i.e. Ireland, Spain, the UK).

Against the background of high levels of accumulated debt, household borrowing has begun to decline. This reflects also tighter conditions on the supply-side, as banks reinforce their credit standards. On the other hand, overall financing costs for households have steadily declined from their end-2008 peaks, reflecting in particular lower interest rates for short-term loans (though they still remain at elevated levels). Moreover, in response to negative wealth effects, consumers are also likely to boost savings over the next 12 months.

### The corporate sector

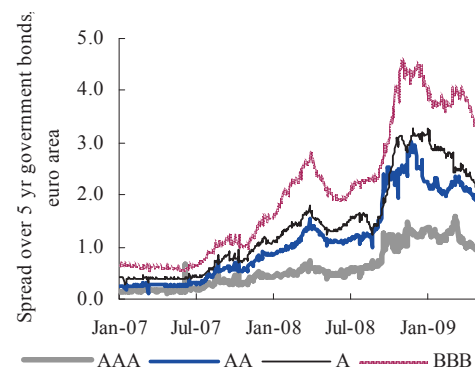
The financial situation of the EU non-financial corporate sector has also deteriorated since mid-2008. As the financial crisis has gradually spilled over into the real economy, corporate earnings have come under growing pressure and business

sentiment has collapsed. This has been reflected in a sustained sell-off in corporate equities. Despite the recovery during March and April, following stronger-than-expected earnings reports from several major banks and the latest measures by monetary and fiscal authorities to shore up the financial system, the DJ Euro Stoxx 50 index is still about half its peak level of June 2007.

A tightening in external funding conditions is putting additional pressure on the corporate sector. EU companies retain substantial cash balances, but the capacity for internal financing is likely to be constrained as corporate earnings decline. As a result, access to external funding will become crucial to avoid liquidity constraints. While banks have tightened their credit standards almost from the beginning of the crisis, lending to the non-financial corporate sector was relatively resilient until the end of 2008. Since then, however, there has been clear evidence of a slowdown.

The euro-denominated corporate bond spreads have narrowed in recent months, while this move was more pronounced for the more risky BBB-rated bonds than for the highest-rated (AAA) bonds. With the large and successful wave of bond issuances in recent months, default risk seems for now more to be driven by deteriorating business fundamentals rather than by upcoming maturities, suggesting that corporate risks are now more a longer-term than shorter-term issue. A sustained decline in earnings and still very tight financing conditions could present a particular challenge in a context of high levels of accumulated debt.

Graph 1.2.3: Five-year corporate bond spreads, euro area



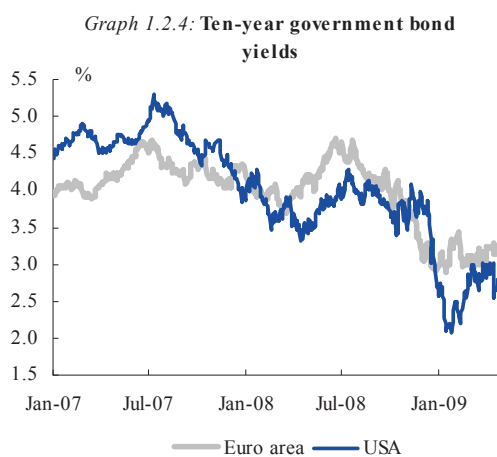
Looking forward, if expectations of lower market rates do materialise, following a decline in the ECB key interest rates, and if these would be

passed onto bank-lending rates, the latter could contribute to declining financing costs. On the other hand, as banks are still reluctant to lend to each other and remain risk-averse against the backdrop of the present economic downturn, non-price financing conditions could tighten further.

**The sovereign debt market**

While overall demand for sovereign bonds has benefited from flight-to-quality effects, there has been a marked widening in yield spreads relative to benchmarks.

At end of April sovereign bond yields are close to historical lows in most developed economies. For example, the yield on the US 10-year benchmark bond is close to 2.9% and the corresponding yield for the German Bund is 3.2%. Recently, EU government bond yields fell back amid intensifying expectations of additional ECB rate cuts and spill-over effects from the US Treasuries markets after the Fed announced its plan to buy US public assets.



The low level of yields reflects high demand for sovereign bonds due to risk aversion, the decline in inflation expectations, the need for high-quality collateral in managing liquidity and problems with the functioning of other competing asset markets. Meanwhile, investors have become more discriminating between sovereign issuers following the announcement of bank rescue plans and the impact the latter will have on government budgets. Indeed, against the backdrop of heightened uncertainty, the German Bund has benefited at the expense of other euro-denominated government bond issues which are considered as either less liquid or carrying a higher credit risk.

This has been reflected in the widening of yield spreads relative to benchmarks during the financial crisis. In the euro area, 10-year yields relative to the German Bund benchmark have widened sharply for several Member States and similar developments have been evident outside of the euro area. Although yield spreads have narrowed somewhat more recently, they still remain at very high levels.

In addition to widening yield spreads, bid-to-cover ratios for sovereign bond auctions in some Member States have been low by recent historical standards. Against the background of these developments, credit rating agencies have issued a series of downgrades and warnings of downgrades for EU sovereigns.

Summing up, the massive liquidity support of central banks and the rescue packages enacted by the national authorities have staved off a systemic financial meltdown. However, severe vulnerabilities remain in place in several parts of the financial markets. The effects of the Economic Recovery Plan and the bank rescue packages will materialise progressively and should help the economy on its way to recovery. According to financial market expectations, the ECB will further cut interest rates by at least 25 bps before this summer.

### Box 1.2.1: Some technicalities behind the forecast

The overall cut-off date for taking new information into account in this update of the Commission's macroeconomic outlook was 22 April. The forecast also incorporates validated public finance data from Eurostat's press release 56/2009 of the same date.

#### External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 2 to 17 April) were used for exchange and interest rates, and for oil prices.

#### Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to implied average USD/EUR rates of 1.32 in 2009 and of 1.33 in 2010, and average JPY/EUR rates of 129.82 in 2009 and 132.52 in 2010.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from future contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States, are calculated using implicit forward swap rates, corrected for the spread between the 3-month inter-bank interest rate and the 3-month swap rate. In cases where no market instrument is available, a fixed spread vis-à-vis euro-area interest rates is taken for both short- and long-term rates. As a result, short-term interest rates are expected to be 1.6% on average in 2009 and 2.0% in 2010 in the euro area. Long-term interest rates are assumed to be 3.3% in 2009 and 3.6% in 2010.

#### Commodity prices

Commodity-price assumptions are also, as far as possible, based on market conditions. According to future markets, prices for Brent oil are projected to be on average 52.9 USD/bl. in 2009 and 63.5 in 2010. This would correspond to an oil price of 40.2 EUR/bl. in 2009 and 47.7 EUR/bl. in 2010.

#### Budgetary data

Data up to 2008 are based on data notified by Member States to the European Commission on 1 April 2009 and validated by Eurostat on 22 April

2009.<sup>(1)</sup> In validating the data, Eurostat made reservations for Denmark (for which it is investigating the sectoral classification of the Roskilde Bank and AFS-Afviklingselskabet – a vehicle for bank rescues – currently both classified as financial corporations) and the United Kingdom (for which it is considering the appropriate treatment of 185 billion GBP of treasury bills provided to the Bank of England for use in the Special Liquidity Scheme, currently not recorded as part of United Kingdom government debt). As usual UK deficit data for the years to 2008 have been slightly amended for consistency with Eurostat's view on the recording of UMTS licences proceeds. In addition, Eurostat announced that it is in the process of drawing up guidance on the statistical treatment of public operations to support financial markets.

For the forecast, measures in support of financial stability have – as a rule – been recorded as follows. Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called at the time the forecast was closed. Note however that loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt. This approach is to be considered a technical assumption and in no way prejudices Eurostat's final decision on the statistical recording of each of these transactions. For reasons of prudence, there was no attempt to forecast fees paid to government by financial institutions in relation to state guarantees. Only those payments that were considered certain at the time of the forecast were recorded as government revenue.

For 2009, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. For 2010, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

The general government balances that are relevant for the excessive deficit procedure may be slightly

<sup>(1)</sup> Eurostat News Release N° 56/2009.

*(Continued on the next page)*

*Box (continued)*

different from those published in the national accounts. The difference concerns settlements under swaps and forward rate agreements (FRA). According to ESA95 (amended by regulation No 2558/2001), swap and FRA-related flows are financial transactions and therefore excluded from the calculation of the government balance. However, for the purposes of the excessive deficit procedure, those flows are recorded as net interest expenditure.

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

The number of working days may differ from one year to another. The Commission's annual GDP forecasts are not adjusted for the number of working days, but quarterly forecasts are. However, the working-day effect in the EU and the euro area is estimated to be broadly neutral in 2009 and marginally positive in 2010.

The calculation of potential growth and the output gap does not adjust for working days. Since it is considered temporary, it should not affect the cyclically-adjusted balances.

### 3. EU FACES A DEEP AND WIDESPREAD RECESSION

#### European economy in recession since mid-2008...

Since the second half of 2008, the world economy has been experiencing an increasingly sharp, synchronous economic slowdown that is proving to be far worse than expected in most economies. Global trade as well as industrial output in key industrial regions are contracting at a double-digit pace.

The EU economy has been hit hard by these global developments. The financial crisis that intensified following the Lehman Brothers bankruptcy in mid-September of last year, combined with the near-simultaneous collapse in demand in almost all of Europe's major trading partners, pushed most European economies into a deep recession in the second half of 2008.

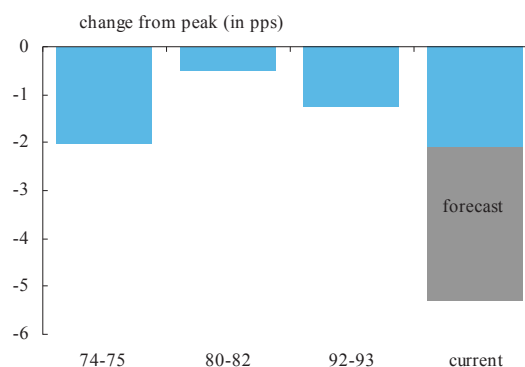
GDP started to decline in the third quarter of 2008 in the EU (-0.2% q-o-q), with the pace of contraction accelerating sharply in the final quarter, to around -1½% in both the EU and the euro area. As a result, the carryover for GDP growth in 2009, as of at the end of 2008, was strongly negative (almost -1½ pps. in both regions).

The bleak outcome in the fourth quarter of 2008 was broadly in line with the January interim forecast for the euro area, and about ¼ pp. worse than forecast for the EU. Among the larger EU Member States, economic activity was weaker than expected particularly in Italy and to a lesser extent in Germany and the UK, while growth in France and Poland surprised on the upside. The fourth-quarter drop in GDP in the euro area was the deepest since EMU began. Moreover, at 2.1 pps., the cumulative output loss since the start of the current downturn is already greater than that of the 1992-93 recession, and as great as that in the 74-75 recession. Furthermore, output is expected to contract again in 2009, making the current contraction the worst recession in the EU since World War II.

For the year as whole, GDP expanded by just 0.9% in 2008 in the EU (0.8% in the euro area), a marked deceleration from previous year (+2.9% and 2.6%, respectively). The year-on-year growth rate, which displays the underlying momentum in

the course of the year more clearly, turned negative in the fourth quarter of 2008 (-1½% in both regions) for the first time since the early 1990s. Bleak survey and hard data suggest that this weakness in economic activity has continued into the first quarter of 2009.

Graph 1.3.1: GDP across recessions, euro area



#### ...with broad based weakness across sectors...

The significant deterioration in economic activity in 2008 was broad-based across sectors. The contraction in manufacturing output gathered momentum in the last quarter of 2008 (-5% q-o-q and almost 7% compared to the year before in the EU) as the global slowdown intensified. Capacity utilisation in the EU and euro-area manufacturing sector slumped to 75% at the beginning of 2009, its lowest level since records began. While value added growth in construction was still positive in the first half of 2008 in both the euro area and the EU, activity fell in the second half, dragged down by the cooling in real-estate markets. The annual growth rate of real house prices turned negative in the euro area in the third quarter of 2008 for the first time in almost 40 years and the adjustment has intensified since then. Value added in the services sector - which represents 70% of total output - rose by almost 1% in 2008. However, activity moderated during the year and contracted in the fourth quarter for the first time since the 1992-93 recession. Timely information on sub-sector components is not available, but the pronounced decline of investors' confidence in financial markets (down 30 points in the last quarter of 2008 on a year earlier) suggests that the

financial crisis is having a particularly negative impact on the financial industry.

Table 1.3.1:

**Composition of growth in 2008 - EU**

(Seasonally and working day adjusted)	<b>(Quarter-on-quarter % ch.)</b>			
	08Q1	08Q2	08Q3	08Q4
GDP	0.5	-0.1	-0.3	-1.5
Private consumption	0.2	-0.2	0.0	-0.4
Government consumption	0.5	0.8	0.7	0.5
Gross fixed capital formation	0.3	-1.0	-1.1	-3.3
Changes in inventories (% of GDP)	0.0	0.0	0.4	0.3
Export of goods and services	1.6	-0.4	-0.3	-6.1
Import of goods and services	1.3	-0.6	0.9	-5.0
	<b>(Contributions in pp.)</b>			
	08Q1	08Q2	08Q3	08Q4
Private consumption	0.1	-0.1	0.0	-0.2
Government consumption	0.1	0.2	0.1	0.1
Gross fixed capital formation	0.1	-0.2	-0.2	-0.7
Changes in inventories	0.1	0.0	0.3	-0.1
Net exports	0.2	0.1	-0.5	-0.6

The financial crisis contributed to the decline in activity in all sectors in the second half of 2008 (see Section 1.2). Disruptions in money markets led banks to tighten lending conditions while short- and long-term lending rates rose significantly, as did corporate bond yields. Pervasive risk-aversion led to a tightening of non-price conditions (e.g. size of loans, collateral requirements). Finally, the availability of alternative sources of funding was also curtailed.

**...as well as demand components**

In terms of the demand components, private consumption was almost unchanged between the first and the third quarter of 2008 in the EU (and more volatile in the euro area), while it fell in the fourth by 0.4% in the EU and 0.3% in the euro area. Subdued consumer spending mirrored the weakness in households' real disposable income. While nominal compensation remained relatively robust in 2008 (+3.3%), the sharp rise in inflation in the first half of the year (peaking at 4.4% in the EU and 4% in the euro area in July 2008) depressed real incomes and thus consumption. The subsequent sharp fall in commodity prices helped alleviate some of the pressure during the summer. However, this boost to households' income was substantially offset by the deterioration in labour market conditions in the latter part of the year (see Section 1.4). In addition, household (non-labour) income was squeezed by significant stock market losses and lower returns from non-financial wealth. Households' assessments of their personal financial situation worsened during 2008 and in early 2009.

Investment growth declined rapidly in 2008. Although positive growth was recorded in the first quarter (largely due to an unusually mild winter which boosted construction activity), investment fell 3.3% in the EU (4% in the euro area) in the fourth quarter compared to the previous quarter. Construction investment followed a similar pattern, slowing in response to moderating, and in

Table 1.3.2:

**Composition of growth - EU**

(Real annual percentage change)	2007		2003 2004 2005 2006 2007					Spring 2009 forecast		
	bn Euro curr. prices	% GDP	2003	2004	2005	2006	2007	2008	2009	2010
	<b>Real percentage change</b>									
Private consumption	7074.2	57.3	1.7	2.1	2.0	2.3	2.2	0.9	-1.5	-0.4
Public consumption	2515.5	20.4	2.1	1.8	1.6	1.9	1.9	2.2	1.9	1.7
Gross fixed capital formation	2626.6	21.3	1.3	3.0	3.6	6.2	5.4	0.1	-10.5	-2.9
Change in stocks as % of GDP	62.8	0.5	0.1	0.3	0.1	0.1	0.3	0.4	0.0	0.2
Exports of goods and services	4978.0	40.3	1.9	7.5	5.9	9.2	5.0	1.6	-12.6	-0.2
Final demand	17257.0	139.8	1.9	3.8	3.1	4.9	3.6	1.1	-6.0	-0.3
Imports of goods and services	4913.3	39.8	3.4	7.6	6.2	9.2	5.2	1.5	-11.0	-0.9
GDP	12343.7	100.0	1.3	2.5	2.0	3.1	2.9	0.9	-4.0	-0.1
GNI	12312.5	99.7	1.5	2.9	1.9	3.1	2.6	0.7	-4.2	-0.2
p.m. GDP euro area	8998.7	72.9	0.8	2.2	1.7	2.9	2.7	0.8	-4.0	-0.1
	<b>Contribution to change in GDP</b>									
Private consumption			1.0	1.2	1.2	1.3	1.3	0.5	-0.9	-0.2
Public consumption			0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Investment			0.3	0.6	0.7	1.2	1.1	0.0	-2.2	-0.6
Inventories			0.1	0.2	-0.2	0.1	0.1	0.0	-0.5	0.2
Exports			0.7	2.6	2.1	3.4	2.0	0.6	-5.2	-0.1
Final demand			2.5	5.0	4.2	6.6	5.0	1.6	-8.4	-0.4
Imports (minus)			-1.1	-2.5	-2.2	-3.4	-2.1	-0.6	4.5	0.3
Net exports			-0.5	0.1	0.0	0.1	-0.1	0.0	-0.7	0.2



some cases, falling house prices. Non-construction investment also slowed as weakening demand lowered profitability, capacity pressures waned and tighter lending standards reduced the availability of funding. Finally, inventories made a large positive contribution to euro-area GDP growth in the second half of 2008. Surprised by the speed and extent of the slowdown in global and domestic demand, firms involuntarily increased stocks. In contrast, inventories contributed little to GDP growth in the EU given the large-scale destocking undertaken in the UK.

The external environment deteriorated significantly during 2008, aggravated by the financial crisis and the severe strains on banking systems and credit conditions worldwide, along with the fall in global production and trade. Demand in advanced economies weakened substantially in 2008, while growth in emerging markets also moderated sharply in the autumn. As a result, demand growth for EU goods and services slowed, from 5% in 2007 to just 1.6% in 2008. On a quarterly basis, exports were still expanding in the first quarter, but barely moved in the second and third quarters, before falling by more than 6% (quarter-on-quarter) in the final quarter. Reflecting the slowdown in final domestic demand, imports also moderated, falling by around 5% in the fourth quarter.

### Output set to contract sharply in 2009...

Turning to the outlook for this year, the recession is expected to continue throughout 2009. Confidence indicators in the EU plunged to record lows in the first quarter of 2009. In March, the Economic Sentiment Indicator (ESI), a reliable coincident indicator of GDP growth, fell to a new record-low. The fall in the ESI is attributed to the deteriorating sentiment in the industry and services sectors, while in other sectors a mixed picture is emerging. Consumer sentiment stabilised in the EU, but fell in the euro area. Confidence in retail trade rose slightly in both regions, while confidence in construction stabilised at the levels seen in February. On the other hand, the composite Purchasing Managers' Index (PMI) indicator improved slightly in March. However, on a quarterly basis the index was still 3 pps. below the fourth quarter average in 2008, pointing to continued weakness in economic activity.

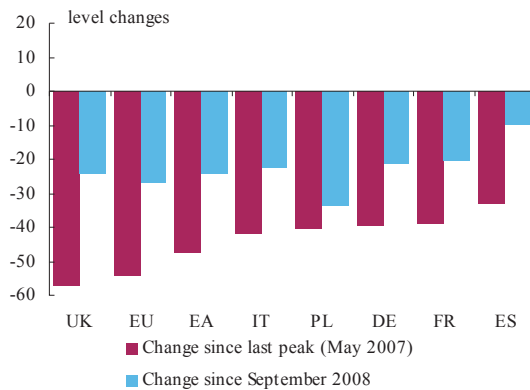
The fall in confidence indicators applies to almost all Member States by now. The decline in overall economic sentiment since the outbreak of the financial turmoil in the summer of 2007 has been particularly large in the UK, but confidence has since also deteriorated sharply in other larger EU economies, such as Italy, Poland, Germany and France, while the deterioration has been moderate in Spain.

Table 1.3.3:

### Composition of growth - euro area

	2007		2003 2004 2005 2006 2007					Spring 2009 forecast			
	bn Euro curr. prices	% GDP						2008	2009	2010	
			Real percentage change								
Private consumption	5063.9	56.3	1.2	1.6	1.8	2.0	1.6	0.5	-0.9	-0.3	
Public consumption	1802.5	20.0	1.7	1.6	1.5	1.9	2.2	2.0	2.0	1.7	
Gross fixed capital formation	1970.1	21.9	1.3	2.3	3.3	5.6	4.4	0.0	-10.4	-2.7	
Change in stocks as % of GDP	24.7	0.3	-0.1	0.1	-0.1	0.0	0.0	0.4	0.1	0.1	
Exports of goods and services	3744.0	41.6	1.3	7.4	5.0	8.4	6.0	1.2	-13.2	-0.3	
Final demand	12605.1	140.1	1.4	3.4	2.8	4.5	3.5	0.9	-5.9	-0.3	
Imports of goods and services	3606.5	40.1	3.2	7.0	5.7	8.3	5.4	1.2	-10.5	-0.8	
GDP	8998.7	100.0	0.8	2.2	1.7	2.9	2.7	0.8	-4.0	-0.1	
GNI	8974.3	99.7	1.1	2.8	1.6	3.1	2.3	0.4	-4.1	-0.3	
p.m. GDP EU	12343.7	137.2	1.3	2.5	2.0	3.1	2.9	0.9	-4.0	-0.1	
			Contribution to change in GDP								
Private consumption			0.7	0.9	1.0	1.1	0.9	0.2	-0.5	-0.2	
Public consumption			0.4	0.3	0.3	0.4	0.5	0.4	0.4	0.4	
Investment			0.3	0.5	0.7	1.2	0.9	0.0	-2.3	-0.5	
Inventories			0.1	0.2	-0.2	0.1	0.1	0.1	-0.5	0.0	
Exports			0.4	2.6	1.8	3.2	2.4	0.5	-5.5	-0.1	
Final demand			1.9	4.5	3.7	6.0	4.8	1.3	-8.3	-0.4	
Imports (minus)			-1.1	-2.3	-2.0	-3.0	-2.1	-0.5	4.3	0.3	
Net exports			-0.6	0.3	-0.1	0.2	0.3	0.0	-1.2	0.2	

Graph 1.3.2: Deterioration of the Economic Sentiment Indicator, selected EU countries



The intensifying headwinds are not only visible in the soft data, but are increasingly reflected in hard data, most notably in industrial production figures and new orders. In February, industrial output fell by more than 17% y-o-y in the EU (more than 18% in the euro area), contracting for seven consecutive months and at a two digit speed since December 2008. New orders were down almost 35% on a year before in both the EU and the euro area. While order data are notoriously volatile on a monthly basis, incoming orders also appear to have slowed significantly during the winter. This suggests that a noticeable contraction in industrial output lies ahead.

The EU is struggling to overcome the deepest and most prolonged downturn since World War II. At the start of the downturn, some EU Member States faced significant imbalances that needed to be corrected. There is a broad consensus that housing markets were overvalued (by between 20 and 35%) in several EU Member States, including the UK, Spain, Ireland and a few Eastern European countries. Since early 2008, however, some correction has taken place in most EU countries and to a greater extent in those where the housing-price shock was more pronounced. In some cases, insufficient domestic savings were also a feature, leading to excessive current account deficits. However, several countries (e.g. Germany, France) did not suffer particular imbalances or were affected less by real-estate problems. Nonetheless, the financial crisis has triggered an almost collapse of world trade and industrial output with strong adverse effect on export and output growth in all Member States, whilst the expected deterioration in confidence and the increase in uncertainty are prompting firms and households to reduce or postpone expenditure.

The massive slowdown in world output and trade is being caused by the decline in demand for capital and durable consumer goods, which have a relatively high import content. This has a particularly negative impact on export-oriented economies and/or producers of big-ticket goods that are typically bought on credit. As a result, the downturn in economies highly exposed to global export markets is expected to be worse than in more consumption-oriented economies.

Among the larger EU-economies, Germany and France are representative examples of these diverging trends. The more substantial downward revision for the German economy follows from a number of factors. First, the shortfall in world trade in the second half of 2008 caused a markedly more pronounced downturn in Germany compared to France, with the German economy being more open (exports as a percent of GDP are above 50% and below 30%, respectively) and its manufacturing sector larger. Second, this resulted in a lower carryover from 2008 and mechanically reducing GDP growth in 2009. Third, Germany's strength in the export of capital goods has become a relative weakness at this juncture. Moreover, there is a difference in the two countries as regards the automotive industry, with Germany more specialised in the production of expensive cars, again more affected by the reduction of incomes and wealth but also benefiting less from government incentives. Lastly, the public sector appears to play a larger role in France as compensations and social transfers represent almost 60% of total household disposable income (compared to less than 45% in Germany) thus mitigating to a certain extent the adverse effects of the recession on consumers. On the other hand, some of the factors cushioning this recession's impact on the French economy at present risk dampen potential growth in the more medium to long term.

Table 1.3.4:

Decomposition of the GDP growth forecast			
EU	2008	2009	2010
Carry-over from preceding year	0.9	-1.4	-0.4
Y-o-Y in Q4	1.5	-3.2	0.6
Annual average	0.9	-4.0	-0.1
euro area	2008	2009	2010
Carry-over from preceding year	0.8	-1.4	-0.4
Y-o-Y in Q4	1.4	-3.3	0.4
Annual average	0.8	-4.0	-0.1

At the aggregate level, economic activity is forecast to fall by as much as 2% in the first quarter of 2009 in both the euro area and the EU and to continue shrinking, albeit less so, for the remainder of the year. For the year as whole, GDP is projected to fall by 4% in both regions. Reflecting the gradual impact of the fiscal packages, the effects of monetary easing, and the expected gradual recovery in world demand, economic growth is forecast to turn positive again next year, but to remain very subdued until the end of the forecast period. GDP is set to contract marginally also in 2010 in both the euro area and the EU, partly as a result of a negative carryover from this year.

#### **...with the worst pain felt by private investment...**

The current recession is affecting all demand components except government consumption and public investment. In line with the severity of the economic downturn and in accordance with the accelerator theory, investment is forecast to fall particularly sharply. Total investment has already fallen more rapidly than in previous downswings. Capital spending is forecast to reach a trough in the third quarter of 2009 at around -11% growth on a year-on-year basis. The contraction of investment is expected to continue almost until the end of the forecast period in both the euro area and the EU. Overall, this means at least nine quarters of negative annual growth and a cumulative fall in investment of more than 15% from its peak in the first quarter of 2008. This loss is far greater than that incurred in the euro area at the time of the dot.com bubble (about 3%). However, taking the impact of the six major financial crises discussed in the IMF World Economic Outlook of last summer as the point of reference, the contraction in gross fixed capital formation anticipated in this case is less severe (according to the IMF study, in previous financial crisis capital spending dropped an average of 27% over a period of seventeen quarters). The recovery is now also expected to start earlier this time.

The decline in investment in 2009 is largely explained by a fall in machinery and equipment. This follows from a combination of factors including (negative) spillover effects from the collapse in global industrial output, a strong decline in capacity utilisation rates, an increase in collateral requirements and a pervasive increase of

risk-aversion which makes financing directly via financial markets more difficult.

In contrast to the 2001-2003 downturn, residential construction will not compensate for the weakness in equipment investment. The forecast assumes that the underlying correction currently taking place in some housing markets will continue, with lasting negative effects on construction investment. A stronger adjustment is envisaged in those countries, such as Ireland and Spain, where the real estate boost has been more marked.

While other construction activity is forecast to be more resilient, particularly infrastructure investment in the wake of the fiscal stimuli, this will not prevent a sharp decline in total gross fixed capital formation over the forecast period. For 2009 as a whole, the spring forecast projects a fall in gross fixed capital formation of more than 10% in both the EU and the euro area, with a further contraction of about 3% in 2010 in both regions.

#### **...while public spending will support growth**

On the other hand, government consumption and public investment are expected to support growth. Government consumption is forecast to expand at between 1½% and 1¾% in 2009, and to continue to grow by slightly above 1% in 2010, while public investment is expected to soar by around 10%. This reflects, inter alia, the impact of the various discretionary fiscal measures announced so far, which amount to some 1¾% of EU GDP in 2009/2010 according to the European Economic Recovery Plan. As explained in detail in Box 1.6.1, growth prospects would have been substantially worse in the absence of these fiscal measures. However, the overall budgetary support is larger than these measures, as it also includes the impact of automatic stabilisers, measures taken at the EU level and extra-budgetary measures that have been adopted. The overall budgetary support to the European economy is estimated at around 5% of GDP spread over 2009 and 2010. As a result the total impact on GDP growth is larger.

On a less positive note, both hard and soft data indicate that the significant increase in stocks in the euro area in the second half of 2008 was involuntary, even when taking the double-digit decline in industrial production into account. This conclusion follows from the wide gap between GDP growth and stock developments, a comparison of the assessment of stocks with that

of demand prospects in survey data and a comparison of trade data and changes in inventories. As a result, it seems likely that stocks will contribute negatively to euro-area GDP growth in the first quarters of 2009, while the stock-adjustment process appears to be at a more advanced stage in the EU.

#### **Exports severely affected...**

Recent survey indicators seem to be pointing to a continuation of the global recession in the coming quarters. Despite the pick-up in March, the Global PMI index, now at 40.1, remains well below the 50-level threshold which separates expansion from contraction. The PMI index for manufacturing activity currently stands at an even lower level (37.2), even though it has rebounded more than 3 points since the record-low of December 2008. In addition, world trade remains subdued. Before the marginal increase in February (+0.8% m-o-m), world trade had recorded large declines for three consecutive months, with a 7% contraction in December, the largest since 1991. The current level of world trade is about 15% lower than one year ago with a carryover into 2009 of a similar magnitude. Even if world trade were to resume its long-term growth from March on, world trade in 2009 would remain about 12% below the 2008 figure.

The lagged effects of the appreciation of the euro will also dampen euro-area exports going forward. The euro exchange rate has been highly volatile against the US dollar and the Japanese yen since the beginning of 2009, while it has appreciated against the pound sterling and the Swiss franc in recent months. The recent appreciation of the euro against the currencies of the area's main trading partners has pushed the euro's nominal effective exchange rate back to its end-2008 peaks. In real terms (CPI deflated), the euro's effective exchange rate currently stands at around 8.5% above its historical average, compared to slightly more than 2% in November 2008.

Given the near-collapse of world-trade, the negative growth rate projected for global output and the strength of the euro, euro-area exports are forecast to suffer one of the worst setbacks on record.

As exports are usually the first component to recover in the euro-area business cycle, the export outlook is key. The baseline scenario assumes that

the euro-area main trading partners will exit recession sometime in the second half of 2009. In line with this view, exports are set to contract strongly in the first half of 2009, before regaining some momentum and turning positive at the beginning of 2010. A longer-than-currently-expected recession in the euro-area export markets would however delay the timing of the recovery. For the year 2009 as a whole, exports are set to slump by around 13% in both the EU and the euro area. Given the very moderate recovery envisaged in 2010 (as witnessed by a annual growth rate just above 2% in the final quarter of the year) and the substantial negative carryover from 2009 (-1½%), exports would continue to contract also next year (by around ¼ pp.).

Not surprisingly, the slowdown in global demand and recession in the euro area are expected to have a strong adverse effect on the exports of non-euro-area Member States. Notwithstanding an estimated 10% depreciation of the real effective exchange rate (REER) in 2009 in the EU (stemming from two-digit corrections in the REER of key non-euro-area economies) as compared to a broadly stable REER in the euro area, the EU is expected to continue losing market shares, although to a lesser degree than the euro area.

The decline in imports is also expected to be strong, particularly in 2009 (-10%), with a more moderate contraction persisting in 2010 (-1%). As a consequence, net external demand is expected to subtract ¾ pp. from GDP growth in the EU in 2009 and more than 1 pp. from euro area growth, while the support of net foreign demand to growth should turn mildly positive in 2010 (about ¼ pp. in both regions). The current-account balance of the euro area and the EU is forecast at around 1½% of GDP in both 2009 and 2010. However, the strong negative current-account position of some individual Member States is not expected to widen any further, in most cases.

#### **...while consumption, though weak, should withstand the recession better**

The pattern of private consumption is largely driven by employment and inflation trends. This year, however, the quarterly profile for household spending could see a temporary departure from these standard driving forces, as a result of government measures. In particular, a rebound in durable goods consumption in the second and third quarter is likely as households bring forward car

purchases in order to take advantage of government incentives. However, a pay-back could be expected in the second half of 2009, or early 2010.

Barring these short-term developments, the outlook for overall private consumption appears more benign than for other demand components. While contracting both this year and next, household spending is expected to hold up relatively well. The main reason for this is that the impact of the large deterioration in the labour market will be partly offset by a benign inflation outlook (see Section 1.5). In quarter-on-quarter terms, the largest job losses will probably be recorded in mid-2009, but job shedding will extend through to mid-2010 at least. Higher transfers to the household sector following the implementation of the European Economic Recovery Plan will offer further support to the purchasing power of households. Indeed, real disposable income - the key driving force for private consumption in the EU - is forecast to expand in 2009 (0.6%) and in 2010 (0.3%), although clearly more slowly than in previous years.

With private consumption declining and real disposable income increasing, the private household saving rate is expected to rise by 2½ pps. between 2008 and 2010. This follows from an increase in precautionary saving and reflects the countercyclical behaviour seen in earlier business cycles. As a result, the downward trend in the savings rate, which has been visible in most Member States since the mid-1990s, is expected to come to an end.

### First glimmers of hope?

Detecting the timing of a possible economic recovery is never easy. It is all the more difficult at the current juncture given that the cyclical upturn depends crucially on the stabilisation of financial markets and institutions and on repairing the credit channel.

While almost all leading indicators and hard data on actual economic performance paint a bleak picture, a few glimmers of hope are visible. Firstly, nominal short-term interest rates have come down sharply, reflecting lower policy rates and more aggressive injections of liquidity into money markets. Apart from reducing bank's funding costs, the decline in interest rates has beneficial effects for mortgage payments, particularly in those

countries where mortgages are directly linked to Euribor rates. This could help smoothen the downturn in residential construction, as well as slowing down the correction in house prices. It may also have beneficial effects on income and spending of households, especially if they are net borrowers. Secondly, in the last few months, real narrow money supply (so-called M1) has recovered, helped by a rebound in nominal money supply and a decline in headline inflation. Unlike business confidence, real money supply leads GDP growth by about three quarters. If confirmed, this turnaround offers support for a gradual stabilisation of the EU economy in the second half of 2009. Third, EU credit markets have shown some improvement since the beginning of 2009 and, more importantly, companies are finding it easier to raise capital on debt markets than in March. Lastly, the expectation component of several widely observed business cycle indicators (EU manufacturing and services survey, the services and composite PMI, the German IFO and ZEW) has either rebounded or, at least, stopped deteriorating recently. This suggests that a growing number of firms expect improvements in the economic situation over the next six months.

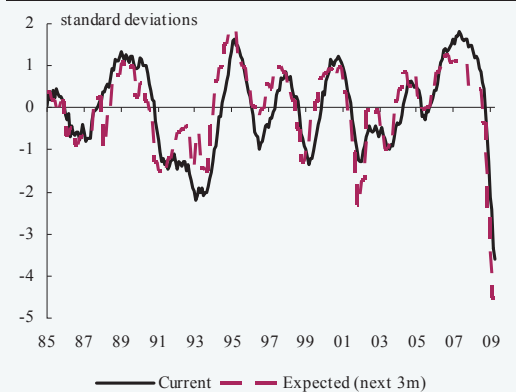
**Box 1.3.1: External trade shock at the heart of the steep fall in activity**

**Steep fall in activity at the end of 2008**

In the fourth quarter of 2008, the unprecedented drop in world trade led to the sharpest contraction ever recorded in euro-area exports (since 1970): -6.7% q-o-q. The contraction was concentrated in goods, of which exports were down by -7.7% q-o-q. The shock to exports was unexpected and led to involuntary inventory accumulation. This was reflected in a growth contribution of inventories of 0.3 pp of GDP. This excess of production over sales has curbed production plans.

As a result, industrial production collapsed. It fell at an annualised rate of 27% between August 2008 and January 2009. Moreover, production expectations in the manufacturing survey also adjusted downwards in this period, reaching a new historical low each month (since November). This does not bode well for the production outlook in coming months, not least since the assessment of stocks in the manufacturing survey continued to worsen, as domestic demand weakness added to plummeting exports.

**Graph 1: Current and expected export orders in the EU manufacturing survey**



**Source:** ECFIN business surveys.

**Surveys suggest export orders to worsen further**

Two variables from the Commission's EU manufacturing survey can be used to analyse firms' adjustment to trade developments. The first one is the monthly question on current export order books. The second is a three-monthly question on export order expectations over the next three months. In March, both stood at their lowest level ever and the latter was still in its longest decline ever (seven consecutive quarters).

The results for these two questions are standardised to make them fully comparable. Both results are currently several standard deviations (s.d.) below their long-term average and the difference between them is the largest ever. This suggests that current export orders still have to worsen further in coming months to reach the (lower) level of export order expectations. The already severe worsening of the export order book assessment is broad-based across sectors. While the situation is worst in the motor vehicles sector, at 3.9 s.d. in March, the median for the available sectors is also the worst ever, at 2.9 s.d. (total manufacturing at 3.6 s.d.).

**What does "external trade" mean?**

While the above suggests that an extremely negative external impulse has affected EU manufacturing, the notion "external" has to be qualified. Indeed, national accounts series as well as business survey data relating to international trade do not distinguish between intra- and extra-EU trade.

To assess the extra-EU character of the negative impulse, nominal data from trade statistics are used. According to these data, intra- and extra-EU exports would have declined at about the same speed during the last quarter of 2008 (q-o-q). However, within intra- and extra-EU destinations, developments diverge substantially. For extra-EU trade, exports to non-US OECD countries held up relatively well, while exports to non-Japan Asia plummeted. For intra-EU trade, exports to the euro area held up well, while above-average declines were observed for the United Kingdom and Denmark, and, in double-digit rates, for (non-euro-area) New Member States and Sweden.

**The role of exchange rates**

In view of the large exchange-rate movements observed during 2008, a ranking based on nominal flows may be misleading. However, the ranking seems to suggest that the trade shock was indeed external for the euro area (but not necessarily for the EU as a whole). This is in line with evidence that exchange-rate volatility and uncertainty may curb the volume of trade flows.

Differences in product and geographical specialisation and in exchange-rate developments are likely to continue to lead to divergent trade developments among Member States.

### Box 1.3.2: Potential growth and output gap estimates

#### Potential growth and output gap estimates are crucial in assessing the cyclical position of the economy

The concepts of potential growth and the output gap form a crucial part of the toolkit for assessing the cyclical position of the economy and its productive capacity. They have become an essential ingredient of the fiscal surveillance process emanating from the Stability and Growth Pact. Potential growth constitutes a summary indicator of the economy's capacity to generate sustainable, non-inflationary growth whilst the output gap is an indication of the degree of overheating or slack relative to this growth potential. Estimating the output gap is difficult since potential growth is not directly observed whilst actual GDP is subject to significant historical / forecast revisions. Given the large uncertainty surrounding output gap estimates, due care must be taken in interpreting their size and evolution. Whilst mindful of these uncertainties, the potential growth and output gap forecasts are providing essential information to euro-area policy makers at the current juncture. It provides an indication as to what would be the appropriate mix of macroeconomic and structural policies, with the former geared to eliminating cyclical slack and the latter used to raise the output potential of the economy.

#### Potential growth is falling sharply, with the output gap opening up to over 3½ %

Table 1 gives an overview of the current Commission services potential growth / output gap estimates for the period 2006-2010 for the euro area. <sup>(1)</sup> It suggests that the extent of the slack in the euro area's economy will be over 3½% in 2010, a level similar to those estimated for many of the euro area's economies at the time of the recession of the early 1980s. The main reason for the negative output gaps is the forecast contraction in GDP in 2009 and 2010. <sup>(2)</sup> A sharp fall in potential

growth rates (essentially a halving in the Euro Area's rate to about ¾%) limits the size of the euro area's negative output gap in 2009 /2010.

Table 1: **Output gaps and potential growth rates in the euro area (2006-2010)**

	2006	2007	2008	2009	2010
Actual GDP growth (Annual % change)	2.9	2.7	0.8	-4.0	-0.1
Output gaps (% of potential output)	1.4	2.5	2.0	-2.8	-3.6
Contribution to potential growth (pps.)	1.5	1.6	1.3	0.7	0.7
- Labour	0.3	0.3	0.1	-0.2	-0.1
- Capital	0.8	0.8	0.8	0.5	0.4
- TFP	0.4	0.4	0.4	0.4	0.4
NAIRU (% of Labour Force)	8.5	8.7	9.0	9.7	10.2
Investment ratio (% of potential output)	22.1	22.7	22.3	19.9	19.1

Source: Commission services.

#### Fall in potential growth due to higher unemployment and plummeting investment

In a production function (PF) framework as used here, potential output is estimated by combining the inputs of labour, capital and total factor productivity. <sup>(3)</sup> In terms of the key drivers behind the declines in potential growth, the financial crisis is expected to result in lower contributions from labour and capital accumulation and to a relatively more subdued pattern for total factor productivity (TFP). Prior to the onset of the financial crisis, a number of labour market trends (e.g. weaker growth of the working-age population) were negatively affecting the potential growth rate of the euro area. The recession is now adding additional, but hopefully less persistent, downward pressure.

approach), with the result that the historical patterns of cyclical slack are also affected.

<sup>(3)</sup> One key uncertainty with the present production function (PF) method is the extent to which the current practice of using changes in the aggregate capital stock, as opposed to a more disaggregated approach, using for example a breakdown which allows for differences in the relative efficiency of housing / non-housing investments, could be leading to inaccurate estimates of the contribution of capital accumulation to growth. Whilst the current aggregated approach is clearly not ideal, it unfortunately reflects the large data constraints preventing the introduction of such a change in many EU countries. On the basis of the evidence for those countries where such a housing / non-housing split is presently possible, tentative estimates suggest that the average effect for potential growth across all of the countries could be of the order of -0.1% points.

(Continued on the next page)

<sup>(1)</sup> For a description of the ECOFIN Council approved production function methodology, see European Economy Economic Paper No. 247 by Denis, Grenouilleau, Mc Morrow & Roeger 2006.

<sup>(2)</sup> In addition, since the deterioration in the actual GDP outlook for 2009 / 2010 is so significant, this tends to drag down not only future, but also historical, potential growth rates given that the PF method essentially calculates a smoothed long-run trend over the period as a whole (but less smooth compared with a HP filter

Box (continued)

The forecast suggests a significant upward movement in structural unemployment rates, measured by the non-accelerating inflation rate of unemployment (NAIRU). Every percentage point (pp.) increase in the NAIRU reduces potential growth rates by approximately 0.6 pp.

In addition, investment trends will deteriorate due to the financial upheaval. Whilst the impact on potential may not be as dramatic as with the NAIRU, falls of 2 to 3 pps. in investment to GDP ratios would cut an additional 0.2 / 0.3 pp. off underlying growth rates in the affected countries.

Finally, compared with previous forecasting exercises, the estimated contribution from trend TFP to potential growth is revised downwards by around 0.1 pp. per annum. These TFP estimates may still be conservative as they may not fully take into account any expected "one-off" downward shifts in the level of TFP and potential output associated with industrial restructuring. Some industries such as, for example, financial services and motor vehicles, are likely to experience permanent reductions in the level of their activities as a result of the crisis.

#### New results in line with empirical evidence

In addition to the PF results, there is considerable empirical evidence to support the view that financial crises tend to be associated with prolonged / permanent reductions in the level of output. For example Serra and Saxena et al. and Haugh et al. <sup>(1)</sup> report results which show declines in potential growth rates associated with a large number of historical banking / financial crises. In this respect, the early 1990's experiences of countries such as Japan, Finland and Sweden, in the aftermath of their own respective crises, suggests that the present financial shock is likely to result in marked declines in potential growth rates, driven by persistent increases in unemployment and declines in investment rates. <sup>(2)</sup>

The downward pressure on investment will result firstly from increases in risk premia on loans to firms and households; secondly, from the more cautious lending behaviour of banks; and thirdly, from a correction to more "normal" investment levels following the over-investment pattern of the "boom" period (generated, on this occasion, by bubbles in both the financial and housing markets).

With respect to the negative contribution to potential growth from higher NAIRUs, simulations with the Quest model <sup>(3)</sup> point to nominal frictions in both labour and goods markets as being key factors. The simulations also suggest that the failure of many labour markets to provoke a sufficient degree of nominal wage adjustment, following a crisis, has significant negative knock-on effects in terms of rising levels of structural unemployment / falling employment rates.

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of old capital equipment with newer vintages progressed at a historically slow pace, leading to higher capital obsolescence rates and weaker potential growth.

<sup>(3)</sup> Ratto, M., W. Roeger and J. in't Veld (2008). QUEST III - An estimated DSGE model of the Euro Area with fiscal and monetary policy, European Economy Economic Paper No. 335.

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<sup>(1)</sup> Cerra, V. and S.C. Saxena (2008), Growth dynamics: the myth of economic recovery; in: American Economic Review, Vol. 98, No. 1. Haugh, D., Ollivaud, P. and D. Turner (2009), The macroeconomic consequences of banking crises in OECD countries; OECD Working Paper No. 683. See also C.M. Reinhart and K.S. Rogoff (2009), The aftermath of financial crisis; NBER Working Paper No. 14656.

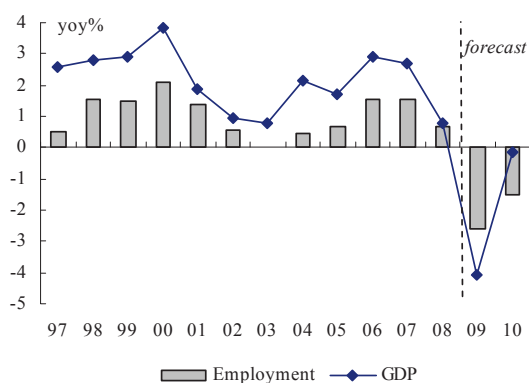
<sup>(2)</sup> For example, the particularly weak pattern of investment in Japan in the years following its financial crisis in the early 1990's ensured that the replacement



## 4. UNEMPLOYMENT INCREASES SHARPLY

Labour market developments started to deteriorate in the course of 2008. Firms began to cut employment in reaction to expected sustained weakness in demand for their output. At the same time, the tight financial conditions increased firms' need to reduce costs, including labour costs. The labour market situation is expected to weaken significantly in 2009 and 2010, with sizeable contractions in employment. By 2010, the unemployment rate is projected to reach 11.5% in the euro area and 10.9% in the EU.

Graph 1.4.1: Growth of GDP and employment, euro area



area and in the EU, and in the fourth quarter it began to contract. Unemployment started increasing in the course of 2008. By February 2009, the unemployment rate had risen by more than 1 percentage points from the lows of early 2008 in both the euro area and the EU.

A sector-by-sector analysis shows that employment in construction – unlike in the other main sectors – reached a peak already in 2007. Data available until the fourth quarter of 2008 show that employment growth recently turned sharply negative in the other sectors of industry as well, and grinded roughly to a halt in services.

The labour market situation has, by now, weakened in most Member States. In the first half of 2008, when the labour market was still strong in the majority of EU countries, unemployment started to increase markedly in Spain and Ireland, partly due to the significant weakening of the construction sector. In the second half of 2008, particularly large increases in unemployment also took place in Latvia, Lithuania and Estonia, with the pace of increases intensifying at the turn of the year.

### Employment began to fall in late 2008

In 2006 and 2007, labour market developments were strong. Employment grew by around 1½% annually in both the euro area and in the EU, while unemployment decreased and participation rates rose. In 2008, employment growth slowed to 0.7% in 2008, as general economic developments weakened. In the third quarter of 2008, employment broadly stagnated in both the euro

### Survey expectations of employment very weak in early 2009

Recent survey data suggest a significant further deterioration in the labour-market situation in early 2009. According to Commission's business surveys, employment expectations in both the euro area and the EU overall continued to weaken, although expectations in the EU improved marginally in March. The PMI survey indices of

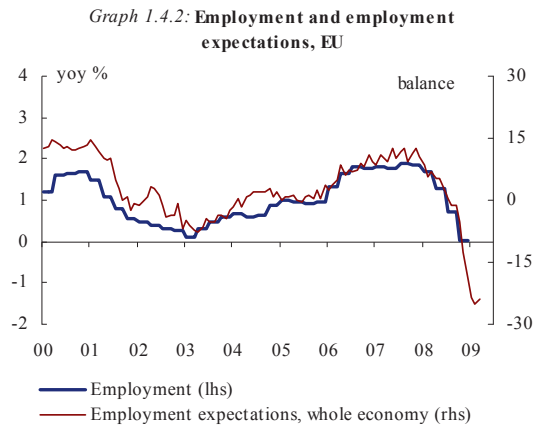
Table 1.4.1:

### Labour market outlook - euro area and EU

(Annual percentage change)	Euro area				Difference vs autumn 2008		EU				Difference vs autumn 2008	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2009	2010
	Population in working age (15-64)	0.5	0.4	0.2	0.1	0.0	0.0	0.4	0.3	0.2	0.1	0.0
Labour force	0.8	1.0	0.2	0.2	-0.3	-0.3	0.7	1.0	0.2	0.2	-0.2	-0.2
Employment	1.7	0.7	-2.6	-1.5	-2.2	-1.6	1.7	0.7	-2.6	-1.4	-2.1	-1.5
Employment (change in million)	2.7	1.3	-3.5	-2.2	-3.6	-2.6	4.0	1.9	-5.5	-3.1	-5.1	-3.7
Unemployment (levels in millions)	11.7	11.8	15.6	18.1	2.3	4.2	16.9	16.8	22.7	26.3	3.8	6.7
Unemployment rate (% of labour force)	7.5	7.5	9.9	11.5	1.5	2.8	7.1	7.0	9.4	10.9	1.6	2.8
Labour productivity, whole economy	1.0	0.1	-1.4	1.5	-2.0	0.6	1.6	0.7	-1.3	1.4	-2.4	0.1
Employment rate (a)	65.7	66.1	64.4	63.4	-1.4	-2.4	65.4	65.9	64.2	63.2	-1.3	-2.3

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

employment expectations in the euro area also declined. Overall, the pace of deterioration in employment expectations slowed somewhat in early 2009 compared to the steep declines of late 2008. The declines nevertheless brought the overall indices to, or close to, new record lows. In line with the results of the business surveys, the Commission's consumer survey shows record high unemployment expectations in early 2009.



### Employment to contract significantly

After the still positive growth experienced for 2008 as a whole, employment is forecast to decline by 2.6% in 2009 and by 1.5% in 2010 in the euro area. In the EU, employment is expected to decline by almost as much. The employment forecast has thus been revised down considerably compared to the Commission's autumn forecast and also since the January update. Between 2008 and 2010, the number of employed is forecast to decrease by 8½ million in the EU, more than wiping out the net job creation of 6 million in the preceding two years.

The weakness in employment is thus expected to follow that in economic activity with a certain lag, broadly in line with usual cyclical patterns. As the demand for firms' output started to weaken in the course of 2008, firms initially appear to have been generally reluctant to reduce the number of employees, since such adjustments are not without costs. The effects of this labour hoarding are visible in the intensifying contraction of labour productivity during 2008. However, the reductions in output gathered pace in late 2008 and remained sizeable in early 2009, according to the forecast. At the same time, survey measures of employment expectations fell sharply. It is expected that the increased deterioration in firms' demand outlook

leads to reduced labour hoarding and strong decreases in employment in the course of 2009.

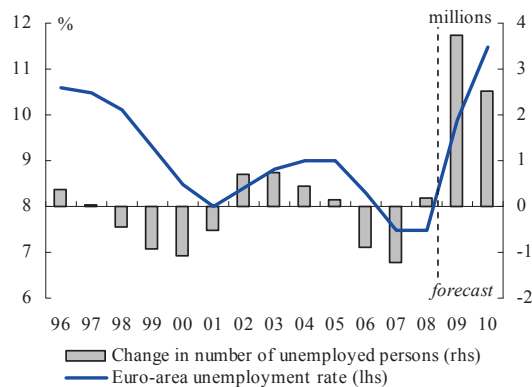
The contraction in employment in both 2009 and 2010 is expected to apply to most Member States. The largest contractions are expected to take place in Spain, Ireland, Latvia, Lithuania and Estonia, where the labour-market situation already weakened strongly in the second half of 2008. In these Member States, the projected reductions in GDP are also among the highest in the EU. Ireland and Latvia are forecast to experience the largest reductions in employment, with the expected number of employed in 2010 being more than 10% lower than in 2008. In contrast, employment is expected to remain roughly unchanged between 2008 and 2010 in Cyprus, Luxembourg and Malta, where the weakening in general economic developments is expected to be less marked than in the EU on average.

### Unemployment rate to hit a post-war record

The rate of unemployment is forecast to increase significantly in the euro area and the EU in 2009 and 2010, as the demand for labour weakens. By 2010, the unemployment rate is expected to reach 11.5% in the euro area and 10.9% in the EU. For the euro area this is a level not seen in several decades – even during the highs of the mid-1990s. Compared to the Commission's autumn forecast, the 2010 unemployment rate is revised up by almost 3 percentage points for both the euro area and the EU. Compared to the January update, the upward revision is about 1½ percentage points. The number of unemployed in the EU is forecast to increase by 9½ million between 2008 and 2010.

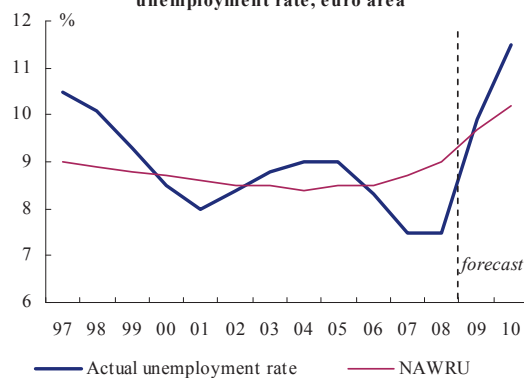
The largest increases in the unemployment rate are forecast to take place in the Member States for which the employment forecasts also are the weakest, namely Spain, Ireland, Latvia, Lithuania and Estonia. In Spain, Lithuania and Ireland, the unemployment rate in 2010 is expected to be more than 10 percentage points higher than what it was in 2007. The unemployment rate is forecast to exceed 20% in Spain by 2010.

Graph 1.4.3: Unemployed persons and unemployment rate, euro area



The unemployment rate in both the euro area and the EU is expected to rise above the structural rates (NAWRU i.e. the non-accelerating wage rate of unemployment) estimated by Commission services, despite the marked increase in the latter. By 2010, the NAWRU is estimated to reach about 10% in the euro area and about 9½ % in the EU. The recent tightness in the labour market situation is thus forecast to turn into a growing slack in 2009 and 2010.

Graph 1.4.4: Actual and structural unemployment rate, euro area



#### Smaller wage increases already in 2009

In 2008, wage pressures were strong in the euro area. Measures of labour costs accelerated, following from tightness in the labour market and the de facto indexation of wages to past elevated inflation rates in some Member States.

Wage increases are forecast to decline in the euro area in 2009, due to the emerging slack in the labour market, the weak general economic outlook, and slowing inflation. The acceleration in compensation per employee that took place in 2008 is thus expected to prove short-lived. At

1.9% in 2009 and 1.5% in 2010, growth in compensation per employee is projected to be lower than in the period 2000-2007 on average.

Even though the increase in nominal compensation is forecast to decline in the euro area, it is still expected to remain positive by a wide margin, partly reflecting the multiannual agreements of earlier years. The risk of outright decreases in aggregate nominal wages, with possible adverse deflationary impacts, therefore appears very small, notwithstanding some anecdotal evidence on firm- and industry-specific agreements to that end.

Despite the slowdown in nominal compensation, the growth in real compensation per employee in the euro area is forecast to increase in 2009, due to the expected deceleration in consumer prices. Indeed, the increase in real compensation in 2009 is likely to be the highest after the year 1999. In 2010, however, the growth in real compensation is expected to decrease quickly, as the period of very low inflation is over and the growth in nominal compensation remains weak.

As the weakness in employment follows that of activity with a lag, labour productivity growth in the euro area virtually stalled in 2008 and is forecast to turn negative in 2009 before recovering in 2010. Thus, the strong wage growth in 2008 led to a significant acceleration in unit labour costs. Given the stable and relatively muted expected nominal compensation growth in 2009 and 2010, unit labour costs are forecast to continue increasing quite strongly in 2009 and to nearly stagnate in 2010 in the euro area.

#### Employment rate drifting away from Lisbon target

The forecast weakness in employment developments leads to a significant decrease in the employment rate. In both the euro area and the EU, the employment rate is expected to fall from around 66% in 2008 to around 63½% by 2010. The target of 70% set in the Lisbon agenda appears out of reach – at least for the near future.

## 5. DISINFLATION CONTINUES AHEAD

### Headline inflation continued to ease

Headline HICP inflation in the EU and the euro area fell down from their peaks above 4% (y-o-y) in mid-2008 to, respectively, 1.3% and 0.6% in March 2009. This follows, above all, from subsiding commodity prices. Since last summer's peaks, oil prices have fallen by about 60% due to faltering economic activity resulting in a declining demand for oil and increasing oil reserves. This made the contribution of energy to headline HICP turn negative, from about 1.7 pps. in July 2008 to -0.5 pp. in March 2009. Similarly, subsiding commodity prices for food more than halved the contribution of the HICP food component.

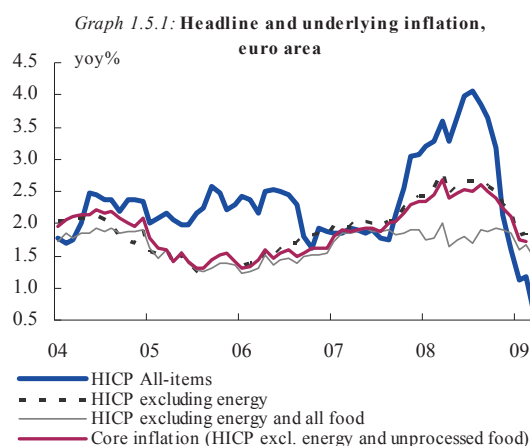
### Underlying inflation remained more stable

In contrast, the decrease in *core inflation* (HICP inflation excluding energy and unprocessed food) has been more muted in the euro area. It fell from a peak of 2.6% in August 2008 to 1.5% in March 2009, thus staying above the headline rate. The fall in core inflation may be primarily attributed to processed food, where inflation decreased from 6¾% in the third quarter of 2008 to slightly above 1½% in March 2009, following a substantial fall in world agricultural commodity prices.

Another measure of underlying inflation, i.e. HICP inflation excluding energy and all food, remained stable over recent months at 1.7-1.9% on the back of persistent services inflation.

Indeed, *services inflation* remained broadly stable over much of 2008, hovering around 2½%, despite the changed macroeconomic environment. This relative stability suggests that a strong impact of indirect effects of commodity price hikes on e.g. transport services, restaurants and canteens was

counterbalanced by price developments in other services such as communications or housing. In the beginning of 2009, however, a certain easing in services inflation was observed, driven mainly by the fall in commodity prices and to some extent by base effects.



In contrast, inflation in *non-energy industrial goods* has shown greater variability in recent months, reflecting falling input costs, exchange rate movements, falling demand for durable goods and aggressive pricing strategies during the seasonal sales following a general deterioration in economic activity.

### Price pressures receded at the producer level

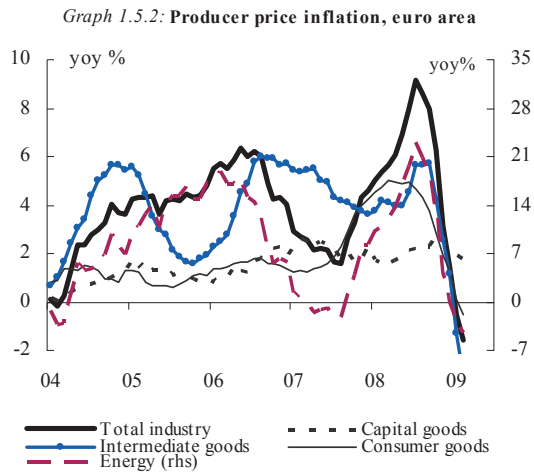
Price pressures at the producer level have also receded substantially since the peaks reached in August 2008. During the eight months up to February 2009, the industrial producer price index has fallen from nearly 9¼% to -1½%. While easing wage pressures contributed to this fall, it was mainly driven by the decline in world commodity prices. This had a direct impact on

Table 1.5.1:

#### Inflation outlook - euro area and EU

(Annual percentage change)	Euro area				Difference vs autumn 2008		EU				Difference vs autumn 2008	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2009	2010
	Private consumption deflator	2.2	2.9	0.5	1.2	-1.7	-0.9	2.3	3.0	0.8	1.3	-1.5
GDP deflator	2.3	2.3	1.5	1.2	-0.7	-0.9	2.6	2.6	1.5	1.3	-0.9	-0.9
HICP	2.1	3.3	0.4	1.2	-1.8	-0.9	2.4	3.7	0.9	1.3	-1.5	-0.9
Compensation per employee	2.6	3.3	1.9	1.5	-1.2	-1.2	3.0	3.5	1.9	1.6	-1.3	-1.4
Unit labour costs	1.7	3.3	3.4	0.1	0.9	-1.8	2.0	3.5	3.3	0.2	0.6	-1.9
Import prices of goods	1.2	3.9	-4.2	1.8	-6.6	-0.1	0.9	4.7	-1.6	2.0	-4.2	0.0

energy and food production components of the index as well as an indirect impact on input prices along the production chain.



A particularly strong impact on producer prices was observed in the early part of the production chain, reflected by a sharp decline in intermediate goods prices, while capital and durable consumer goods prices remained relatively more stable.

Available survey data on input and output prices suggest that the general weakening of economic activity towards the end of 2008 may have induced some revisions to pricing strategies in both the manufacturing and services sectors.

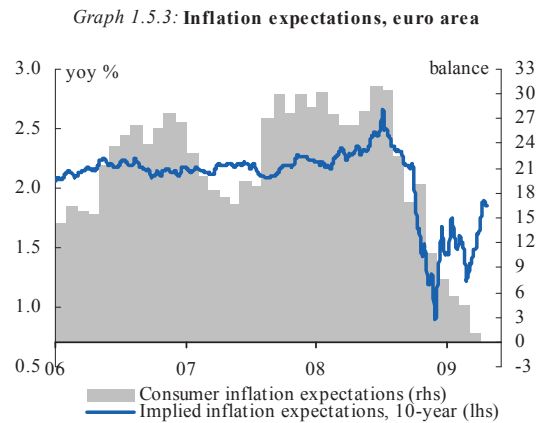
#### Unit labour cost the highest in over a decade

As regards *labour costs*, the tightness of labour market combined with the reduction in households' purchasing power due to surging inflation in most of 2008 fuelled wage claims (see section 1.4 for details). The cyclical slowdown in labour productivity growth in the course of 2008 implied that the acceleration of wage growth had a non-negligible inflationary impact. Accordingly, growth in nominal unit labour costs is estimated to have nearly doubled in both the euro area and the EU in 2008 compared to the 2002-2007 average.

#### Inflation expectations remain well anchored

In the first half of 2008, as inflation soared, a key concern was whether *inflation expectations* would remain well-anchored and thereby not contribute to the emergence of a price-wage spiral. These worries dissipated in the second half of the year, in conjunction with the rapid fall in commodity prices and headline inflation rates. In March 2009,

the survey assessment of future price developments pointed to a further easing in inflation in both industry and services in the euro area. They stood markedly below their long-term average, signalling that short-term inflationary pressures are easing.



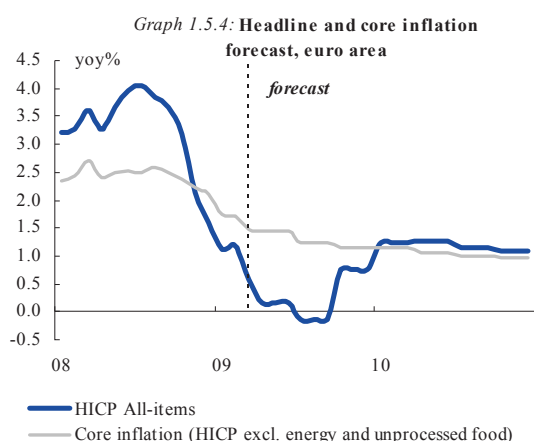
Consumers' price expectations have decreased significantly from last summer's peak and currently stand well below the long-term average. Long-term inflation expectations in the euro area, measured on the basis of 10-year index-linked government bonds, continued to decline until end-2008 and picked up somewhat thereafter, remaining volatile; they stood at 1.9% in mid-April. However, one should note that at a time of financial market distress, changes in break-even inflation rates are likely to be unreliable indicators of adjustments in market inflation expectations, because of potentially large shifts in liquidity premia.

#### Inflation set to fall on account of the weak growth outlook

Looking ahead, average annual HICP inflation in the euro area is projected to fall sharply, from 3.3% last year to 0.4% this year, before edging up to around 1.2% in 2010. In the EU, inflation is expected to drop from 3.7% in 2008 to 0.9% this year before picking up again to 1.3% in 2010. Compared to the January interim forecast, these new projections entail a downward revision for 2009 (0.6 pp. for the euro area and 0.3 pp. for the EU) and 2010 (0.6 pp. for both the euro area and the EU). This reflects both the weaker prospects for economic activity and lower commodity prices.

In terms of quarterly profiles, inflation in both the euro area and the EU is expected to reach a trough

in the third quarter of 2009 before picking up again to around 1¼% at the beginning of 2010 and stabilising thereafter until the end of the forecast horizon. This profile stems from the weak growth outlook, the deteriorating situation in the labour market, very low capacity utilisation and, last but not least, the lower price assumptions for commodities. Moreover, given the sizable shifts in energy and food price inflation since mid-2008, base effects will also play an important role in shaping the inflation profile.



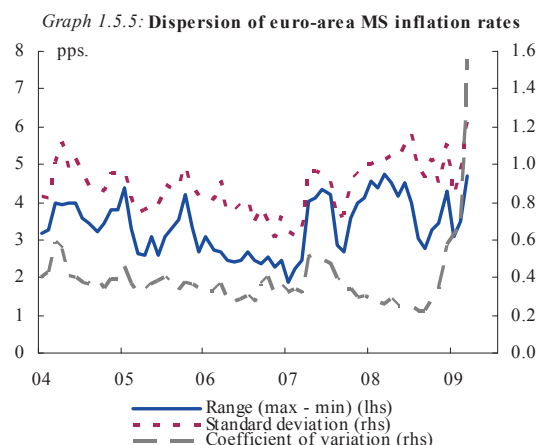
The new projection for inflation originates externally from lower-than-earlier-expected commodity prices, after their surge in 2008. The annual rate of increase in total primary commodity prices (including fuels) in USD terms is assumed to fall sharply from 31.1% in 2008 to about -44% in 2009, mainly on account of falling fuel and metal prices, but to pick up in 2010 to about 11% in line with the assumed profile for fuel commodities. Meanwhile, the annual rate of increase in import prices is projected to plummet from close to +4% in 2008 to -4¼% in 2009 in the euro area (and from +3% to -1½% in the EU) and pick up thereafter to about 2% in 2010.

On the domestic side, growth in nominal unit labour costs in the euro area is expected to accelerate slightly from 3.3% in 2008 to 3.4% in 2009 and to ease significantly thereafter to 0.2% in 2010. This profile follows from the relatively elevated, though decreasing, nominal compensation per employee over the forecast horizon, while productivity is projected to fall sharply in 2009 (by -1.4%), with a rebound by about 1.5% in 2010. Thus, the relatively persistent services inflation (similar to previous downturns), appears to be cost-driven in 2009. In 2010, however, it is likely to be caused by recovering

profit margins reflecting the projected, albeit modest economic recovery.

**Inflation prospects differ across Member States**

As regards the situation in individual Member States, downward revisions for 2009 were registered in all euro-area countries. The size of the corrections ranged from -0.2 pp. in Slovenia to -2.0 pps. in Ireland, implying an increase in the dispersion of inflation rates across the euro-area Member States in 2009. Among the largest countries, Germany is set to see a decrease in inflation in 2009 to 0.3%, as are France (0.2%), Italy (0.8%), Spain (-0.1%) and the Netherlands (1.4%). An expected sharp fall in inflation to negative rates in Germany, France and Spain is likely to bring inflation in the euro area to -0.1% in the third quarter of 2009. For 2010, inflation has been revised downwards since the January interim forecast in all countries, with the headline rate expected to range from 0.4% in Ireland to 2.4% in Slovakia.



The different pace of pass-through from past commodity price hikes and their subsequent reversal, in combination with different weights for commodity-intense components in national HICP baskets, is reflected in the diverse quarterly profiles for inflation. The impact of energy prices is particularly noticeable in Ireland and Portugal, where it contributes to, respectively, four and three consecutive quarters of negative headline inflation rates. While inflation in most of the euro-area Member States is expected to be higher in 2010 than in 2009, it is projected to decrease somewhat in the Netherlands and Finland.

Outside the euro area, inflation in 2009 was revised down in all Member States, with the

exception of the UK, Sweden, Romania and Hungary, which posted an upward revision. The largest downward revisions were recorded for Estonia, Latvia and Lithuania. The upward revisions in Sweden, Hungary and the UK were mainly due to large exchange-rate depreciations. For similar reasons inflation has been revised up in the two latter countries also in 2010, while for all other non-euro-area Member States downward revisions were made, ranging from -5.2 pps. in Lithuania to -0.3 pp. for Sweden. Among the larger non-euro-area Member States, in line with faltering economic activity, inflation in Poland is projected to decrease to 2.6% in 2009 and ease thereafter to 1.9% by the end of 2010, while in the UK it is expected to fall to 1.1% in 2009 and edge up to 1.3% in 2010.

Similarly, the expected deep economic recession in Estonia, Lithuania, and Latvia is likely to bring inflation in these countries down substantially by the end of the forecast horizon, from the double-digit levels recorded in 2008 to ½%, -½%, and -¾%, respectively, bringing therefore a mild deflation to the latter two countries. Other Member States which had high inflation rates in 2008 – Bulgaria and Romania – are also expected to see a sizable decrease, although these two countries are projected to continue to display some of the highest inflation rates in the EU by the end of the forecast horizon.

## 6. DEFICITS AND DEBT TO RISE STRONGLY

### Significant increases of headline deficits

Against the background of the unfolding global financial and economic crisis, public finances took a sharp turn in 2008. From a deficit of 0.8% of GDP in 2007, the most favourable position in many years, the general government balance in the EU rose to a deficit of 2.3% in 2008 (from 0.6% to 1.9% of GDP in the euro area). This is more than ½ percentage point above the projections of the autumn forecast and reflects mainly the rapid economic slowdown since the second half of 2008 in combination with expansionary measures adopted in some Member States to counteract the downturn in aggregate demand.

The projected deficits have increased markedly further for 2009 and 2010. In 2009, the general government deficit is now set to reach 6% of GDP in the EU (5¼% in the euro area), thus, significantly worse than projected both in the autumn and in the January interim forecast. Based on the usual no-policy change assumption, in 2010 the deficit is projected to rise further to above 7% of GDP in the EU and to 6½% in the euro area.

The sharp increase in the projected general government deficits is due to several factors. First, the economic downturn is bringing about declining tax revenue and rising social security expenditure, notably unemployment benefits. Second, exceptional revenue windfalls witnessed in the recent boom period are continuing to reverse, which is reflected in a relatively strong erosion of some tax bases. Third, in line with the

Commission's European Economic Recovery Plan (EERP), agreed by the European Council in December of last year, many Member States have adopted significant discretionary fiscal stimulus packages to promote investment and sustain demand in general.

While the expansionary measures affect government revenue and expenditure in roughly equal terms, the rise in the deficit-to-GDP ratio is partly also driven by a denominator effect of GDP affecting the ratio of expenditure to GDP. With nominal GDP shrinking in 2009 and growing only moderately in 2010, the expenditure ratio is projected to rise to 50% in 2009 and further to 51% in 2010 in the EU. The expansion of government expenditure is largely driven by social benefits and transfers, but capital expenditure and collective consumption are also picking up, reflecting the stimulus measures taken under the EERP.

The revenue-to-GDP ratio is projected to decline by around 1 pp. over the forecast horizon compared to 2007 in both the EU and the euro area. Apart from a denominator effect, the relative resilience of the revenue ratio is also explained by the evolution of indirect taxes and social contributions, which are projected to be held up by relatively robust private consumption expenditure and compensation of employees, counterbalancing somewhat the strong fall in direct taxes. While in countries with a strongly domestically driven downturn and/or reversal of an asset boom, such as Ireland, Spain or the United Kingdom, government

Table 1.6.1:

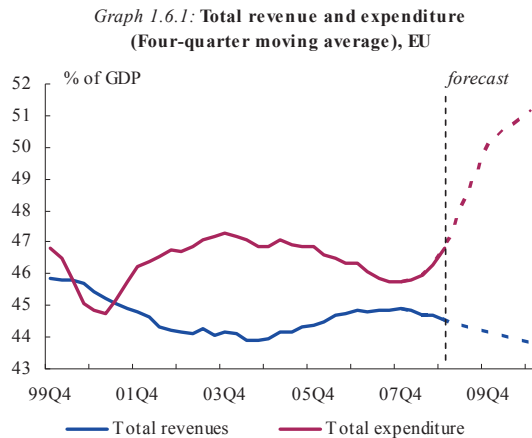
### General government budgetary position - euro area and EU

(% of GDP)	Euro area				Difference vs		EU				Difference vs	
	2007	2008	2009	2010	January 2009		2007	2008	2009	2010	January 2009	
					2009	2010					2009	2010
Total receipts (1)	45.4	44.7	44.8	44.4	0.1	0.0	44.9	44.5	44.1	43.8	-0.2	-0.3
Total expenditure (2)	46.1	46.6	50.1	51.0	1.4	2.2	45.7	46.8	50.1	51.1	1.4	2.1
Actual balance (3) = (1)-(2)	-0.6	-1.9	-5.3	-6.5	-1.3	-2.1	-0.8	-2.3	-6.0	-7.3	-1.6	-2.5
Interest expenditure (4)	2.9	3.0	3.0	3.2	0.0	0.2	2.7	2.7	2.8	3.1	0.0	0.2
Primary balance (5) = (3)+(4)	2.3	1.1	-2.3	-3.3	-1.3	-2.0	1.9	0.4	-3.2	-4.3	-1.6	-2.3
Cyclically adjusted budget balance	-1.9	-2.9	-3.9	-4.7	-0.7	-1.4	-2.1	-3.3	-4.6	-5.6	-0.9	-1.8
Cyclically adjusted primary balance	1.1	0.1	-0.9	-1.5	-0.7	-1.2	0.6	-0.5	-1.8	-2.5	-0.9	-1.6
Structural budget balance	-1.8	-2.8	-3.9	-4.7	-0.7	-1.4	-2.0	-3.1	-4.6	-5.5	-0.9	-1.7
Change in structural budget balance	0.2	-1.0	-1.1	-0.8	-0.2	-0.7	0.1	-1.1	-1.5	-0.9	-0.4	-0.8
Gross debt	66.0	69.3	77.7	83.8	5.0	8.0	58.7	61.5	72.6	79.4	5.2	8.5

The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the Commission services.



revenue relative to GDP has been falling substantially, in other countries, where the slowdown is mainly triggered by the external sector like in Germany, the re-composition of tax bases towards tax-richer components limits the decline in the revenue ratio.



The overall support of government finances to the economy in 2009 and 2010, as measured by the deterioration in the government balance, amounts to 5 percentage points in the EU (around 4½ in the euro area). These amounts include the impact of automatic stabilisers, along with the fiscal stimulus measures Member States have adopted in response to the downturn and which are estimated to total more than €135 billion in 2009 (1.1% of EU GDP) and more than €90 billion in 2010 (0.7 % of GDP) (see box 1.6.1 for estimates of related fiscal multipliers). In the euro area, the corresponding figure is more than €100 billion (1.1% of GDP) for 2009 and more than €75 billion (0.8% of GDP) for 2010. On top of these measures, Member States have adopted numerous extra-budgetary measures (i.e. measures not affecting the general government balance) to support demand. These measures, such as loans and capital injections to the non-financial private sector or enhanced investment by public enterprises, are currently estimated at about ½% of GDP.

Additionally, public money amounting to about 1¼% of EU-GDP has been injected into the financial sector as recapitalisations. These measures affect government debt, but not the deficit. Moreover, guarantees to the financial sector of around 24% of EU-GDP have been approved by the European Commission, of which around 7½% of GDP have actually been granted so far. Impaired asset relief and liquidity support to the banking sector, which effectively also take

most often the form of guarantees, amount to around 7% of GDP. Guarantees represent contingent liabilities which affect the government deficit (and debt) only once they are called.

The structural deficit, i.e. the headline deficit corrected for cyclical factors and one-off measures, is projected to deteriorate in 2009 by around 1½ pps. in the EU and 1 pp. in the euro area, following a similar deterioration in 2008, to reach 4½% (EU) and 4% (euro area). In 2010, based on the no-policy-change assumption, the structural deficit is projected to further increase by more than ¾ pp., to 5½% in the EU and 4¾% in the euro area.

Compared to the autumn forecast, structural balance projections have deteriorated considerably. This also mirrors to some extent the significant downward revision of potential output estimates, and the concomitant upward revision of output gaps, as a consequence of the downward revision in actual growth. For 2008, the effect of lower potential growth contributes roughly one half to the total revision of 1¼ pps. of the structural deficit compared to the autumn forecast. For 2009 and 2010, the new projections imply an upward revision of the structural deficit by around 1 and 1¾ pps. compared to the January interim forecast.

Overall, while developments in the structural balance point to a rather steady fiscal loosening starting in 2008, the peak in 2009 reflects the fact that the bulk of the stimulus measures under the EERP is having its impact on this year's budget balances. The indicated deficit increase in 2008 is mostly reflecting the early onset of the current economic downturn in countries such as Spain and Ireland, where the correction of overheated asset markets and the related adverse revenue composition effects led to significant budgetary deteriorations already last year.

#### **Euro area: budget deficits increase in almost all Member States**

In 2009, headline budgetary positions are projected to worsen in all euro-area Member States but Malta, where the deficit is projected to fall by 1 pp. While Ireland is experiencing a particularly sharp deterioration of its government balance, mirroring the strong impact of the economic downturn on the country's government finances, a further nine Member States (Austria, Belgium, Finland, France, Germany, Luxembourg, the Netherlands, Spain

and Slovenia) are projected to see their budget deficit worsen by more than 3 pps. in 2009. As mentioned above, in most cases this deterioration also reflects the adoption of sizeable fiscal stimulus measures in line with the EERP. The budget deficit is projected to breach the 3%-of-GDP reference value in thirteen euro-area Member States in 2009 (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Malta, the Netherlands, Austria, Portugal, Slovenia and Slovakia).

In 2010, budgetary positions are projected to worsen further in a majority of Member States, though less severely. In Finland and Luxembourg, this will push the deficit close to the 3%-of-GDP reference value. In Ireland, the deficit is projected to reach 15½% of GDP (based on the customary no-policy-change assumption). In Malta, the deficit is projected to edge down somewhat, but to remain above 3% of GDP.

#### Significant budgetary worsening also outside the euro area

Outside the euro area, two Member States, Hungary and the UK, are currently subject to the excessive deficit procedure. For Latvia, the Commission opened the procedure in February with a report under Article 104.3 of the Treaty. Hungary's deficit, that was brought down to 3½% of GDP in 2008, is set to remain at that level in 2009. Under the no-policy-change assumption it is projected to increase to 4% in 2010. The deficit in the UK, at 5½% of GDP in 2008, is set to more than double in 2009 and to rise to close to 14% in 2010.

Of the other Member States outside the euro area, budgetary positions are set to deteriorate markedly in Latvia, Denmark and Sweden. While the deficit for Latvia is forecast to rise to around 11% of GDP in 2009, the two Nordic countries are expected to see their government balances swing from surpluses in 2008 to deficits of 1½ and 2½% of GDP in 2009.

In Poland and the Czech Republic, deficits are projected to worsen from around 4 and 1½% of GDP in 2008 to around 6½% and 4¼% of GDP in 2009. In Romania, where the deficit stood at 5½% of GDP in 2008, a slight improvement is projected in 2009. The deficit in Estonia is forecast to remain unchanged at 3% of GDP in 2009.

Bulgaria and Lithuania are projected to see a relatively contained deterioration of their general government balances in 2009 by around 2 pps. While this would bring the budget balance in Bulgaria into slightly negative territory, the deficit in Lithuania is projected to widen to 5½% of GDP. In 2010, with unchanged policies, all non-euro-area countries except Bulgaria are projected to breach the 3% reference value.

#### Strong increase in government debt

Projections for government debt positions have been revised upwards markedly compared to the autumn forecast as a result of rising deficits but also significant "below-the-line" operations, such as bank recapitalisations and loans to private enterprises. The impact of such operations on the government debt is reflected in the so-called stock-flow adjustment, which amounted to 3.4 % of GDP in 2008 (Table 1.6.2). <sup>(1)</sup> While these increases were already partly foreseen in the January interim forecast, debt projections have again been revised upwards by more than 5 pps. for 2009 and more than 8 pps. for 2010. In the EU, the gross debt ratio is now forecast to rise by 18 pps. between 2008 and 2010. In the euro area, the projected rise in the gross debt ratio amounts to 14½ pps. over the same period. The surge in government debt relative to GDP between 2008 and 2010 is mainly driven by mounting primary deficits and low nominal GDP growth.

Table 1.6.2:  
Euro area - Debt dynamics

(% of GDP)	average 2002-06	2007	2008	2009	2010
<b>Gross debt ratio<sup>1</sup></b>	69.1	66.0	69.3	77.7	83.8
<b>Change in the ratio</b>	0.5	-2.2	3.3	8.3	6.1
<i>Contributions<sup>2</sup>:</i>					
<b>1. Primary balance</b>	-0.4	-2.3	-1.1	2.3	3.3
<b>2. "Snow-ball" effect</b>	0.8	-0.3	1.0	4.8	2.3
<i>Of which:</i>					
Interest expenditure	3.2	2.9	3.0	3.0	3.2
Growth effect	-0.9	-1.7	-0.5	2.9	0.1
Inflation effect	-1.4	-1.5	-1.5	-1.1	-1.0
<b>3. Stock-flow adjustment</b>	0.1	0.5	3.4	1.2	0.5

Notes:

<sup>1</sup>End of period.

<sup>2</sup>The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Government debt is projected to increase steeply over the forecast horizon, in particular, in Ireland, Latvia and the UK, but also in Spain, France and

(1) For 2009 and 2010, only those recapitalisations that are known in sufficient detail so far have been included in the forecast.

Lithuania. Reductions in the debt burden are foreseen only for Cyprus, while the ratio to GDP is expected to remain practically unchanged in Denmark at a low level and to increase only slightly in Bulgaria, Estonia and Luxembourg.

Notwithstanding the observed decline in the German Bund interest rate compared with past years (Graph 1.2.4), in the euro area as a whole interest payments relative to GDP are projected to remain broadly steady over the forecast horizon.

This is due to a widening of yield spreads relative to the German Bund as investors turned more discriminating between sovereign bond issuers, thereby raising the cost of financing government debt for a number of countries both inside and outside the euro area.

## Box 1.6.1: GDP impact of discretionary fiscal measures

**The current crisis has given new impetus to the debate about the use of discretionary fiscal policy as an instrument to support growth**

Over the course of 2009 and 2010, the G-20 countries are estimated to provide a discretionary fiscal stimulus of over \$1.3 trillion. The EU countries have announced a discretionary stimulus package amounting to 1.8 percent of GDP (while overall support to the European economy rises to 5½% of GDP when account is taken of automatic stabilisers and the extra-budgetary measures that have also been adopted). The impact that such stimuli will have on growth depends on four factors: the degree to which the economy is credit-constrained, the stance of monetary policy, and the composition and duration of the stimuli. To illustrate the potential role of fiscal policy in supporting growth, this box presents model-based multipliers of a range of fiscal policy measures. It applies these to provide an estimate of the GDP impact of the discretionary fiscal measures currently being taken in the EU and the US. For the purpose of this exercise, a new extension to the Commission's QUEST III model is used <sup>(1)</sup>.

**Model-based multipliers of fiscal policy measures**

In general, the GDP effects of fiscal stimuli that take the form of public spending shocks (government consumption and investment), are larger than those of tax reductions or transfers to households. However, the impact of a given stimulus also depends crucially on whether the shock is credibly temporary or not. In the latter case, economic agents will anticipate higher tax liabilities in the future and will increase savings, leading to stronger crowding out and a smaller GDP effect.

<sup>(1)</sup> To improve the way in which financial market shocks related to the crisis are transmitted to the rest of the economy, the QUEST III model has been adapted to incorporate credit-constrained households (see Roeger W. and J. in 't Veld (2009), "Fiscal Policy and Credit Constrained Households", *European Economy Economic Paper* no.357, [http://ec.europa.eu/economy\\_finance/publications/publication13839\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication13839_en.pdf)). These households base their consumption and leisure decisions on inter-temporal optimisation but face a borrowing constraint linked to the value of their collateral (housing). This model is better able to capture the linkages between house prices, credit rationing, residential investment and consumption.

Table 1: **First year GDP effects of fiscal shocks amounting to 1% of GDP**

Fiscal measure	Permanent stimulus	Temporary stimulus (one year)	Temporary with monetary accommodation*
Investment subsidy	0.46	1.37	2.19
Government investment	0.84	1.07	1.40
Government consumption	0.36	0.99	1.40
Consumption tax	0.37	0.67	0.99
Government transfers	0.22	0.55	0.78
Labour tax	0.48	0.53	0.68
Corporate profit tax	0.32	0.03	0.05

Note: GDP percentage difference from baseline for global shocks of 1% of (baseline) GDP, assuming long run financing through labour tax increases.

\* Unchanged nominal interest rates for 1 year.

Source: Commission services.

As shown in table 1, an increase in *investment subsidies* yields large GDP effects, especially if temporary. *Government investment* also gives rise to a sizeable GDP multiplier, larger than the multiplier for *government consumption* (purchases of goods and services), particularly if the stimulus is permanent. The productivity-enhancing effects associated with government investment account for this. In contrast, an increase in *government transfers* has a relatively small multiplier due to negative labour supply incentives. However, when monetary policy is accommodating (resulting in lower real interest rates), the impact on GDP is considerably larger.

Temporary reductions in *VAT and labour taxation* are found to be less effective as stimuli<sup>2</sup>, though of the two, a temporary reduction in consumption taxation has a bigger effect on GDP as forward-looking households respond to the change in the inter-temporal terms of trade<sup>3</sup>. Still, the private sector is more likely to believe in a reversal of a temporary tax cut than in a reversal of a temporary spending increase. Permanent reductions in VAT are less effective than temporary ones. However, permanent reductions in labour tax are comparatively more effective as they would lead to a larger reduction in the distortions imposed by the tax system.

<sup>2</sup> Tighter credit constraints, however, tend to increase the multiplier of measures that temporarily support households' purchasing power, such as reductions in wage and consumption taxes and increases in transfer payments.

<sup>3</sup> Note that this assumes the VAT reduction is fully passed through to consumer prices. The inter-temporal effect will be strongest in the period just before taxes are raised again.

(Continued on the next page)

Box (continued)

As for *corporate taxation*, table 1 shows that a temporary cut would have little impact, as firms calculate the tax burden related to a new investment project over its entire life cycle. On the other hand, a permanent reduction in corporate taxes would yield a fairly strong GDP effect, although it could take time for these gains to materialise because of large capital adjustment costs.

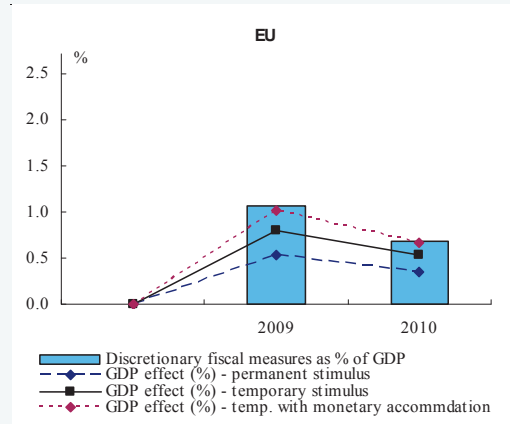
**GDP impact of discretionary fiscal measures in the EU and US**

In the EU, discretionary fiscal measures amount to 1.1 percent of GDP in 2009. It is estimated that these discretionary measures could boost EU GDP by between 0.5 and 1.0 percent, depending on how credible their transitory nature is, and on how monetary policy responds. For 2010, discretionary measures add up to 0.7 percent of GDP, with an estimated GDP impact of between 0.4 and 0.7 percent. Automatic stabilisers and the extra-budgetary measures adopted will further support EU GDP over the period 2009-2010.

Automatic stabilisers are weaker in the US than in the EU. Partly to compensate for this, the discretionary fiscal impulse in the US is larger, amounting to 2.1 percent of GDP in 2009 and 2.4 percent in 2010. The estimated GDP impact of the discretionary measures being taken in the US lies between 1.0 and 2.4 percent in 2009 and between 1.2 and 2.7 percent in 2010.

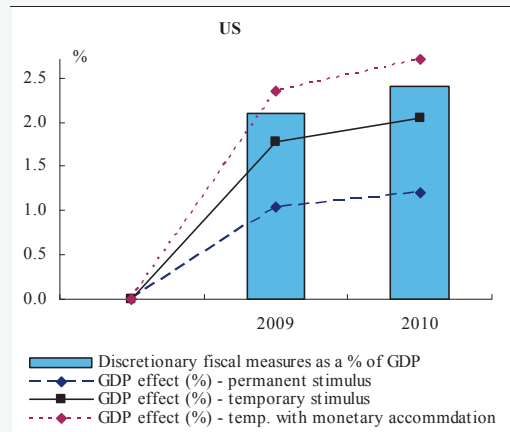
It should be noted that this illustration abstracts from implementation lags. If such lags materialised, they would shift the impact of the various measures back towards 2010-2011. The illustration also assumes that the discretionary fiscal stimulus packages do not give rise to an increase in risk premia on government bond yields. If they were to do so, the growth impact of the stimuli could be significantly reduced. It is of the utmost importance to ensure that the measures being pursued are combined with credible medium-term strategies so as to reduce the (perceived risk of the) build-up of government debt.

Graph 1: GDP effects of discretionary fiscal measures in the EU



Source: Commission services.

Graph 2: GDP effects of discretionary fiscal measures in the US



Source: Commission services.

## 7. CONSIDERABLE UNCERTAINTY REMAINS

The economic situation and outlook for the EU remain exceptionally uncertain, as the world economy goes through its worst recession since World War II. Some of the downside risks to the growth outlook identified in the January 2009 interim forecast have started to materialise, contributing to the significant downward revision in the current baseline projection. Yet, several other important risks previously mentioned continue to loom on the horizon, and are discussed below.

*Firstly*, there are still serious downside risks associated with the financial crisis and the necessary deleveraging process. While conditions in financial markets have improved somewhat in recent months, the overall situation remains fragile. The measures that have already been put in place to support the banking sector have staved off a systemic financial meltdown and should begin to have a positive impact in the coming months. Nonetheless, confidence between market participants in the sector is likely to recover only gradually.

Against this background, there is a considerable risk that the second stage of the negative feedback loop – from the sharply deteriorating real economy to some of the financial institutions already in a precarious situation – may unravel with greater intensity than currently expected (e.g. via decreased asset quality and/or cross-border contagion effects). This would reinforce the deleveraging process, pushing the projected recovery in the real economy even further into the future. Indeed, historical evidence suggests that episodes of severe financial crisis are associated with pronounced and protracted adverse effects on economic activity, asset prices, unemployment and public finances.

There are several channels through which the intensification of this negative feedback loop may materialise. The ongoing housing market corrections in several Member States (especially in Ireland, Spain, the UK and the Baltics) are being aggravated by the parallel sharp contractions in the export and manufacturing sectors. The latter two shocks are likely to lead to a marked increase in the number of corporate bankruptcies, thereby exacerbating the deterioration in the labour market. The resulting increase in non-performing loans

would, in turn, further weaken banks' balance sheets, thus reducing their capacity to provide credit to the real economy. This would reinforce the downward momentum in the housing and corporate sectors. As a result, the recession in the overall economy could be more pronounced and protracted than currently assumed.

Moreover, in the context of deleveraging on a global scale, the prospect of a protracted period of declining domestic and external demand can rapidly reinforce abrupt shifts in investors' risk preferences. Sudden disruptions in the flow of foreign capital can, in turn, further depress domestic economic and financial conditions. This is an important concern for emerging and developing economies, particularly for those with large external financing requirements and/or a sizeable financial sector compared to GDP, coupled with already weak fiscal positions. Some emerging economies in Eastern Europe appear especially vulnerable in this respect, given their considerable exposure (as a percentage of GDP) to foreign bank lending flows, which is the largest among emerging regions. Furthermore, as a consequence of the substantial degree of financial and trade integration between "old" and "new" Member States, a gloomier outlook for the latter countries could give rise to adverse spillover effects for the EU as a whole. <sup>(2)</sup>

*Secondly*, the synchronous and extraordinarily rapid collapse of world trade and industrial production at the turn of the year has raised the spectre of protectionist measures, in both advanced economies and emerging markets. Protectionism could take the form of inappropriate subsidies to specific industries, inward-looking trade and financial policies or even outright capital controls. Despite commitments by G20 countries to avoid such practices, there is a risk that the political and social pressures arising from the economic crisis may lead to some slippages in the course of this year, thereby exacerbating the current downward trend in global economic activity. <sup>(3)</sup>

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<sup>(2)</sup> For a comprehensive analysis of EU enlargement see European Commission (2009) "Five years of an enlarged EU – Economic achievements and challenges".

<sup>(3)</sup> An illustrative simulation using the multi-region version of the QUEST model (where an increase in protectionism is

A *third* downside risk to the growth outlook relates to the possibility of disruptive exchange-rate developments associated with the continuation of significant global imbalances. Since the turn of the year, driven partly by differences in the scale and speed of monetary policy loosening, a number of important currencies have weakened against the euro, leaving it slightly stronger than a year ago in real effective terms and somewhat above historical averages. However, foreign exchange markets have experienced phases of volatility since the turn of the year, reacting strongly to financial sector developments and efforts to safeguard financial stability. This suggests that as long as the financial crisis lasts, there is a heightened risk of abrupt exchange-rate movements.

*Fourthly*, there is a risk that as the economy enters uncharted deep recession territory, adverse non-linearities may come into play, opening up the possibility of an even deeper and longer-lasting recession. Leading indicators of domestic activity in the EU have painted an unusually bleak picture this winter. Industrial production plummeted at the turn of the year. Business and consumer confidence has experienced an unprecedented deterioration in the last few months, plunging to historic lows. Notwithstanding a certain stabilisation in some of the recent readings, it cannot be ruled out that very weak economic sentiment may continue for some time, particularly with unemployment on the rise. In addition, the negative wealth effect caused by falling real and financial asset prices could weigh on domestic demand further still.

As the world economy moves deeper into recession territory, there is also the risk that deflation is no longer a tail-event, at least for some countries. Moreover, as the labour market deteriorates, one cannot exclude the risk of social and political unrest, particularly in emerging market economies and low income countries.

There are, however, some *upside risks* too. For instance, it is possible that the unusually sharp deterioration in trade and industrial output at the end of last year may turn out to be a one-off "level-effect", and thus, not necessarily be protracted. Also, a faster than expected inventory adjustment

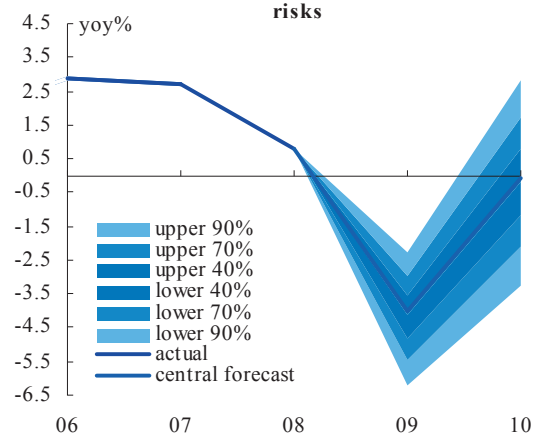
could lay the basis for an earlier worldwide recovery by freeing up capital for productive investment, and by reducing the need for job shedding. These developments, if sustained, could support consumer spending somewhat more than currently envisaged.

Another upside risk is the possibility that commodity prices may weaken further, on the back of deteriorating growth prospects. This could help mitigate the recession by more than has been factored into this forecast, through higher than foreseen real disposable income. Also, the recent fall in oil prices has resulted in a decline in transportation costs, which could help trade recover more swiftly if supported by improved trade financing and renewed external demand. The latter may come about if emerging markets, helped by depreciating currencies, pull out of the global downturn more rapidly than currently expected.

Finally, there is also the possibility that a swift and full implementation of the rescue and recovery measures announced for 2009-2010 in the EU and abroad could be more effective than currently anticipated in restoring confidence among investors and consumers.

*All in all*, with only limited upside risks at the current juncture, overall risks to the EU growth outlook for 2009 remain somewhat tilted to the downside, in an environment still characterised by exceptional uncertainty. Risks to the outlook for 2010 appear more balanced.

Graph 1.7.1: Euro area GDP forecasts -  
Uncertainty linked to the balance of  
risks



modelled via an increase in the mark-up in the tradable sector) shows that a rise in global protectionism has a sizable negative effect on output in the EU and the rest of the world.

Graph 1.7.1 quantifies the risks in terms of the possible deviation of output growth from the central forecast. It shows the impact that various combinations of risks could have on euro-area GDP growth, the outcomes being weighted by the probability of their occurrence. At a 90% confidence interval, GDP growth in the euro area in 2009 could be about 2¼ pps. lower than the central scenario if all negative factors materialise, but it could also be up to 1¾ pps. higher if the positive risks to the outlook were all to materialise. In 2010, uncertainties surrounding the forecast increase, though the risks appear more balanced.

As regards the inflation outlook, risks appear to be broadly balanced for 2009, while skewed to the downside for 2010. On the one hand, the downward trend in oil prices (and other commodities) came to a halt in early 2009, as weaker demand was offset by the OPEC supply reductions. Further supply restrictions are possible, posing an upside risk to the inflation outlook. On the other hand, in a recession environment, the decline in inflation in 2009 may be more pronounced than currently projected or, in particular, the upturn in inflation in 2010 may be less pronounced. Should the risk of a sharper downturn materialise, implying an even bigger deterioration in the labour market, a deeper moderation of wages and further falls in capacity utilisation, the pricing power of companies would be further limited. This would serve to put a lid on inflationary pressures in 2010, notwithstanding positive base-effects.

The risk of a deflation scenario, i.e. a persistent decline in a very broad set of prices, propagated by a self-reinforcing expectation of further price declines, appears limited at the current juncture, at least at the aggregate level. This follows from several factors: inflation expectations remain anchored at levels consistent with price stability, wage growth is expected to remain positive, and both fiscal and monetary policies have turned expansionary (see section 1.5). However, at the Member State level, the risk of deflation might be larger in countries where the headline inflation rate is expected to fall into negative territory for one to four quarters, even if this is mostly a consequence of energy-related base effects.



# Chapter 2

## Member States

# 1. BELGIUM

## Double-digit unemployment and triple-digit public debt in sight

### From gradual slowdown to sharp contraction

The Belgian economy had started losing momentum in the course of 2007 as export growth slowed down in line with weakening external demand. From the beginning of 2008, domestic demand also gradually softened as a result of the sharp increase in inflation. In the fourth quarter, the slowdown turned into a sharp contraction (1.7% q-o-q) due to the financial crisis. The contraction was driven mainly by a fall in exports, but also by a decline in consumption. Overall, GDP growth in 2008 came out at 1.2%.

In the first quarter of 2009, the same factors are forecast to cause GDP to contract approximately as sharply as in the previous quarter. In the subsequent quarters, the fall in output should slow down as the external environment improves and the destocking process has ended, with growth turning slightly positive in the course of 2010. GDP is consequently projected to contract by 3.5% in 2009 and by 0.2% in 2010, the latter chiefly reflecting a negative carry-over from 2009.

### Moderate decline in domestic demand

Although households' real disposable income stabilised in 2008, private consumption continued to expand, leading to a fall in the saving rate by 1.2 pps. to 12.8% of disposable income. Following the decline in households' financial assets, a deterioration of confidence and a relatively low increase in real disposable income, consumption is forecast to fall by ¾% in 2009. This is projected to lead to an increase in the saving rate by around 2 p.p. In 2010, consumption is expected to further

contract, while the saving rate should continue to rise as a result of the still negative labour market situation and the related confidence effects.

The expected tightening of lending conditions started to materialise and will have an impact on private investment. The absence of important disequilibria on the residential real estate market and the temporary reduction of the VAT rate for residential construction are expected to cushion the contraction of housing investment in 2009 (-1½%). In 2010, a continued fall in housing investment is forecast, given the usual lags in construction projects and the expected withdrawal of the fiscal stimulus. Corporate investment is projected to fall markedly in 2009 in view of the sharp decline in capacity utilisation (from 82.4% to 74.7% in the fourth quarter of 2008), weak demand prospects and tighter financing conditions. It could pick up early in 2010, but annual average growth would still remain negative as a result of a negative carry-over from 2009.

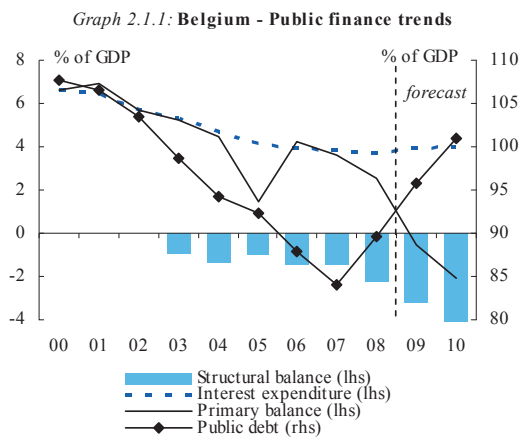
### Exports expected to contract strongly in 2009

The sharp contraction of world trade, which is observed since the fourth quarter of 2008 and is expected to continue in particular in the first half of 2009, is projected to lead to a fall in Belgium's exports by around 13% in 2009. Given that export markets will only gradually recover, export growth is projected to remain negative in 2010.

The contribution of net exports to GDP growth is forecast to be even more negative in 2009 than in 2008, since imports will decline somewhat less than exports due to the more limited contraction of domestic demand. In 2010, the net contribution is projected to become neutral as a result of the lagged adjustment of imports to lower final demand with domestic demand remaining weak.

### Disinflation and moderate wage growth ahead

After a year of particularly high inflation as a result of the strong increase in energy prices, consumer prices are expected to rise by only 0.3% in 2009 on the back of strong base effects, notably on the energy component. Core inflation is projected to decrease from 2.7% to around 2% as a result of expected smaller price increases for industrial goods and processed food. In 2010,



headline inflation is forecast to pick up to 1¼%, coming out somewhat above core inflation.

The economic downturn will also cause the unemployment rate to jump from 7% in 2008 to above 10% in 2010. This, together with contained wage indexation, should allow for a moderate development of wages over the forecast period.

### Deficit and debt to rise strongly

In 2008, the general government deficit amounted to 1.2% of GDP, compared to a balanced budget target. The main factors explaining this slippage were the already optimistic revenue assumptions in the initial budget and the worse-than-expected economic environment. Moreover, expenditure was driven up as the amount of unpaid invoices at the end of the year was considerably reduced (0.3% of GDP). On the other hand, higher-than-expected inflation had a positive impact on personal income tax revenue, which was only partly offset by higher expenditure.

In 2009, the deficit is forecast to widen to 4.5% of GDP, compared to the government's target of 3.4% of GDP. The difference is largely explained by the more negative macroeconomic scenario in this forecast. The widening of the deficit compared to

2008 is also due to a number of discretionary measures including those taken in the context of the Recovery Plan (with a budgetary impact of 0.5% of GDP), the increase of social allocations, the particularly sizeable indexation of personal income tax brackets (following high inflation in 2008) and the Flemish personal income tax rebate, as well as to higher interest expenditure. In 2010, under the usual no-policy-change assumption, the deficit is projected to reach around 6% of GDP, mainly due to the still negative economic environment, including a further decline in tax-rich items such as private consumption and employment.

The recent measures to stabilise the financial system are estimated to have had an impact of almost 7% of GDP on public debt, which increased from around 84% to nearly 90% of GDP in 2008. The ratio is projected to climb further – to over 100% of GDP – in 2010, as a result of rising interest expenditure, low nominal GDP growth and a strong deterioration of the primary balance. Due to guarantees provided to financial institutions, the government's contingent liabilities currently amount to about one third of GDP.

Table 2.1.1:

### Main features of country forecast - BELGIUM

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	334.9	100.0		2.0	1.8	3.0	2.8	1.2	-3.5	-0.2
Private consumption	175.0	52.3		1.6	1.2	2.1	2.1	1.0	-0.7	-0.4
Public consumption	74.3	22.2		1.7	0.4	0.1	2.3	2.1	1.8	1.7
Gross fixed capital formation	72.5	21.7		2.1	6.9	4.7	6.2	4.8	-6.2	-2.2
of which : equipment	32.4	9.7		2.1	5.4	5.1	8.2	7.4	-9.0	-2.0
Exports (goods and services)	297.4	88.8		4.3	3.6	2.6	4.0	2.4	-12.8	-1.0
Imports (goods and services)	287.4	85.8		4.1	4.1	2.7	4.6	3.7	-11.0	-0.9
GNI at previous year prices (GDP deflator)	336.7	100.5		2.0	1.4	3.2	2.6	1.0	-3.4	-0.3
Contribution to GDP growth :										
Domestic demand				1.7	2.1	2.1	2.9	2.0	-1.4	-0.2
Stockbuilding				0.0	0.1	0.9	0.3	0.4	-0.5	0.0
Foreign balance				0.3	-0.3	0.0	-0.4	-1.1	-1.5	0.0
Employment				0.6	1.3	1.4	1.8	1.6	-1.2	-1.5
Unemployment rate (a)				8.4	8.5	8.3	7.5	7.0	8.5	10.3
Compensation of employees/head				2.9	2.1	3.3	3.8	3.3	2.1	1.8
Unit labour costs whole economy				1.6	1.5	1.7	2.8	3.7	4.5	0.6
Real unit labour costs				-0.3	-0.9	-0.6	0.4	2.0	2.2	-0.7
Savings rate of households (b)				-	-	12.9	13.7	12.8	14.6	15.6
GDP deflator				1.9	2.4	2.3	2.4	1.7	2.2	1.3
Harmonised index of consumer prices				1.8	2.5	2.3	1.8	4.5	0.3	1.2
Terms of trade of goods				-0.4	0.1	-0.3	0.5	-3.3	1.7	-0.1
Trade balance (c)				3.3	1.9	1.3	1.2	-2.2	-2.3	-2.4
Current account balance (c)				4.6	2.9	2.5	2.4	-1.7	-2.0	-2.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.5	2.8	2.5	2.1	-2.1	-2.5	-2.6
General government balance (c)				-2.3	-2.7	0.3	-0.2	-1.2	-4.5	-6.1
Cyclically-adjusted budget balance (c)				-2.2	-2.9	-0.5	-1.6	-2.2	-3.1	-4.0
Structural budget balance (c)				-	-1.0	-1.5	-1.5	-2.2	-3.2	-4.0
General government gross debt (c)				116.6	92.2	87.9	84.0	89.6	95.7	100.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 2. BULGARIA

### Vanishing budgetary surplus, external deficit remains large

#### Economic activity remained strong in 2008

After three quarters of buoyant economic activity, real GDP growth slowed markedly in the final months of 2008, driven by a deceleration in both domestic demand and exports. For the year as a whole, real GDP grew by 6%, supported by still robust domestic demand, while the contribution of net exports to growth remained negative. Despite the noticeable decline in FDI and lower credit growth compared with 2007, gross fixed capital formation grew by around 20½% in 2008. Similarly, private consumption growth was strong at 4¾%, reflecting very high wage increases and employment growth. The growth contribution of net exports remained negative, reflecting a deceleration in both exports and imports. The current account deficit deteriorated further, to around 25% of GDP. As a result, net borrowing vis-à-vis the rest of the world reached 24% of GDP in 2008.

#### Real GDP contracts

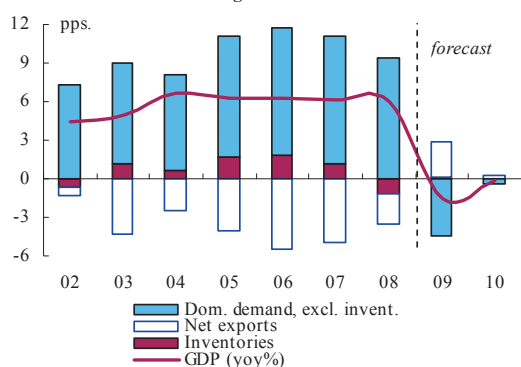
Since the beginning of 2009, economic sentiment and confidence indicators have deteriorated further, in line with the unfolding global economic crisis. This, together with falling industrial production and retail sales, points to a sharp slowdown ahead. Driven by weaker external demand and subdued credit growth, exports and domestic demand are expected to deteriorate significantly. For the first time since 1997, real GDP is projected to contract by around 1½% in 2009 and to stagnate in 2010. Due to an expected further fall in FDI inflows and more moderate credit growth, investment should decline markedly

in 2009 and contract further in 2010. The projected considerable deceleration in wage growth and rising unemployment should weigh on disposable income. Together with tighter credit conditions, private consumption expenditure is expected to weaken considerably. Overall, domestic demand is expected to act as a drag on growth this year and next.

In line with negative domestic demand and falling FDI, imports are set to decline by more than 11% in 2009 and grow only moderately thereafter. However, weak external demand should trigger a similar contraction in exports, thus preventing the current account deficit from a quick and substantial downward adjustment. The mild improvement in the external deficit, together with higher projected capital transfers from the EU, could bring the economy's net borrowing vis-à-vis the rest of the world to below 16% of GDP by 2010.

All in all, uncertainty about the short- to medium-term economic prospects is unusually high, due to the fading of earlier main growth drivers and doubts as to the ability of domestic industry to contribute to a sustained export-based recovery, thereby helping to achieve a more balanced growth path. In the past few years of buoyant activity, the economy has accumulated major imbalances, as rapid expansion, based on strong domestic demand, was fuelled by easy credit conditions and high FDI inflows. With the external imbalances persisting and foreign investment falling, the economy's external position, financed increasingly through accumulation of debt-creating liabilities, is likely to pose an additional risk to the outlook.

Graph 2.2.1: Bulgaria - Contributions to GDP growth



#### Inflationary and labour market pressures ease

In line with strong labour demand, employment growth accelerated to around 3¾% in 2008. Against deteriorating economic activity, employment growth is expected to turn negative in 2009-2010. The downward trend in unemployment observed in the past few years should be reversed, with the unemployment rate close to 8% by the end of the forecast period. Nominal wage growth was exceptionally high at over 20% on average in 2008, reflecting tight labour market conditions. Looking ahead, weaker labour demand should ease wage pressures. Labour productivity is expected to

increase at a moderate pace over the forecast period. Despite lower productivity growth, the projected much more moderate nominal wage increases will bring nominal unit labour cost growth down to around 6% this year and 3% next.

The projected economic downturn and the resulting weakening of domestic demand, as well as falling global commodity prices and decelerating nominal wage growth, should bring HICP inflation down to below 4% in 2009 and 2010, from an average of 12% last year. However, future commodity market developments and the corresponding adjustment in administered prices remain crucial to the inflation outlook.

### Budgetary balance turns negative

The general government surplus reached 1½% of GDP in 2008, below the official target of 3% of GDP in the budget law. The outcome reflected a deterioration in revenues over the last few months of the year, in line with the economic slowdown. At the same time, discipline in certain expenditure items has not been maintained, as additional social and infrastructure spending of around 1¼% of GDP was implemented in the fourth quarter.

Despite the expenditure-reducing contingency

buffer in the budget, the general government budget balance is projected to deteriorate to a deficit of ½% of GDP in 2009. Under a no-policy-change assumption, the budgetary outcome in 2010 would be a deficit of around ¼% of GDP. The weakening of the budgetary balance compared with 2008 reflects a less favourable growth scenario, implying a less tax-intensive composition of growth. However, there are major downside risks to these projections, associated with a deeper and more protracted economic downturn that would result in higher-than-expected revenue shortfalls. On the expenditure side, discontinuing additional discretionary spending and exercising strict expenditure control would be crucial for the outcome in the context of scarce revenues.

In line with economic slowdown and deteriorating budgetary outcomes, the public debt level should increase to just above 17% of GDP in 2010.

Table 2.2.1:

### Main features of country forecast - BULGARIA

	2007		Annual percentage change							
	bn BGN	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	56.5	100.0		0.9	6.2	6.3	6.2	6.0	-1.6	-0.1
Private consumption	39.1	69.1		1.6	6.1	9.5	5.3	4.8	-0.3	0.1
Public consumption	9.1	16.2		-3.2	2.5	-1.3	3.1	0.1	0.2	0.4
Gross fixed capital formation	16.8	29.8		-	23.3	14.7	21.7	20.4	-12.7	-2.0
of which : equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	35.8	63.4		-	8.5	8.7	5.2	2.9	-11.1	2.2
Imports (goods and services)	48.3	85.5		-	13.1	14.0	9.9	4.9	-11.3	1.1
GNI at previous year prices (GDP deflator)	54.3	96.2		-	5.9	2.7	7.6	6.4	-1.2	0.2
Contribution to GDP growth :										
Domestic demand				-	9.5	10.0	9.9	9.4	-4.4	-0.4
Stockbuilding				-	1.7	1.8	1.2	-1.1	0.1	0.0
Foreign balance				-	-4.1	-5.4	-4.9	-2.3	2.7	0.3
Employment				-0.4	2.7	3.3	2.8	3.3	-2.2	-1.0
Unemployment rate (a)				15.1	10.1	9.0	6.9	5.6	7.3	7.8
Compensation of employees/head				-	5.9	7.4	17.9	19.3	6.5	4.2
Unit labour costs whole economy				-	2.4	4.4	14.2	16.2	5.9	3.3
Real unit labour costs				-	-1.3	-3.8	5.9	4.3	0.9	0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				53.2	3.8	8.5	7.9	11.4	4.9	3.1
Harmonised index of consumer prices				-	6.0	7.4	7.6	12.0	3.9	3.6
Terms of trade of goods				-	-2.2	5.1	-1.4	-2.5	1.0	1.6
Trade balance (c)				-6.2	-20.2	-22.0	-25.5	-25.8	-19.9	-19.2
Current account balance (c)				-3.8	-11.5	-18.6	-22.5	-24.8	-18.8	-17.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.8	-10.6	-17.9	-21.3	-24.0	-17.7	-15.7
General government balance (c)				-	1.9	3.0	0.1	1.5	-0.5	-0.3
Cyclically-adjusted budget balance (c)				-	0.8	1.8	-1.2	0.2	0.3	1.6
Structural budget balance (c)				-	1.0	1.9	2.0	0.2	0.3	1.6
General government gross debt (c)				-	29.2	22.7	18.2	14.1	16.0	17.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

### 3. THE CZECH REPUBLIC

#### Output falls sharply driven by collapse in external demand

##### The economy was already slowing at the end of 2008

The economic outlook for the Czech Republic has deteriorated sharply with the external environment worsening and the recession in its main trading partners deepening further. Economic activity slowed considerably in the last quarter of 2008 and grew by a weak 0.2% in annual terms compared with the revised average of 4.3% in the first three quarters of 2008. In particular, both exports and imports contracted dramatically, with the result that net exports contributed negatively to growth in the fourth quarter for the first time in the last four years. Moreover, industrial production has plunged to record lows in the most recent months. Overall GDP growth decelerated to 3.2% in 2008 and was mainly driven by foreign trade and domestic demand. Stock building contributed negatively to the annual growth rate because of slowing external and domestic demand compared with the past.

##### Recession in 2009

On the back of falling external demand, the Czech economy is expected to be in recession in 2009, with domestic demand, stock building and external balance contributing negatively to economic growth. GDP is expected to contract by 2.7% in 2009 and to move back into positive territory in 2010. Although inflation decelerated significantly at the beginning of 2009, positively influencing real disposable income, deteriorating conditions in the labour market, pessimistic consumer expectations and tight credit conditions will weigh on private consumption, which is expected to remain flat in 2009 and 2010. Negative

repercussions of weak external demand on business activity will adversely influence export performance and investment activity despite the weakening of the Czech koruna in the second half of 2008. Gross fixed capital investment is set to contract by around 5% in 2009 and should start to recover in 2010, provided that the global economy and investor confidence rebound.

The export performance of Czech companies is being driven down by the collapse of external demand and export growth is therefore anticipated to contract by around 11½ % in 2009. The trade surplus is anticipated to decline, though it will remain in positive territory. The current account deficit should remain moderate for the region at around 3% of GDP over the forecast period; the decline in trade surplus should be counterbalanced to some extent by the falling income account deficit reflecting lower wage and dividend transfers in foreign-owned companies. The Czech financial sector, which is dominated by banking, has so far not been seriously affected by the global financial crisis.

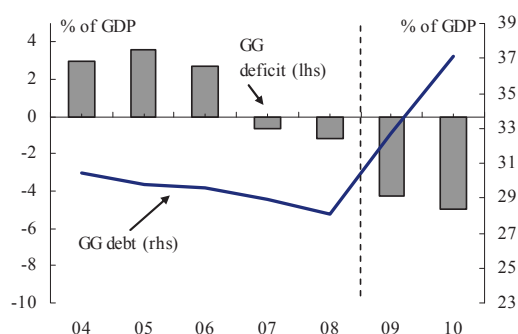
##### Inflation eased significantly

After escalating to 6.3% in 2008 in annual terms due to a range of administrative measures, inflation decreased gradually, down to 1.3% in February. The decline in inflation should be supported by weak domestic demand, low nominal wage growth and modest commodity price growth in 2009 and 2010. On the contrary, a strongly depreciating Czech currency in the second half of 2008 should counter this. HICP inflation is therefore anticipated to grow by 1.1% and to accelerate slightly, to about 1.6% in 2010, in line with the Czech National Bank new target.

##### Strong repercussions on the labour market

The economic slowdown is expected to have a strong impact on the labour market with the manufacturing sector particularly affected by job losses. Total employment is anticipated to contract due to subdued economic activity. Unemployment was already on the rise at the end of 2008 and this rising trend is expected to continue in 2009 and 2010. Nominal wage growth is set to decelerate substantially; it should, however, be supported by the growth of public sector wages which, in

Graph 2.3.1: The Czech Republic - Government finances



contrast to the past, will be faster than in the business sector. In the private sector, significant downward pressure on wages will be caused by cuts in working hours and falling demand for labour.

#### Deficit set to expand markedly in downturn

The 2008 general government deficit is estimated to be 1.5% of GDP. In 2009, public finances are set to deteriorate due to the downturn in the economy, the operation of automatic stabilisers and the impact of fiscal stimulus measures. On the revenue side, social security contributions will fall markedly due to rising unemployment and the reduction in the amount paid by employees of 1½ pps. Corporate income tax revenue will also be affected due to falling company profits and a decline in the rate of corporate income tax from 20 to 19 per cent. In addition, VAT revenues are likely to be lower than projected in the 2009 budget due to a sharp decline in consumer spending. On the expenditure side, social transfers will rise as a result of the worsening labour market, while the increase will be partly contained as a result of discretionary reductions in social and welfare benefits introduced in 2008.

packages at the end of 2008 and in February 2009. The first package consisted primarily of a reduction in social security contributions to support private consumption and a boost to infrastructure investment. The second package includes a range of revenue and expenditure measures mainly targeted at businesses. The implemented measures are likely to have an impact on the deficit in 2009 of around 1½% of GDP, although these measures will be partially offset by savings in other areas, and the larger effect on the deficit will come from much worsened cyclical factors. Expenditure will also increase due to a larger than expected indexation of pensions, reflecting higher than anticipated inflation in 2008, while intermediate consumption is forecast to be restrained in line with the government's strategy. The forecast estimates that the deficit will significantly widen in 2009 to 4.3% of GDP and to 4.9% of GDP in 2010. The government debt ratio is predicted to rise to about 38% of GDP in 2010.

The Czech Republic introduced two stimulus

Table 2.3.1:

#### Main features of country forecast - THE CZECH REPUBLIC

	2007		Annual percentage change							
	bn CZK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	3530.2	100.0		2.1	6.3	6.8	6.0	3.2	-2.7	0.3
Private consumption	1697.6	48.1		3.8	2.5	5.4	5.3	2.9	0.2	0.3
Public consumption	718.5	20.4		0.8	2.9	-0.7	0.4	0.9	0.5	0.4
Gross fixed capital formation	857.7	24.3		4.9	1.8	6.5	6.7	3.1	-5.1	-0.2
of which : equipment	354.7	10.0		9.0	1.2	8.1	5.2	10.5	-5.9	-0.5
Exports (goods and services)	2830.3	80.2		9.9	11.6	15.8	14.9	6.9	-11.6	0.7
Imports (goods and services)	2652.7	75.1		13.7	5.0	14.2	14.2	4.6	-10.4	0.6
GNI at previous year prices (GDP deflator)	3300.6	93.5		-	7.4	5.8	5.2	2.7	-3.2	-0.4
Contribution to GDP growth :										
Domestic demand				3.4	2.4	4.1	4.3	2.3	-1.0	0.2
Stockbuilding				0.3	-0.7	1.1	0.6	-1.1	-0.2	0.0
Foreign balance				-1.6	4.6	1.6	1.0	2.1	-1.5	0.1
Employment				-	1.1	1.7	2.7	1.2	-1.7	-1.3
Unemployment rate (a)				-	7.9	7.2	5.3	4.4	6.1	7.4
Compensation of employees/head				-	4.7	6.3	6.4	6.3	3.1	3.4
Unit labour costs whole economy				-	-0.4	1.3	3.1	4.2	4.2	1.8
Real unit labour costs				-	-0.1	0.4	-0.5	2.5	2.6	0.3
Savings rate of households (b)				-	-	9.1	8.8	10.2	9.6	9.9
GDP deflator				7.9	-0.3	0.9	3.6	1.7	1.6	1.4
Harmonised index of consumer prices				-	1.6	2.1	3.0	6.3	1.1	1.6
Terms of trade of goods				-	-1.7	-1.7	1.3	-2.1	0.1	-0.2
Trade balance (c)				-4.5	2.0	2.0	3.4	2.8	1.7	1.7
Current account balance (c)				-3.8	-1.7	-2.2	-1.5	-3.1	-3.2	-3.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-2.3	-1.8	-0.8	-2.1	-1.8	-1.4
General government balance (c)				-	-3.6	-2.6	-0.6	-1.5	-4.3	-4.9
Cyclically-adjusted budget balance (c)				-	-3.9	-4.0	-2.8	-3.4	-4.0	-3.7
Structural budget balance (c)				-	-2.7	-3.9	-2.5	-3.4	-4.0	-3.7
General government gross debt (c)				-	29.8	29.6	28.9	29.8	33.7	37.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 4. DENMARK

### Strong increase in unemployment from record lows

#### Recession already took hold in early 2008

The Danish economy is in the midst of a recession, which had already started in the beginning of 2008, well ahead of the time when the global crisis became visible. The 1.1% contraction in GDP in 2008 was initially triggered by domestic factors as a result of an economic overheating, marked by strong house price increases and labour shortages.

Domestic demand began to decline right from the start of the year, amidst a cooling housing market, mounting inflation and waning confidence. Growth in general government consumption had also been weak. Triggered by a fall in profits that had already begun in 2007, investment showed a strong negative trend, most notably in construction. Net exports acted as a drag on activity due to strong growth in imports. Although starting to diminish, employment remained at a very high level. Productivity therefore weakened significantly and unit labour costs increased markedly.

The rapidly deteriorating global external environment accelerated the ongoing contraction and GDP fell at a quarterly rate of 1.8% in the last quarter of 2008, amidst sharply falling investment and private consumption, and massive destocking.

#### Recession to deepen in 2009

The outlook over the forecast period is one of a deepening recession that goes well beyond a mere correction of the previous overheating. The most significant economic drag stems from dismal export prospects, with order volumes falling at an extremely rapid rate. Exports, which in 2008

remained relatively stable despite a loss in competitiveness, are expected to fall by more than 10% in 2009. With imports falling at a relatively lower pace, net exports should reduce GDP growth by about one percentage point, leading a small current account surplus to disappear.

The accompanying reduction in activity, combined with a tightening of credit conditions, will magnify the ongoing retrenchment in investment. Equipment should be hit the worst. Private construction is also set to decline sharply, but government incentive schemes and public investments should help to stabilise the sector somewhat.

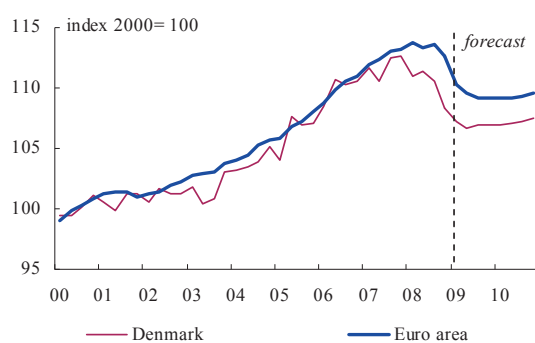
The fall in output levels will lead to a significant reduction in employment. Unemployment is expected to double from its record low of 3.3% of the labour force in 2008 to over 6% in 2010. While there are signs of significant labour hoarding at the end of 2008, it is unlikely that companies will be able to continue to do so as the crisis deepens and the need emerges to reduce wage costs in view of agreed wage increases of over 3% in 2009.

Rising unemployment should result in a negative wage drift in 2009 and lead to more modest agreements for 2010. Lower wage pressures are contributing to the ongoing rapid decline in inflation that resulted from lower commodity and housing prices. Following an inflation rate of 3.6% in 2008, price increases are expected to fall below 1% in 2009 and remain below 1½% in 2010.

#### Stimulus packages gradually yield results

The government already passed sizeable expansionary measures in its 2009 budget bill. Much of this stimulus started to have an impact in the first half of this year. These measures entail a significant increase in real disposable income in spite of a stagnating aggregate gross wage bill. Rapidly falling inflation levels play their part in supporting household incomes. This should stabilise private consumption, but it is not expected to push its annual growth rate into positive territory in 2009. A crucial factor is uncertainty, as evidenced by low consumer confidence, and the still necessary consolidation of household balance sheets in view of high private debt levels. It is therefore expected that the Danish savings rate will

Graph 2.4.1: Denmark - GDP development compared with euro area





make a sizeable jump in 2009 and remain at high levels in the following year as well.

To the extent that the tax reductions and the ability to tap into the private pension funds of the special pensions scheme at beneficial rates will indeed lead to an increase in domestic demand, it is difficult to assess *ex ante* how much of this impulse will remain in Denmark. On the one hand, there are strong incentives to spend money on housing, which would be largely domestically contained. On the other hand, the openness of the economy suggests that a sizable part will leak out of the economy as imports, notably tourism.

Overall, the size and the timing of the fiscal expansion should lead to a more moderate contraction in 2009 than in the rest of Europe. In combination with the expected turnaround of the global economy it is expected that growth rates will turn mildly positive in 2010.

#### High budget surpluses become deficits

The massive budget surpluses that Denmark built up in the past are set to disappear rapidly. Following a surplus of 3.6% of GDP in 2008, Denmark is likely to register a deficit of 1½% in 2009, which might rise to 4% in 2010. Close to

half of this increase is due to the downturn, activating the very strong automatic stabilisers. This is amplified by the diminishing revenue from volatile sources, such as the fall in oil and gas revenues and falling tax receipts on financial assets.

In addition, the government has passed fiscal packages with a sizeable expansionary impact. As of 2009, the tax reform, which was already decided in August 2007, will reduce revenues by some 0.5% of GDP. Also, agreements on green transport and municipal investment will add some 0.4% of GDP to expenditures. For 2010, the most important fiscal development is the so-called spring package, which will reduce taxes by a further 0.6% of GDP and raise investment by 0.2%. The deficit figure for 2010 is topped off by a sizeable one-off for the pension yield compensation amounting to about ¾% of GDP.

Rising deficits combined with stability measures for the domestic financial banks and vulnerable partner countries (Iceland, Latvia) are leading to a rapid increase in gross debt levels from 27% of GDP in 2007 to 34% in 2010.

Table 2.4.1:

#### Main features of country forecast - DENMARK

	2007		Annual percentage change							
	bn DKK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	1687.9	100.0		2.2	2.4	3.3	1.6	-1.1	-3.3	0.3
Private consumption	826.7	49.0		1.9	3.8	4.4	2.4	-0.1	-1.6	1.1
Public consumption	438.8	26.0		2.2	1.3	2.1	1.3	1.1	2.1	1.1
Gross fixed capital formation	374.3	22.2		3.8	4.7	13.5	3.1	-3.6	-9.1	-0.7
of which : equipment	137.4	8.1		3.6	1.6	13.2	5.4	-3.7	-13.0	0.2
Exports (goods and services)	882.8	52.3		4.5	8.0	9.1	2.2	2.2	-10.7	-0.1
Imports (goods and services)	846.6	50.2		5.5	11.1	13.9	2.8	3.7	-9.3	0.8
GNI at previous year prices (GDP deflator)	1696.2	100.5		2.4	3.4	3.8	0.3	0.2	-3.9	0.1
Contribution to GDP growth :										
Domestic demand				2.2	3.1	5.3	2.2	-0.6	-2.2	0.7
Stockbuilding				0.1	0.2	-0.3	-0.3	0.1	-0.1	0.0
Foreign balance				-0.1	-0.8	-1.7	-0.2	-0.7	-1.0	-0.5
Employment				0.3	1.0	2.0	2.7	1.0	-2.2	-2.0
Unemployment rate (a)				6.0	4.8	3.9	3.8	3.3	5.2	6.6
Compensation of employees/head				3.5	3.6	3.6	3.1	4.7	3.1	2.5
Unit labour costs whole economy				1.6	2.2	2.2	4.2	7.0	4.1	0.2
Real unit labour costs				-0.2	-0.7	0.3	2.2	2.6	2.6	-1.2
Savings rate of households (b)				-	-	6.4	5.1	5.6	7.8	7.7
GDP deflator				1.8	2.9	2.0	2.0	4.3	1.5	1.4
Harmonised index of consumer prices				1.9	1.7	1.9	1.7	3.6	0.9	1.4
Terms of trade of goods				0.9	1.3	0.6	-1.1	0.6	0.7	0.0
Trade balance (c)				3.3	2.3	0.4	-0.8	-1.1	-1.0	-1.3
Current account balance (c)				1.9	4.3	2.9	0.7	2.0	0.4	-0.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.9	4.5	2.9	0.7	2.1	0.4	-0.6
General government balance (c)				-0.4	5.2	5.2	4.5	3.6	-1.5	-3.9
Cyclically-adjusted budget balance (c)				-0.3	4.7	3.6	3.0	3.7	1.1	-1.0
Structural budget balance (c)				-	4.7	3.6	3.0	4.2	1.2	-0.4
General government gross debt (c)				60.4	37.1	31.3	26.8	33.3	32.5	33.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 5. GERMANY

### Export dependency driving slump and conditioning recovery

#### Collapse in exports triggered recession in 2008

An unprecedented collapse in exports pushed Germany into recession in the course of 2008. After a confident start of the year, with growing exports and booming construction activity, the German economy began to contract. Net exports, which had been the main growth driver during the latest upswing, turned sharply negative in the fourth quarter, bringing in their wake a contraction of real GDP by more than 2% q-o-q. With companies adjusting their investment plans to the deteriorating business outlook, gross fixed capital formation also decreased substantially at the end of 2008. Moreover, higher precautionary saving in the face of an increasingly negative economic outlook caused a drop in private consumption in the fourth quarter. Yet, despite the severe contraction in the second half, real GDP still increased by 1.3% for the whole year. Nevertheless, the quarterly growth profile in 2008 will translate into a very strong negative carry-over – of almost 2 pps. – for 2009.

#### Sustained slump in exports and investment will burden 2009

Germany is being hit hard by the global downturn because of its high export dependence and specialisation on particularly volatile investment goods. Given the sustained fall in export orders and continued spread of the global economic crisis, exports are likely to contract at an even stronger pace in the first quarter and to decrease further in the course of the year, though the rate of decline should gradually diminish. Exports of goods and services are projected to drop by over 16% over

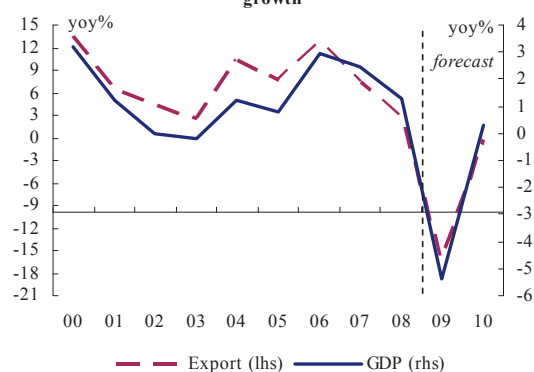
the year. As a result, the surplus in the trade balance would shrink considerably from 7½% of GDP in 2008 to below 5% in 2009. In addition, lower net foreign capital incomes are also set to contribute to a reduction of the current account surplus.

Facing a dramatically worse business outlook, somewhat tighter financing conditions, and a plunge in capacity utilisation, companies will further curtail investment spending. Investment in equipment is thus projected to fall by almost 20% in 2009, whereas total gross fixed capital formation is expected to decrease by around 10%, though it will be somewhat supported by more robust construction activity due to higher public infrastructure investment.

#### Private consumption remains weak

Lower employment, smaller earnings gains and losses in non-wage income, will weigh on household disposable income in 2009 and 2010. The resulting income squeeze will only be partly compensated by higher transfer payments and tax relief measures adopted as part of the German government's stimulus packages, as well as by higher pension increases in 2009. Lower inflation should soften the impact on real disposable income, which is forecast to stagnate in 2009 and fall slightly in 2010. Given the growing risk of unemployment, precautionary savings are likely to increase. A further rise in the household saving rate is also expected because of negative wealth effects due to financial market losses and possible Ricardian effects linked with higher public sector deficits. As a result, private consumption is

Graph 2.5.1: Germany - Exports and real GDP growth



Graph 2.5.2: Germany - Employment and unemployment



projected to decline in both 2009 and 2010.

### **Severe downturn in 2009, moderate recovery in 2010**

The extent of the collapse in external demand in 2008 caught many firms by surprise. Despite considerable cuts in production, there was substantial involuntary stock-building in the second half of the year. The adjustment in production is expected to continue throughout 2009 and – judging from the latest data – has even gathered pace in the first quarter. Negative stock-building will also weigh on economic growth in 2009 as companies are likely to first reduce inventories before raising production levels. Quarterly real GDP growth is thus projected to remain negative throughout 2009. The pace of contraction is, however, set to slow noticeably in the course of the year as fiscal stimulus measures begin to work and the global economic situation is expected to stabilise. This, together with a very strong negative carry-over, means that real GDP can be expected to contract by around 5½% in 2009. Weak private consumption and subdued gross fixed capital formation – reflecting very low capacity utilisation – should still drag down economic growth in 2010. However, a gradual improvement in world trade should lay the basis for a moderate recovery in the course of the year.

In response to the economic crisis and in the context of the European Economic Recovery Plan, the German government adopted two stimulus packages (in autumn 2008 and January 2009) consisting of both revenue and expenditure measures to provide relief to households, improve access to financing, boost public investment, avoid lay-offs and enhance access to training. Even though these measures will not be sufficient to prevent a contraction in 2009, they will help soften the downturn in the course of the year and into 2010. In particular, higher government consumption and substantial increases in public infrastructure investment (in both 2009 and 2010) should act as a stabilising factor. Moreover, tax relief measures and higher transfer payments should limit the negative impact of the crisis on households.

### **Labour market fully hit by the recession**

The German labour market remained surprisingly robust in the second half of 2008. However, in the first few months of 2009, the recession began to

take its toll with unemployment rising and employment falling. A substantial increase in the use of short-time work is still limiting the impact on employment and unemployment levels. Over the course of 2009, however, employment losses are expected to gather pace and unemployment should rise substantially. Overall, job losses are expected to reach up to 1½ million over two years, while the impact on unemployment should start to be mitigated by demographic factors.

### **Inflation and wage growth decreasing**

Wages agreed through collective bargaining are still expected to increase relatively strongly in 2009. However, an increasingly negative wage drift and substantially lower working hours linked with the increased use of short-time work should limit the increase in effective wages, which is expected to be around 1% in 2009 and 2010. As employment reacts only with a lag to the economic downturn, labour productivity should decrease sharply in 2009 and unit labour costs are set to increase relatively strongly, though this is expected to be reversed in 2010.

On the back of falling energy prices, favourable base effects and weaker economic activity, HICP inflation is projected to fall in 2009, reaching an average of around ¼% for the year as a whole. With higher energy prices expected in 2010, base effects would be reversed and inflation should edge up in 2010.

### **From balanced budget to deficits above 3% of GDP in 2009 and 2010**

The general government budget was close-to-balance in 2008 for the second year in a row. The revenue side benefited from the increase in direct tax revenues, reflecting a still relatively robust labour market and strong wage growth. However, the budget was burdened by a reduction of the contribution rate to unemployment insurance and a tax reimbursement resulting from a ruling by the Federal Constitutional Court on the commuter allowance. On the expenditure side, spending on unemployment benefits was reduced thanks to the decline in unemployment. Additional expenditure arose from the ad hoc upward adjustment of pensions and bank rescue operations.

As a consequence of the marked economic downturn, the general government budget is projected to relapse into a deficit of almost 4% of

GDP in 2009, increasing further to around 6% of GDP in 2010. The deficit is forecast to widen on the back of sizeable tax revenue losses and higher expenditure due to automatic stabilisers and two fiscal stimulus packages amounting to around 1½% of GDP for 2009 and 2% of GDP for 2010.

The most significant budgetary measures on the revenue side in 2009 are the reduction in social contribution rates (-0.3% of GDP), income and investment support measures (-0.3% of GDP) as well as the re-introduction of the commuter allowance (-0.1% of GDP). Total government spending will increase by around 4 pps. of GDP on the back of additional investment expenditure, spending in the health-care sector, the environmental premium and measures in support of the labour market. In 2010, the tax deductibility of health-care insurance contributions is expected to result in tax revenue losses in the order of 0.3% of GDP and the additional investment expenditure of around 0.4% of GDP is likely to weigh on the budget.

In both years, the deterioration of the labour market is expected to lead to lower tax revenues, higher unemployment benefits and higher expenditure on short-time work. In addition, the 2009 budget is likely to be burdened by the

upward adjustment of retirement benefits due to the ad hoc changes to the pension adjustment formula a year earlier; in 2010 the modifications are expected to be reversed. In 2009, temporary budget relief of around 0.1% of GDP is expected from a reduction in Germany's contributions to the EU budget based on the Council decision on own resources for the EU budget 2007-2013.

The uncertainty related to the financial and economic crisis poses a risk to Germany's public finances in the medium term. In addition to the above-mentioned direct effects, the budget is likely to be affected indirectly through tax revenue losses, in particular from profit-related taxes.

The debt ratio is projected to increase from almost 66% of GDP in 2008 to around 79% of GDP by 2010 on the back of new borrowing, lower nominal GDP and the financial market stabilisation measures at the federal and Länder level. At the time of the forecast, the effects of the bank rescue operations on government debt in 2009 were estimated at around 0.7% of GDP.

Table 2.5.1:

**Main features of country forecast - GERMANY**

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	2422.9	100.0		1.4	0.8	3.0	2.5	1.3	-5.4	0.3
Private consumption	1373.7	56.7		1.4	0.2	1.0	-0.4	-0.1	-0.5	-0.7
Public consumption	435.6	18.0		1.4	0.4	0.6	2.2	2.0	2.0	1.8
Gross fixed capital formation	453.5	18.7		0.4	1.1	7.7	4.3	4.4	-10.3	-0.8
of which : equipment	189.4	7.8		1.0	6.0	11.1	6.9	5.3	-19.7	-5.5
Exports (goods and services)	1137.2	46.9		5.8	7.7	12.7	7.5	2.7	-16.1	-0.4
Imports (goods and services)	966.2	39.9		4.9	6.5	11.9	5.0	4.0	-10.8	-1.7
GNI at previous year prices (GDP deflator)	2464.2	101.7		1.4	1.0	3.5	2.4	1.1	-5.5	-0.1
Contribution to GDP growth :										
Domestic demand				1.2	0.4	2.1	1.0	1.1	-1.9	-0.2
Stockbuilding				-0.2	-0.4	-0.1	0.1	0.5	-0.3	0.0
Foreign balance				0.4	0.8	1.0	1.4	-0.3	-3.2	0.5
Employment				-0.8	-0.5	0.2	1.6	1.4	-1.5	-2.2
Unemployment rate (a)				8.3	10.7	9.8	8.4	7.3	8.6	10.4
Compensation of employees/f.t.e.				3.4	0.5	1.5	1.3	1.9	1.0	0.9
Unit labour costs whole economy				1.2	-0.8	-1.2	0.4	2.1	5.1	-1.5
Real unit labour costs				-0.2	-1.5	-1.7	-1.4	0.5	3.8	-2.2
Savings rate of households (b)				-	-	16.2	16.7	17.2	17.5	17.6
GDP deflator				1.4	0.7	0.5	1.9	1.5	1.2	0.7
Harmonised index of consumer prices				-	1.9	1.8	2.3	2.8	0.3	0.7
Terms of trade of goods				0.7	-1.8	-1.8	0.8	-1.0	1.1	-0.6
Trade balance (c)				3.7	7.1	7.1	8.4	7.5	4.8	5.1
Current account balance (c)				0.0	5.3	6.3	7.6	6.6	3.6	3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.0	5.3	6.3	7.6	6.6	3.6	3.4
General government balance (c)				-2.6	-3.3	-1.5	-0.2	-0.1	-3.9	-5.9
Cyclically-adjusted budget balance (c)				-2.6	-2.8	-2.1	-1.5	-1.7	-2.3	-4.0
Structural budget balance (c)				-	-2.9	-2.1	-1.2	-1.2	-2.4	-3.9
General government gross debt (c)				56.8	67.8	67.6	65.1	65.9	73.4	78.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 6. ESTONIA

### Adjusting to face gloomier years

#### 2008 outcome worse than expected

The slowdown that had already started in Estonia in 2007 as a natural reversal of the cycle was increasingly aggravated by the global financial crisis. Domestic demand fell throughout 2008, with the year-on-year contraction reaching almost 15% in the last quarter. In addition, a marked deterioration in global and regional trade at the end of the year hit Estonia hard due to the openness of the economy. Overall, the year-on-year contraction of output reached 9.7% in the fourth quarter, and 3.6% for the year as a whole. The previous high accumulation of inventories, reflecting in particular unfinished construction, turned into destocking in 2008. The contribution of domestic demand was highly negative at over 8 percentage points for the year as a whole, partly counterbalanced by a positive impact from falling imports.

The slowdown and later contraction initially mostly affected those sectors that over-expanded during the boom years – retail and wholesale trade, real estate activities, construction and financial intermediation. However, by the end of the year the contraction became much more broadly based and also considerably affected the manufacturing sector and transport.

After a slow initial reaction, labour market deterioration gathered pace in late 2008. However, rapidly rising unemployment partly reflected second wage earners moving from inactivity to unemployment. Nominal wage growth eased considerably in the economy as a whole and in the private sector in particular. Slowing credit growth

throughout 2008 also contributed to declining domestic demand. By the end of the year, the deleveraging of the economy resulted in the monthly growth in credit to the private sector turning negative.

#### Contraction expected to continue

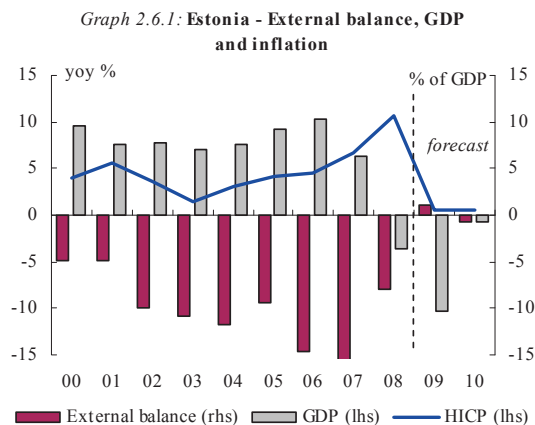
The economy is expected to contract considerably in 2009, by around 10%, and slightly further in 2010. Most confidence indicators remain at historically low levels, pointing to weak external and domestic demand, low capacity utilisation and pessimistic expectations. Private demand will continue to fall, due to low confidence, sharp adjustment on the labour market on the side of both employment and wages, as well as due to repayments of the debt accumulated by households during the years of high credit growth. Falling real-estate prices will also undermine private consumption. While private sector investments are expected to decline by around a quarter in 2009 and remain at low levels in 2010, a positive impact will come from the public sector investments.

The ongoing adjustment of the economy will free resources that can form the basis for further growth once the global and regional economic outlook improves. In particular, labour costs that are projected to turn negative from end-2009 will contribute to improving the competitive position of enterprises. However, a return to previous very high growth rates is unlikely over the medium term.

#### Imbalances unwinding rapidly

Labour market transition is expected to continue throughout the forecast period, with wage growth eventually turning negative to compensate for the losses seen in cost competitiveness over recent years. Unemployment is expected to accelerate further from the middle of 2009 onwards, when the new Labour Law, which aims at enhancing the flexibility of the labour market, enters into force. In 2010, unemployment is expected to reach 14%, a level comparable with the one prevailing in 2000 in the aftermath of the Russian crisis.

HICP headline inflation slowed substantially in the first months of 2009, due to lower world commodity prices and the fading impact of the



large excise tax increases of early and mid-2008; rapidly declining wage growth is dragging down core inflation. HICP inflation is expected to reach negative territory in the second half of 2009 and to broadly stabilise thereafter, remaining below 1% in both years. Core inflation is expected to continue to decline in 2010, as the wage decline progressively reinforces.

Similarly rapid adjustment is taking place with regards to external imbalances, as the current account deficit has halved in 2008 compared to 2007 and is expected to reach an almost balanced position in 2009, with EU structural funds financing covering the remaining current-account deficit.

### Public finances under severe pressure

The contraction in the economy has already taken its toll on public finances, with a deficit of 3.0% of GDP in 2008 after six years of nominal surpluses. A steady deterioration in the economic outlook and a deflationary environment will cause tax revenues to contract further in 2009 and 2010. A positive impact on revenue, without considerably affecting the overall balance, is, however, expected from the intensified use of EU structural funds. The substantial expenditure cuts adopted in February

2009, followed by additional consolidation measures adopted in April, mitigate the risk of breaching the 3% threshold in 2009, while further contraction of the economy and the steep adjustment on the labour market put additional pressure on the public finances in 2010, on the basis of unchanged policy assumption.

High deficits will result in an increase in government debt, which is projected to approach 8% of GDP by the end of the forecast period, even assuming a gradual running-down of fiscal reserves that have been accumulated over the years of nominal surpluses.

Table 2.6.1:

#### Main features of country forecast - ESTONIA

	2007		92-04	Annual percentage change					
	bn EEK	Curr. prices		% GDP	2005	2006	2007	2008	2009
GDP at previous year prices	238.9	100.0	-	9.2	10.4	6.3	-3.6	-10.3	-0.8
Private consumption	131.8	55.2	-	9.9	12.7	7.9	-3.8	-9.0	-1.3
Public consumption	41.2	17.2	-	1.9	1.8	3.9	4.4	-3.6	-2.4
Gross fixed capital formation	77.6	32.5	-	8.3	20.1	7.6	-8.1	-20.7	-1.2
of which : equipment	31.2	13.1	-	-	-	-	-9.0	-15.0	2.2
Exports (goods and services)	177.7	74.4	-	20.9	11.6	0.0	-1.1	-14.1	0.4
Imports (goods and services)	203.7	85.3	-	17.5	20.4	4.2	-7.9	-16.0	-0.5
GNI at previous year prices (GDP deflator)	220.2	92.2	-	10.3	8.7	3.5	-1.5	-6.6	-1.9
Contribution to GDP growth :									
Domestic demand			-	8.5	13.7	7.6	-5.0	-11.6	-1.5
Stockbuilding			-	1.0	1.4	0.7	-3.4	-0.9	0.0
Foreign balance			-	1.0	-8.3	-3.9	6.0	2.2	0.7
Employment			-2.5	1.8	5.6	0.4	0.2	-7.3	-3.3
Unemployment rate (a)			-	7.9	5.9	4.7	5.5	11.3	14.1
Compensation of employees/f.t.e.			-	11.0	14.0	26.5	14.7	0.7	-3.5
Unit labour costs whole economy			-	3.5	9.1	19.4	19.3	4.1	-5.9
Real unit labour costs			-	-1.7	1.9	9.0	10.7	4.1	-5.1
Savings rate of households (b)			-	-	-3.0	0.8	11.1	20.6	17.2
GDP deflator			-	5.3	7.0	9.6	7.8	-0.1	-0.8
Harmonised index of consumer prices			-	4.1	4.4	6.7	10.6	0.6	0.5
Terms of trade of goods			-	1.3	2.7	3.3	-0.8	2.1	-2.9
Trade balance (c)			-	-13.9	-18.3	-17.6	-11.9	-8.4	-9.6
Current account balance (c)			-	-10.1	-16.7	-18.3	-9.1	-1.1	-3.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-9.4	-14.7	-17.1	-8.0	1.0	-0.7
General government balance (c)			-	1.5	2.9	2.7	-3.0	-3.0	-3.9
Cyclically-adjusted budget balance (c)			-	0.2	0.2	-0.5	-4.0	-0.4	-0.7
Structural budget balance (c)			-	0.2	-0.7	-0.8	-4.1	-1.0	-1.9
General government gross debt (c)			-	4.5	4.3	3.5	4.8	6.8	7.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

## 7. IRELAND

### Strong budgetary deterioration hampers adjustment

#### The economy entered recession in 2008

After having enjoyed well over a decade of strong growth, Ireland has been particularly hard hit by the current crisis and faces significant adjustment challenges. The sharp adjustment in the housing market from its 2006 peak spread to the wider economy and has been amplified by the financial crisis (the weight of the financial services sector is high) and by the recession in Ireland's main trading partners (euro area, US and UK). The Irish economy entered into recession in the first half of 2008 and with a sharp fall in the fourth quarter, when seasonally-adjusted GDP contracted by 7.1% q-o-q, the loss in output for the year as a whole amounted to 2.3% according to preliminary estimates. Domestic demand is estimated to have contracted by 5½% in 2008, mainly driven by a substantial broad-based reduction in investment. The 27% decline in housing investment was accompanied by a slightly smaller cut in equipment investment as capacity utilisation diminished and business sentiment deteriorated. Decelerating disposable income growth, also reflecting job losses, and an increase in precautionary saving led to a decline in private consumption. On the back of declining imports, the external sector is estimated to have made a significant positive contribution to growth despite slightly declining exports of goods and services.

#### Recession to deepen in 2009-2010

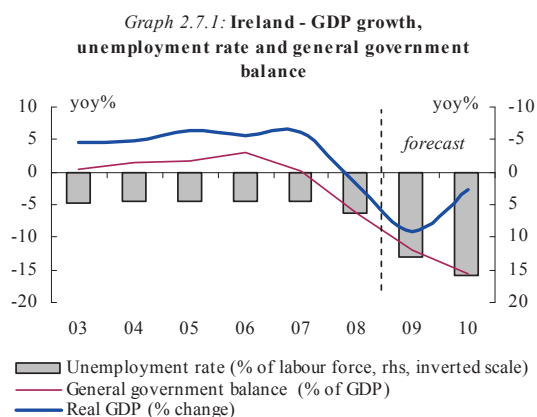
Ireland is facing a protracted and deep recession, with GDP projected to contract further, by around 9% in 2009 and 2½% in 2010. Some stabilisation could set in towards the end of the forecast

horizon. Domestic demand should continue to be the main driver of the recessionary developments. In particular, an even stronger fall than in 2008 is projected for all investment components in 2009, with annual housing output almost halving. A further, albeit less pronounced, reduction in investment is expected in 2010 as market confidence stabilises. At the same time, despite the projected decrease in the price level, private consumption is expected to fall significantly and continue to decline in 2010, in the face of reduced disposable income and higher savings devoted to improving balance sheets. In 2009, general government consumption is also expected to decline as a result of consolidation measures.

The projected marked decrease in real exports in 2009 should - in conjunction with reduced domestic demand - translate into even weaker import developments, implying a positive contribution of the external sector to growth. In 2010, when exports stabilise at a marginally negative growth rate, with imports slightly weaker, a positive contribution is also expected.

#### Unemployment to more than double, downward pressure on prices

While the pace of job losses was still moderate in 2008 in almost all sectors except construction, all segments of the labour market are expected to be increasingly affected in 2009, with a projected overall decline in employment of around 9%. The effect of these job losses on unemployment is expected to be somewhat mitigated by a decline in the labour force, especially with prospects of outward migration and economic immigrants leaving Ireland. Nevertheless, a steep rise in the unemployment rate, to over 13% in 2009 and close to 16% in 2010, is expected. Pay-related savings measures in the public sector, as well as downward wage flexibility in the private sector in the current circumstances, suggest a broad-based decline in wages in 2009. Together with the projected slight increase in productivity, this should lead to a decrease in unit labour costs thus starting to reverse the deterioration in Ireland's competitive position since the beginning of the decade. Low economic activity and further employment losses should imply a further decline in average wages in 2010. The ongoing adjustment would also contribute to an improvement in Ireland's external



balance, which deteriorated over the last years as growth became increasingly driven by domestic demand.

Inflation is set to fall strongly compared with last year. In 2008, substantial increases in energy and food prices, as well as high services inflation, contributed to an HICP inflation rate of just above 3%, despite a marked deceleration in the second half of the year. This year, a strong dampening effect of the recession, as well as negative base effects regarding energy prices in particular, is expected to produce negative inflation for the year as a whole despite indirect tax increases in the budget for 2009. Inflation should return to a low positive rate in 2010.

#### Double-digit deficits and steep increase in the debt ratio

The general government deficit is estimated to have reached 7.1% of GDP in 2008, after a slight surplus of 0.2% in 2007. This was mainly due to the massive impact on revenues of the ongoing housing market correction and the wider recession. Spending was also somewhat higher than targeted although some savings were made in mid-year.

In 2009, the deficit is projected to widen further to

12% of GDP (target: 10¼%), the highest in the euro area, despite successive consolidation efforts since mid-2008, including the supplementary budget in early April 2009. In spite of tax-raising measures, current revenue is expected to decrease by over 12%, reflecting the further adjustment in the housing market and the continued fall in economic activity. The projected rise in current expenditure of almost 6% is largely driven by a steep increase in social spending in response to the rapid rise in unemployment, and by sharply rising debt service costs. In 2010, the deficit should widen to 15½% of GDP on a no-policy-change basis.

From only 25% of GDP in 2007, the debt ratio should triple over the forecast horizon. This is due to the large primary deficits as well as increasing interest expenditure and falling nominal GDP. No impact on the public finances of the September 2008 bank guarantees (none called on to date) is included, while the February 2009 bank recapitalisations are assumed to be fully financed from existing resources. Nor do the projections reflect any impact of the National Asset Management Agency, which is to be set up shortly to deal with banks' impaired assets.

Table 2.7.1:

#### Main features of country forecast - IRELAND

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	190.6	100.0	7.0	6.4	5.7	6.0	-2.3	-9.0	-2.6	
Private consumption	88.1	46.2	5.3	7.2	7.0	6.0	-0.8	-7.9	-4.0	
Public consumption	30.5	16.0	4.9	3.1	5.3	6.8	2.1	-0.6	2.0	
Gross fixed capital formation	50.1	26.3	8.1	14.1	4.0	1.3	-19.9	-29.2	-15.6	
of which : equipment	10.1	5.3	8.2	21.7	-4.5	14.1	-20.0	-20.0	-5.0	
Exports (goods and services)	151.4	79.4	12.8	5.2	5.7	6.8	-0.4	-8.9	-0.2	
Imports (goods and services)	131.0	68.7	11.7	8.2	6.3	4.1	-4.4	-12.5	-2.5	
GNI at previous year prices (GDP deflator)	162.1	85.1	6.4	6.5	6.9	4.0	-2.6	-10.0	-3.1	
Contribution to GDP growth :										
Domestic demand			4.9	7.2	5.0	4.1	-5.3	-10.1	-4.1	
Stockbuilding			0.0	0.2	0.4	-0.8	0.3	-0.3	0.0	
Foreign balance			2.2	-1.2	0.3	2.6	2.7	1.4	1.5	
Employment			3.6	4.7	4.3	3.6	-0.9	-9.0	-4.0	
Unemployment rate (a)			8.8	4.4	4.5	4.6	6.3	13.3	16.0	
Compensation of employees/head			5.3	6.4	4.6	6.0	5.5	-4.1	-2.4	
Unit labour costs whole economy			1.9	4.7	3.2	3.6	7.0	-4.0	-3.9	
Real unit labour costs			-1.8	2.3	-0.2	2.2	7.3	-2.9	-3.6	
Savings rate of households (b)			-	-	10.3	11.5	14.8	17.9	18.2	
GDP deflator			3.8	2.3	3.4	1.4	-0.3	-1.2	-0.3	
Harmonised index of consumer prices			-	2.2	2.7	2.9	3.1	-1.3	0.4	
Terms of trade of goods			-0.5	0.0	-3.7	-4.9	-5.2	3.8	-1.9	
Trade balance (c)			20.9	17.4	14.1	11.8	14.1	17.9	18.8	
Current account balance (c)			1.3	-3.1	-3.5	-5.4	-4.6	-1.8	-0.4	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.2	-2.9	-3.4	-5.3	-4.5	-1.8	-0.4	
General government balance (c)			0.4	1.7	3.0	0.2	-7.1	-12.0	-15.6	
Cyclically-adjusted budget balance (c)			0.4	0.9	1.9	-1.8	-7.5	-9.2	-12.2	
Structural budget balance (c)			-	1.2	1.9	-1.8	-7.5	-9.8	-12.2	
General government gross debt (c)			58.4	27.5	24.9	25.0	43.2	61.2	79.7	

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.



## 8. GREECE

### Persistent and large structural imbalances take their toll

#### Economic activity slowed in 2008

Economic activity has been slowing down since the beginning of 2008, posting an annual real GDP growth rate of 2.9%, down from 4% in 2007. The heightening uncertainty - especially in the second half of the year - has proven to be detrimental to both consumer and business confidence, undercutting economic activity and future prospects. Weakening private consumption and more importantly, declining investment, were the main reasons behind the recorded slowdown. Tightening credit conditions, financial uncertainty and deteriorating economic sentiment brought about a sharp contraction in construction activity, especially in dwellings. After recording some positive growth in the first half of 2008, corporate investment declined strongly thereafter and contracted on an annual basis. Overall, domestic demand made a negative contribution of almost  $\frac{3}{4}$  pp. to GDP growth, compared with a positive contribution of more than  $4\frac{1}{2}$  pps. in 2007. On the external front, in spite of eroding competitiveness, a deteriorating external environment and slowing economic activity in the euro area, real export growth remained in positive territory, especially towards extra-EU trading partners. Imports, on the other hand, contracted strongly and by more than domestic demand, leading to a significantly positive contribution of net exports to growth, which contrasts with the continuous contraction of net exports recorded in recent years.

#### Contraction in 2009

Activity is expected to be further affected by the ongoing economic crisis and prevailing

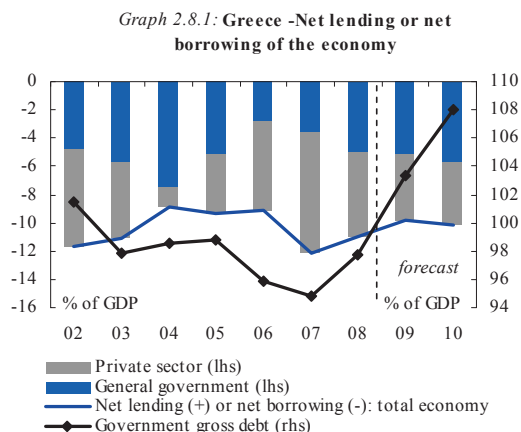
uncertainty. Although remaining above the euro area average, economic growth will turn negative in 2009 for the first time since 1993. Private consumption is projected to decelerate strongly but remain in positive territory, on the back of still positive credit expansion and real wage growth. Public consumption growth in turn, is expected to fall below 2%. The fall in investment in housing is forecast to ease in 2009, leading to a slight downward trend thereafter. Public and corporate investment growth is expected to benefit from EU structural funds inflows and the launch of public-private partnership investment projects, thus avoiding a further strong contraction in 2009 and 2010. Overall, domestic demand is projected to make a negative contribution to GDP growth in 2009.

On the external side, imports are projected to decrease further, in line with domestic demand. Shrinking international trade volumes and further worsening of competitiveness are expected to result in a significant fall of exports of goods. Exports of services should also follow a similar path, with tourism and transportation receipts being heavily affected by the depressing effects of the international crisis. As a result, the contribution of net exports to GDP growth is projected to remain broadly neutral over the forecast horizon. In view of developments in the external sector, the external deficit is projected to decline somewhat, while staying high, at around 10% of GDP in 2009 and 2010. With portfolio investment remaining the main source of its financing, Greece's external position becomes more vulnerable.

#### Persistent competitiveness losses

The contraction in economic activity will lead to a declining employment outlook over the forecast horizon. The decrease in unemployment observed in recent years is accordingly expected to end. Nevertheless, nominal wages in the private sector should rise faster than productivity, thus pushing unit labour cost growth above those of the euro area and other trading partners. This will further worsen the country's competitive position, especially in the goods sector.

Following the developments in oil and commodity markets, HICP inflation decelerated strongly in the



first quarter of 2009 and is projected to be 1¾% in 2009 and above 2% in 2010.

### Fiscal imbalances persist: debt to exceed 100% of GDP once again

According to data notified by the Greek authorities in April 2009, the general government deficit reached 5% of GDP in 2008, 1¼ pps. of GDP higher than the estimation included in the Stability Programme.

The official deficit target for 2009 is set at 3.7% of GDP (including deficit-decreasing one-off measures amounting to 0.5 percentage points of GDP). In spite of the worse-than-expected budgetary outturn in 2008, the target for 2009 has not changed. A set of deficit reducing measures taken by the authorities after the submission of the Stability Programme is meant to compensate for the higher-than-expected outturn of 2008. However, the budgetary impact of these measures is estimated at around ½ pp. of GDP, half of which is temporary in nature.

The revenue-to-GDP ratio is projected to grow by almost 1 pp. of GDP in 2009, on the back of a tax revenue-enhancing package, included in the Stability Programme. The Greek authorities

envisage a number of measures to be implemented in the course of 2009, which are aimed at constraining primary public expenditure, excluding social transfers. Given the lack of room for fiscal manoeuvre, the Greek government has not adopted a short-term stimulus package, with total expenditure remaining around the level of previous year. On account of a less favourable growth scenario and a prudent assessment of revenue enhancing measures, consistent with past outcomes, the Commission services project a deficit of just above 5% of GDP in 2009. Measured by the cyclically-adjusted balance net of one-offs, the structural balance would improve by ¾ pp. in 2009. Under the customary unchanged policy assumption, the 2010 deficit is projected at 5¾% of GDP.

Gross debt is projected to reach 108% of GDP by 2010, from 97¾% in 2008. Apart from the rising deficit and declining GDP, a sizeable stock-flow adjustment contributes to the strong rise in the debt ratio. Possible debt-increasing financial transactions within the framework of the financial sector support package may put further upward pressure on the debt-to-GDP ratio.

Table 2.8.1:

#### Main features of country forecast - GREECE

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	228.3	100.0		3.0	2.9	4.5	4.0	2.9	-0.9	0.1
Private consumption	162.5	71.2		2.8	4.3	4.8	3.0	2.2	0.4	0.5
Public consumption	38.2	16.7		2.7	1.2	0.0	7.7	3.2	1.9	1.9
Gross fixed capital formation	51.3	22.5		4.9	-0.5	9.2	4.9	-11.5	-5.6	0.7
of which : equipment	19.7	8.6		10.2	-1.0	14.2	9.1	-9.6	-9.5	1.5
Exports (goods and services)	52.5	23.0		6.5	4.2	10.9	3.1	2.2	-7.3	0.8
Imports (goods and services)	76.4	33.5		5.9	1.4	9.7	6.7	-4.4	-6.0	0.9
GNI at constant prices (GDP deflator)	221.8	97.1		2.7	2.0	4.0	3.2	2.1	-1.2	-0.1
Contribution to GDP growth :										
Domestic demand				3.5	3.1	5.5	4.6	-0.7	-0.5	0.9
Stockbuilding				-0.1	-0.7	-0.3	1.0	1.5	-0.6	-0.7
Foreign balance				-0.4	0.5	-0.6	-1.5	2.1	0.3	-0.1
Employment				1.1	1.0	2.1	1.3	1.2	-1.1	-0.1
Unemployment rate (a)				9.9	9.9	8.9	8.3	7.7	9.1	9.7
Compensation of employees/head				8.5	4.9	1.0	9.1	7.5	4.4	1.9
Unit labour costs whole economy				6.5	2.9	-1.3	6.3	5.7	4.1	1.7
Real unit labour costs				-0.5	-0.5	-4.4	3.3	2.2	2.0	-0.9
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				7.0	3.4	3.2	2.9	3.3	2.1	2.7
Harmonised index of consumer prices				-	3.5	3.3	3.0	4.2	1.8	2.3
Terms of trade of goods				0.1	-7.8	1.3	0.0	-1.1	5.4	-0.8
Trade balance (c)				-15.4	-16.8	-16.8	-18.7	-16.9	-14.8	-15.0
Current account balance (c)				-5.6	-10.6	-11.4	-14.0	-12.7	-11.5	-11.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.3	-9.1	-12.1	-11.0	-9.8	-10.2
General government balance (c)				-6.8	-5.1	-2.8	-3.6	-5.0	-5.1	-5.7
Cyclically-adjusted budget balance (c)				-6.5	-5.7	-3.7	-4.7	-6.1	-4.9	-4.7
Structural budget balance (c)				-	-5.7	-4.1	-4.5	-6.5	-5.7	-4.7
General government gross debt (c)				99.4	98.8	95.9	94.8	97.6	103.4	108.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 9. SPAIN

### Imbalances hamper recovery

#### Rapid deceleration of economic activity in 2008

GDP growth slowed sharply to 1.2% in 2008. This positive growth rate for the year as a whole conceals a contraction of the economy in the second half of the year. Domestic demand started to fall already in the second quarter, and the pace of contraction accelerated during the second half of the year. Domestic demand contributed just 0.1 pp. to GDP growth for the year as a whole. While private consumption still showed some resilience in the first half of the year, investment started to shrink already in the first quarter. Both worsening consumer and business confidence and the tighter credit conditions associated with the financial market turmoil were behind this fall. Government consumption accelerated and grew by over 5%, thus attenuating the sharp deceleration in domestic demand.

Largely reflecting the deceleration in the pace of external demand, total exports rose by only 0.7%, representing a sharp slowdown compared to some 5% recorded in 2007. In line with low domestic and external demand, especially investment, total imports contracted by 2.5%, compared with positive growth of more than 6% in 2007. As with exports, the deceleration was stronger in imports of services. As a result, the contribution of net exports to GDP growth turned positive in 2008, at 1 pp.

#### Economy contracting in 2009

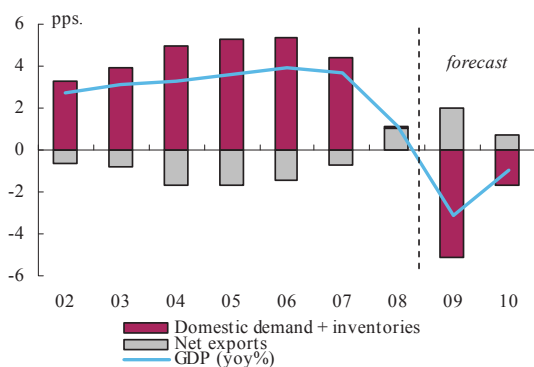
GDP is projected to decrease sharply by 3¼% in 2009, on the back of strongly contracting private

consumption and investment. <sup>(1)</sup> The fall in private consumption is linked to fears of job losses, which increase precautionary savings, negative wealth effects and the deceleration in the growth rate of real disposable income. Moreover, access to consumption credit is proving much more difficult than in the past due to high household indebtedness ratios and tighter credit conditions imposed by financial institutions. Private consumption is expected to fall by around 3¼% in 2009, despite the expected job impact of the fiscal stimulus (see further details in the public finance section below) and lower interest rates. The savings rate of private households is expected to reach an historical high of more than 18%.

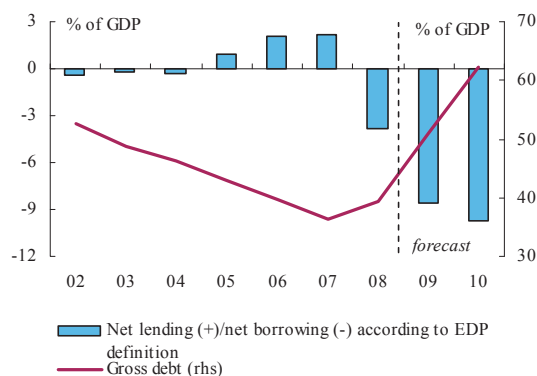
In addition, the fall in gross fixed capital formation should accelerate in 2009 to more than 14%, mirroring a sharp contraction in both housing and equipment of 23% or more, which more than counteracts the stimulus from general government in this area. Credit demand for housing is set to continue to decelerate as financial conditions remain tight. Moreover, confidence has deteriorated and the financial turmoil is putting additional pressure on credit markets. The tightening of credit conditions and the negative prospects for the economic situation can be expected to drag profit expectations down and discourage most corporate investment plans. Overall, domestic demand is projected to reduce GDP growth by more than 5 pps. in 2009.

Export growth is forecast to decrease in 2009 by around 10¼%, mainly reflecting the anticipated worsening of external demand. Given the slowdown in final demand, imports are expected to

Graph 2.9.1: Spain - Contributions to growth



Graph 2.9.2: Spain - General government accounts



contract significantly. Although Spain's inflation differential with the euro area should narrow over the forecast horizon, the competitiveness position of the Spanish economy is projected to remain weak. Indeed the narrowing mainly reflects the weight of the energy component in the headline HICP.

#### **The contraction continues over the forecast horizon**

GDP is projected to continue contracting in 2010, by around 1%. Construction and equipment investment are forecast to decline substantially, as the adjustments in these sectors will not yet be completed. The temporary character of the November 2008 fiscal package means that a number of public investment projects will be discontinued in 2010; this will contribute to the overall fall foreseen for total investment. Domestic demand should drag GDP growth down by 1¼ percentage points.

The fall in exports is projected to continue, though Spain will broadly maintain its export market shares. The outlook for imports is similar, reflecting very weak demand. The trade deficit is forecast to shrink further, to 4¾% of GDP, as the contribution of net exports to GDP growth is expected to again be positive given the sharp fall in imports. Nevertheless, the balance of primary incomes is projected to worsen due to a higher debt burden vis-à-vis foreign lenders. All in all, the current-account deficit is expected to narrow over the forecast period, especially in 2009, reaching 6¼% of GDP in 2010.

There are risks to this scenario in both directions. On the positive side, sustained population growth might result in a better-than-expected outcome for economic activity. Specifically, in spite of the deterioration of economic prospects, a growing population could underpin private consumption by more than anticipated and soften the adjustment of investment in dwellings, as well as inducing additional wage flexibility in the labour market, and contributing to growth from the supply side. The extraordinarily high elasticity of imports with respect to final demand observed at the end of 2008 might continue, at least in the first half of 2009, thus leading to a more positive contribution of net exports to GDP growth. In addition, Spanish households, which are highly indebted at almost exclusively variable interest rates, could benefit from a low cost of credit. On the other hand, a

sharper-than-expected negative adjustment of external demand and a further tightening of credit conditions could weigh on economic activity more than projected in the baseline scenario. In a context of tighter credit conditions, private investment could fall still more sharply than expected, further slowing the pace of employment and private consumption growth. Furthermore, within a context of credit restraint, the financing of Spain's fast-rising external debt might weigh further on domestic activity.

#### **Sharp increase in unemployment**

In line with economic activity, job losses are set to increase significantly in 2009 and, to a lesser extent, in 2010. Employment is expected to fall by more than 5% in 2009 and 2¾% in 2010. This compares with a rate of job destruction of ½% in 2008. The still relatively strong migrant inflows together with the projected rate of job losses will further raise the number of unemployed. As a result, the unemployment rate is expected to increase by more than eight percentage points, to around 20% in 2010.

On the back of lower oil and food prices, inflation is expected to turn negative in the second and third quarters of 2009, before increasing again to ¾% by the end of the year. The average annual inflation rate could fall to just below 0% in 2009. In the same vein, the inflation differential with the euro area would be negative for the first time in a decade. In 2010, a still-contracting domestic demand might partially compensate for price pressures from higher oil prices, leading to an average headline inflation rate of around 1¼%. The inflation differential with the euro area is projected to increase slightly, to a ¼ pp.

The high rate of job losses, especially in the construction sector, will result in an increase in productivity in 2009, which, together with a moderation in private sector wage growth, is forecast to lead to lower growth in unit labour costs. However, this trend might grind to a halt in 2010, particularly if wage growth does not fully adapt to the excess supply of labour.

#### **From budgetary surplus to deficit**

For 2008, the general government deficit outcome was 3.8% of GDP. This much worse outcome compared to the 2.2% of GDP surplus in 2007 is largely explained by the fall in total current

revenue by more than 4 pps. of GDP, whereas expenditure accelerated to a lesser extent. The very low revenue is mainly explained by the sharp deterioration in the economic situation, and a move away from a highly tax-rich growth composition, as well as personal and corporate tax cuts and revenue-reducing one-off measures amounting to ¼% of GDP (changes to VAT payments by firms).

The government deficit is projected at 8¼% of GDP in 2009, due to the recessionary growth scenario and the discretionary measures adopted in response to the economic downturn. These measures amount to 2¼% of GDP, including the November 2008 stimulus package of around 1 % of GDP adopted in the context of the EERP and one-offs amounting to ¾ pp. (changes in VAT collection and a reduction in tax withholdings of personal income). In 2009, all major tax categories are expected to recede, while total expenditure is projected to sharply increase in terms of GDP (4¾ pps. of GDP).

In 2010, based on the customary no-policy-change assumption, the general government deficit could grow close to 10% of GDP, even if the fiscal stimulus package is fully reversed. Revenues are projected to grow at around 3%, above nominal GDP growth, reflecting mainly the reversal of one-

off revenue-decreasing measures taken in the previous year, which conceals low indirect and corporate taxes associated with a scenario of still-falling economic activity. Total expenditures are assumed to grow by 8¼%, above nominal GDP growth, mainly due to the functioning of automatic stabilisers, especially higher unemployment benefits, and the higher burden of interest payments coming from the higher stock of debt.

After a number of years of continued decline, the government debt-to-GDP ratio grew by 2¾ percentage points to 40.3% in 2008. For the forecast period, given the high budgetary deficits and the stagnating nominal GDP growth, it is projected to continue to rise rapidly by more than 20 pps. to exceed 62% in 2010. A financial rescue operation of a saving's bank was undertaken in 2009 in the form of a government guarantee of €9 billions, with no impact on the level of public debt.

(<sup>1</sup>) The surprisingly strong reduction of 6.4% (y-o-y) in employment in the first quarter of 2009 according to the active population survey, which came out after this forecast's cut-off date, represents a significant downside risk to the forecast scenario if confirmed by the National Accounts.

Table 2.9.1:

**Main features of country forecast - SPAIN**

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	1050.6	100.0		2.9	3.6	3.9	3.7	1.2	-3.2	-1.0
Private consumption	602.4	57.3		2.8	4.2	3.9	3.5	0.1	-3.1	-1.1
Public consumption	192.0	18.3		3.5	5.5	4.6	4.9	5.3	5.1	4.7
Gross fixed capital formation	325.8	31.0		3.8	7.0	7.1	5.3	-3.0	-14.7	-8.0
of which : equipment	81.5	7.8		3.9	9.2	10.2	10.0	-1.1	-23.3	-9.6
Exports (goods and services)	278.3	26.5		8.1	2.5	6.7	4.9	0.7	-10.2	0.1
Imports (goods and services)	349.5	33.3		8.3	7.7	10.3	6.2	-2.5	-14.5	-2.4
GNI at previous year prices (GDP deflator)	1025.1	97.6		2.9	3.5	3.6	2.9	0.9	-3.4	-1.0
Contribution to GDP growth :										
Domestic demand				3.2	5.4	5.2	4.5	0.1	-5.1	-1.6
Stockbuilding				0.0	-0.1	0.2	-0.1	0.0	0.0	0.0
Foreign balance				-0.3	-1.7	-1.5	-0.8	1.0	2.0	0.7
Employment				2.0	3.2	3.2	2.9	-0.6	-5.3	-2.7
Unemployment rate (a)				14.4	9.2	8.5	8.3	11.3	17.3	20.5
Compensation of employees/f.t.e.				4.0	3.7	3.9	3.7	5.2	3.4	2.7
Unit labour costs whole economy				3.1	3.3	3.2	2.9	3.4	1.1	0.9
Real unit labour costs				-0.8	-0.9	-0.8	-0.3	0.4	0.0	-0.9
Savings rate of households (b)				-	-	11.2	10.2	13.0	16.6	18.5
GDP deflator				3.9	4.3	4.0	3.2	3.0	1.1	1.8
Harmonised index of consumer prices				-	3.4	3.6	2.8	4.1	-0.1	1.4
Terms of trade of goods				0.3	0.8	0.4	0.1	-0.7	2.5	-0.6
Trade balance (c)				-4.3	-7.5	-8.5	-8.5	-7.7	-5.3	-4.8
Current account balance (c)				-2.5	-7.5	-9.0	-10.1	-9.5	-6.9	-6.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.6	-6.5	-8.4	-9.7	-9.1	-5.8	-5.1
General government balance (c)				-3.0	1.0	2.0	2.2	-3.8	-8.6	-9.8
Cyclically-adjusted budget balance (c)				-2.5	1.1	1.8	1.6	-4.2	-7.5	-8.2
Structural budget balance (c)				-	1.1	1.8	1.6	-3.9	-6.8	-8.2
General government gross debt (c)				57.3	43.0	39.6	36.2	39.5	50.8	62.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 10. FRANCE

### Relatively resilient private consumption, rapidly deteriorating public finances

#### Weaker domestic demand in 2008

In 2008, GDP grew by 0.7% in real terms, down from 2.1% in 2007. Growth decelerated markedly in the course of the year and collapsed in the fourth quarter with a drop of 1.1% q-o-q, the worst quarterly performance ever registered.

The weakening of world trade as well as the impact of the financial crisis on credit conditions and confidence took their toll on the French economy. In 2008, growth was exclusively driven by domestic demand, in particular by private consumption, while net trade and stocks acted as a drag on activity. But even domestic demand slowed as household disposable income was hit first by inflation and then by deteriorating labour incomes, whilst investment suffered from the downturn in the housing market and in the investment cycle. For 2008 as a whole, domestic demand contributed 1.2 pps. to GDP growth, compared to close to 3 pps. in 2007. Net exports again put a drag on growth, as French exports slowed down more than imports. At the same time, faced with funding difficulties and heightened uncertainties, businesses chose to run down their inventories to meet demand, with a huge negative impact on growth in the fourth quarter, and a -0.2 pp. effect for 2008 as a whole.

#### Real GDP in negative territory throughout 2009

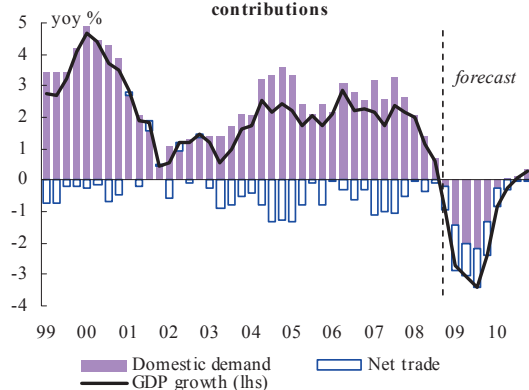
There are no clear signs of recovery in the short term. Business surveys have continued to deteriorate in recent months in most sectors. In services and in the manufacturing sector,

expectations of activity are at historically low levels, suggesting that the decline in production and the recession will continue. Thus, GDP is assumed to have fallen sharply again in the first quarter of 2009, by 1½%. GDP growth is expected to remain negative throughout 2009, but at a steadily diminishing rate as the recently introduced stimulus plan, the expected impact of monetary easing and a stabilisation of activity in France's trading partners lead to a timid recovery in late 2009. In 2010, activity will still be very weak, with growth remaining close to stagnation on average.

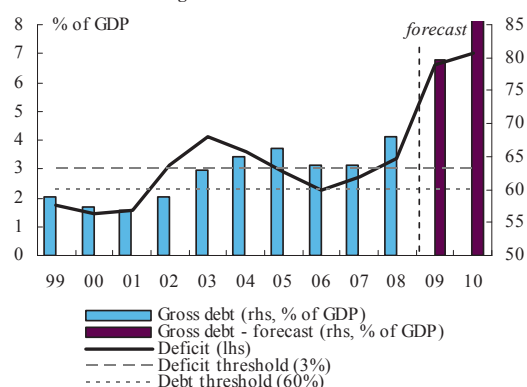
Private consumption will slow markedly but remain slightly positive in 2009 and 2010. On the one hand, household disposable income should be more and more penalised by the drop in earned income, as employment declines sharply and the rise in unemployment puts downward pressure on wages. On the other hand, households' disposable income should benefit more from the fall in inflation, the increase in welfare benefits – notably family benefits and retirement pensions –, the tax cuts and higher unemployment benefits implemented to cushion the effect of the crisis. However, faced with a deteriorating labour market and uncertainties about the economic situation, households can be expected to be cautious, increasing their precautionary savings instead of spending the additional revenues. The saving rate would thus rise to 16½% by 2010.

Production is affected by an outlook of weak demand, almost no signs of recovery in order books, the underutilisation of production capacities and funding difficulties. All of these factors,

Graph 2.10.1: France - GDP growth and contributions



Graph 2.10.2: France - General government gross debt and deficit



combined with widespread declines in profits and the need to strengthen their balance sheets, mean that businesses are expected to sharply cut their investment through 2009. This will also lead to further inventory reduction. Together with a very negative carry-over from 2008, stocks are expected to put a large drag on growth in 2009 as a whole. In the course of 2010, productive investment will very timidly recover once economic activity stabilises. As far as investment in construction is concerned, the housing market shows very limited signs of improvement and is thus expected to carry on falling. Buyers are adopting a "wait and see" attitude, new housing stocks are swelling and sales are down. In addition, tightening lending conditions, slowing incomes as well as expectations of further price decreases are preventing many households from buying a property. However, public investment, boosted by the recovery plan, should somewhat cushion the drop in construction sector activity. All in all, overall investment is expected to fall by around 6% in 2009 and then 3% in 2010.

In a context of a general fall in activity, world demand for French products is forecast to be down by close to 10% in 2009 for both goods and services as tourism will also suffer from the widespread economic crisis. Exports are set to fall dramatically – by a two-digit figure – in 2009. In a context of contracting final demand, import growth is set to diminish significantly but less than exports as private and public consumption remain positive. Net trade is therefore expected to put a large drag on growth in 2009 and a smaller one in 2010. In this context, the current-account deficit will deteriorate in line with the trade balance. The sharp fall of import prices of goods triggered by commodity prices in 2009 will, however, soften this deterioration.

#### **Job losses and rising unemployment**

Despite modest GDP growth, employment continued to expand in 2008, by around 1%, due to dynamic job creation in the first half of 2008. In 2009 and 2010, employment prospects will reflect the weakness of economic activity in general. Specifically, the job shedding which started in the third quarter of 2008 is expected to gain momentum as a result of the contraction of global activity and then gradually stop in the course of 2010, reflecting the traditional lag between growth and employment. Total employment will fall by around 2% in 2009 and 1% in 2010. Despite the

fact that the working-age population is still growing, the labour force is expected to slightly contract over the forecast period with people leaving it because they are discouraged by the scale of the downturn. This will somewhat dampen the increase in the unemployment rate, which will nonetheless climb to 11% in 2010, crossing the psychological threshold of 3 million unemployed. Given the deterioration in the labour market, wage growth is expected to be very moderate over the forecast horizon.

Inflation will continue to fall and is expected to be close to zero in 2009 on average, pushed down by several factors: the sharp fall in commodity prices, notably in energy prices and production costs, the pressure on profit margins of businesses and distributors due to slackening demand, as well as some impact on retail prices from the Loi de Modernisation de l'Economie<sup>(2)</sup>. Core inflation is likely to slow until the end of the forecast period to 1% in 2010.

#### **Public finances: high deficit and sharply increasing debt**

The general government deficit breached the 3%-of-GDP threshold in 2008, increasing from 2.7% in 2007 to 3.4% of GDP in 2008. The structural deficit (the cyclically-adjusted deficit net of one-offs) added a further 0.4 pp. to the deterioration of 0.5 pp. in 2007.

The sharp decline of economic activity in the fourth quarter weighed on government revenue. The tax burden decreased to 43% of GDP in 2008 from 43.4% in 2007, and total revenue from 49.6% to 49.3%. The corporate tax and VAT were particularly squeezed by the downturn, as well as duties on real estate transactions. Discretionary measures, such as rebates on the local business tax and the so called TEPA package which comprises various tax cuts, notably on overtime, also had a negative impact on revenue. On the expenditure side, according to the information available the zero volume growth rule for central government expenditure appear to have been met. However, the target for expenditure in value was exceeded, notably due to interest expenditure in a context of high inflation. Furthermore, the social security spending objective seems to have been adhered to. Local expenditure was rather contained, reflecting the end of the electoral cycle. In 2009, the deficit is projected to rise markedly, to 6½% of GDP. This increase reflects the difficult economic

environment and takes into account the recovery measures announced so far. Tax revenue is forecast to be hit hard by the economic downturn and particularly by the sharp decline in asset prices, which is expected to have a significant impact, notably on corporate and property transaction taxes. Concerning expenditure, on top of higher social transfers in line with unemployment, this forecast takes into account the impact of the recovery plan on the deficit (0.8 pp.), as well as the measures announced following the 18 February social summit in favour of households (0.1 pp.). It is assumed that the zero volume growth rule for central government expenditure will be adhered to. Local authorities' investment growth is expected to remain relatively moderate. Overall, the revenue-to-GDP ratio is estimated to decrease by about ½ pp. of GDP, while the expenditure-to-GDP ratio is set to increase by 3 pps. of GDP.

Under the conventional assumption of unchanged policies, the deficit could widen further in 2010, to 7% of GDP. Although the almost complete phasing-out of the recovery plan will have a positive impact on the expenditure-to-GDP ratio, this is expected to be more than offset by the effect of the normal functioning of automatic stabilisers and increased interest payments. Revenues as a

share of GDP are projected to slightly increase as the economy begins to recover.

Debt, which stood at 68% of GDP in 2008, is forecast to reach almost 80% of GDP in 2009, before attaining a record level of 86% of GDP in 2010. This is due to the high expected deficit and to the financial rescue measures already implemented. In particular, this projection includes liabilities stemming from the *Société de financement de l'économie française*, a scheme to improve the liquidity of banks (around 3.7% of GDP).

- (<sup>2</sup>) The law (summer 2008) relaxed the rules governing the negotiation of sales conditions and the opening of large-scale retail outlets with a view to increasing competition in the retail sector.

Table 2.10.1:

## Main features of country forecast - FRANCE

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	1892.2	100.0		1.9	1.9	2.2	2.2	0.7	-3.0	-0.2
Private consumption	1072.0	56.7		2.0	2.6	2.3	2.4	1.4	0.2	0.3
Public consumption	438.0	23.1		1.6	1.2	1.3	1.4	1.7	1.8	1.1
Gross fixed capital formation	406.3	21.5		1.9	4.4	4.7	4.9	0.5	-5.9	-2.6
of which : equipment	113.4	6.0		3.2	3.2	2.8	5.8	-0.5	-11.4	-4.4
Exports (goods and services)	501.9	26.5		5.4	3.1	5.4	3.1	1.2	-11.7	-1.0
Imports (goods and services)	538.3	28.4		5.2	5.9	6.1	5.6	2.2	-6.9	0.0
GNI at previous year prices (GDP deflator)	1902.1	100.5		2.0	1.7	2.2	2.0	0.7	-3.0	-0.2
Contribution to GDP growth :										
Domestic demand				1.8	2.6	2.6	2.7	1.3	-0.8	-0.1
Stockbuilding				0.0	0.0	-0.1	0.2	-0.3	-1.2	0.2
Foreign balance				0.1	-0.7	-0.2	-0.7	-0.3	-1.0	-0.2
Employment				0.6	0.6	0.8	1.7	0.6	-2.2	-1.2
Unemployment rate (a)				10.2	9.2	9.2	8.3	7.8	9.6	10.7
Compensation of employees/f.t.e.				2.6	3.1	3.4	2.6	2.8	1.3	1.5
Unit labour costs whole economy				1.2	1.8	2.0	2.1	2.7	2.0	0.4
Real unit labour costs				-0.3	-0.3	-0.5	-0.4	0.3	0.6	-0.7
Savings rate of households (b)				-	-	14.9	15.6	15.4	16.1	16.5
GDP deflator				1.5	2.0	2.5	2.5	2.4	1.4	1.2
Harmonised index of consumer prices				1.8	1.9	1.9	1.6	3.2	0.2	0.9
Terms of trade of goods				0.1	-1.3	-0.5	0.2	-2.7	3.0	-0.3
Trade balance (c)				0.6	-1.3	-1.5	-2.0	-2.9	-3.1	-3.4
Current account balance (c)				1.0	-1.8	-2.1	-2.8	-3.8	-4.3	-4.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.0	-1.8	-2.0	-2.8	-3.8	-4.4	-4.7
General government balance (c)				-3.5	-2.9	-2.3	-2.7	-3.4	-6.6	-7.0
Cyclically-adjusted budget balance (c)				-3.2	-3.5	-3.1	-3.8	-4.2	-5.5	-5.5
Structural budget balance (c)				-	-4.1	-3.4	-3.9	-4.3	-5.5	-5.5
General government gross debt (c)				55.9	66.4	63.7	63.8	68.0	79.7	86.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.



# 11. ITALY

## Manufacturing hit hard by collapse in global demand

### The recession deepened in late 2008

Real GDP fell by 1% in 2008, dragged down by both domestic and external demand. The economic downturn had been under way since the spring, initially driven by accelerating prices, growing uncertainty and risk aversion. When inflation started its rapid descent towards the end of 2008, the collapse in global trade took over as the key driver of the contraction in economic activity. The recession deepened in the last quarter of 2008, affecting all components of demand. On the supply side, the fall in real GDP in 2008 was driven by the progressive decline in manufacturing output growth: having already started to weaken in 2007, industrial production plummeted in the last quarter of the year. For 2008 as a whole, the decrease of value added in this sector, at 3%, largely outpaced that for the whole economy.

### Economic activity to contract sharply in 2009

The outlook for the first half of 2009 is strongly unfavourable. Short-term indicators point to a protracted retrenchment of economic activity. In particular, industrial output contracted sharply in the first two months and is expected to have fallen again in March. Available soft indicators, however, point to some stabilisation in the coming months. Consumer confidence improved in April and there is evidence of a positive impact of the incentives for the purchase of energy-efficient vehicles. Industrial confidence also recovered in April from the trough recorded in March.

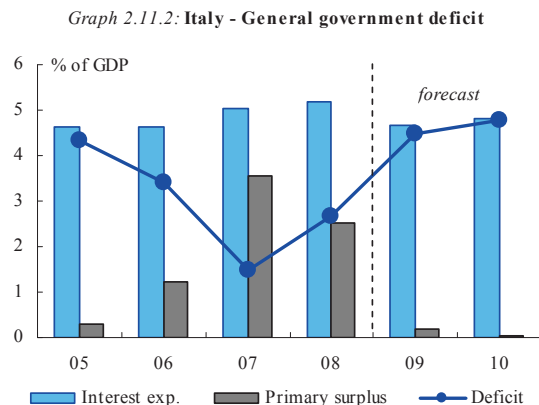
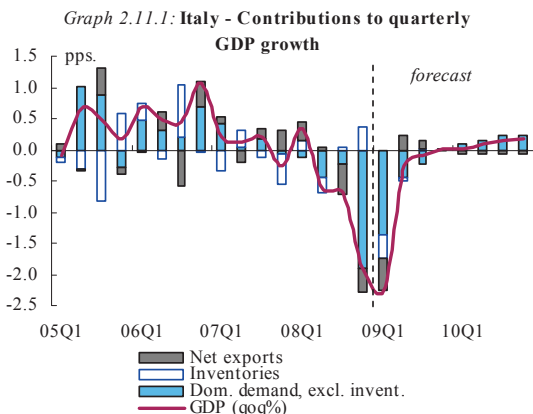
Against this background, real GDP is expected to record another strong contraction in the first

quarter of 2009 and to continue declining throughout most of the year, though gradually moving towards stabilisation. With a significantly negative growth impulse from 2008, in 2009 real GDP is projected to record the strongest annual fall in several decades.

The support to household purchasing power from lower inflation is not likely to prevent private consumption from falling again in 2009, in view of worsening employment prospects and negative wealth effects. This will entail a further rise in the household savings rate. The drop in private fixed investment is forecast to be sharp and protracted, on the back of the uncertainty over the timing of the recovery, reduced capacity utilisation, lower profitability and tighter lending conditions. The contraction in residential investment is also reflected in stagnating mortgage lending. The expected acceleration in public investment is the only positive element in the outlook for gross fixed capital formation in 2009.

The collapse of Italy's export markets is weighing heavily on its external performance. Substantially weaker import demand is unlikely to fully offset the export drag on the economy, translating into a negative contribution of net exports to growth. However, lower commodity prices should allow the trade balance to improve.

In 2010, economic activity is projected to stabilise at a low level. This is due to both domestic and external demand. On the domestic side, private consumption is projected to return to mildly positive growth, while investment should take longer to recover. Exports are expected to



gradually regain some strength on the back of the assumed moderate improvement of the global environment.

### **Economic downturn hitting the labour market with a lag**

The impact of the economic downturn on the labour market has so far been more visible in terms of hours worked than of headcount employment. In spite of declining economic activity, employment still rose in the first three quarters of 2008, particularly in the services sector. It started to fall only in the last quarter. Job losses are expected to build up in 2009, hitting the industrial sector most, and to continue in 2010, although with less intensity. The unemployment rate began to rise in 2008 as new jobseekers, many of them women and new or newly recorded immigrants, outnumbered new hires. The employment decline projected for 2009 and 2010 will result in further increases in the unemployment rate.

Labour productivity decreased substantially in 2008 and is forecast to decline further in 2009, although a turnaround is expected in 2010. The wage agreements signed in 2007-2008 in most sectors of the economy, both private and public, lie behind the marked acceleration in compensation per employee in 2008 and the still-resilient growth in contractual wages already in place for 2009. However, negative wage drift is likely to produce a moderation in overall labour cost growth in 2009. Rising unemployment should contain wage dynamics in 2010.

Combined with negative labour productivity growth, positive wage growth in 2008 gave rise to a sharp acceleration in unit labour costs. The latter are expected to moderate significantly only in 2010. Subdued demand, sluggish productivity growth and lower prices are adversely affecting profitability of corporations: after decelerating in 2008, the gross operating surplus is expected to contract sharply in 2009 and to improve somewhat in 2010 as the economy recovers and growth in labour costs eases.

### **Inflation drops to historically low levels**

In 2009, headline inflation is expected to fall to an unprecedented 0.8%. The energy component of the HICP index is set to continue declining, but energy prices are assumed to recover momentum in 2010. The substantial rise in unit labour costs should

continue to affect core inflation in 2009, which is therefore anticipated to remain more dynamic than headline inflation. In 2010, the two measures of inflation are forecast to converge to a level still below 2%.

### **Recession pushes deficit above 3% of GDP**

In 2008, the government deficit increased to 2.7% of GDP, from 1.5% in 2007. The revenue ratio fell by nearly ½ of a percentage point of GDP as the still healthy growth of direct taxes and social contributions, supported by the considerable rise in employment and wages, was offset by the substantial fall of indirect taxes, which was also due to discretionary measures. The primary expenditure-to-GDP ratio increased. Discretionary measures, including a sizeable increase in compensation of employees, resulted in a 4½% rise in current primary expenditure, whereas capital expenditure dropped.

The higher headline deficit in 2008 than in 2007 implied a worsening in the structural balance, i.e. the balance excluding the effects of the cycle and one-offs, thus undoing some of the substantial structural improvement achieved over 2006-2007 to correct the excessive deficit.

The forecast for 2009 and 2010 incorporates the impact of both the three-year fiscal consolidation package approved by Parliament last summer and the measures adopted so far as a response to the economic downturn in the context of the European Economic Recovery Plan.

For the current year, the relative soundness of the banking system and the prudent fiscal response by the government to the downturn have so far contained the negative impact of the crisis on the public finances. Over 2009 as a whole, the headline deficit is forecast to increase to 4½% of GDP. The significant reduction in interest expenditure, thanks to lower short-term interest rates, will only partly offset the erosion of the primary surplus linked to the working of the automatic stabilisers.

Revenues are set to decline in response to the downturn. Direct taxes paid by corporations will be hardest hit because of falling profits, despite some revenue-increasing discretionary measures – namely, the so-called "Robin Hood tax" on banks, insurance companies and firms in the energy sector and one-off taxes to finance the recovery package.

Social contributions should decrease in line with the reduction in the overall wage bill. Indirect taxes are expected to decline by more than nominal consumption, in particular due to a further shift away from more tax-intensive durable goods consumption. Moving in the opposite direction, personal income taxes should increase marginally relative to 2008, also on the back of dynamic pension growth as a result of indexation to the high inflation recorded in 2008. The fact that the downturn is driven by relatively less tax-rich components, such as exports and investment, together with the impact of the above-mentioned discretionary measures, implies that the decline in nominal GDP will outpace that of revenues, resulting in an increasing revenue-to-GDP ratio.

The primary expenditure ratio is forecast to increase by around 3 pps. of GDP relative to 2008, as a result of declining nominal GDP combined with significant spending increases. The one-off income support to poor households adopted with the recovery package, together with the budgeted spending, will entail a 3½% annual rise in current primary expenditure. In addition, the announced acceleration in public investment, the repurchase of some previously securitized real estate and the recent incentives for energy-efficient durable goods are expected to generate a significant annual

increase in capital expenditure.

In structural terms, the 2009 government balance should improve by around ¾ pp. of GDP, also thanks to lower interest expenditure.

In 2010, under the usual no-policy-change assumption and in a context of very moderate economic growth, the planned expenditure control at all levels of government, if fully implemented, would limit the reduction in the primary balance. The latter will still be affected by an additional fall in taxes paid by corporations. The expected higher servicing cost of public debt will contribute to a further increase in the overall deficit to around 4¾% of GDP. The structural balance is set to slightly worsen relative to 2009.

The projected lower nominal GDP and eroded primary surplus will weigh on the government debt ratio, which is forecast to increase to around 116% of GDP by 2010, a level similar to that recorded at the end of the 1990s. Depending on the extent of banks' recourse to the available recapitalisation scheme, the gross debt ratio could increase further, by up to 1 percentage point of GDP.

Table 2.11.1:

**Main features of country forecast - ITALY**

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	1544.9	100.0		1.4	0.7	2.0	1.6	-1.0	-4.4	0.1
Private consumption	907.6	58.7		1.3	1.2	1.3	1.2	-0.9	-1.7	0.2
Public consumption	304.4	19.7		0.8	1.9	0.5	1.0	0.6	0.7	0.6
Gross fixed capital formation	327.7	21.2		1.5	0.8	2.9	2.0	-3.0	-12.3	-0.6
of which : equipment	145.8	9.4		2.0	1.7	5.1	3.0	-4.6	-17.8	0.3
Exports (goods and services)	448.2	29.0		4.6	1.1	6.2	4.6	-3.7	-15.6	0.1
Imports (goods and services)	451.8	29.2		3.9	2.1	5.9	3.8	-4.5	-12.8	0.2
GNI at previous year prices (GDP deflator)	1535.2	99.4		1.5	0.9	2.2	1.1	-1.9	-4.5	0.1
Contribution to GDP growth :										
Domestic demand				1.2	1.2	1.5	1.3	-1.0	-3.4	0.2
Stockbuilding				0.0	-0.3	0.5	0.0	-0.3	-0.2	0.0
Foreign balance				0.2	-0.2	0.1	0.2	0.3	-0.7	0.0
Employment				0.2	0.2	1.5	1.0	-0.1	-3.3	-0.6
Unemployment rate (a)				10.0	7.7	6.8	6.1	6.8	8.8	9.4
Compensation of employees/f.t.e.				3.4	3.2	2.7	2.2	3.3	2.1	1.5
Unit labour costs whole economy				2.2	2.7	2.2	1.5	4.2	3.3	0.8
Real unit labour costs				-1.0	0.6	0.3	-0.8	1.4	1.3	-0.8
Savings rate of households (b)				-	-	14.8	14.2	14.7	15.1	15.1
GDP deflator				3.3	2.1	1.8	2.4	2.8	1.9	1.5
Harmonised index of consumer prices				3.2	2.2	2.2	2.0	3.5	0.8	1.8
Terms of trade of goods				0.0	-2.3	-3.4	1.5	-2.6	7.5	-0.4
Trade balance (c)				2.0	0.0	-0.7	0.2	0.0	0.9	0.8
Current account balance (c)				0.7	-1.2	-2.0	-1.8	-3.0	-2.6	-2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.8	-1.1	-1.9	-1.6	-2.9	-2.4	-2.4
General government balance (c)				-4.8	-4.3	-3.3	-1.5	-2.7	-4.5	-4.8
Cyclically-adjusted budget balance (c)				-4.6	-4.6	-4.3	-2.8	-3.2	-2.6	-2.7
Structural budget balance (c)				-	-5.2	-3.9	-2.9	-3.4	-2.6	-2.8
General government gross debt (c)				112.6	105.8	106.5	103.5	105.8	113.0	116.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 12. CYPRUS

### Public finances deteriorating, large external deficit

#### Moderating but robust activity in 2008

Economic activity in Cyprus remained strong in 2008. However, due to the worsening external environment, GDP growth decelerated in the second half of the year, leading to an annual growth rate of 3½%, compared with 4½% in 2007. Activity was almost exclusively driven by dynamic domestic demand, while net exports continued to contribute negatively to GDP growth. In particular, private consumption accelerated due to historically low interest rates, strong credit expansion and employment and wage growth. A personal income tax cut initiated in 2007 and maintained in 2008 supported disposable income. In parallel, private investment in construction, especially housing, remained buoyant despite decelerating somewhat, thus underpinning investment growth. Overall, domestic demand is estimated to have contributed 8¼ pps. to GDP growth, which was partially offset by a negative contribution from net exports. The deteriorating external environment had an adverse effect on exports, particularly tourism. Total exports grew by a mere 1% in real terms, while total imports rose by almost 10%, in line with strong domestic demand. Exports of goods rose, while export-oriented services slowed significantly with a contraction in tourism revenue.

#### Still positive growth for 2009 and 2010

In view of the ongoing global crisis, economic growth is expected to slow significantly in 2009 but still remain in positive territory.

Domestic demand is forecast to continue to drive growth. In the face of a rising household debt

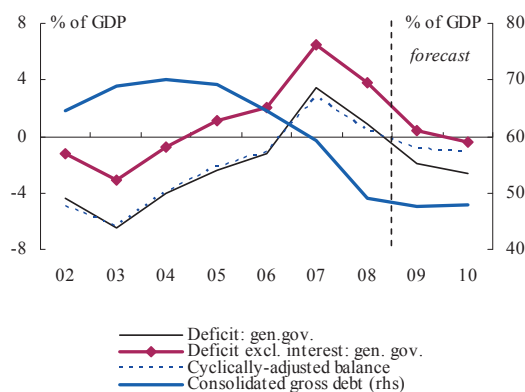
burden and tight financial conditions in an uncertain environment, private consumption growth is projected to moderate. Investment in machinery and equipment is projected to follow suit. The pace of housing construction investment should also decelerate throughout the forecast period, in contrast with the exceptionally high momentum of recent years. The main reasons for this deceleration are lower demand for dwellings by non-residents and the high rise in prices observed in the last few years. The projected slowdown in the growth of private consumption and investment is expected to put a brake on import growth. Exports of both goods and services are set to contract in view of the bleak economic outlook in Cyprus' main trading partners. The contribution of net exports to GDP growth is forecast to remain negative. Economic activity is projected to recover only mildly in the second half of 2010, due to a less negative contribution from the external sector. The current account deficit is expected to decline somewhat, especially in 2009, while remaining large and thereby adding downside risk to the central scenario.

#### Moderate increase in unemployment

Labour market conditions remained close to full employment in 2008, with the unemployment rate at 3¾% and employment growth at 2½%. In line with the worsening economic outlook, employment is projected to decline in 2009, particularly in those sectors most exposed to the downturn, namely the real estate and tourism sectors. Sectoral collective agreements adopted before the downturn and wage indexation, which adjusts wages base on inflation in the previous 6 months, should contribute to a sustained wage growth in the current year. In line with slowing activity, productivity growth is expected to moderate over the forecast horizon. This, coupled with a modest acceleration in wages, is set to keep unit labour costs rising at rates similar to those observed in the recent past, and above the euro area average.

Average HICP inflation reached 4.4% in 2008 due to buoyant domestic demand and high commodity prices, especially for oil and food. HICP inflation is projected to slow to about 1% in 2009 and to rise to 2% in 2010, mainly influenced by the impact of projected lower energy prices.

Graph 2.12.1: Cyprus - Public finances



### Public finances turn into deficit

The general government surplus is estimated to have fallen to 1% in 2008 from 3.4% of GDP in 2007, ½ percentage point of GDP higher than the target in the Budget Law. The structural balance fell from 3½% of GDP to ¾%. These changes mainly reflect revenue shortfalls, due to subdued activity in the real estate sector, and expenditure overruns, partly due to the drought and to the expenses associated with maintaining water supplies and compensation to farmers. Moreover, social transfers and other social cohesion measures (for pensioners and other welfare recipients) accounted for an additional increase in expenditure of almost ½ pp. of GDP.

The revised national budgetary target for 2009 included in the update of the Stability Programme submitted last February is a deficit of ¾% of GDP, compared with the surplus of 1% of GDP targeted in the 2009 budget law. This is explained by a downward revision of total revenue projections, consistent with slower growth prospects. Specifically, the revenue-to-GDP ratio is set to decline in 2009 compared with the outturn of 2008, mainly due to subdued activity in the real estate sector and reduced corporate profitability. No one-off measures are planned. Public

expenditure is expected to increase only slightly. Higher social transfers are offset by savings in interest payments. Overall, the stance of fiscal policy will be expansionary in 2009, in line with the EERP. The Commission services project a higher fiscal deficit in line with a slower GDP growth scenario. This projection takes into account additional revenues from the recently adopted pension reform and an announced extra-budgetary package of social measures, not incorporated in the official projections. In structural terms, the worsening in 2009 is expected to be about 2¼ pps. of GDP. In 2010, on a no-policy-change basis, the deficit is projected to edge up, due to an increase of current primary expenditure. Although the debt-to-GDP ratio is set to decline further, the rapidly decreasing primary surplus, coupled with measures to support the financial sector, may put upward pressure on the debt ratio.

Table 2.12.1:

#### Main features of country forecast - CYPRUS

	2007		Annual percentage change							
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	15596.3	100.0		4.4	3.9	4.1	4.4	3.7	0.3	0.7
Private consumption	10342.7	66.3		-	4.0	4.5	8.2	7.0	1.0	1.2
Public consumption	2764.6	17.7		-	3.4	7.4	0.1	8.7	7.0	2.4
Gross fixed capital formation	3432.6	22.0		-	3.3	10.4	10.4	9.8	1.7	0.6
of which : equipment	917.4	5.9		-	-5.6	15.3	4.5	21.7	1.2	1.2
Exports (goods and services)	7611.7	48.8		-	4.7	3.9	7.2	1.1	-6.2	0.2
Imports (goods and services)	8605.8	55.2		-	3.1	6.6	12.5	9.9	-3.1	1.3
GNI at constant prices (GDP deflator)	14702.8	94.3		4.2	4.2	3.5	3.4	2.0	1.5	1.6
Contribution to GDP growth :										
Domestic demand				-	3.8	6.2	7.5	8.3	2.3	1.4
Stockbuilding				-	-0.6	-0.5	0.2	0.7	-0.8	0.0
Foreign balance				-	0.7	-1.6	-3.2	-5.3	-1.2	-0.7
Employment				-	3.6	1.8	3.2	2.6	-0.4	0.1
Unemployment rate (a)				-	5.3	4.6	4.0	3.8	4.7	6.0
Compensation of employees/head				-	1.8	3.0	2.1	4.0	5.4	4.3
Unit labour costs whole economy				-	1.4	0.6	0.9	3.0	4.7	3.7
Real unit labour costs				-	-0.9	-2.3	-2.4	-1.8	-0.6	1.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.3	2.4	3.0	3.4	4.8	5.3	2.5
Harmonised index of consumer prices				-	2.0	2.2	2.2	4.4	1.1	2.0
Terms of trade of goods				-	-3.7	4.3	0.1	-2.6	10.2	-0.1
Trade balance (c)				-	-25.0	-27.2	-30.2	-32.7	-27.4	-27.6
Current account balance (c)				-	-5.9	-7.0	-11.7	-18.2	-13.9	-13.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.3	-6.8	-11.7	-18.0	-13.7	-13.3
General government balance (c)				-	-2.4	-1.2	3.4	0.9	-1.9	-2.6
Cyclically-adjusted budget balance (c)				-	-2.3	-1.4	2.7	0.1	-2.1	-2.1
Structural budget balance (c)				-	-3.2	-1.4	2.7	0.1	-2.1	-2.1
General government gross debt (c)				-	69.1	64.6	59.4	49.1	47.5	47.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 13. LATVIA

### Domestic demand and trade implode

#### Deepening recession

In 2008, real GDP contracted by 4.6%, after the economy had accumulated major imbalances in 2005-2007, when rapid expansion was based on domestic demand fuelled by easy credit conditions and an expansionary fiscal stance. The recession, which started in the first half of 2008 and originated in the reversal of the domestic real estate boom, rapidly worsened, when risk aversion became extreme on global financial markets. As market sentiment increasingly turned against emerging markets, funding constraints led to the government's decision to turn to international institutional financing. The reached agreement on multilateral financial assistance of up to EUR 7.5bn is conditional on major fiscal consolidation as well as financial system and structural reforms, as represented in the government's economic stabilization package adopted in December 2008.

On the expenditure side, private consumption fell increasingly rapidly in 2008 (by around 20% y-o-y in the fourth quarter), as house prices and new credit declined and the general mood turned gloomy. Investments also fell sharply. The correction in domestic demand was accompanied by large drops in imports which led to a strong positive growth contribution from net exports. However, due to the recession in trade partner economies, exports began to fall sharply towards the end of the year.

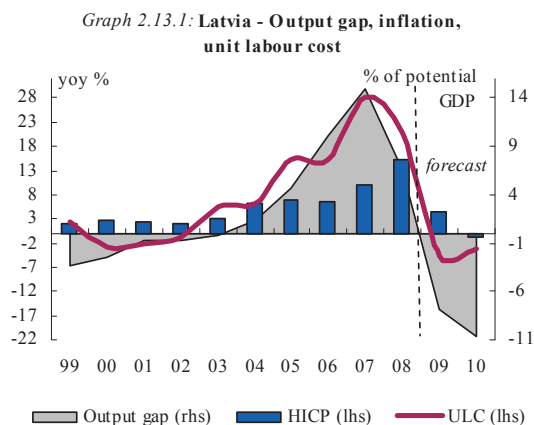
#### Recovery still distant

Available data from early 2009 suggests a further deterioration in the economic situation, with retail

sales and industrial production almost in free fall. Goods exports have accelerated their decline, along with lower demand in trade partner economies. Access to large financial assistance and funding commitments from foreign parent banks are expected to stabilize the financial system while it takes hits on its capital base from deteriorating loan portfolios. Nevertheless, despite public commitments by the financial institutions and supporting efforts by the authorities, the banking system continues to reduce credit to the private sector, thereby worsening the recession.

Recent business and consumer survey results point to a further deepening of the recession. House prices – already back to early 2005 levels – continue their downward movement at an accelerating pace. Beyond the pressure on real disposable income and negative wealth effects, fear of unemployment is pervasive. Bigger ticket purchases are being withheld, as reflected in the decline in car sales and consumer durable goods sales. In 2009, investment is projected to fall sharply, as in addition to depressed domestic conditions the tradable sector is suffering cost competitiveness problems and lack of demand. Public investment will provide some cushion, taken into account that EU funded projects are safeguarded in the current budget. Recovery of private investment is projected to start only from end-2010, on the basis of external demand. By then real-estate prices should reach levels more consistent with long-term local income potential. Net exports are set to keep their strong positive growth contribution during the recession. Considering the rapid improvement over the past few months, the current account is projected to be around balance in 2009 and 2010. The ratio to GDP of net external liabilities is set to snowball higher during the recession, but the rate of deterioration is expected to decrease in 2010.

Overall, the economy is facing a very severe downturn, with GDP projected to fall by around 13% in 2009 and 3% in 2010. This should entrain a progressive price adjustment supported by private sector wage reductions led by nominal wage cuts in the public sector. The domestic cost adjustment, together with public efforts to shift economic resources to the tradable sector, would put the Latvian economy on a stronger footing for a sustainable export-led recovery from end-2010.



The risks to this scenario are extremely large and, in particular, delays with fiscal adjustment could undermine international market confidence.

### Price adjustment gathering speed

Inflation remains at elevated levels, but has been decreasing rapidly in recent months. HICP inflation is likely to register further strong decreases in 2009, given the outlook for domestic demand, wages and global energy price decreases, although recent tax increases slow the improvement. Nevertheless, for 2010 mild deflation seems likely, as in particular services prices are likely to fall in the severe recession. The labour market adjustment is projected to continue at its current high speed with unemployment rising rapidly. However, the impact of falling employment will be lowered by an expected fall in the participation rate and by higher outward migration. Nominal wages are set to fall markedly both in 2009 and 2010, as the public sector takes the lead with large cuts in wages and bonuses.

and public spending in the first months of 2009 was well above corresponding 2008 levels. In particular, social transfers increased significantly, due to generous pension increases in 2008. Looking ahead, the interpretation of no-policy change is very difficult, as the new government which took office in 2009 is currently working on additional measures which could lower the general government deficit by 2011 to below the Treaty reference level of 3% of GDP. Not including the planned measures of the new government – except for the redirection of social contributions from the second pillar pension system – the general government deficit is projected to rise to above 11% of GDP in 2009 and 13% of GDP in 2010, as the deepening revenue shortfall in the recession is expected to be only partly counterbalanced by expenditure restraint and tax increases. Government debt is projected to surge from 19.5% of GDP in 2008 to around 50% of GDP by 2010.

### General government deficit seriously off-track

The fiscal outcome for 2008 is estimated at a deficit of 4% of GDP. Indirect tax increases implemented in early 2009 failed to bring the expected results

Table 2.13.1:

#### Main features of country forecast - LATVIA

	2007		Annual percentage change							
	mio LVL	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	14779.4	100.0	0.5	10.6	12.2	10.0	-4.6	-13.1	-3.2	
Private consumption	9213.2	62.3	-	11.2	21.2	14.8	-11.0	-22.0	-6.5	
Public consumption	2574.9	17.4	-	2.7	4.9	3.7	1.5	-5.0	-2.0	
Gross fixed capital formation	4975.1	33.7	-	23.6	16.4	7.5	-13.2	-24.0	-8.0	
of which : equipment	-	-	-	-	-	-	-	-	-	
Exports (goods and services)	6241.4	42.2	-	20.2	6.5	10.0	-1.3	-12.9	0.5	
Imports (goods and services)	9219.5	62.4	-	14.8	19.4	14.7	-13.6	-27.7	-7.0	
GNI at constant prices (GDP deflator)	14290.7	96.7	0.2	11.6	10.3	9.6	-3.4	-10.4	-5.4	
Contribution to GDP growth :										
Domestic demand			-	15.1	20.2	13.5	-12.5	-23.4	-6.5	
Stockbuilding			-	-4.2	0.7	1.6	-0.6	-0.6	-0.3	
Foreign balance			-	-0.3	-8.7	-5.1	8.5	10.9	3.7	
Employment			-2.5	1.7	4.7	3.6	0.7	-8.9	-3.3	
Unemployment rate (a)			13.2	8.9	6.8	6.0	7.5	15.7	16.0	
Compensation of employees/head			-	25.3	23.6	34.8	16.7	-9.0	-3.0	
Unit labour costs whole economy			-	15.2	15.3	27.0	23.2	-4.6	-3.1	
Real unit labour costs			-	4.6	4.9	5.6	7.0	-2.4	0.5	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			33.7	10.2	9.9	20.3	15.2	-2.2	-3.6	
Harmonised index of consumer prices			-	6.9	6.6	10.1	15.3	4.6	-0.7	
Terms of trade of goods			-	-1.8	0.0	7.2	0.6	-4.3	-1.9	
Trade balance (c)			-12.5	-18.9	-25.6	-23.9	-17.0	-10.5	-9.7	
Current account balance (c)			-2.6	-12.5	-22.5	-22.5	-13.6	-1.5	-1.9	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.1	-11.2	-21.3	-20.6	-12.1	0.7	0.8	
General government balance (c)			-	-0.4	-0.5	-0.4	-4.0	-11.1	-13.6	
Cyclically-adjusted budget balance (c)			-	-1.7	-3.3	-4.5	-5.8	-9.0	-10.7	
Structural budget balance (c)			-	-1.7	-3.3	-4.5	-5.8	-9.5	-11.5	
General government gross debt (c)			-	12.4	10.7	9.0	19.5	34.1	50.1	

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 14. LITHUANIA

### Deepening recession leads to wider fiscal deficits

#### Slowing growth in 2008

Economic activity decelerated from the beginning of the year and declined sharply in the last quarter of 2008, with investment contracting markedly and waning global demand weighing increasingly on exports. Private consumption held up reasonably well until autumn, before weakening significantly towards the end of the year as confidence fell steeply; despite this, it still grew by around 5% in 2008 as a whole. Investment, especially in dwellings and equipment, fell significantly (-5.9%). For the year as a whole, GDP grew by 3.0%.

After widening significantly at the beginning of the year, the external deficit narrowed progressively in the second half as the slowdown progressed and imports slowed. The external current account deficit still reached 11.6% of GDP in 2008, compared with 14.6% of GDP in 2007. FDI inflows decreased in 2008, covering around one third of the current account deficit.

#### Severe and protracted downturn expected

The economic downturn in Lithuania will be deeper and more protracted than previously assumed, mainly due to the worse external environment. Economic activity is expected to shrink by around 11% in 2009 and to a more modest degree in 2010. Although all components of domestic demand are expected to decline, investment will fall most sharply, by around a fifth. Previously booming construction-related investment, mainly financed by credit, will be squeezed. The downturn will be further reinforced

by fiscal restraint. Private consumption will be impaired by lower disposable income, rapidly increasing unemployment and limited access to borrowing.

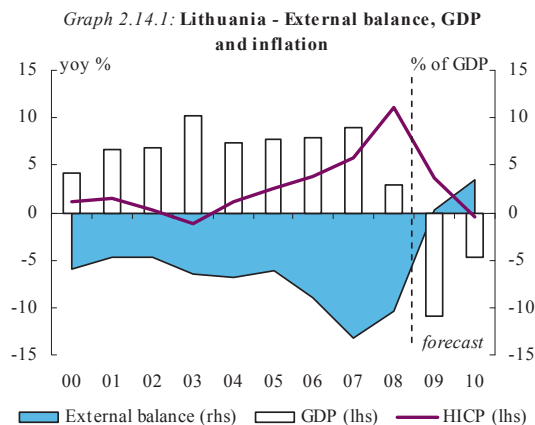
The external environment has deteriorated rapidly, with activity in Lithuania's main trading partners expected to weaken considerably. Nevertheless, with import growth set to recede more substantially as domestic demand falls, net exports are forecast to contribute positively to growth in 2009 and 2010. The pronounced economic slowdown is thus expected to contribute considerably to the reduction of the external imbalance, mainly due to narrowing merchandise trade and income account deficits. The current-account balance is expected to be slightly positive in 2010. After decreasing somewhat in 2008, net external liabilities relative to GDP are expected to increase again during the forecast period.

#### Sharp increase in unemployment to bring about wage cuts

The economic downturn is likely to be accompanied by a sharp rise in unemployment - to nearly 14% in 2009 and even further in 2010 - and a substantial reduction in employment. After continuing excessive wage increases at the beginning of 2008, wages started to adjust to the changing situation in the labour market. Given Lithuania's labour market flexibility, average nominal wage growth is expected to turn strongly negative in the following years, helping to restore cost competitiveness, recently further impaired by substantial depreciations in the neighbouring countries that are significant trading partners.

#### Prices also set to adjust

In 2008, annual HICP inflation averaged 11.1% compared with 5.8% in 2007. While external factors such as soaring energy and food prices considerably increased inflation in 2008, domestic demand pressures contributed even more to price increases, as reflected in high wage growth. Inflation started to ease in the last quarter of 2008 and is expected to ease rapidly to around 3.6% in 2009 and turn slightly negative in 2010. Rises in electricity and gas tariffs as well as increases in VAT and a hike in excise duties temporarily pushed up inflation at the beginning of 2009.





However, weak domestic demand and lower wages will exert a downward pressure on inflation and disinflationary processes are set to continue in 2010. There is a possibility of stronger disinflation if heating prices are reduced following falls in imported gas prices. Energy price increases after the closure of the Ignalina nuclear power plant by the end of 2009 are likely to be more moderate than previously expected.

#### Budget deficit to increase despite significant fiscal consolidation efforts

Due to an expansionary fiscal policy, the budgetary outturn in 2008 was much worse than initially expected, with the general government deficit increasing to 3.2% of GDP compared with the deficit target of 0.5% of GDP. This reflects both revenue-decreasing measures such as direct tax reductions and also higher spending, including an increase in social transfers and a substantial rise in public sector salaries. Tax receipts also weakened in the second half of the year against the backdrop of weaker domestic demand.

The new government formed in December 2008 adopted a substantial fiscal consolidation package that included both wide-ranging tax changes and large expenditure restraint. On the revenue side,

the main measures included increases in VAT and excise duties and a cut in personal income tax; the corporate income tax rate was raised and most tax exemptions removed, broadening the tax base. The budget also contained major expenditure cuts, including by reducing public sector wages, investment and other current expenditure. However, despite discretionary revenue-increasing measures, tax revenues in the early months of 2009 dropped more substantially than expected. A further worsening in the macroeconomic outlook and much lower than budgeted tax revenue led the government to adopt a restrictive supplementary budget in April 2009, with expenditure-reducing measures of around 3% of GDP, targeting a general government deficit remaining below 3% of GDP in 2009.

Despite these efforts, on the basis of the customary no-policy-change assumption, the general government deficit is expected to widen to over 5% of GDP in 2009 and to rise significantly further in 2010. However, the government has announced that further fiscal tightening could be considered in June 2009, which is not taken into account in this forecast. The debt-to-GDP ratio is projected to increase from 15.6% of GDP in 2008 to over 30% in 2010.

Table 2.14.1:

#### Main features of country forecast - LITHUANIA

	2007		Annual percentage change							
	bn LTL	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	98.1	100.0		0.3	7.8	7.8	8.9	3.0	-11.0	-4.7
Private consumption	63.5	64.7		-	12.2	10.6	12.4	4.7	-17.5	-7.2
Public consumption	17.9	18.2		-	3.5	3.7	3.3	4.3	-9.9	-3.2
Gross fixed capital formation	27.5	28.0		-	11.2	19.4	20.8	-6.0	-22.1	-7.3
of which : equipment	8.8	9.0		-	11.5	16.8	18.3	-18.9	-19.0	-8.3
Exports (goods and services)	53.4	54.4		-	17.7	12.0	4.3	11.3	-15.1	-0.2
Imports (goods and services)	66.5	67.8		-	16.4	13.7	11.6	10.0	-23.8	-3.7
GNI at previous year prices (GDP deflator)	94.3	96.1		-	8.3	7.3	7.1	3.9	-11.0	-4.6
Contribution to GDP growth :										
Domestic demand				-	11.1	11.9	13.8	2.1	-18.8	-6.5
Stockbuilding				-	-2.8	-2.2	0.5	1.5	-0.1	-0.2
Foreign balance				-	-0.5	-1.9	-5.5	-0.6	7.9	1.9
Employment				-1.4	2.5	1.8	2.8	-0.5	-7.7	-2.4
Unemployment rate (a)				9.9	8.3	5.6	4.3	5.8	13.8	15.9
Compensation of employees/head				-	11.5	16.7	16.9	14.5	-10.3	-8.8
Unit labour costs whole economy				-	6.0	10.1	10.3	10.6	-7.0	-6.6
Real unit labour costs				-	-0.6	3.4	1.4	0.3	-9.1	-5.4
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				46.5	6.6	6.5	8.8	10.3	2.3	-1.2
Harmonised index of consumer prices				-	2.7	3.8	5.8	11.1	3.6	-0.4
Terms of trade of goods				-	0.6	-3.5	1.8	4.1	3.8	0.1
Trade balance (c)				-	-11.3	-13.9	-15.1	-11.9	-2.8	-1.2
Current account balance (c)				-	-7.1	-10.4	-15.1	-12.2	-1.9	0.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.1	-8.9	-13.2	-10.4	0.3	3.5
General government balance (c)				-	-0.5	-0.4	-1.0	-3.2	-5.4	-8.0
Cyclically-adjusted budget balance (c)				-	-1.8	-2.1	-3.4	-5.2	-3.8	-4.8
Structural budget balance (c)				-	-1.8	-2.1	-2.8	-5.2	-4.3	-5.5
General government gross debt (c)				-	18.4	18.0	17.0	15.6	22.6	31.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

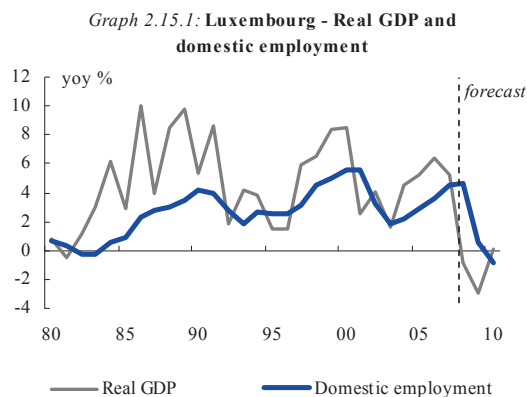
## 15. LUXEMBOURG

This time, not spared by the general hardship

### Activity is contracting sharply ...

The recession is taking its toll on the Luxembourgish economy and primarily on its manufacturing industry, which exports almost its whole production: in the fourth quarter of 2008, industrial production dropped like a stone. Even if the manufacturing industry now only represents less than 9% of total value added but its collapse had a sizeable impact on growth: industrial production fell by 15.8% (s.a.) from the third to the fourth quarter, the biggest drop in the whole EU-27<sup>3</sup>. The Luxembourgish industry is heavily concentrated on steel products, car suppliers and glass, which makes it very dependent on the automotive industry and on construction. Services have been hit also, first of all services to enterprises but also the financial sector, which, due to its structure of ownership (nearly all Luxembourgish financial institutions belong to foreign groups) and to the international character of its activity, is extremely sensitive to developments abroad. As a result, according to a preliminary estimate, real GDP dropped by 4.5% q-o-q (s.a.) in the fourth quarter of 2008 and by 0.9% in yearly average.

With exports markets projected to contract by almost 10%, exports of goods are expected to record a historic fall in 2009. Exports of services - both financial and non-financial (Luxembourg has a very large air freight transport sector<sup>4</sup>) - will drop too, though probably less than exports of goods. Even if this fall in exports will be partially offset by a parallel drop in imports, the contribution of external trade to GDP growth is projected to be substantially negative this year.



Private investment is also projected to plummet, but this fall will be partially offset by a more than 10% surge in public investment decided within the country's economic recovery plan. Government consumption, too, will remain dynamic and it is possible that private consumption will do so also, (though to a lesser extent), fuelled by the large cuts in income tax operated at the beginning of 2008 and 2009 and by the recent decline in interest rates (most mortgage loans in Luxembourg are at a variable rate). However, since last summer, consumer confidence, though remaining higher than in most other Member States, has declined as much as the EU average. In total, GDP is forecast to contract by about 3% in real terms in 2009.

The Luxembourgish economy might begin to recuperate around the end of 2009 following the expected timid recovery in the world economy. However, with the exception of public expenditure, which is projected to remain extremely dynamic, most demand components will only post very modest positive growth rates (or even in some cases still negative ones due to the carry-over from this year) and real GDP is likely to grow only marginally in yearly average in 2010.

### ...and job creation is decelerating strongly

Employment remained buoyant for the larger part of 2008, rising by 4¾% over the whole year. However, the big drop in activity since the autumn has led to a standstill in job creation and to a substantial increase in unemployment, which had been rising since the beginning of 2008 and strongly accelerated in recent months, surging from 4.4% of the active population during the summer to 5.2% in February. The recession also resulted in an explosion in part-time unemployment, from virtually zero last summer to more than 3% of the total amount of wage-earners in the latest weeks. In order to limit the increase in unemployment and to support global demand, the authorities have recently decided to reimburse the employer's share of the partial unemployment allowance, to extend its duration and to increase it from 80% of the wage to 90% for wage-earners who accept to follow vocational training during their unemployment period.

Employment is projected to contract throughout 2009, the still positive growth rate forecast for this

year being exclusively due to the large carry-over from 2008. Conversely, the negative carry-over at the end of 2009 will result in a decline in employment in annual terms in 2010. However, the ensuing increase in residents' unemployment, though substantial, will probably be limited by the fact that a large part of the workers who will lose their job (or be unable to find one) in Luxembourg will be non-residents.

Inflation, which had substantially increased since the fourth quarter of 2007 as a result of the surge in oil and food prices dramatically declined in the fourth quarter of 2008 for symmetric reasons. It should remain very weak in 2009 and even turn negative in the course of the year (at least when measured by the HICP, where the weight of oil products is much larger than in most other Member States due to the large purchases of car fuel by non-residents).

#### The government surplus will turn this year into a deficit, which will increase in 2010

Thanks to still buoyant tax receipts and employment, the government surplus only declined from 3.6% of GDP in 2007 to 2.6% in 2008. This surplus will turn into a deficit this year, due not only to the impact of the crisis on government

revenues and on unemployment outlays but also to the tax cuts decided in the 2009 budget before the aggravation of the crisis and implemented since the beginning of this year; moreover, expenditure is forecast to rise substantially, reflecting in particular the sharp increase in government investment which constitutes the bulk of the government's economic recovery plan. The deficit could reach 1½% of GDP this year and widen to about 2¾% of GDP in 2010, as a result of the delayed effects of the recession on tax revenues and social transfers.

The public debt doubled in 2008, due to the financing of the support to the financial sector but at about 14% of GDP, it still remains one of the lowest in the EU.

(<sup>3</sup>) On average, the quarter-on-quarter decline in industrial production amounted to 5.4% in the EU-15 and to 6.6% in the EU-27.

(<sup>4</sup>) Luxembourg-Findel is the 5<sup>th</sup> airport in the EU for freight before e.g. Brussels, Madrid or Munich.

Table 2.15.1:

#### Main features of country forecast - LUXEMBOURG

	2007		Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009
GDP at constant prices	36411.1	100.0	4.2	5.2	6.4	5.2	-0.9	-3.0	0.1
Private consumption	11728.0	32.2	2.5	1.9	2.9	2.0	1.8	1.2	1.5
Public consumption	5572.5	15.3	4.4	3.4	2.7	2.6	1.3	5.0	2.4
Gross fixed capital formation	7110.7	19.5	4.5	3.4	1.0	11.8	1.7	-8.9	-2.3
of which : equipment	2374.0	6.5	2.7	4.6	2.5	22.2	0.0	-15.0	-4.0
Exports (goods and services)	65515.8	179.9	7.3	6.0	14.6	4.4	0.3	-6.3	-1.0
Imports (goods and services)	53709.6	147.5	7.1	6.0	13.4	3.5	1.8	-6.3	-0.9
GNI at constant prices (GDP deflator)	29370.7	80.7	3.5	3.3	-5.7	15.5	-3.0	-3.6	0.5
Contribution to GDP growth :									
Domestic demand			2.8	2.0	1.7	3.3	1.2	-0.9	0.5
Stockbuilding			-0.1	1.7	-0.5	-0.7	-0.1	-0.5	0.0
Foreign balance			1.5	1.5	5.3	2.7	-2.2	-1.6	-0.3
Employment			3.3	2.9	3.6	4.5	4.7	0.5	-0.8
Unemployment rate (a)			2.8	4.6	4.6	4.2	4.9	5.9	7.0
Compensation of employees/head			3.3	3.7	3.1	4.3	1.5	1.7	1.5
Unit labour costs whole economy			2.5	1.4	0.4	3.6	7.2	5.4	0.6
Real unit labour costs			-0.1	-2.9	-4.8	1.5	5.5	3.4	-1.0
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			2.6	4.5	5.4	2.0	1.6	1.9	1.6
Harmonised index of consumer prices			-	3.8	3.0	2.7	4.1	-0.6	2.0
Terms of trade of goods			-0.6	-0.4	1.7	3.4	-0.6	4.8	-0.5
Trade balance (c)			-11.2	-11.3	-9.6	-8.1	-10.1	-7.5	-7.8
Current account balance (c)			11.1	11.0	10.4	9.8	6.4	6.1	5.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-
General government balance (c)			2.5	0.0	1.4	3.6	2.6	-1.5	-2.8
Cyclically-adjusted budget balance (c)			-	-0.4	-0.6	0.9	2.0	0.6	0.1
Structural budget balance (c)			-	-0.4	-0.6	0.9	2.0	0.6	0.1
General government gross debt (c)			6.6	6.1	6.7	6.9	14.7	16.0	16.4

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

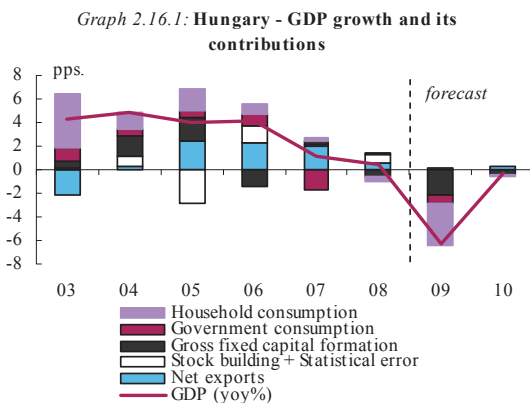
## 16. HUNGARY

### Domestic financial crisis magnifies recession

#### Sharp impact of the financial crisis

GDP grew by a mere 0.5% on average in 2008 but fell in the fourth quarter by 1.2% q-o-q. According to the seasonally adjusted data, households' consumption expenditure had been decreasing throughout 2008, dropping in the fourth quarter alone by 1.8% q-o-q. Consumption was most probably adversely affected by the sudden reversal in the growth in credits to households, a very tangible manifestation of the global deleveraging process. After some moderate rises in 2007, gross fixed capital formation decreased once more in 2008, by 2.6%. The decline in investment was apparent in all key sectors including manufacturing and construction. Overall, net exports contributed positively to growth in 2008; foreign trade has, however, rapidly declined in both directions in the fourth quarter.

Although the carry-over in GDP growth for 2009 is already negative (-1.2%), production side data suggest that a considerably deeper downturn may be inevitable. In 2008, a sizeable momentum came from the relatively small agricultural sector, which increased by an exceptional 43% last year, posting a contribution to growth of almost 2%. Additionally, industrial production has declined sharply in the last months of 2008, dropping by 14% in December alone compared with the previous month. Based on the sectoral breakdown, the financial and the manufacturing sectors were hit the most, the latter mainly due to a substantial drop in export demand. Export performance was also poor, with external trade in goods falling by 28% y-o-y in January 2009.



#### Contraction in all sectors

After declining for two and a half years, real disposable income of households is foreseen to decrease further by more than 4% in 2009 and is not likely to recover even in 2010. Moreover, since November 2008, households' access to credits has narrowed considerably, thereby putting additional pressure on consumers' budgets. Consumption is therefore expected to fall by 6½% in 2009 and to decrease somewhat in 2010. The sharp downturn in production, due to weak external and domestic demand and aggravated by the reduced functioning of the financial markets, is likely to have an adverse effect on investments. Although some boost can be expected from infrastructure projects, which are largely financed through EU structural funds, both households and corporations are likely to postpone planned capital investments. In line with the observed contraction in world trade, both exports and imports are projected to decline considerably, leading to a slightly positive growth contribution from net exports. Although partly offset by the increasing servicing costs of debt-type liabilities, the deterioration in the balance sheets of financial corporations is expected to considerably improve the income account in 2009; which, along with a moderately improving trade balance, will also lead to a decrease in the current-account deficit.

#### Rapidly deteriorating labour market

Labour demand is likely to be reduced significantly in view of the gloomy economic prospects. The decrease in private sector employment is expected to be around 3% annually; it is likely to be accompanied by a rapid moderation in wage inflation. Unemployment is expected to rise to double-digit levels despite a parallel increase in the number of inactive people. The widening negative output gap should support the continued moderation of price inflation; however, the weakening exchange rate, the recently announced indirect tax hikes and the pressure to compensate for the loss in corporate profits are likely to prevent a more rapid decline.

#### New challenges in public finances

As a result of the fiscal consolidation programme, the deficit significantly improved to 3.4% of GDP

in 2008 (from 5% of GDP in 2007), well below the budgeted target of 4% of GDP. It is expected to stay at this level in 2009 against the recently confirmed official target of 2.9% of GDP. This gap is chiefly explained by the fact that not all the measures announced by the new government on 19 April were detailed enough as to be incorporated in the forecast. The negative fiscal impact of the projected sizeable contraction in 2009 is officially foreseen to be counterbalanced by additional corrective measures of close to 1½% of GDP, announced in two stages in February and April (in parallel, the official growth assumption was revised from -1% to -6%). The possible freeze of the remaining budgetary reserves could still improve the projected deficit outcome by 0.3% of GDP. Based on the usual no-policy-change assumption, the deficit is projected to increase to 3.9% of GDP in 2010. In structural terms, despite the constant headline balance, the deficit is expected to fall further considerably, from 4½% of GDP in 2008 to 1¾% in 2009, before increasing to around 2% of GDP in 2010.

On the revenue side, although the Government recently unveiled a multi-year tax reform plan, only the measures for 2009 (most notably, VAT increase by 5 pps to be largely compensated by cuts in labour taxes) were considered to be well-

defined as to be taken into account at the cut-off date, and the forecast for 2010 is therefore still based on an unchanged tax code. On the expenditure side, the forecast is based on the measures contained in the budget bill and additional short-term budgetary corrective measures of around 1% of GDP for 2009. For 2010, in view of the lack of sufficient detail (e.g. draft laws) as well as the pending Parliamentary approvals, the forecast could not incorporate any expenditure cuts linked to the announced additional structural reform steps in the pension, social support and public administration (both central and local) systems. The full implementation of these planned reform steps could improve the deficit by around 1¼% of GDP in 2010.

The debt-to-GDP ratio was increased by 7 percentage points in 2008 to 73% as international loans were drawn on, chiefly to increase reserves. The debt ratio should increase sharply, to around 81% in 2009, and slightly further in 2010, to over 82%. This dynamics is mainly explained by the combination of the revaluation of FX-denominated debt due to the depreciating exchange rate and the lacklustre nominal GDP outlook.

Table 2.16.1:

**Main features of country forecast - HUNGARY**

	2007		Annual percentage change							
	bn HUF	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	25419.2	100.0		3.0	4.0	4.1	1.1	0.5	-6.3	-0.3
Private consumption	13645.4	53.7		-	3.4	1.7	0.6	-0.7	-6.6	-0.3
Public consumption	5369.7	21.1		1.1	2.4	4.3	-7.4	0.5	-3.2	0.2
Gross fixed capital formation	5343.7	21.0		5.7	8.5	-6.2	1.5	-2.6	-10.6	-2.1
of which : equipment	2184.4	8.6		-	-	-	-	1.5	-12.5	-1.5
Exports (goods and services)	20400.9	80.3		12.6	11.3	18.6	15.9	4.6	-11.9	0.8
Imports (goods and services)	20017.1	78.7		13.4	7.0	14.8	13.1	4.0	-12.3	0.5
GNI at previous year prices (GDP deflator)	23540.8	92.6		-	3.7	3.6	0.0	-0.3	-5.8	-0.3
Contribution to GDP growth :										
Domestic demand				3.0	4.3	0.5	-1.0	-0.8	-6.4	-0.5
Stockbuilding				0.5	-2.9	1.4	0.1	0.7	0.0	0.0
Foreign balance				-0.5	2.5	2.3	2.1	0.6	0.1	0.3
Employment				-	0.4	0.9	-0.1	-1.2	-3.0	-2.0
Unemployment rate (a)				8.1	7.2	7.5	7.4	7.8	9.5	11.2
Compensation of employees/f.t.e.				-	7.1	4.5	6.1	7.8	1.4	5.8
Unit labour costs whole economy				-	3.4	1.3	4.9	6.0	5.1	4.0
Real unit labour costs				-	1.1	-2.5	-0.8	2.3	0.4	0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				14.0	2.2	3.9	5.7	3.6	4.6	3.2
Harmonised index of consumer prices				-	3.5	4.0	7.9	6.0	4.4	4.1
Terms of trade of goods				-	-2.2	-1.4	-0.1	-1.1	1.2	0.0
Trade balance (c)				-4.7	-2.5	-2.3	0.2	0.4	1.0	1.2
Current account balance (c)				-	-7.8	-7.4	-6.2	-8.4	-5.0	-4.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-7.0	-6.7	-5.3	-7.3	-3.1	-2.8
General government balance (c)				-	-7.8	-9.2	-4.9	-3.4	-3.4	-3.9
Cyclically-adjusted budget balance (c)				-	-8.6	-10.8	-6.4	-4.8	-1.7	-2.0
Structural budget balance (c)				-	-8.9	-10.5	-5.5	-4.5	-1.7	-2.0
General government gross debt (c)				-	61.7	65.6	65.8	73.0	80.8	82.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 17. MALTA

### Tourism badly hit but investment holds up

#### GDP growth slowed in 2008

Following a year-on-year deceleration in the first three quarters, economic activity contracted in the last three months of 2008 leading to an annual real GDP growth of 1.6%, down from 3.6% in 2007. Private consumption grew by a solid 4.1% as income tax cuts, higher transfer payments and a relatively strong labour market more than offset the impact of increases in food and utility prices. Government consumption expenditure expanded by a sizeable 8.3%. Gross fixed capital formation shrank significantly in 2008. Investment in construction contracted on the back of both lower housing starts and a decline in public investment, mostly equipment, following the completion of the *Mater Dei* hospital. Exports continued to shrink throughout 2008, mainly reflecting lower foreign sales of goods. To a lesser extent, exports of services also fell as tourist arrivals dropped sharply, especially in the final quarter of 2008. In response to lower exports and investment, imports contracted significantly.

#### Consumption weakens as investment recovers

Real GDP is expected to contract by 0.9% in 2009 and to return to positive territory in 2010. Further income tax cuts and receding inflation should provide some support to disposable income in 2009. However, softer labour market conditions, slower wage growth and weakening consumer confidence are likely to dampen private consumption over the forecast horizon.

Investment is forecast to pick up in 2009 mainly due to public capital spending in the context of the

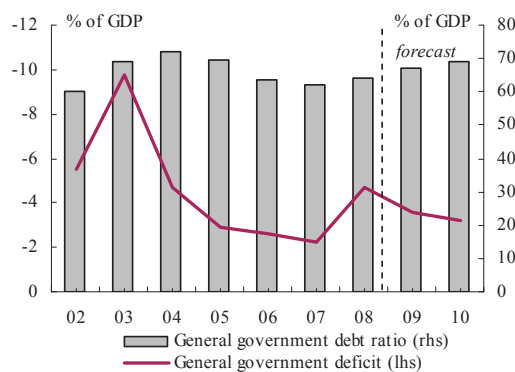
Recovery Plan. Private investment will be supported by the construction of a major multi-year ICT business park, but other capital outlays will be adversely affected by the deterioration in the global economic environment and falling profitability. For 2010, investment growth is anticipated to remain relatively strong as the ICT project gathers pace and in anticipation of a moderate global economic upturn.

#### Global downturn weighs on exports

The worsening economic activity in Malta's main trading partners is expected to depress exports over the forecast horizon. Declining industrial order books in the first few months of 2009 suggest that foreign sales of goods, dominated by semi-conductors, will continue to shrink. For tourism, a reversal of the gains recorded in the past years on the back of sluggish demand, in particular from the UK and Germany, Malta's leading tourist markets, is anticipated. This will be only partly offset by other services, specifically remote gaming, which is expected to show some resilience to the global slowdown. The contraction in exports is projected to decline in 2010 in line with the assumed gradual international economic turnaround. Consistent with the slowdown in both private consumption and import-intensive exports, imports are forecast to contract in 2009, before recovering in 2010.

The external deficit is projected to improve in 2009 and to stabilise thereafter at just below 6% of GDP. The merchandise trade deficit is expected to decline in 2009 as lower commodity prices improve Malta's terms of trade. Primarily as a response to weaker tourism earnings, a decline in the surplus on the services account, which peaked at 17.3% of GDP in 2008, is foreseen over the forecast horizon.

Graph 2.17.1: Malta - General government finances



#### Inflation to recede amid a softer jobs market

After reaching 4.7% in 2008, HICP inflation is forecast to ease to 1% in 2009 reflecting subdued domestic demand as well as the unwinding of previous year's higher food prices. Tourist accommodation prices - representing around 20% of the index - are also expected to recede in the wake of weak prospects for tourism. For 2010, inflation is expected to average 1.8%, on the back

of the assumed price pressures from unprocessed food and energy prices.

Labour market conditions are expected to weaken during the forecast period. As an initial response to sagging external demand, affected companies are likely to reduce the number of hours worked rather than resort to layoffs. Employment is foreseen to contract by ½% in 2009 and to grow in 2010, albeit at rate below the historical average. As a result, unemployment is expected to increase over the forecast horizon, reaching 7.6% by 2010. Wage growth is set to decelerate to 2.9% in 2009, mainly reflecting negotiated public sector salary rises and automatic indexation of wages to past inflation. In 2010, wage inflation is projected to decelerate further to 2.7%.

### Budgetary position weakens

The general government deficit, which declined progressively in the period 2005-2007, increased to 4.7% of GDP in 2008. The deterioration primarily reflects higher expenditure related to a one-off deficit-increasing transaction of 0.8% of GDP in respect of early retirement schemes for Malta shipyards' employees as well as the re-classification of the yards into the general government sector. Lower tax receipts also

contributed to the higher deficit ratio, reflecting weak economic activity.

The general government deficit is projected to decline to around 3½% of GDP in 2009 as a result of the disappearance of the one-off operation mentioned above and the liquidation of the shipyards, the sizeable reduction in energy subsidies and the revenue-increasing measures announced in the 2009 budget. The economic downturn will adversely impact on direct taxes including tax receipts on property transactions.

Under the customary no-policy-change assumption, the deficit ratio in 2010 is projected to decline marginally to 3¼% of GDP.

Following a rise to slightly above 64% of GDP in 2008, from 62% in 2007, general government debt is projected to follow an upward trend increasing to almost 69% by 2010.

Table 2.17.1:

### Main features of country forecast - MALTA

	2007		Annual percentage change							
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	5444.9	100.0		3.5	3.7	3.2	3.6	1.6	-0.9	0.2
Private consumption	3312.6	60.8		-	2.0	0.6	1.7	4.1	0.8	0.7
Public consumption	1035.9	19.0		-	-0.4	5.9	-0.8	8.3	-1.2	1.6
Gross fixed capital formation	1079.8	19.8		-	10.5	2.3	1.7	-19.7	3.4	3.1
of which : equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	4891.5	89.8		-	0.6	10.5	3.3	-14.0	-7.8	-1.3
Imports (goods and services)	5029.9	92.4		-	3.4	9.5	1.5	-13.1	-5.4	0.1
GNI at constant prices (GDP deflator)	5299.3	97.3		2.9	0.2	3.3	5.5	0.7	-0.5	1.0
Contribution to GDP growth :										
Domestic demand				-	3.3	2.0	1.3	0.2	0.8	1.3
Stockbuilding				-	3.3	1.0	0.8	1.4	-0.2	0.0
Foreign balance				-	-2.8	0.1	1.5	-0.1	-1.6	-1.1
Employment				0.9	1.3	1.3	3.0	1.1	-0.5	0.2
Unemployment rate (a)				6.3	7.2	7.1	6.4	5.9	7.1	7.6
Compensation of employees/head				5.4	2.1	3.0	1.6	3.7	2.9	2.7
Unit labour costs whole economy				2.8	-0.2	1.2	1.0	3.3	3.4	2.7
Real unit labour costs				0.3	-3.0	-1.8	-1.8	0.8	1.0	0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	2.9	3.1	2.8	2.4	2.4	1.8
Harmonised index of consumer prices				-	2.5	2.6	0.7	4.7	1.0	1.8
Terms of trade of goods				-	-4.5	-2.5	2.2	-3.4	2.7	-0.2
Trade balance (c)				-18.2	-18.8	-18.9	-18.1	-20.9	-18.9	-19.6
Current account balance (c)				-	-8.7	-9.2	-6.1	-7.4	-7.6	-7.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.5	-6.2	-5.2	-6.4	-6.0	-5.9
General government balance (c)				-	-2.9	-2.6	-2.2	-4.7	-3.6	-3.2
Cyclically-adjusted budget balance (c)				-	-2.3	-2.5	-2.7	-5.4	-3.6	-2.8
Structural budget balance (c)				-	-3.9	-3.1	-3.3	-4.9	-3.6	-2.8
General government gross debt (c)				-	69.8	63.7	62.1	64.1	67.0	68.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

# 18. THE NETHERLANDS

## Suffering from fall in world trade

### Entering recession in 2008

Following a strong economic performance in 2007, with GDP growth of 3.5%, economic activity slowed down considerably in 2008 with negative growth in the last three quarters. Thus, although average GDP still increased by 2.1%, this was mainly due to the carry-over from strong domestic demand in the second half of 2007. The economic downturn, mild until September, accelerated in the fourth quarter, recording a contraction of 1% q-o-q, mainly due to a sharp drop in both exports and investment.

Private consumption expenditure expanded by 1.6% in 2008. It profited from an exceptional momentum generated in the second half of 2007 and from a reform in the health care system, shifting public to private consumption. However, private consumption lost dynamism as a result of rising inflation and an increase in taxes and social premiums, which acted as a break on purchasing power. This was also reflected in consumer confidence, as consumers expected their personal situation to worsen, mainly in view of the financial crisis.

Despite a marked slowdown in the second half of 2008, investment growth still reached 5.3% in 2008. This was largely due to one-off investments in the first quarter, such as aeronautics and energy projects. However, investment showed a decrease of 4.8% in the fourth quarter (q-o-q), mainly reflecting the sharp drop in industrial confidence.

The external sector put a drag on growth in 2008, which was heavily influenced by a sharp

contraction in exports in the fourth quarter in response to the considerable decrease in world trade, as the Netherlands is very sensitive to trade developments. Imports are expected to react with a certain lag, as the decline in exports was partially unexpected.

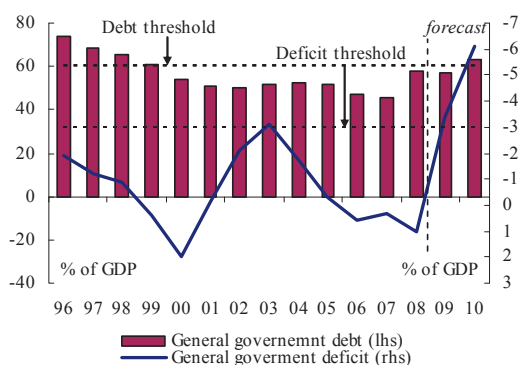
### Contraction in both 2009 and 2010

Economic growth prospects have again turned significantly less favourable, as the international economic slowdown is expected to be even more pronounced. The fall in annual GDP is now projected to come out at 3.5% in 2009. For 2010, annual growth is forecast to contract by 0.4%. As this figure includes a somewhat larger carry-over effect from 2009, mildly positive growth dynamics in 2010 are implicit in the forecast. These positive dynamics are expected to come mainly from the external balance. Domestic demand in 2010, however, is expected to contribute negatively to growth, as consumption and investment are likely to suffer from a decrease in disposable income and the low capacity utilisation rate respectively.

Throughout 2009, quarterly growth rates are projected to be negative, with the first quarter showing the lowest growth as it is likely to be negatively affected by decreasing inventories. This is a reaction to involuntary stock building in the last quarter of 2008, due to the sudden drop in external demand. For 2010, quarterly growth rates should be slightly positive, following a mild recovery of external demand.

Private consumption should fall by ¼% in 2009, despite an increase in real disposable income of

Graph 2.18.1: The Netherlands - Government balance and debt



Graph 2.18.2: The Netherlands - Unemployment & vacancy rates





2%. This increase in disposable income is the result of contained inflation and a lowering of taxes and social premiums, which will only be partly offset by rising unemployment and declining non-labour income. The decrease in private consumption is assumed to be mainly caused by confidence and wealth effects, as well as tightening credit conditions. In particular, the significant drop in the value of assets, such as stocks, is expected to have a negative effect on consumption and is likely to increase the propensity to save. For 2010, a further decrease in private consumption is expected, as a sharp rise in unemployment will most probably put strong pressure on disposable income.

Overall, investment growth will remain in negative territory during the forecast horizon. The combination of tightening credit conditions, decreasing production and falling confidence is expected to have a significant negative impact on gross fixed capital formation. Private investment should decrease by 9½% in 2009. In particular, strong cyclically-sensitive investment, like equipment, are projected to record a large decline. Construction is likely to show a more protracted contraction, which could last until well into 2010, because of its relatively long planning period, helping to explain negative private investment growth of 4¼% in 2010.

The sharp fall in world trade will have a substantial effect on Dutch exports, which are foreseen to decrease by 10¾% in 2009. Together with negative private consumption and investment growth, and given that the Netherlands is an important transit country, imports should also post strong negative growth. The external balance is expected to contribute negatively to GDP growth by almost 2%, as external demand would decline faster than domestic demand and because domestically produced exports are likely to suffer from the projected increase in unit labour costs, which negatively affects their competitiveness. In 2010, both exports and imports are expected to further contract, although to a lesser extent.

### Sharp increase in unemployment

In 2008, the labour market was very tight, with a very low unemployment rate of 2.8% and a high number of unfilled vacancies. The fourth quarter, however, was the turning point, with unemployment rising for the first time since the beginning of 2005. At the same time unfilled

vacancies dropped by approximately 20% quarter-on-quarter. In 2009, a further loosening of the labour market is expected and unemployment is forecast to rise to around 4%. This increase is subdued by labour hoarding. As this effect will disappear in 2010, unemployment rate growth is likely to gain momentum in 2010 and exceed 6%.

Employment growth, which had already slowed considerably to 1.8% in 2008, is assumed to be negative in both 2009 and 2010, falling by around 1¼% and 2½% respectively. Labour supply is likely to suffer from the discouraged worker effect and a decrease in migrant workers.

For 2009, most wages agreements were concluded at a time of positive economic growth assumptions and high inflation expectations. Wage growth in 2009 is therefore expected to be relatively strong at 3½%. This, together with an expected decrease in production, leads to a sharp increase in unit labour costs. Rising unemployment and declining company profits are forecast to put downward pressure on wages in 2010, leading to an expected moderate wage increase per full-time equivalent of 2½%.

HICP inflation remained relatively subdued in 2008, coming out at 2.2%. This is in large part due to the slow pass-through of price changes in raw materials into consumer prices. In particular, energy and rental prices tend to have long adjustment lags, as consumer gas prices are only adjusted twice a year and rental prices of regulated housing only once. The sharp increase in oil prices during the first half of 2008 has therefore not fully been absorbed in the 2008 inflation rate. This lagged effect will also have a limited effect on inflation in 2009, as it will be offset by the sharp drop in oil prices at the end of 2008. Overall, inflation is expected to decrease to 1.4% in 2009. In 2010, inflation is projected to decrease further to below 1%.

### Quick deterioration of public finances

In 2008, the headline budget balance improved to a surplus of 1.0% of GDP, up from +0.3% of GDP in 2007. This is in large part due to a sharp increase in non-tax gas revenues, which increased to 2.1% of GDP in 2008. Furthermore, the budget balance profited from consolidation efforts on the revenue side, involving increases in a variety of taxes, such as fuel levies and excise duties, as well as social contributions, like health care premiums.

In 2009, the budget balance is expected to deteriorate sharply, turning the surplus position of the past years into a deficit of 3.4% of GDP, thereby exceeding the 3% of GDP reference value. Non-tax gas revenues will decrease substantially to less than 1½% of GDP. Furthermore, tax collection is forecast to decline considerably. With a fall of around 20% in 2009, corporate taxes are assumed to show the sharpest decrease, following the projected contraction in profits. The extent of this decrease is heavily influenced by the fact that in the past years, approximately a third of corporate taxes came from financial institutions, which are likely to post the strongest decrease in profits. The budget is further affected by a 1% of GDP support package to stimulate the economy. The most important measures of the stimulus package are a lowering of corporate taxes and the lowering of social contributions for employees. On the expenditure side, unemployment benefits are expected to increase substantially. Furthermore, interest expenditure may rise by about ½% of GDP. The budget is forecast to benefit from the reduction in the contribution to the EU budget in accordance with the Council decision on EU own resources. In total this amounts to approximately ½% of GDP, out of which ¼% of GDP is a one-off linked to payments associated with 2007 and 2008. Based on the usual no-policy-change assumption,

the general government deficit in 2010 is forecast to rise further, to over 6% of GDP. The consolidation effort, recently announced by the government and amounting to 0.3% and 0.8% of GDP in 2009 and 2010 respectively, was not taken into account as the measures have not yet been specified.

Despite the government surplus, the government debt ratio increased by 12.5 pps. of GDP in 2008. This increase can be fully explained by the government operations to stabilise the financial markets (such as share acquisitions and capital injections). In 2009, the government debt ratio is assumed to decline, in spite of the expected deficit, because of the repayment of a €34 billion (around 6% of GDP) short term loan by Fortis Bank. In 2010, the ratio is forecast to increase to over the 60% threshold, mainly on the basis of a high public deficit coupled with stagnating GDP.

Table 2.18.1:

**Main features of country forecast - THE NETHERLANDS**

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	567.1	100.0		2.6	2.0	3.4	3.5	2.1	-3.5	-0.4
Private consumption	264.3	46.6		2.4	1.0	0.0	2.1	1.6	-0.2	-0.5
Public consumption	142.5	25.1		2.2	0.5	9.0	3.0	2.1	2.0	1.0
Gross fixed capital formation	113.2	20.0		2.5	3.7	7.5	4.9	5.3	-7.6	-3.2
of which : equipment	32.8	5.8		3.8	3.4	12.6	9.8	5.2	-9.4	-0.6
Exports (goods and services)	424.8	74.9		6.2	6.0	7.3	6.5	2.6	-10.7	-0.3
Imports (goods and services)	376.1	66.3		6.1	5.4	8.2	5.7	4.1	-9.3	-0.4
GNI at previous year prices (GDP deflator)	582.3	102.7		2.8	-0.1	6.1	3.0	-0.5	-3.4	-0.5
Contribution to GDP growth :										
Domestic demand				2.3	1.3	3.5	2.7	2.3	-1.1	-0.6
Stockbuilding				0.0	-0.1	-0.2	-0.2	0.5	-0.5	0.1
Foreign balance				0.4	0.8	0.0	1.0	-0.7	-1.8	0.0
Employment				1.1	0.0	1.9	2.3	1.8	-1.0	-2.8
Unemployment rate (a)				4.5	4.7	3.9	3.2	2.8	3.9	6.2
Compensation of employees/f.t.e.				3.7	1.7	2.4	3.2	3.8	3.5	2.4
Unit labour costs whole economy				2.2	-0.4	0.9	2.0	3.4	6.2	0.0
Real unit labour costs				-0.2	-2.7	-0.8	0.5	0.7	4.5	-1.1
Savings rate of households (b)				-	-	11.5	13.4	13.1	15.1	15.2
GDP deflator				2.4	2.4	1.7	1.5	2.7	1.6	1.1
Harmonised index of consumer prices				2.3	1.5	1.7	1.6	2.2	1.4	0.9
Terms of trade of goods				0.5	0.5	-0.4	-0.3	0.0	0.8	-0.6
Trade balance (c)				5.5	7.9	7.8	7.7	7.0	5.8	5.5
Current account balance (c)				5.2	7.5	9.8	9.8	6.8	5.7	5.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.9	7.1	9.3	9.4	6.4	5.1	4.3
General government balance (c)				-1.8	-0.3	0.6	0.3	1.0	-3.4	-6.1
Cyclically-adjusted budget balance (c)				-1.6	0.2	0.2	-1.0	-0.5	-2.3	-4.3
Structural budget balance (c)				-	0.2	0.2	-1.0	-0.5	-2.6	-4.3
General government gross debt (c)				64.3	51.8	47.4	45.6	58.2	57.0	63.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 19. AUSTRIA

### Private consumption and fiscal support cushion the downturn

#### Gradual slowdown in 2008

After three years of solid growth (an average of 3.1% in 2005-2007), economic activity in Austria lost momentum in 2008. Over the course of the year, quarter-on-quarter growth decelerated gradually from 0.6% in the first quarter to -0.2% in the last quarter. This implies annual GDP growth of 1.8% for the year as a whole.

The downturn was driven by weakening consumer demand stemming from a fall in the purchasing power of private households. This is the result of a sharp increase in inflation and, more recently, external factors in the wake of the global financial and economic crisis. Goods exports contracted by 7½% y-o-y in the fourth quarter of 2008 with export-oriented industries such as automotive suppliers mainly affected. Despite this, the weakening of Austria's economic performance appears to lag behind the sharp decline witnessed in the rest of the euro area (notably Germany).

#### Recession in 2009, stagnation in 2010

The recession is projected to deepen in the first half of 2009. The trade surplus is expected to shrink substantially and investment plans are likely to be curtailed.

Industrial production is expected to shrink markedly as business climate indicators and capacity utilisation have fallen sharply. As a consequence, private investment in equipment is forecast to fall by 18% in 2009 and to stagnate in 2010. Due to several fiscal measures (such as infrastructure investment, subsidies for thermal

renovation of buildings), the projected decline is less severe for investment in construction (-6¼ % in 2009).

Foreign trade is set to decline strongly in the first half of 2009 and to recover later, following the assumed global recovery towards the beginning of next year. The export-oriented manufacturing sector will suffer most, as goods exports are forecast to shrink by 12% in 2009. In the recovery, export growth of around 2% q-o-q is expected in the second half of 2010. Nevertheless, annual total exports will increase by only ½% in 2010 because of the negative carry-over from 2009.

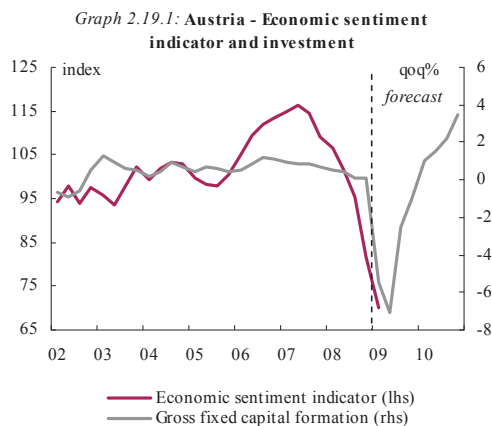
Several factors should dampen the depth and duration of the downturn. Despite lower capital income and a weakening labour market, private consumption should benefit from rising real disposable income (2% in 2009), as wages increase, inflation drops off quickly, income taxes are cut, and transfer payments are increased. As a result, and in contrast to the rest of the euro area, real private consumption is projected to increase slightly, by 0.1% in 2009. At the same time, it is expected that most of the increase in disposable income will be saved by private households, thereby increasing the savings rate by almost 2 pps. to around 17½%. Furthermore, the automatic stabilisers should contribute strongly towards sustaining domestic demand.

Overall, real GDP is projected to shrink by about 4% in 2009 and to stagnate in 2010. But the turning point of Austria's economic cycle will still largely depend on external developments.

#### Higher unemployment ahead

The deteriorating situation in the labour market, observed in the last few months, is expected not only to continue, but to gain momentum. However, widespread recourse to short-time work should dampen the fall in employment (-2% in 2009). On the other hand, labour hoarding will lead to a squeeze in productivity. Nevertheless, unemployment should increase sharply, from 5.0% of the workforce in 2008 to 7¼% in 2009 and 8¼% in 2010.

Strong increases in food and energy prices resulted in a high rate of inflation in 2008 (3.2%).



Consumer prices are forecast to rise in 2009 by a mere 0.5%, mainly on the back of strong base effects from declining fuel and heating oil prices and weak demand conditions. For 2010, it is expected that consumer prices will increase by 1.1%. Rising unemployment and low inflation are likely to contain wage pressures over the forecast period.

### Rapid deterioration in public finances

Austria entered the cyclical downturn without having achieved the government target of a balanced budget. Despite buoyant tax revenues during the latest boom period, fiscal consolidation had stalled due to sizeable spending increases. For 2008, the general government deficit was 0.4% and the government debt ratio was 62.5% of GDP.

Public finances are set to deteriorate rapidly in 2009 to a deficit of 4¼% of GDP, worsening further to 5¼% of GDP in 2010. This is the result of discretionary tax cuts, the cyclical erosion of tax bases and higher social expenditure in the wake of the recession. In addition, Austria has launched several fiscal measures to address the effects of the economic crisis on the real economy. Many additional discretionary measures that had already been taken in 2008 will largely remain effective in

2009/10. If all of these measures are taken into account (except infrastructure investments by outsourced railway and highway companies as these are off-budget measures), the additional fiscal stimulus undertaken by the government in 2009 will reach a level of € 4.1 billion (1½% of GDP) in 2009 and € 5.1 billion (1¼% of GDP) in 2010.

A "package" to support commercial banks was passed at the end of 2008; this led to an increase in the debt-to-GDP ratio by approximately 2½ pps. without raising the deficit. As a consequence of the expansionary fiscal stance and automatic stabilisers, government debt is expected to quickly rise well above 75% of GDP in 2010 after having dipped below 60% in 2007.

Table 2.19.1:

### Main features of country forecast - AUSTRIA

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	270.8	100.0		2.1	2.9	3.4	3.1	1.8	-4.0	-0.1
Private consumption	143.9	53.1		1.7	2.6	2.4	1.0	0.9	0.1	0.4
Public consumption	49.4	18.2		2.0	1.5	2.3	1.8	0.5	0.6	0.8
Gross fixed capital formation	60.2	22.2		1.4	2.4	2.6	4.7	1.8	-11.6	0.1
of which : equipment	23.3	8.6		1.2	6.9	-0.8	5.9	1.2	-17.9	0.1
Exports (goods and services)	161.4	59.6		5.9	7.0	7.5	8.8	2.0	-10.9	0.4
Imports (goods and services)	145.5	53.7		4.9	6.3	5.1	7.5	1.6	-9.5	1.1
GNI at previous year prices (GDP deflator)	265.2	97.9		2.1	2.6	2.6	2.7	2.4	-3.9	0.0
Contribution to GDP growth :										
Domestic demand				1.6	2.2	2.3	1.9	1.0	-2.4	0.4
Stockbuilding				0.0	0.1	0.0	-0.2	0.7	-0.3	-0.1
Foreign balance				0.4	0.6	1.5	1.1	0.4	-1.3	-0.4
Employment				0.4	1.2	1.4	1.8	1.5	-2.7	-0.9
Unemployment rate (a)				4.1	5.2	4.8	4.4	3.8	6.0	7.1
Compensation of employees/f.t.e.				2.7	2.5	3.0	2.1	3.3	2.8	1.4
Unit labour costs whole economy				0.9	0.8	1.0	0.8	3.0	4.1	0.6
Real unit labour costs				-0.6	-1.2	-0.8	-1.3	0.6	2.7	-0.4
Savings rate of households (b)				-	-	15.4	16.3	15.9	17.5	18.1
GDP deflator				1.5	2.1	1.8	2.1	2.4	1.4	1.0
Harmonised index of consumer prices				1.9	2.1	1.7	2.2	3.2	0.5	1.1
Terms of trade of goods				0.0	-0.8	-1.1	0.1	-1.1	1.1	-0.1
Trade balance (c)				-2.5	-0.5	0.2	0.6	0.0	-0.2	-0.6
Current account balance (c)				-1.0	2.1	2.5	3.3	3.3	2.7	2.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.1	2.0	2.2	3.3	3.3	2.7	2.4
General government balance (c)				-2.7	-1.6	-1.6	-0.5	-0.4	-4.2	-5.3
Cyclically-adjusted budget balance (c)				-2.6	-1.4	-2.2	-1.8	-1.8	-3.2	-3.8
Structural budget balance (c)				-	-1.4	-2.2	-1.8	-1.8	-3.2	-3.8
General government gross debt (c)				64.9	63.7	62.0	59.4	62.5	70.4	75.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

## 20. POLAND

### Mild recession knocking at the door

#### Strong growth continued in 2008 on the back of domestic demand

Economic activity continued to be relatively robust in 2008. Driven by domestic demand, real GDP growth eased to 4.8% from 6.6% in 2007. Growth was fuelled by private consumption (5.3%) and investment (7.9%). Export and import growth decreased to 5.8% and 6.2% in real terms, respectively. Net exports contributed negatively to GDP growth (-0.3 pp.) on account of strong private consumption and a deteriorating external environment.

Strong consumption activity in the second half of the year was backed by rising employment and wages. However investment activity decelerated as business confidence and industrial output stalled. In consequence, quarterly data indicate a further GDP growth deceleration in the fourth quarter of 2008 to 3.1% y-o-y.

The Polish financial sector, which is dominated by foreign universal banks, has witnessed a deterioration in funding opportunities, while the strong depreciation of the Polish currency has somewhat negatively affected the situation of households indebted in foreign currencies and even more severely some companies involved in FX options operations.

#### Lower degree of openness and public investment will cushion the effects of external developments

GDP is expected to contract by 1.4% in 2009. Compared with other countries in the region this is

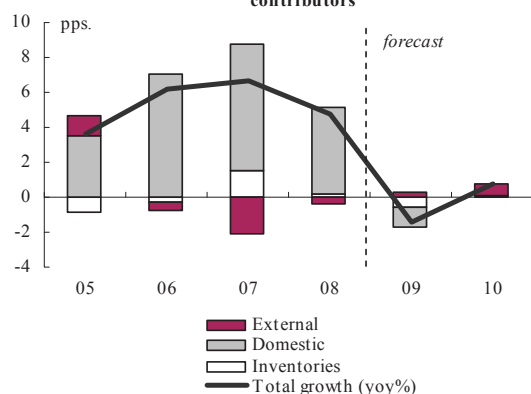
a relatively mild recession thanks, among other factors, to the lower share of trade in GDP. Exports are expected to plummet by 11% in 2009 due to low external demand in the EU – the main trading partner. While the fall in exports is considerable, it is forecast to remain relatively constrained because of the currency depreciation. In addition, the structure and cost competitiveness of the Polish export industry, specialised in mid-tech, relatively low priced goods, should prove to be an advantage in these times.

The contribution of domestic demand is forecast to be negative in 2009 as investment is set to fall by around 6¼%. Investment in equipment is projected to be hardly hit because of restricted access to credit, worsening company results and decelerating FDI. Infrastructure investment will benefit from the strong inflow of EU funds and increased public spending, but housing outlays are forecast to contract sharply throughout 2009, as tight access to mortgages might limit demand.

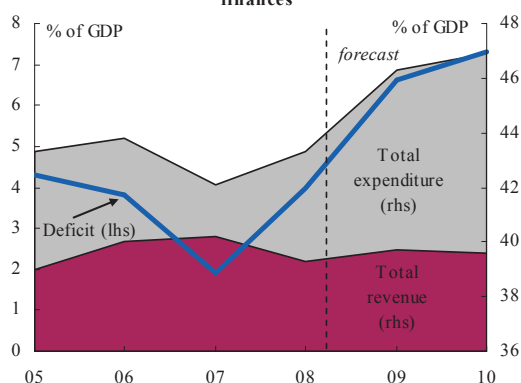
Private consumption growth is expected to slow abruptly to around ½% in 2009. This relatively negative outlook is based on a strong fall in consumer confidence, a sharp increase in unemployment and a reduced availability of credit, as well as on lower wage growth and rising costs of mortgages. Falling investment and exports, decelerating private consumption growth and increasing import prices are set to influence imports which are expected to decrease by 10¾% in 2009.

In 2010, GDP growth is forecast to increase marginally by 0.8%, as external demand is

Graph 2.20.1: Poland - GDP growth and its contributors



Graph 2.20.2: Poland - General government finances



expected positively affect GDP growth, while domestic demand is forecast to be broadly neutral. Equipment investment is set to rebound slightly supported by the improved results of enterprises and FDI inflows, while construction investment will continue to benefit from strong public spending, despite a further contraction in housing outlays.

Private consumption growth is expected to slow to  $\frac{1}{4}\%$  in 2010 because of a worsening labour market situation. Decelerating private consumption growth and increasing import prices are set to influence imports which are projected to decrease further, by  $1\frac{1}{2}\%$  in 2010. Exports are expected to grow by  $\frac{1}{4}\%$  in 2010 supported by rebounding external demand and the lagged effects of the recent depreciation.

External imbalances are expected to subdue slightly, with the current-account deficit shrinking in 2009 to below 5% of GDP and around 4% in 2010. Thanks to higher transfers from the EU, the external deficit is set to be limited to around  $2\frac{1}{4}\%$  of GDP in 2010, which still represents a moderate widening compared with the previous years.

The main downside risk to the forecast results from the depreciation of the Polish currency; this could hamper consumption by foreign-currency-indebted households, increase the financial costs of companies and affect also the inflation outlook.

#### **Employment expected to fall sharply**

In the course of 2008 an impressive improvement was seen in the labour market, continuing the trend seen since 2006, as the average annual unemployment rate fell to 7% from  $9\frac{1}{2}\%$  in 2007. Total employment increased by around 600,000 in 2008, but as the participation rate increased the drop in the number of unemployed was limited to 400,000. As economic activity is expected to weaken, employment should fall by  $2\frac{1}{4}\%$  in 2009 and a further  $1\frac{1}{2}\%$  in 2010, while a return of emigrants, less generous early retirement rules and a reduction of taxes on labour should increase the activity rate. The number of unemployed is projected to reach some 1.7 million in 2009 – close to 10% of the labour force – and to increase in 2010 by about  $\frac{1}{2}$  a million, leaving the unemployment rate at around 12%.

#### **Inflationary pressures limited by weakening economic outlook**

Annual HICP inflation increased from  $2\frac{1}{2}\%$  in 2007 to 4.2% in 2008, boosted by strong wage pressure and elevated energy and food prices. It is likely to fall sharply, on the back of favourable base effects, stabilising fuel and food prices and weakening growth, to 2.6% in 2009; it should decrease further, to 1.9% in 2010, which remains within the Polish central bank's medium-term target range of  $2.5\% \pm 1$  p.p.

Unit labour costs are projected to have increased by about 7% in 2008, as a result of strong wage growth combined with modest productivity increases. In 2009 nominal unit labour costs are likely to continue to rise, albeit at a slower pace, as productivity growth recovers slightly supported by falling employment, especially among the least skilled, while the rise in wages is expected to remain subdued. In 2010 nominal unit labour costs are expected to fall in line with rising productivity and decelerating wage growth.

#### **Fiscal deficit increasing due to automatic stabilisers and discretionary measures**

Due to the reduction of social contributions, an increase in personal income tax reliefs for families, a generous indexation of pensions and social benefits and a deterioration of the economic situation towards the end of the year, the general government deficit was expected to widen in 2008. It increased by about 2 pps. to 3.9% of GDP in 2008, significantly more than estimated in the December 2008 convergence programme (2.7%) and in the Commission services' January 2009 interim forecast (2.5%). In particular, non-tax revenues were much lower (mainly capital transfers due to under-execution of EU funds at the regional level) and intermediate consumption (e.g. military expenditure) much higher than presented in the programme.

Despite an additional reduction of central government expenditure of  $\frac{3}{4}\%$  of GDP, introduced after the adoption of the 2009 budget, the general government deficit is forecast to deteriorate to about  $6\frac{1}{2}\%$  of GDP in 2009. This is the expected outcome of the recession and discretionary measures. Automatic stabilisers will contribute to an increase in social transfers on top of high statutory growth under new indexation rules referring to high inflation and wages in 2008. Among the stimulus measures, a rise in public

investment, a personal income tax reform and a reduction of the tax burden for businesses are to be costly for the Polish public finances. An increase in excise duties, a reduction in subsidies and the replacement of early pensions with less costly “bridge pensions” will be insufficient to offset the effects of the rapid deterioration of the economic situation and the deficit-increasing measures.

As a consequence of high deficits and still slow privatisation, gross debt is projected to increase sharply from more than 47% of GDP in 2008 to only slightly less than 60% in 2010. The debt projections are subject to significant uncertainty because of the high volatility of the exchange rate and the ensuing valuation effects of the foreign-denominated part of the debt.

In 2010, the general government deficit is expected to further deteriorate to more than 7% of GDP on the back of still weak growth and a further weakening of the labour market as well as a one-off measure (debt cancellation). Also the assumption of no policy change has been applied. In particular, nominal expenditure targets presented in the latest convergence programme are included in the forecast, contributing to an increase of the general government expenditure ratio of about  $\frac{2}{3}$  pp. This comprises a further increase in social expenditure, due to rising unemployment, and ambitious investment plans which, however, may be revised. Higher risk aversion towards emerging markets and quickly mounting debt are expected to result in an increase in interest expenditure. Finally, possible changes on the revenue side, e.g. raising healthcare contributions, are not considered.

Table 2.20.1:

**Main features of country forecast - POLAND**

	2007		Annual percentage change							
	bn PLN	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	1175.3	100.0		4.4	3.6	6.2	6.6	4.8	-1.4	0.8
Private consumption	711.8	60.6		4.4	2.1	5.0	5.0	5.3	0.6	0.2
Public consumption	211.0	18.0		2.9	5.2	6.1	3.7	0.0	-0.3	0.7
Gross fixed capital formation	253.8	21.6		6.2	6.5	14.9	17.6	7.9	-6.2	-0.8
of which : equipment	100.3	8.5		-	9.9	17.1	22.7	14.8	-9.2	1.0
Exports (goods and services)	479.6	40.8		10.9	8.0	14.6	9.1	5.8	-11.0	0.2
Imports (goods and services)	512.8	43.6		11.7	4.7	17.3	13.6	6.2	-10.8	-1.5
GNI at previous year prices (GDP deflator)	1130.6	96.2		4.5	4.5	5.5	5.5	5.3	-0.8	0.8
Contribution to GDP growth :										
Domestic demand				4.6	3.4	7.0	7.2	4.9	-1.1	0.1
Stockbuilding				0.1	-0.9	0.4	1.5	0.2	-0.6	0.0
Foreign balance				-0.3	1.1	-1.1	-2.1	-0.3	0.3	0.7
Employment				-	2.3	3.3	4.1	4.0	-2.3	-1.4
Unemployment rate (a)				15.0	17.8	13.9	9.6	7.1	9.9	12.1
Compensation of employees/head				19.4	1.5	1.8	3.7	7.6	3.4	2.1
Unit labour costs whole economy				-	0.3	-1.1	1.2	6.9	2.4	-0.2
Real unit labour costs				-	-2.3	-2.5	-2.7	3.9	0.5	-1.7
Savings rate of households (b)				-	-	5.8	8.1	7.0	9.1	9.8
GDP deflator				14.7	2.6	1.5	4.0	2.9	1.9	1.6
Harmonised index of consumer prices				-	2.2	1.3	2.6	4.2	2.6	1.9
Terms of trade of goods				0.2	1.0	-0.3	2.0	-1.5	-0.4	0.1
Trade balance (c)				-3.1	-0.9	-2.0	-4.0	-4.3	-4.6	-3.9
Current account balance (c)				-1.9	-1.2	-3.0	-5.1	-5.3	-4.7	-3.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.2	-0.9	-2.4	-4.3	-4.3	-3.1	-2.2
General government balance (c)				-	-4.3	-3.9	-1.9	-3.9	-6.6	-7.3
Cyclically-adjusted budget balance (c)				-	-4.4	-4.6	-3.2	-5.3	-6.0	-5.8
Structural budget balance (c)				-	-4.4	-4.6	-3.2	-5.3	-6.0	-5.6
General government gross debt (c)				-	47.1	47.7	44.9	47.1	53.6	59.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 21. PORTUGAL

### Protracted downturn

#### Mild upturn fades in 2008

Since the beginning of 2008, economic activity in Portugal has been weak, characterised by a sharp slowdown between the second half of 2007 and the first half of 2008. This was the result of cooling investment, notably in the construction sector, and weak exports. Private consumption remained more or less resilient for most of 2008, but decelerated towards the end of the year. In the final quarter of the year, the downturn became more acute and broad based, and activity contracted significantly. For the year of 2008 as a whole, GDP stagnated.

More fundamentally, the 2008 outcome contrasts visibly with 2007. This is due not only to the interruption in the mild GDP growth upturn (of almost 2% in 2007) but also to the worsening of macroeconomic imbalances. In particular, the contribution of the external sector to GDP growth became again negative as the rebalancing of GDP growth away from domestic demand and towards external demand clearly faded away. Accordingly, the high external deficit deteriorated further, aggravated by soaring commodity prices in 2008, augmenting the stock of external liabilities. These developments compounded the impact on the external position of a domestic demand which had been relatively dynamic for a number of earlier years and an eroded competitiveness position. The latter reflects, inter alia, sluggish productivity growth, cost and prices developments above those of Portugal's main trading partners and increased competition from emerging economies in labour-intensive goods. Looking forward, these features constrain the resilience of the economy to the

ongoing crisis.

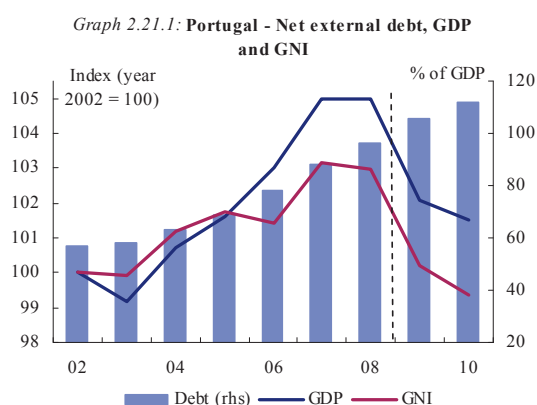
#### Hard times to come

Against the backdrop of the financial crisis and a marked recession in trading partners, GDP is expected to fall by 3¾% in 2009. These adverse shocks are projected to have lasting effects, with activity forecast to contract further, by ¾%, in 2010.

Private consumption is expected to show a downward trend over the forecast years. This mainly reflects sluggish labour income, with the unemployment rate reaching historical highs, as well as an increase in precautionary savings in times of exceptional uncertainty. The assumed interest rate increase in 2010 will dampen disposable income in the light of the relatively high debt ratios and thus hamper household spending.

Investment is forecast to fall markedly. Against a backdrop of uncertain and gloomy demand prospects and dampened profitability, few incentives exist to add to or even replace production capacity. In addition, the coming years are expected to be characterised by the consolidation of corporate balance sheets since average credit conditions are likely to be stricter than before, which should trigger some deleveraging and limit the room for private investment. Government investment is expected to grow markedly in 2009 thanks to the fiscal package adopted in late 2008 for 2009 in the context of the EERP.

Unsurprisingly, exports are expected to be significantly affected by strongly falling external demand. Imports should also diminish sharply due to falling final domestic demand. Overall, the contribution of the external sector to GDP growth is expected to turn positive over the forecast period. The balance of goods is forecast to improve somewhat in 2009 mainly thanks to plummeting commodities prices. Nevertheless, in the light of the assumed interest-rate increases in 2010, the burden of servicing the high external debt should rebound upwards, thus aggravating the primary income deficit and hindering the narrowing of the external deficit or borrowing needs.





### Crisis takes a toll on the labour market and curbs inflationary pressures

Lower levels of activity will translate into lower levels of employment and the unemployment rate could reach some 10% in 2010. Wage moderation is expected to follow these developments.

Inflation is projected to ease significantly in 2009 up to the point of turning even slightly negative thanks to a dramatic fall in energy and commodities prices. The non-energy component of inflation is set to cool, with the retrenchment of aggregate demand.

### Public finances set to deteriorate significantly

In 2008, the general government deficit represented 2.6% of GDP, unchanged from 2007. The 2008 outturn benefited from deficit-reducing one-off measures worth over ¾% of GDP (similar measures yielded 0.1% of GDP in 2007). Here as well, 2008 contrasts clearly with 2007, when a marked reduction of the government deficit was recorded. In 2008, on the revenue side, tax inflows decelerated significantly, whereas on the spending side, the underlying growth rate was little changed from previous year, with the much lower nominal GDP growth rate leading to an increase in the

expenditure-to-GDP ratio.

A significant deterioration of the fiscal balance is projected over the forecast period, with the government deficit expected to reach 6½% of GDP in 2009. This is the result of the heavy toll imposed on public finances by the downturn, as well as a number of discretionary measures, including the fiscal impulse package implemented for 2009 in the context of the EERP, which involves an estimated fiscal cost of 0.8% of GDP (complemented in a balance-neutral way by 0.5% from EU funds). The package mainly targets an increase in public investment, reductions in social contributions and increases in subsidies to corporations and transfers to households. Despite the discontinuation of the fiscal package in 2010, no improvement in the fiscal position is expected for that year on a no-policy change assumption. This is the result of the continued recessionary environment and a marked growth in interest expenditure.

The government debt ratio is projected to grow over 81% of GDP by 2010 due to high government deficits and stagnating nominal GDP. Possible operations to support the financial sector may put additional upward pressure on the debt ratio.

Table 2.21.1:

#### Main features of country forecast - PORTUGAL

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	163.2	100.0		2.1	0.9	1.4	1.9	0.0	-3.7	-0.8
Private consumption	106.0	65.0		2.6	2.0	1.9	1.6	1.6	-1.3	-0.4
Public consumption	33.1	20.3		2.5	3.2	-1.4	0.0	0.5	0.6	0.2
Gross fixed capital formation	35.6	21.8		2.9	-0.9	-0.7	3.2	-1.1	-14.4	-8.0
of which : equipment	12.1	7.4		3.2	1.0	6.6	8.0	3.9	-17.2	-8.6
Exports (goods and services)	53.3	32.7		4.6	2.0	8.7	7.5	-0.5	-11.7	-0.1
Imports (goods and services)	65.3	40.0		5.5	3.5	5.1	5.6	2.1	-10.0	-2.3
GNI at previous year prices (GDP deflator)	157.0	96.2		2.1	0.5	-0.3	1.7	-0.2	-3.6	-1.1
Contribution to GDP growth :										
Domestic demand				2.7	1.7	0.8	1.8	0.9	-3.9	-1.7
Stockbuilding				0.1	-0.1	0.1	0.0	0.2	-0.2	0.1
Foreign balance				-0.7	-0.7	0.6	0.1	-1.0	0.4	0.8
Employment				0.5	-0.3	0.5	0.0	0.4	-1.4	-0.6
Unemployment rate (a)				5.6	7.7	7.8	8.1	7.7	9.1	9.8
Compensation of employees/head				6.0	4.7	2.1	3.3	3.1	-0.6	2.1
Unit labour costs whole economy				4.3	3.4	1.3	1.4	3.6	1.7	2.3
Real unit labour costs				-0.3	0.8	-1.5	-1.6	1.7	-0.5	0.7
Savings rate of households (b)				-	-	8.1	6.2	6.5	10.2	10.6
GDP deflator				4.5	2.5	2.8	3.0	1.8	2.2	1.6
Harmonised index of consumer prices				3.8	2.1	3.0	2.4	2.7	-0.3	1.7
Terms of trade of goods				0.1	-1.2	0.4	1.5	-2.6	4.9	-0.1
Trade balance (c)				-9.6	-10.3	-10.1	-9.9	-11.9	-9.7	-9.1
Current account balance (c)				-6.3	-9.8	-10.4	-9.7	-11.9	-9.8	-9.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-8.3	-9.3	-8.4	-10.2	-7.5	-7.4
General government balance (c)				-3.8	-6.1	-3.9	-2.6	-2.6	-6.5	-6.7
Cyclically-adjusted budget balance (c)				-3.8	-5.7	-3.8	-3.2	-3.0	-5.3	-5.1
Structural budget balance (c)				-	-5.5	-3.8	-3.3	-3.8	-5.5	-5.1
General government gross debt (c)				55.5	63.6	64.7	63.5	66.4	75.4	81.5

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 22. ROMANIA

### Growth contracts sharply

#### The domestic demand boom ended abruptly in the fourth quarter of 2008

Despite a sharp drop in the last quarter of the year, GDP growth accelerated to 7.1% in 2008, from 6.2% in 2007. In the first three quarters, domestic demand for both consumption and investment boomed at double digit rates, fuelled by strong wage increases and a rapid expansion of credit. Net exports continued to record a negative contribution to GDP growth. The largely foreign-financed domestic demand boom and overheating pressures came to a sudden end at the beginning of the fourth quarter, following the significant tightening of international capital inflows, increased investor risk aversion to home-grown vulnerabilities and decelerating disposable income. Hence, domestic demand contracted by almost 2% y-o-y in the fourth quarter, compared with an average increase of 14½% y-o-y in the first three quarters. The contribution from net exports turned positive in the fourth quarter, notwithstanding a concurrent severe drop in external demand.

Overall, net borrowing from the rest of the world slightly eased but remained at a high level of 11.8% of GDP in 2008, down from 12.8% of GDP in the previous year. FDI inflows increased in 2008, covering 56% of net external borrowing compared with 47% in 2007.

In view of the large domestic and external imbalances and the adverse effect of the global financial turmoil on the economic and financial situation in Romania, the authorities made a request to the European Commission for balance of payments support in March 2009. The financial

assistance that the EU intends to provide will be conditional on the implementation of a comprehensive economic policy programme, encompassing fiscal, financial sector and structural reform measures.

#### Significant adjustment expected in 2009 and 2010

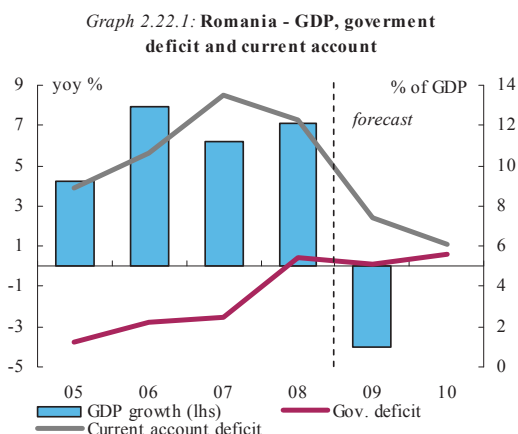
GDP growth is projected to turn negative in 2009 to around -4%. The slackening rate of household disposable income growth and tighter credit conditions will depress household consumption, while government spending is anticipated to contract following a significant fiscal adjustment. The anticipated strong contraction of gross fixed capital formation will be cushioned by an increase in public investment, as EU funded investment is safeguarded in the current budget. GDP growth is expected to remain around zero in 2010.

Net exports are set to keep their positive contribution to growth, notwithstanding weak demand from the euro area. Hence, net external borrowing is anticipated to ease significantly from 11.8% of GDP in 2008 to roughly 6½% in 2009 and just above 5% in 2010.

This macroeconomic scenario constitutes the basis for the EU medium-term financial assistance programme to Romania.

#### Easing pressures on labour market, costs and prices

Following the decline in economic activity, unemployment is expected to rise from a record low of 5% in 2008 to about 8% in both 2009 and 2010. While inflationary pressures had eased in the second half of 2009 on the back of falling international commodity prices, inflation picked up again early 2009 caused primarily by a sharp RON depreciation. In the course of 2009 and 2010 inflation is projected to decrease following lower wage growth and still low international commodity prices. By the end of 2009, inflation is expected to enter the national bank target band of 3.5 +/- 1%. The exchange rate depreciation recorded in the first months of the year, together with the lower pressures on wage growth will contribute to improving Romania's international competitiveness.



### High government deficits despite envisaged measures

The budget deficit was 5.4% of GDP in 2008 (up from 2.5% of GDP in 2008). This was mainly due to substantially higher-than-planned current spending, notably in public wages and social transfers. In addition, overly optimistic revenue projections did not materialise and a sudden drop in revenue collection in the last two months of the year owing to the economic slowdown added to the worse-than-expected outcome.

The deficit is projected to decline to 5.1% of GDP in 2009. The 2009 budget adopted in February 2009, contains several measures to lower the deficit, including a recruitment freeze and the reduction of various bonuses in the public sector, cuts in expenditure for goods and services and subsidies, limiting pension increases to inflation, a 3.3 pps. rise in the pension contribution rate and a bringing forward of the schedule to increase excise taxes. Under the economic programme to be undertaken in the framework of the balance of payment support, the government has pledged to undertake additional expenditure-driven fiscal adjustment measures, e.g. further cuts in the public sector wage bill, expenditure on goods and services, certain capital spending items and

subsidies. On the revenue side, measures aim at eliminating certain tax deductions and allowances (in particular on company cars and depreciation of revalued assets). On the other hand, the government plans a substantial increase in public investment in 2009 compared with 2008. These measures are reflected in a budget rectification approved by the government in April 2009.

Under the assumption of unchanged policies, the budget deficit is anticipated to increase to some 5½% of GDP in 2010. However, in the financial assistance programme, the authorities committed to continue the fiscal adjustment throughout 2010, aiming at a deficit of below 3% of GDP in 2011.

The high primary deficits and a significant increase in interest payments on government debt will result in the debt-to-GDP ratio rising from 15¼% to 22¾ % between 2008 and 2010.

Table 2.22.1:

#### Main features of country forecast - ROMANIA

	2007		Annual percentage change							
	bn RON	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	412.8	100.0		1.6	4.2	7.9	6.2	7.1	-4.0	0.0
Private consumption	277.8	67.3		3.7	10.1	12.7	11.6	9.1	-3.7	-0.3
Public consumption	64.3	15.6		0.7	3.8	-4.1	1.6	3.2	-11.0	0.1
Gross fixed capital formation	125.6	30.4		6.5	15.3	19.9	29.0	19.3	-6.5	-0.5
of which : equipment	60.8	14.7		8.7	18.9	23.5	27.1	19.0	-7.0	-1.0
Exports (goods and services)	121.9	29.5		11.2	7.6	10.4	7.9	19.4	-16.9	0.6
Imports (goods and services)	179.7	43.5		11.6	16.0	22.6	27.2	17.5	-17.3	-0.5
GNI at previous year prices (GDP deflator)	398.9	96.6		1.3	5.5	7.4	6.2	6.3	-3.8	0.4
Contribution to GDP growth :										
Domestic demand				4.7	10.9	12.9	15.7	12.5	-6.3	-0.3
Stockbuilding				-1.8	-2.3	1.4	0.1	-3.5	0.0	0.0
Foreign balance				-1.1	-4.5	-6.3	-9.5	-1.9	2.3	0.3
Employment				-2.1	-1.5	0.7	0.4	0.3	-2.2	0.6
Unemployment rate (a)				6.5	7.2	7.3	6.4	5.8	8.0	7.7
Compensation of employees/head				73.1	28.6	12.4	22.4	22.0	8.5	7.5
Unit labour costs whole economy				66.8	21.6	4.9	15.7	14.3	10.5	8.1
Real unit labour costs				-1.3	8.4	-5.1	2.6	0.2	0.7	1.4
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				69.0	12.2	10.6	12.7	14.0	9.7	6.6
Harmonised index of consumer prices				-	9.1	6.6	4.9	7.9	5.8	3.5
Terms of trade of goods				0.7	3.5	7.2	10.3	2.9	7.9	2.1
Trade balance (c)				-7.0	-9.8	-12.0	-14.4	-13.3	-9.1	-8.0
Current account balance (c)				-	-8.9	-10.6	-13.5	-12.3	-7.4	-6.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.1	-7.9	-10.4	-12.8	-11.8	-6.4	-5.1
General government balance (c)				-	-1.2	-2.2	-2.5	-5.4	-5.1	-5.6
Cyclically-adjusted budget balance (c)				-	-1.8	-3.8	-4.5	-7.9	-5.2	-4.7
Structural budget balance (c)				-	-1.8	-3.1	-4.4	-7.9	-5.2	-4.7
General government gross debt (c)				-	15.8	12.4	12.7	13.6	18.2	22.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 23. SLOVENIA

### Sharp falls in exports and investment point to competitiveness challenges

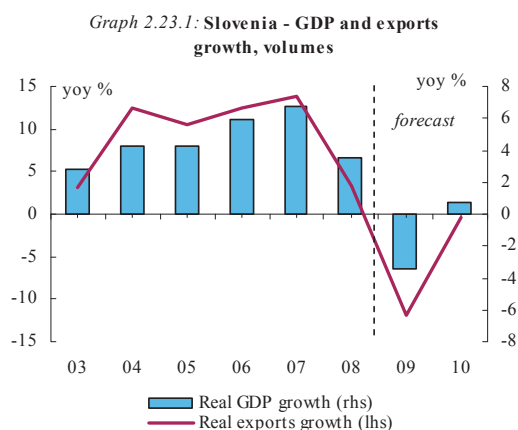
#### Real GDP growth halved in 2008

Economic growth is estimated to have halved to 3.5% in 2008 from close to 7% in the previous year. Activity decelerated markedly throughout 2008. In the final quarter real GDP fell sharply by 4.1% q-o-q, led by exports and investment. This constitutes a very negative growth impulse into 2009.

While supported by a strong increase in employment and wages, private consumption was negatively affected by high inflation and falling consumer confidence. Hence, private consumption expanded by only just over 2%. Government consumption, which rose by 3.7%, made an important contribution to growth. With a strong carry-over from 2007, investment posted a solid growth rate, especially in non-residential construction. However, a gradual decline set in from the second quarter in line with a loss of confidence in construction and manufacturing. Due to the weakening international environment and rising unit labour costs, exports expanded by a lacklustre 3.3% after double-digit growth in 2007, with a dramatic fall in the final quarter. As the growth rate of imports moderated in line with domestic demand and exports, net exports made only a small negative contribution to growth.

#### Sharp drop in exports and investment in 2009

As a highly open economy, Slovenia is expected to suffer significantly from the deepening global recession. Real GDP is projected to contract by 3.4% in 2009, followed by positive growth in 2010



(0.7%).

Business and consumer confidence indicators fell further in the first few months of 2009, confirming the downward momentum. All demand components except public consumption should decline in 2009. A sharp fall in employment and a rise in precautionary savings are expected to dampen private consumption in spite of lower inflation and additional transfers. Higher public investment, to modernise the railway network, will be more than offset by an across-the-board cut in private investment. The global recession, together with a further loss in competitiveness, is expected to entail a marked fall in exports. With imports contracting significantly in response to the decline in exports and investment, the contribution of net exports to growth should be slightly positive.

Exports are projected to gradually improve in 2010 in line with the assumed international economic turnaround. Private consumption should return to positive, albeit low, growth reflecting a lower pace of job losses and a slight acceleration in wage growth. Government spending is projected to continue to support economic activity. Investment should gradually benefit from these developments, but is expected to post a slightly negative growth rate for the year as a whole also on account of a strong negative carry-over from 2009.

#### Significant contraction in employment

As in 2007, employment expanded by some 3% in 2008. However, it has been on a downward trend since September and the unemployment rate has edged up since late 2008. The recession is likely to lead to significant job losses of close to 5%, while the unemployment rate should reach 6¾%. An assumed fall in the labour force, driven by a reversal of the net immigration recorded in previous years, limits the impact on unemployment. At the same time, the government's wage subsidy to encourage shorter working time is expected to stem the number of layoffs. A further but less pronounced worsening of the labour market is foreseen for 2010.

While average wages grew by as much as 8¾% in 2008, the forecast assumes that the agreed pay terms for the private sector will not be applied in

full in 2009 as a result of the ongoing recession. Instead, nominal wages are expected to broadly stabilise. In the public sector, the recently-revised collective wage agreement still foresees a significant rise in wages. The projected moderate rebound in economic activity in 2010 is expected to result in an acceleration in overall wage growth.

In 2008, inflation averaged 5.5%, driven by commodity price shocks and strong domestic demand. A sharp decrease is expected for 2009 due to much lower commodity prices and weakening economic activity. Still, the rate should remain above the euro area average reflecting, inter alia, increases in excise duties throughout the year, on energy, alcohol and tobacco products. In 2010, inflation is projected to increase due to reviving economic activity.

#### Marked deterioration in public finances

The general government balance is estimated to have recorded a deficit in 2008, of 0.9% of GDP, after a surplus of 0.5% in the previous year.

In 2009, the deficit is projected to widen significantly to 5½% of GDP as a result of declining activity levels and the government's recovery measures. On the revenue side, the

impact of the direct tax relief for businesses and the phase-out of the payroll tax is expected to be less than fully compensated by higher excise duties. On the spending side, higher subsidies and transfers together with a sizeable increase in the wage bill lead to a steep increase in the expenditure ratio. The deficit is projected to widen further to 6½% of GDP in 2010 on a no-policy change basis.

Having fallen gradually over several years, gross government debt stood at 22¾% of GDP in 2008. Due to the increasing deficit and the denominator effect, and including the recapitalisation of the state-owned Slovene Export and Development Bank (0.4% of GDP), the debt ratio is projected to rise to 29% in 2009. A further hike is expected in the following year. No impact on the public finances of the government's guarantees for banks and companies (none called on to date) is included.

Table 2.23.1:

#### Main features of country forecast - SLOVENIA

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		34.5	100.0	3.2	4.3	5.9	6.8	3.5	-3.4	0.7
Private consumption		18.0	52.2	3.8	2.6	2.9	5.0	2.2	-0.4	0.6
Public consumption		6.1	17.7	2.9	3.3	4.1	2.5	3.7	2.9	2.9
Gross fixed capital formation		9.5	27.5	6.7	3.8	10.4	11.9	6.2	-13.6	-1.1
of which : equipment		3.8	11.2	9.7	5.1	15.6	9.6	3.5	-13.3	-0.5
Exports (goods and services)		24.2	70.2	3.8	10.6	12.5	13.8	3.3	-11.8	-0.3
Imports (goods and services)		24.6	71.5	6.0	6.6	12.2	15.7	3.5	-12.0	-0.6
GNI at previous year prices (GDP deflator)		33.8	98.0	3.2	4.7	5.5	5.9	3.0	-3.2	0.8
Contribution to GDP growth :										
Domestic demand				4.1	3.0	5.0	6.3	3.5	-3.5	0.6
Stockbuilding				0.4	-0.8	0.8	1.8	0.2	-0.4	-0.1
Foreign balance				-1.3	2.2	0.2	-1.3	-0.2	0.5	0.2
Employment				-	-0.1	1.5	3.0	2.9	-4.7	-0.6
Unemployment rate (a)				-	6.5	6.0	4.9	4.4	6.6	7.4
Compensation of employees/head				-	5.3	5.5	6.3	8.5	2.3	3.1
Unit labour costs whole economy				-	0.8	1.1	2.5	7.9	1.0	1.7
Real unit labour costs				-	-0.8	-0.9	-1.5	3.7	-0.9	-0.4
Savings rate of households (b)				-	-	17.1	16.4	17.3	18.7	18.6
GDP deflator				20.9	1.6	2.0	4.1	4.0	1.9	2.0
Harmonised index of consumer prices				-	2.5	2.5	3.8	5.5	0.7	2.0
Terms of trade of goods				1.1	-2.4	-0.4	0.2	-2.0	1.3	-0.1
Trade balance (c)				-2.7	-3.6	-3.8	-4.9	-7.3	-5.9	-5.7
Current account balance (c)				0.1	-1.8	-2.4	-4.0	-6.1	-4.6	-4.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	-1.7	-2.3	-3.7	-6.1	-4.6	-4.4
General government balance (c)				-	-1.4	-1.3	0.5	-0.9	-5.5	-6.5
Cyclically-adjusted budget balance (c)				-	-1.3	-2.1	-1.7	-2.5	-4.9	-5.2
Structural budget balance (c)				-	-1.3	-2.1	-1.7	-2.5	-4.9	-5.2
General government gross debt (c)				-	27.0	26.7	23.4	22.8	29.3	34.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 24. SLOVAKIA

### Global downturn weighs on exports

#### Slovak exports under pressure in the fourth quarter of 2008

As the weaker foreign demand took its toll on Slovak exports, the economy has started to lose momentum in the last quarter of 2008, growing by a lower-than-expected 2.5% y-o-y compared with a downward revised growth of 6.6% y-o-y in the previous quarter. In addition to exports, the slowdown in the fourth quarter was also driven by declining private consumption and investment.

Overall, GDP growth decelerated to 6.4% in 2008 from 10.4% in 2007. Domestic demand contributed some 5.9 pps. to growth in 2008, reflecting still resilient private consumption and buoyant investment, especially in dwellings and equipment. For the first time since 2005, the external growth contribution entered negative territory, while another pre-stocking of cigarettes ahead of the February 2009 hike in excise taxes resulted into a slightly positive contribution of inventories to growth.

#### Growth enters negative territory in 2009

After several years of sustained expansion in economic activity, GDP growth is expected to contract by around 2½% in 2009 and to slightly rebound, by some ¾%, in 2010.

While fixed investment was the strongest GDP component in 2008, the overall slowdown in economic activity, tightening credit conditions and deteriorating investor sentiment are likely to induce a sizeable contraction in investment in 2009. The launch of the public private partnership

investment projects for motorway construction in the course of 2009 may limit the downward trend in 2009 and it is expected to induce a rebound in fixed investment in 2010.

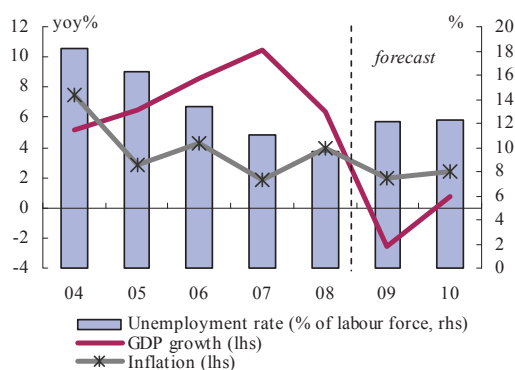
Against the background of declining inflation and pension indexation, private consumption is anticipated to remain above ½% over the forecast horizon. Overall, domestic demand is expected to negatively influence growth in 2009, before turning positive again in 2010. Given the limited impact of the financial crisis on the banking sector, there have been no financial rescue operations.

On the external front, the downward trend in exports observed since mid-2008 will continue in 2009, when exports are projected to fall by some 10% before increasing again by a meagre ¼% in 2010. Foreign trade developments coupled with an increase in the deficit of the income balance are anticipated to induce a widening of the current account deficit in 2009. A slight improvement is expected in 2010, on the back of a decreasing trade and services balance deficit.

#### Mounting strain on labour markets

In 2008, total employment grew by 2.9%, mainly due to a strong increase in employment in the construction sector, while the unemployment rate fell significantly to 9.5%. On the back of the economic downturn, the unemployment rate is anticipated to rise significantly to above 12% in 2009 and to remain flat in 2010. Given strong wage growth in 2008, unit labour costs increased in nominal terms by some 5%, and due to a slowdown in productivity, are likely to further increase in 2009, before declining again in 2010.

Graph 2.24.1: Slovakia - GDP growth, unemployment rate and inflation



#### Inflation on a downward trend

In 2008, annual HICP inflation averaged at 3.9% compared with 1.9% in 2007. Annual HICP inflation increased gradually in the first half of 2008 against the background of rising food and energy prices and started to ease in the last months of 2008. The disinflationary trend seen since October 2008 has largely been driven by decreasing food and fuels prices due to favourable base effects combined with falling energy and food prices on international markets. However, these disinflationary trends have been partially offset by

the increasing inflation contribution of tobacco and heating prices. Average annual HICP inflation is expected to continue its downward trend and to fall to some 2% in 2008, against the background of further declining food and energy prices; it is expected to rebound again to just above 2½% in 2010, due to increasing goods and services prices.

#### Deficit set to widen above 3% of GDP

In 2008, the general government deficit increased to some 2¼% of GDP compared with the deficit target of just above 2¼% of GDP. The better-than-expected budgetary outcome in 2008 was the outcome of the revenue-increasing measures implemented in 2008 (e.g. broadening of the corporate and personal income tax base, increase in the maximum ceiling on social contributions), which offset the shortfall in revenues due to worsening economic conditions.

In 2009, the general government deficit is expected to widen to some 4¼% of GDP, compared to the deficit target of 2.1% foreseen in the 2009 budget. The difference is mainly explained by the slowdown in economic activity resulting in lower revenues, the implementation of the social package (increases in child-birth benefits, pension indexation as of January 2009) as well as by the

impact of the anti-crisis packages. On the revenue side, the anti-crisis packages include measures such as a temporary increase in the tax-free part of income from €3,435 to €4,027, an in-work benefit for low-income employees (negative income tax), as well as a decrease in social contributions for mandatorily insured self-employed. On the expenditure side, the bulk of the measures with budgetary impact are related to the subsidies for R&D activities, for programmes aiming at increasing energy efficiency and supporting existing or newly established SMEs as well as for the Slovak cargo and railway company.

Under the customary no-policy-change assumption, the general government deficit is expected to rise to just below 5½% in 2010. The debt-to-GDP ratio is projected to increase from 27½% of GDP in 2008 to some 36% in 2010.

Table 2.24.1:

#### Main features of country forecast - SLOVAKIA

	2007		92-04	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2005	2006	2007	2008	2009
GDP at previous year prices	61.5	100.0	-	6.5	8.5	10.4	6.4	-2.6	0.7
Private consumption	34.4	55.9	-	6.5	5.8	7.0	6.1	0.5	0.9
Public consumption	10.7	17.3	-	3.3	10.2	-1.3	4.3	2.0	1.2
Gross fixed capital formation	16.0	26.1	-	17.6	9.3	8.7	6.8	-5.2	0.2
of which : equipment	6.2	10.1	-	22.0	-6.3	4.2	19.6	-4.1	0.1
Exports (goods and services)	53.2	86.5	-	10.0	21.0	13.8	3.2	-10.2	0.2
Imports (goods and services)	53.8	87.5	-	12.4	17.7	8.9	3.3	-7.6	0.3
GNI at previous year prices (GDP deflator)	59.8	97.2	-	7.9	9.0	10.0	6.7	-3.8	0.5
Contribution to GDP growth :									
Domestic demand			-	8.7	7.6	6.1	6.0	-0.7	0.8
Stockbuilding			-	0.1	-0.9	0.6	0.5	0.1	0.0
Foreign balance			-	-2.1	1.7	3.8	-0.2	-2.0	-0.1
Employment			-	1.4	2.3	2.1	2.9	-1.7	0.4
Unemployment rate (a)			-	16.3	13.4	11.1	9.5	12.0	12.1
Compensation of employees/head			-	9.7	7.6	8.8	8.7	4.9	5.5
Unit labour costs whole economy			-	4.3	1.5	0.6	5.2	5.9	5.2
Real unit labour costs			-	1.9	-1.4	-0.5	2.2	2.2	1.5
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	2.4	2.9	1.1	2.9	3.6	3.7
Harmonised index of consumer prices			-	2.8	4.3	1.9	3.9	2.0	2.4
Terms of trade of goods			-	-0.2	-1.8	-1.1	-1.9	1.3	0.9
Trade balance (c)			-	-5.4	-5.2	-1.7	-1.7	-2.8	-2.1
Current account balance (c)			-	-8.6	-7.4	-5.1	-6.8	-7.5	-7.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-9.0	-7.0	-4.7	-5.6	-7.6	-6.2
General government balance (c)			-	-2.8	-3.5	-1.9	-2.2	-4.7	-5.4
Cyclically-adjusted budget balance (c)			-	-2.6	-4.0	-3.8	-4.5	-4.9	-4.7
Structural budget balance (c)			-	-1.8	-3.7	-3.8	-4.7	-5.0	-4.7
General government gross debt (c)			-	34.2	30.4	29.4	27.6	32.2	36.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 25. FINLAND

### Exports bear the brunt of the downturn

#### Rapidly decelerating growth throughout 2008

The momentum of the Finnish economy slowed continuously throughout 2008. A particularly sharp decline in activity was recorded in the last quarter of the year when GDP contracted by nearly 2% y-o-y. However, since annual growth was still relatively robust in the first half of 2008, GDP growth still reached 0.9% for the year as a whole. In the last quarter of 2008, foreign trade declined especially sharply, with exports dropping by about 14% y-o-y and imports falling by about 15% over the same period. This was mirrored in plummeting industrial production. Industry appears to have been more heavily hit than on average in the euro area due to the relatively large importance of investment goods - which have suffered most from the lack of foreign demand - in Finnish exports. Additionally, Finland has lost competitiveness against some of its major trading partners as their currencies have depreciated against the euro. Domestic demand had also already lost strength during the course of 2008, especially due to weakening housing and equipment investments. While consumers' purchasing power increased robustly in 2008, plummeting consumer confidence led to a slight contraction in private consumption in the last quarter of the year.

#### Labour market reacting with a lag

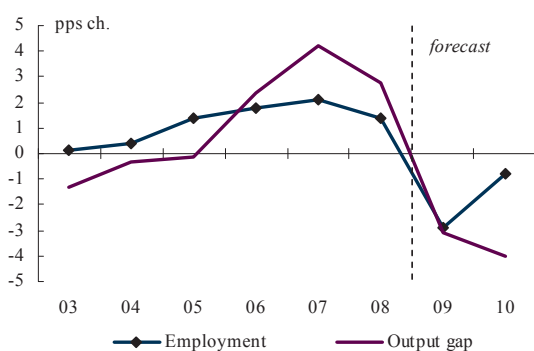
The labour market appears to follow the economic cycle, albeit with a lag of several months. Over the first half of 2008, employment growth was still buoyant, growing at almost 2% annually, mostly on account of new jobs created in the services industry. The second half of 2008 brought a

gradual halt in job creation. Furthermore, companies affected by lack of demand typically used various schemes to temporarily reduce the working hours of staff. Should the slump in demand prove long-lasting, the excess of labour will inevitably be shed. The bulk of the labour market adjustment is forecast to take place in 2009, when unemployment is forecast to jump to nearly 9% of the labour force from a rate of slightly above 6% recorded in the previous year. The labour market is projected to stabilise somewhat in 2010, even though GDP growth should still be well below potential. This is to be expected because the working age population will be in a constant decline from 2010 onwards, which might encourage labour hoarding as the labour supply shrinks.

#### Recovery hinges on the external environment

Industrial production and exports play a relatively larger role in the Finnish economy than on average in the other euro area countries. Foreign trade and industrial production data from the first months of 2009 indicate a further weakening of the export sector. Business surveys and industry order books, which have traditionally been effective in predicting the evolution of demand for the coming few months, do not indicate an immediate rebound from the present lows. Foreign trade is forecast to decline further in the first half of 2009, before recovering in line with the assumed global recovery towards the end of 2009. Given the loss of competitiveness due to the relatively high wage growth and the structural changes in the forest industry resulting in a permanent downsizing of its production capacity in Finland, the recovery of exports is likely to be muted. The previously large current-account surplus should shrink to close-to-balance by the end of the forecast period. In comparison with the external sector, domestic demand is expected to remain relatively more resilient. While a sharp rise in unemployment would erode consumer confidence and purchasing power, this should be counteracted by the decline in inflation, strong wages and significant tax cuts. The domestic financial sector has remained strong and able to respond to consumers' demand for financing. Nevertheless, private consumption is forecast to contract in 2009 as the household saving rate is predicted to rise sharply in times of economic uncertainty. Private consumption is seen

Graph 2.25.1: Finland - Employment stabilising in 2010 even with widening output gap





to be well paced to rebound in 2010 once the external environment stabilises and boosts domestic confidence. Housing investment is nevertheless predicted to recover with a significant lag after the first signs of recovery and is set to contract also in 2010. The government's fiscal stimulus measures will maintain civil construction investment, but can not entirely make up for the overall decline in construction activity over 2009-2010.

### Inflationary pressures to ease in spite of wage hikes

The currently applicable wage settlements from autumn 2007 resulted in relatively high wages for the subsequent three-year period. Therefore, in contrast to the economic crisis, wages per worker are set to grow briskly by about 4% in 2009 and by slightly less in the following year. Compared with the other euro area countries, real unit labour costs should rise relatively rapidly over the forecast period. Wage hikes are however not seen to lead to significant domestic inflationary pressures due to the overall weakness of demand. Inflation is forecast to decline sharply, from about 4% in 2008 to about 1% in the following two years. A notable disinflationary effect will be triggered in October

2009 from cuts to VAT rates on food.

### Public finances to weaken markedly

Benefiting from a strong economic upswing over the previous years, Finland built up a significant public sector surplus, reaching 4.2% of GDP in 2008. While a large share of this (about 3% of GDP) reflects the accumulation of pension fund assets, the central government also recorded a notable surplus. The local government finances remained close to balance. This provided the government margin for a substantial fiscal stimulus of over 1½ % of GDP in 2009 and about 1% in 2010. Together with the operation of the automatic stabilisers, the current fiscal surplus is forecast to turn rapidly into a deficit of nearly 3% of GDP by 2010. General government debt is projected to increase from over 33% of GDP in 2008 to about 46% of GDP by 2010 (assuming that the banking sector does not resort to state financing schemes).

Table 2.25.1:

#### Main features of country forecast - FINLAND

	2007		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	179.7	100.0		2.8	2.8	4.9	4.2	0.9	-4.7	0.2
Private consumption	90.7	50.5		2.2	3.3	4.1	3.3	2.0	-1.4	0.9
Public consumption	38.4	21.4		0.8	2.0	0.6	0.8	1.7	2.3	1.9
Gross fixed capital formation	36.6	20.4		1.6	3.4	4.8	8.7	1.0	-8.5	-2.9
of which : equipment	9.7	5.4		2.1	-0.2	4.1	11.7	3.7	-12.0	-2.9
Exports (goods and services)	82.1	45.7		8.9	7.0	11.8	8.1	-1.1	-18.3	1.2
Imports (goods and services)	73.1	40.7		6.5	11.8	7.8	6.5	-1.3	-15.7	1.9
GNI at previous year prices (GDP deflator)	179.6	100.0		3.2	2.6	5.4	3.1	0.3	-3.7	0.2
Contribution to GDP growth :										
Domestic demand				1.6	2.9	3.2	3.6	1.5	-1.9	0.4
Stockbuilding				0.2	1.2	-0.2	0.5	-1.2	0.0	0.0
Foreign balance				1.1	-1.1	2.0	1.0	0.0	-1.7	-0.2
Employment				0.1	1.3	1.8	2.2	1.5	-2.9	-0.8
Unemployment rate (a)				11.9	8.4	7.7	6.9	6.4	8.9	9.3
Compensation of employees/head				2.9	3.8	2.9	3.4	5.6	3.8	3.6
Unit labour costs whole economy				0.2	2.3	-0.2	1.5	6.2	5.7	2.5
Real unit labour costs				-1.5	1.9	-1.6	-1.7	3.4	3.9	0.9
Savings rate of households (b)				-	-	6.1	6.4	6.9	9.5	10.1
GDP deflator				1.7	0.5	1.3	3.2	2.7	1.7	1.5
Harmonised index of consumer prices				1.7	0.8	1.3	1.6	3.9	1.3	1.1
Terms of trade of goods				-0.3	-4.3	-3.8	-1.6	-2.8	0.8	-1.1
Trade balance (c)				8.6	4.9	5.5	4.9	3.5	2.1	1.6
Current account balance (c)				4.6	3.9	4.9	4.0	2.2	1.4	1.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				5.1	5.0	6.0	4.9	2.4	1.5	1.1
General government balance (c)				-0.5	2.8	4.0	5.2	4.2	-0.8	-2.9
Cyclically-adjusted budget balance (c)				0.0	2.9	2.8	3.2	2.8	0.8	-0.9
Structural budget balance (c)				-	2.9	2.8	3.2	2.8	0.8	-0.7
General government gross debt (c)				48.5	41.4	39.2	35.1	33.4	39.7	45.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

## 26. SWEDEN

### Unemployment rising, public finances deteriorating

#### Deepening recession in 2008

Economic activity in Sweden decelerated sharply in the course of 2008, with waning global demand weighing increasingly on exports. Domestic demand held up reasonably well until the summer, before weakening significantly as consumer and business confidence fell steeply along with stock market indices. The downturn accelerated towards the end of the year, with GDP falling by 2.4% in the fourth quarter compared with the previous quarter. Apart from dwindling exports, the sharp contraction in the last quarter was driven by a steeper-than-expected fall in private consumption as households saved more out of income and, above all, by a surprisingly rapid draw-down of stocks. Investment, on the other hand, held up surprisingly well. For the year as a whole, GDP contracted by 0.2%.

#### Muted recovery from the end of 2009

The outlook for the forecast period is one of continued contraction in the first three quarters of 2009 followed by a muted and fragile recovery as from the fourth quarter. Activity indicators point to a very weak start of the year, with industrial production and exports continuing to fall sharply. Falling capacity utilisation combined with an uncertain outlook for demand and stricter credit conditions should lead to a sharp contraction in fixed capital formation in the first half of 2009. While public investment should support growth, private sector investment looks set to fall across the board. Notably, the construction sector has seen a very rapid shift from expansion to contraction over the last couple of months. The

large stock draw-down in the fourth quarter of 2008 probably means that the drag on growth from this source is likely to be less pronounced going forward. Private consumption should receive some support from rapidly falling consumer price inflation, monetary policy easing and the already enacted fiscal policy measures. Government consumption should act as stabiliser. However, rapidly worsening employment prospects and the need for households to rebuild their assets after sharp falls in the stock market are likely to put a dampener on private consumption growth over the forecast period. Moreover, unless countervailing measures are taken, the expected downward adjustment of pensions in 2010 could exert a further drag on private consumption. This adjustment is a result of the triggering of the balancing mechanism to restore the long-term viability of the pension system after last year's steep stock market falls.

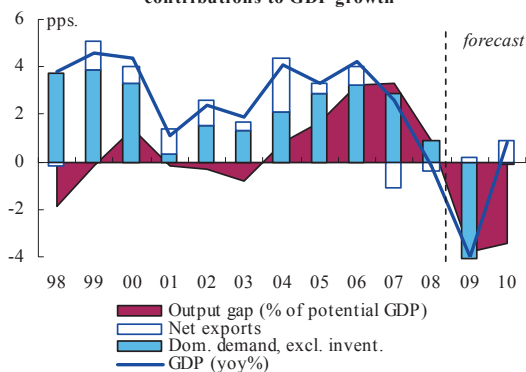
A combination of the bottoming out of the global downturn towards the end of 2009 and a significantly weaker Swedish krona is expected to make a muted export-led recovery possible in 2010. After falling by 4% in 2009, GDP should therefore be able to rebound by about 3/4% in 2010.

#### Higher unemployment to contain cost pressures

The situation in the labour market has deteriorated rapidly since last autumn, with the number of announced lay-offs rising to levels not seen since the crisis of the early 1990s and the number of vacancies dropping significantly. Unemployment has started to rise sharply, reaching 8% of the workforce in February 2009 after averaging 6.2% in 2008. It is expected to exceed 10% in 2010.

The economic downturn and the ensuing sharp rise in unemployment are likely to contain wage pressures over the whole forecast period. While the wage agreements that were signed in 2007 and which run until the spring of 2010 stipulated fairly robust nominal wage increases, it is likely that negative wage drift and a general cut-back in overtime compensation might lead to slower wage growth. The wage bargaining process for the new set of collective agreements, due to enter into force in the spring of 2010, is likely to take place in an environment fostering wage restraint. Combined

Graph 2.26.1: Sweden - Output gap and contributions to GDP growth



with an expected upswing in productivity growth in 2010, this should benefit corporate profitability.

Consumer price inflation reached a high in the autumn of 2008, but has already fallen significantly, as energy prices have reversed their previous strong upward movement. Given the widening output gap and weak demand, price pressures are likely to be suppressed for quite some time. In the short run, the disinflationary process is dampened somewhat by the direct impact of the significant depreciation of the krona on imported prices. Given the amount of slack in the economy and the expected weakness of the recovery, however, the depreciation is not expected to set off a wage spiral during the forecast period. Annual HICP inflation is expected to fall below 1% in 2010.

Apart from the risks stemming from unforeseen developments in the global economy, uncertainty prevails about the effect of the worsening of the employment outlook on consumer confidence and spending and its effects on house prices. While Swedish banks are deemed to be relatively solid, risks remain with regard to exposures to the Baltic States and a possible weakening of the housing market.

### Recession turns fiscal surpluses into deficits

A combination of cyclical effects and discretionary fiscal measures in the context of the Recovery Plan (totalling about 1.4% of GDP in 2009), public surpluses of recent years are expected to turn into deficits of around 2¾% and 4% of GDP in 2009 and 2010, respectively. In 2008, tax revenues from capital income and corporate profits fell significantly, especially towards the end of the year. In 2009 and 2010, the projected deterioration of the labour market, with falling employment and rising unemployment, is likely to lead to a further decrease in tax revenues and an increase in unemployment benefits.

The return of deficits, combined with negative or slow nominal GDP growth, is likely to reverse the previous trend towards a lower government debt ratio. The government has also put further privatisations on hold until the financial markets normalise. With the government expected to provide capital injections and loans to private companies to the tune of 2½% of GDP in 2009, the gross public debt ratio is forecast to rise from about 38% of GDP in 2008 to around 47% of GDP in 2010.

Table 2.26.1:

#### Main features of country forecast - SWEDEN

	2007		Annual percentage change							
	bn SEK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		3063.9	100.0	2.4	3.3	4.2	2.6	-0.2	-4.0	0.8
Private consumption		1430.1	46.7	1.7	2.7	2.3	3.0	-0.2	-3.0	0.5
Public consumption		792.8	25.9	0.6	0.4	2.0	0.4	1.3	0.5	0.6
Gross fixed capital formation		581.7	19.0	1.5	8.9	9.1	7.5	3.5	-14.6	-2.9
of which : equipment		242.1	7.9	4.6	12.3	9.3	10.1	7.2	-17.5	-5.7
Exports (goods and services)		1612.2	52.6	7.4	6.6	8.9	5.8	1.7	-9.4	1.1
Imports (goods and services)		1374.9	44.9	5.3	7.0	8.7	9.4	3.0	-11.3	-0.6
GNI at previous year prices (GDP deflator)		3065.3	100.0	2.7	3.4	6.2	3.3	-0.2	-4.0	0.8
Contribution to GDP growth :										
Domestic demand				1.2	2.9	3.2	2.9	0.9	-4.1	-0.1
Stockbuilding				0.1	0.0	0.2	0.8	-0.7	-0.1	0.0
Foreign balance				1.1	0.4	0.8	-1.1	-0.4	0.2	0.9
Employment				-0.3	0.3	1.7	2.2	0.9	-2.4	-2.3
Unemployment rate (a)				7.3	7.4	7.0	6.1	6.2	8.4	10.4
Compensation of employees/head				4.2	3.1	2.1	5.1	1.6	2.1	2.0
Unit labour costs whole economy				1.5	0.1	-0.4	4.7	2.7	3.7	-1.1
Real unit labour costs				-0.2	-0.8	-2.1	1.7	-0.6	2.1	-2.0
Savings rate of households (b)				-	-	10.5	11.7	14.4	17.5	18.0
GDP deflator				1.7	0.9	1.7	3.0	3.3	1.6	0.9
Harmonised index of consumer prices				1.9	0.8	1.5	1.7	3.3	1.6	0.7
Terms of trade of goods				-1.1	-2.0	-0.3	2.7	-0.7	2.3	-1.0
Trade balance (c)				6.1	5.8	5.6	4.6	4.0	4.9	5.1
Current account balance (c)				3.7	6.1	8.5	9.0	6.2	7.0	7.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				3.4	6.2	7.9	8.9	6.2	6.8	7.2
General government balance (c)				-2.6	2.3	2.5	3.8	2.5	-2.6	-3.9
Cyclically-adjusted budget balance (c)				-1.6	1.3	0.7	1.9	2.0	-0.4	-1.9
Structural budget balance (c)				-	1.3	0.7	1.9	1.7	-0.5	-1.9
General government gross debt (c)				62.8	51.0	45.9	40.5	38.0	44.0	47.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 27. THE UNITED KINGDOM

### Deep recession poses severe challenge to public finances

#### UK enters recession after 17 years of expansion

Quarterly output growth slowed during 2008 from 0.3% in the first quarter to -1.6% in the final, bringing annual growth down from 3.0% in 2007 to 0.7% in 2008. <sup>(5)</sup> Having grown at an average annual rate of close to 3% during the preceding decade due to buoyant domestic demand, the UK economy is now clearly experiencing one of its worst recessions in recent history, in the context of the global financial and economic crisis.

Private consumption made the largest positive contribution to GDP growth in 2008. However, consumption growth turned negative in the second quarter of 2008 and continued to fall thereafter in tandem with the deterioration of consumer sentiment and economic prospects. Gross disposable income still grew strongly throughout the year due to steady wage growth, a rise in social benefit payments and falling tax payments, which - in conjunction with lower consumption - contributed to a rebound of the saving rate from -1.2% in the first quarter to 4.8% in the fourth. Net lending to individuals fell sharply in 2008, with the flow of secured lending falling by almost two-thirds and unsecured consumer credit contracting by 15% compared to the previous year.

Fixed investment was the GDP component most severely affected in 2008 by the financial crisis, due to a sharp fall in residential and commercial property prices, tight financing conditions and a weak business outlook. Lower construction investment underpinned the overall fall of 3.1%, which subtracted around ½ pp. from annual GDP growth. A sharp reduction in inventories occurred

in the fourth quarter and accounted for most of that quarter's output contraction, following high levels of stockbuilding in previous quarters. Government consumption expenditure grew throughout the year, adding ¾ pp. to annual growth.

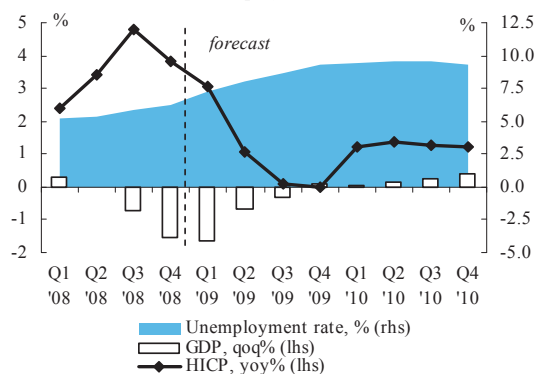
Foreign trade in the first three quarters of 2008 showed no signs of the large sterling depreciation of 28% in nominal effective terms since mid-2007 having materially affected import or export volumes, which both remained broadly flat. The fourth quarter saw a sharp fall in both imports and exports, coinciding with a collapse in global trade. The current-account deficit narrowed in 2008 to 1.7% of GDP from 2.9% in 2007, with most of the improvement being accounted for by an increase in the UK's income surplus, driven by a marked fall in foreign earnings on direct investment in the UK.

Financial markets remained under stress in late 2008, with liquidity pressures persisting and many banks recording heavy losses. The UK government announced a second series of policy measures in January 2009 aimed at strengthening banks' balance sheets and increasing credit provision to the private sector. In March 2009 the Bank of England commenced purchases of both private and public sector debt instruments (mainly government and some corporate bonds), financed through central bank money creation of initially up to £75bn (5% of GDP). Bank Rate was cut to 0.5% in March, a 450bps fall from September 2008.

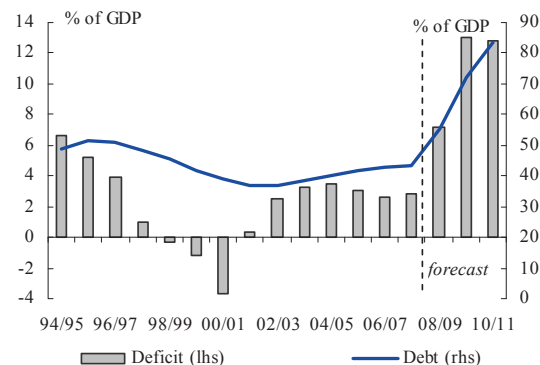
#### Financial and trade conditions mar outlook

The UK's economic prospects are dimmed by continued restrictive credit conditions, global

Graph 2.27.1: UK - Growth, inflation and unemployment



Graph 2.27.2: UK - General government finances



demand weakness, asset price falls and subdued confidence levels amongst households and businesses. The central outlook expects quarterly growth to remain negative for the first three quarters of 2009 due to a pronounced fall in domestic demand, followed by two quarters of virtual stagnation and only a gradual return to slight positive growth by late 2010.

Fixed investment is set to further shrink substantially in 2009 as the cost and availability of credit remain prohibitive and weak capacity utilisation prospects lower the need for capital replacement and accumulation. Private consumption is also expected to contract significantly in 2009, due to falling employment levels, strong losses of household wealth and weak consumer confidence, but the contraction will be partly cushioned by real disposable income growth remaining slightly positive throughout the forecast period. In the final quarter of 2009, the planned reversal in 2010 of the 2.5 pp. temporary VAT reduction will lift private consumption at the expense of spending in the following quarter. Thereafter it is expected to recover only marginally due to labour market weakness and the ongoing pressures for households to deleverage and rebuild savings. Reductions in inventories associated with sharp cuts to production will exert a sizeable drag on growth in 2009, although rebuilding of inventory levels is expected to reverse this effect in 2010.

Government expenditure growth will remain positive on an annual basis and support growth in both years, despite turning negative over the course of 2010. Net external demand is expected to cushion economic activity in 2009 and 2010, partly due to the gradual pass-through of sterling depreciation into higher import prices, which will combine with the domestic demand weakness so as to significantly reduce imports. Export volumes will shrink materially in the face of a sharp downturn in UK export markets, but will contract by less than imports, which in turn lifts annual growth by around 1 pp. and ¼ pp. in 2009 and 2010 respectively. The impact on the UK's trade balance will, however, be limited, due to relatively higher import price growth. The current external balance is expected to remain at 2¾% of GDP, close to its ten-year average, as the UK's income surplus declines to more moderate levels.

In summary, the UK economy is expected to contract by 3¾% in 2009, of which almost half is

due to a large negative carry-over from 2008. Despite limited positive output growth setting in during 2010, the annual growth forecast is for near-stagnation in 2010.

### Unemployment increases, damping inflation

With rising unemployment throughout 2008 having shown early reflections of the economic slowdown, the labour market weakened progressively around the turn of 2008/2009, when the unemployment rate reached 6.5%. Although employment levels showed only a subdued response to the unfolding recession, the progressive weakening of economic activity over the forecast horizon is likely to affect both employment and unemployment more heavily, albeit with a lag. The unemployment rate is likely to rise progressively to around 10% (3 million persons) in late 2010, which will significantly dampen earnings growth. HICP inflation is expected to fall markedly throughout 2009 due to base effects from energy price rises in the previous year, the impact of weak demand and the 2.5 pp. VAT reduction, although the planned reversal of the latter will push up annual inflation by around 1 pp. in early 2010, after which it continues to remain below the official target of 2%.

### Very significant deterioration in public finances

In the 2008/09 financial year the general government deficit is estimated to have risen to 7.2% of GDP, around two-thirds of this deterioration being structural <sup>(6)</sup>. A further extraordinary deterioration in public finances is forecast for the following two years, with the deficit projected at around 13% of GDP in both 2009/10 and 2010/11. The structural budget deficit in 2009/10 is forecast to deteriorate by around 5 percentage points of GDP.

Table 2.27.2:

General government projections on a financial year basis				
	2007/08	2008/09	2009/10	2010/11
Budget balance <sup>1</sup>	-2.8	-7.2	-13.0	-12.8
Structural budget balance	-3.7	-6.7	-11.6	-11.3
Debt <sup>2</sup>	43.2	55.3	72.3	83.3

<sup>1</sup> Data adjusted for the consistent recording of UMTS licence proceeds.

<sup>2</sup> Excludes treasury bills issued by the government to the Bank of England for use in the Special Liquidity Scheme. Eurostat is considering the appropriate treatment of these bills, particularly whether or not they should be included as part of UK government debt.

Underlying the sharp increase in the headline deficit in 2008/09 was a contraction in government current revenue of an estimated 3½% and continued rapid expenditure growth. Revenue from corporate taxation (which accounted for a quarter of tax revenue increases over the past five years)

and from personal income taxation both fell sharply, in part reflecting the effect of financial sector difficulties on corporate profits and income earnings. The sharp drop in property transactions, as well as the reduction in the standard VAT rate as from December 2008, fed through into lower indirect tax revenue. On the expenditure side, government financial sector interventions contributed to a one-off deficit-increasing rise in capital expenditure of 0.7% of GDP.

The greater part of the forecast fiscal deterioration in 2009/10 is mainly due to two interconnected factors: first, the overall contraction in economic activity; and secondly, the additional losses in tax revenue from two hitherto major sources: the financial sector and the housing market. In addition, the fiscal stimulus measures announced by the UK authorities are estimated to account for a quarter of the forecast increase in the deficit ratio. Lower profitability in the financial sector and in the oil extraction industry will weigh down further on tax revenue in 2009/10. No significant improvement in the tax revenue contribution of either industry is expected in 2010/11. Personal income tax receipts are also expected to fall in 2009/10, mirroring lower employment and almost flat earnings growth. Meanwhile, a contraction in nominal consumption expenditure and a further

fall in property prices are expected to depress indirect tax revenue. On the expenditure side, the forecast assumes adherence to the envelope set in the government's 2009 budget. By contrast, the weak labour market is expected to feed through into higher outlays on social transfers.

By 2010/11, interest payments are expected to increase by almost one-third compared with 2008/09, mirroring the surge in the government debt ratio. The latter is forecast to rise by almost 30 pps. during the forecast period, to close to 85% of GDP by 2010/11. The likelihood that economic activity in 2010 will be weaker than envisaged by the UK authorities also carries a risk that fiscal tightening measures announced for 2010 will not be fully implemented, which would raise the deficit ratio in 2010/11 by up to  $\frac{3}{4}$  pp. of GDP.

(<sup>5</sup>) The preliminary estimate for GDP in the first quarter published by the UK Office of National Statistics after the cut-off date for this forecast increases downside risks to our forecast.

(<sup>6</sup>) The UK financial year runs from April to March.

Table 2.27.1:

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

	2007		Annual percentage change							
	bn GBP	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	1400.5	100.0		2.8	2.1	2.8	3.0	0.7	-3.8	0.1
Private consumption	894.4	63.9		3.3	1.9	2.1	3.1	1.4	-3.4	-1.5
Public consumption	296.0	21.1		1.8	1.7	1.6	1.5	3.4	3.6	2.9
Gross fixed capital formation	247.8	17.7		3.8	2.2	6.0	6.8	-3.1	-12.3	-6.3
of which : equipment	84.2	6.0		5.3	1.7	4.0	9.4	-3.2	-12.7	-7.9
Exports (goods and services)	370.0	26.4		5.4	8.1	11.0	-4.1	0.1	-10.5	-0.9
Imports (goods and services)	417.3	29.8		6.6	7.0	9.6	-1.5	-0.6	-13.0	-2.0
GNI at constant prices (GDP deflator)	1419.5	101.4		3.1	2.3	1.8	3.7	1.6	-5.0	0.1
Contribution to GDP growth :										
Domestic demand				3.1	2.0	2.7	3.5	1.0	-3.6	-1.3
Stockbuilding				0.1	0.0	0.0	0.2	-0.4	-1.2	1.1
Foreign balance				-0.4	0.1	0.0	-0.7	0.2	1.1	0.3
Employment				0.7	1.0	0.9	0.7	-0.7	-2.4	-0.9
Unemployment rate (a)				6.9	4.8	5.4	5.3	5.6	8.2	9.4
Compensation of employees/head				4.3	3.7	4.5	3.7	3.8	0.9	1.5
Unit labour costs whole economy				2.1	2.7	2.5	1.4	2.4	2.4	0.4
Real unit labour costs				-0.5	0.5	-0.1	-1.4	0.1	1.6	-1.0
Savings rate of households (b)				-	-	4.2	2.3	1.4	5.6	8.2
GDP deflator				2.6	2.2	2.6	2.8	2.3	0.8	1.4
Harmonised index of consumer prices				1.9	2.1	2.3	2.3	3.6	1.0	1.3
Terms of trade of goods				0.3	-2.3	-0.6	1.5	0.4	-2.4	-0.6
Trade balance (c)				-2.9	-5.5	-5.8	-6.4	-6.4	-6.1	-6.0
Current account balance (c)				-1.5	-2.6	-3.4	-2.9	-1.5	-2.8	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-2.5	-3.3	-2.7	-1.3	-2.7	-2.6
General government balance (c)				-2.8	-3.4	-2.7	-2.7	-5.5	-11.5	-13.8
Cyclically-adjusted budget balance (c)				-2.7	-3.7	-3.3	-3.7	-6.1	-10.2	-12.2
Structural budget balance (c)				-	-4.0	-3.3	-3.7	-5.6	-10.0	-12.2
General government gross debt (c)				43.7	42.3	43.4	44.2	52.0	68.4	81.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

# Chapter 3

Candidate Countries

# 1. CROATIA

## A declining economy creates important fiscal challenges

### The economy continued to slow markedly...

In 2008, real GDP growth slowed considerably to 2.4% y-o-y, down from 5.5% in 2007. In particular, private consumption growth decelerated markedly to 0.8% (from 6.2%), and public consumption slowed to 1.9% (from 3.4%). At the same time, investment growth accelerated to 8.2%, up from 6.5% a year before, and posted the strongest contribution to growth (2.2 pps.). The growth of exports declined to 1.7% (from 4.3%), while total imports decelerated to 3.6% (from 6.5%).

Recently published high frequency indicators suggest a further considerable deterioration of economic performance in early 2009. Industrial production declined by around 13% y-o-y and retail trade dropped by 15% in the first two months of 2009, the latter, however, partly due to statistical changes.

### ...and the slowdown will accentuate in 2009

The global financial crisis is increasingly taking its toll on the Croatian economy. The marked deterioration of the external environment, including a projected growth slowdown in Croatia's major EU trading partners, will have a heavy impact on the Croatian economy. External financing constraints have become tighter and spreads have increased. Higher domestic borrowing costs and a decline in confidence levels will lead to a considerable reduction in private investment activity. Moreover, it cannot be excluded that cross-border lending, currently an important financing source of the corporate sector,

will be adversely affected by the global financial crisis. Public investment is likely to slow, in view of tighter financing conditions in combination with significant refinancing needs of the general government sector in 2009. These effects will lead to a rapid contraction of total investments. In addition, private consumption growth is projected to fall in 2009, resulting from lower employment and disposable income, negative wealth effects from asset price adjustments, tighter borrowing conditions and a general decline in consumer confidence in a situation of heightened uncertainty. Public spending plans are likely to be revised downwards in the context of a budget revision, as revenue growth is sharply decelerating. The forecast predicts a reduction of real GDP in 2009 with significant downside risks.

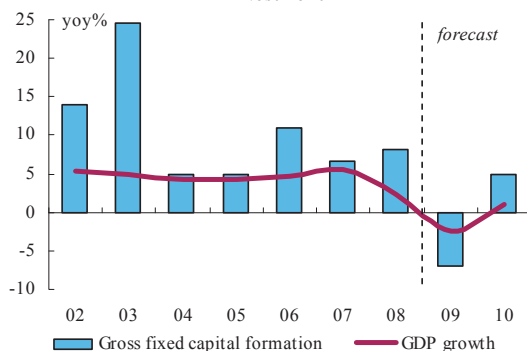
### External imbalances are likely to shrink as domestic demand and commodity prices fall

The trade and current deficits are expected to fall considerably. Although the growth of exports will fall due to lower demand from Croatia's main trading partners, reduced total imports are likely to have a much larger impact on the current account, due to the combined effect of lower prices for energy and commodities and a significant deceleration of domestic consumption and investment. Moreover, a reduction of the current-account deficit also appears plausible in the light of tighter external financing constraints. The forecast assumes that financing through net FDI inflows will be limited in 2009.

### Inflation to subside from its mid-2008 peak

Annual inflation has fallen from its peak in July. The forecast projects a reduction in average inflation in 2009 and 2010, based on lower energy prices in world markets and a marked deceleration of domestic demand. Cost-push pressures is expected to remain limited as the growth of unit labour costs will slow down. Upside risks are related both to foreign and domestic factors. On the external front, higher prices for imported raw material are likely to be translated into higher inflation. Domestically, inflationary pressures could result from necessary alignments of indirect taxes (e.g. excises) as well as further adjustments of administrative prices. At the same time, those pressures are likely to be small and it is reasonable

Graph 3.1.1: Croatia - GDP growth and investment





to assume that a stability-oriented monetary policy framework will help to prevent a significant re-acceleration of inflation over the medium term.

### Labour market developments not immune to slowdown

Wage developments have so far been moderate and remained in line with productivity growth. The government made an attempt to reverse earlier public sector wage increases which will contribute to limiting wage pressures in 2009. In addition, the economic slowdown would only provide for moderate increases in labour costs in the private sector.

As elsewhere, slowing growth and investment dynamics is projected to have an impact on labour market developments with some delay. Employment is set to fall and the unemployment rate (LFS) will increase.

adjustment of current spending on short notice. As a result, the general government deficit stood at around 1% of GDP, somewhat lower than initially projected. This figure, however, does not account for some off-budget operations, such as the so-called pensioners' debt and activities of a road fund and the State Development Bank (HBOR). The original budget framework adopted for 2009 was based on overly optimistic growth and revenue projections. This necessitated a budget revision in April which is still based on optimistic assumptions and targets a budget deficit of 1.6% of GDP. Compared to the revised budget, the forecast expects a stronger increase in the general government deficit, as revenues are projected to decline more strongly and as it assumes higher spending, partly resulting from the costs of anti-recession measures. The general government debt is set to increase, also due to the virtual lack of privatisation revenues.

### Budget re-balancing urgently needed

Preliminary budget data for 2008 point to an underperformance of total revenues by two percentage points of GDP, largely due to a considerable decline in revenues in the last quarter. This shortfall has been largely matched by an

Table 3.1.1:

#### Main features of country forecast - CROATIA

	2007		92-04	Annual percentage change					
	bn HRK	Curr. prices		% GDP	2005	2006	2007	2008	2009
GDP at constant prices	314.2	100.0	-	4.2	4.7	5.5	2.4	-3.0	1.5
Private consumption	189.0	60.1	-	4.2	2.6	6.2	0.8	-2.5	2.0
Public consumption	58.3	18.5	-	1.7	5.0	3.4	1.9	0.5	1.5
Gross fixed capital formation	82.4	26.2	-	4.9	10.9	6.6	8.2	-7.5	5.0
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	134.5	42.8	-	3.7	6.5	4.3	1.7	-5.2	1.1
Imports (goods and services)	158.2	50.4	-	3.9	7.4	6.5	3.6	-6.1	2.6
GNI at constant prices (GDP deflator)	305.8	97.3	-	3.5	4.6	5.8	2.6	-2.7	1.7
Contribution to GDP growth :									
Domestic demand			-	4.1	5.2	6.1	3.0	-3.5	2.8
Stockbuilding			-	0.5	0.4	0.8	0.5	-0.4	-0.5
Foreign balance			-	-0.3	-0.9	-1.4	-1.1	0.9	-0.8
Employment			-	0.7	3.9	3.5	1.1	-1.0	0.5
Unemployment rate (a)			-	12.7	11.2	9.6	8.4	9.6	9.4
Compensation of employees/head			-	5.5	3.9	5.3	9.3	3.7	5.0
Unit labour costs whole economy			-	1.9	3.0	3.3	7.9	5.8	3.9
Real unit labour costs			-	-1.3	-0.4	-0.7	1.4	1.4	0.3
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	3.3	3.4	4.0	5.3	4.3	3.6
Harmonised index of consumer prices			-	3.3	3.2	2.9	6.2	3.1	3.7
Terms of trade of goods			-	-	-	-	-2.4	2.5	0.0
Trade balance (c)			-	-21.0	-21.3	-22.0	-22.9	-20.7	-21.3
Current account balance (c)			-	-5.6	-7.0	-7.6	-8.0	-5.9	-6.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-
General government balance (c)			-	-4.2	-3.0	-2.5	-2.0	-3.3	-2.7
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-
General government gross debt (c)			-	38.3	35.7	33.1	32.2	34.6	35.2

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

## 2. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Joining the general trend ... albeit with a delay

### Growth slowed down towards the end of 2008

Based on solid domestic demand, output growth was still strong in the first three quarters of 2008, but decelerated sharply in the last quarter. This brought annual GDP growth down from 6% in 2007 to 5% in 2008.

The labour market situation worsened towards the end of 2008, lowering annual employment growth from 3.5% in 2007 to 2.4%. Unemployment dropped slightly, but remained still at an alarmingly high level of some 34% of the labour force. Youth unemployment stayed at some 54%.

Strong domestic demand and weakening exports led to a sharp rise in the trade deficit, from 20% in 2007 to 26% in 2008. The current-account deficit deteriorated from 7.2% of GDP in 2007 to about 13% in 2008, accordingly. Inflows of net private transfers returned from exceptional 18% of GDP in 2007 to 15% of GDP in 2008. Inflows of FDI increased markedly reaching nearly 9% of GDP, compared to 3% a year before.

Consumer price inflation decelerated sharply from some 10% in early 2008, to 4.1% in December 2008 and 0.3% in March 2009. On average, inflation was 8.2% in 2008, compared to 2.3% in 2007. During the first quarter of 2009, average inflation was 1%. The main driving factors for the strong rise in late 2007 had been rapidly increasing prices for food but also rapidly increasing costs for energy and housing.

The exchange rate of the Denar has remained largely unchanged against the euro on a level of 61.4 MKD/EUR. The National Bank intends to maintain its current informal peg to the euro.

The central government accounts registered a significant surplus of some 2% of GDP during the first ten months of 2008, mainly as a result of a better-than-expected revenue collection and lower-than-planned spending. However, in the last two months of the year, the government substantially increased spending, turning the public sector accounts into a deficit of about 1% of GDP.

The general government debt ratio declined from 42% of GDP at the end of 2006 to some 23% at the end 2007. This sharp decline is largely a result of early debt repayments, mainly to Paris club creditors, the IMF, the World Bank and the EIB.

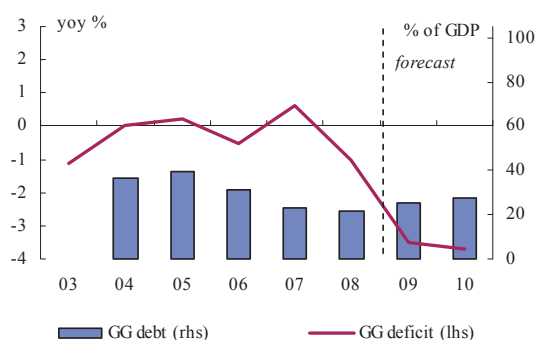
### Lower global growth and constrained external financing will take their toll in 2009

In the last quarter of 2008 and in early 2009, the economy started to experience the indirect effects of the global slowdown, leading to a sharp drop of exports, capital inflows and investment. However, private and public consumption should support a domestically driven growth momentum.

Overall, output is likely to drop by about ¼% in 2009. This is nearly 5 pps. lower than expected in the autumn forecast. The probably more favourable economic conditions towards the end of the forecasting horizon should lead to output growth by about 1½% in 2010.

Private and public consumption will be the main supportive factors, preventing overall GDP growth from declining much sharper. The former is likely to benefit from the tendency of private households to stabilise consumption by reducing the savings ratio. Furthermore, the positive effect of recent social security reforms and lower inflation should support real disposable income. In addition, workers remittances are expected to remain an important support for households. Public consumption is likely to remain high during the forecast period, taking into account the new government's ambitious programme for boosting

Graph 3.2.1: The former Yugoslav Republic of Macedonia - Public finances



economic growth and employment. Domestic and foreign investment is seen to decline sharply, in response to the overall less benign international environment. However, the investment-to-GDP ratio probably will remain well above levels seen in previous years. In view of the expected strong decline in global demand, exports are likely to decline sharply in 2009 and to recover only moderately in 2010. Imports are expected to follow this profile, but are expected to remain relatively high, reflecting rather strong private and public consumption. As a result, trade and current-account deficits will remain very high.

#### Unemployment seen to increase, while inflation to slow down

Recent reforms in social security legislation should improve the functioning of the labour market. However, the sharp decline in the country's export oriented sector will lead to a marked increase in unemployment. Employment growth is likely to slow down significantly, resulting in a marked increase in unemployment in 2009 and 2010.

In view of the substantial weakening of energy and commodity prices as well as the weaker domestic demand, inflation is likely to drop to less than 1%

in 2009 and remain below 2% in 2010.

#### Public sector deficits are likely to rise

A more expansionary policy stance of the government, reflecting anti-crisis measures but also the need to modernise the country's infrastructure and institutions will result in a shift from the close-to-balance deficits or surpluses of the previous years to higher deficits in the near future. However, weakening revenues and tighter financial markets limit possibilities of deficit financing. In 2009, public revenues are expected to remain some 15% below target, while the planned supplementary budget envisages a spending reduction of some 10% only. As a result, the deficit in 2009 is likely to increase to about 3½% of GDP. In 2010, the deficit is expected to remain high, reflecting increased spending in order to compensate for the impact of the crisis and the need to modernise the country's infrastructure. The higher deficits will lead to a rise in the public sector debt ratio.

In view of the country's sizeable external imbalance, good governance and maintaining a sound fiscal policy will be of utmost importance.

Table 3.2.1:

#### Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2007		Annual percentage change							
	bn MKD	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	354.3		100.0	-	4.1	4.0	5.9	5.0	-0.3	1.5
Private consumption	273.3		77.1	-	5.7	6.0	9.8	7.8	2.0	3.0
Public consumption	62.0		17.5	-	0.4	1.8	0.4	9.5	6.0	7.0
Gross fixed capital formation	71.6		20.2	-	-5.4	11.6	13.1	18.8	-11.6	2.0
of which : equipment	0.0		0.0	-	-6.7	8.0	-	-	-	-
Exports (goods and services)	189.3		53.4	-	11.2	8.4	14.3	-9.6	-14.0	2.5
Imports (goods and services)	256.1		72.3	-	6.2	10.9	17.4	-4.9	-9.1	5.6
GNI at previous year prices (GDP deflator)	337.1		95.1	-	2.8	5.4	1.4	8.8	-0.9	1.0
Contribution to GDP growth :										
Domestic demand				-	3.6	7.0	10.1	11.5	0.0	4.1
Stockbuilding				-	-0.2	0.0	0.5	0.2	0.0	0.0
Foreign balance				-	0.7	-3.1	-4.7	-	-0.2	-2.6
Employment				-	2.1	3.2	4.3	3.2	-1.0	-0.5
Unemployment rate (a)				-	36.7	36.0	34.9	33.7	35.0	36.0
Compensation of employees/head				-	-3.3	11.7	-	10.1	1.7	1.7
Unit labour costs whole economy				-	-5.2	10.8	-	8.2	1.0	-0.3
Real unit labour costs				-	-8.6	6.2	-	1.0	-3.6	-3.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.8	4.3	7.6	7.2	4.7	2.7
Harmonised index of consumer prices				-	0.5	3.2	2.2	8.3	0.8	1.7
Terms of trade of goods				-	4.8	2.4	8.4	-2.5	5.0	-0.9
Trade balance (c)				-	-18.3	-20.2	-20.3	-26.7	-23.2	-25.4
Current account balance (c)				-	-2.7	-0.9	-	-12.4	-10.7	-13.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-	-0.5	0.6	-1.0	-3.5	-3.7
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	39.6	31.4	23.4	21.4	25.2	27.8

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

### 3. TURKEY

#### Manufacturing faltering as exports decline

##### Strong economic contraction via the trade channel

The Turkish economy was slowing well before the global financial turmoil started to spread. Real GDP growth declined from an average of 7¼% a year in 2002-06 to 4½% in 2007 and 1% in 2008. This was mainly due to Turkey specific factors, i.e. heightened political uncertainty together with the tightening of monetary policy following a confidence crisis in the currency in mid-2006. Starting from the second half of 2008, the manufacturing sector was paralysed by the sharp decline in exports and external demand. Turkey had become a leading manufacturing basis for the European market in sectors such as automotive and white goods for which global demand is collapsing now. Industrial output declined 12½% y-o-y in the last quarter of 2008, bringing the annual growth to -1%. Economic activity was further depressed by strongly decelerating domestic credit which reduced the annual real growth of private consumption to only 1¼% and of private investment to -1½%.

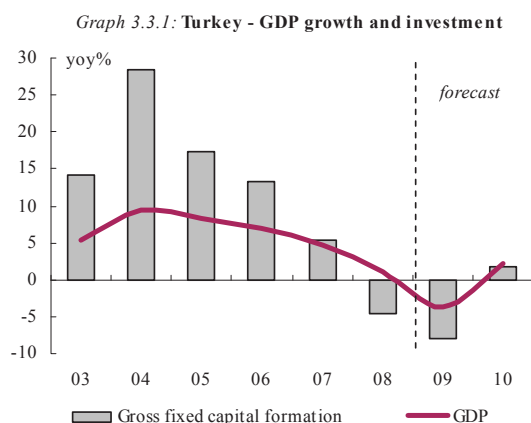
##### Deep recession in 2009 followed by a timid recovery in 2010

In 2009, the economy is likely to be subject to similar synchronised shocks – export contraction, sharply reduced domestic demand and external financing constraints. Most recent data on exports, industrial production, capacity utilisation, bank lending and imports of capital goods all point to a deep contraction in 2009. The economy is expected to shrink by around 3¾% in real terms, but unlike previous recessionary episodes, it would

not be triggered by a banking/financial crisis. The banking sector was restructured after the 2001 crisis, currently being well capitalised and with limited exposure to currency mismatches and toxic assets. However, it is not likely to be able to sustain loan growth amid deteriorating credit quality and external financing constraints, despite the monetary easing of the central bank. Therefore, private consumption is expected to drop sharply by around 5½% in 2009. The decline of total domestic consumption would be mitigated by still growing public consumption as a consequence of increased public spending around the local elections and the government stimulus packages. Among the domestic demand components, private investment undergoes the sharpest decline. The external environment remains unfavourable in 2009 with collapsing trade which represents a significant drag on economic activity. The risks to our forecast lie on the downside and the recovery is expected not to be as robust as in previous cycles because of the bearish assessment of global conditions. Nevertheless, the relative soundness of the banking system and the end of the inventory adjustment should lead to a 2¼% rise in real GDP in 2010. Growth of both domestic demand and external trade are expected to return to the positive territory, while the dynamics of imports will exceed once more the one of exports.

##### External imbalances no longer a threat

The correction in external accounts represents the silver lining of the recession. An important factor which led to the steady increase of the current account deficit from below 1% of GDP in 2002 to 5½% of GDP in 2008 had been the rise in commodity and oil prices. The positive terms-of-trade shock resulting from the collapsing oil prices combined with the decline in domestic demand and imports should lead to a major contraction of the trade and current account deficits. Our forecast expects a reduction of the current account deficit to 1¾% of GDP in 2009. If the downside risks to the forecast materialise, Turkey may avoid a current-account deficit in 2009. The rebalancing may provide support for the lira, although capital flows and external debt repayments may still go in the opposite direction. With recovery underway, the current account deficit should widen again in 2010.



### Inflation set to decline below target in 2009

The downward pressure on inflation coming from shrinking aggregate demand and lower international prices of commodities are outweighing the pass-through effect of the exchange rate depreciation. Therefore, we expect end-of-period inflation to recede substantially below the central bank's target of 7½% in 2009 and slightly exceed the 6½% target in 2010. Rising unemployment and stagnating wage growth should lead to a decline of unit labour costs in real terms, facilitating the structural adjustment process.

### Labour market not immune to the recession

The increase in the number of unemployed led to a sharp increase in the unemployment rate to 13½% at the end of 2008, from 10½% a year before. The deterioration of the labour-market indicators is even worse if the agricultural sector is excluded. In the coming months, the headline unemployment rate could come to 14-15%, thus bringing the annual average to above 13%. Given Turkey's young population and the yearly large additions to the labour force, a swift reduction of the unemployment rate is not likely during the modest recovery of 2010.

### Fiscal rebalancing will be challenging

Compared to the fiscal consolidation that took place from 2001 to 2007, the budgetary performance has deteriorated markedly in the last quarter of 2008 and the first one of 2009. The main contributors were the underperformance of revenues in the economic slowdown and the acceleration of public spending, in particular of transfers to social security institutions and municipalities and personnel expenditures ahead of the local elections. If the impact of the various stimulus packages announced by the government is also taken into account, it is likely that the budget deficit will widen to around 4½% of GDP in 2009. Fiscal rebalancing after the local elections will be a difficult exercise, even in the context of a likely IMF agreement, as revenues may disappoint. The deficit is expected to be lower, but close to 4% of GDP also in 2010. Therefore, public debt is likely to grow as a share of GDP in both 2009 and 2010.

Table 3.3.1:

#### Main features of country forecast - TURKEY

	2007		Annual percentage change							
	bn TRY	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	843.4	100.0		3.9	8.4	6.9	4.7	1.1	-3.7	2.2
Private consumption	598.0	70.9		4.0	7.9	4.6	4.6	0.3	-5.4	2.2
Public consumption	107.8	12.8		3.9	2.5	8.4	6.5	1.8	2.7	2.3
Gross fixed capital formation	184.1	21.8		4.6	17.4	13.3	5.4	-4.6	-7.9	1.8
of which : equipment	101.5	12.0		6.3	22.2	10.2	5.1	-3.0	-8.5	1.6
Exports (goods and services)	188.2	22.3		9.6	7.9	6.6	7.3	2.6	-6.7	1.9
Imports (goods and services)	230.9	27.4		10.5	12.2	6.9	10.7	-3.1	-15.9	4.4
GNI at constant prices (GDP deflator)	833.3	98.8		3.9	8.7	6.8	4.8	0.9	-3.7	2.2
Contribution to GDP growth :										
Domestic demand				4.5	9.9	7.4	5.4	-0.7	-5.3	2.2
Stockbuilding				0.1	0.0	-0.1	0.6	0.3	-1.3	0.6
Foreign balance				-0.6	-1.5	-0.4	-1.4	1.6	2.9	-0.7
Employment				0.7	1.4	1.3	1.1	1.8	-2.8	0.8
Unemployment rate (a)				8.2	10.2	9.9	8.5	9.4	13.1	12.9
Compensation of employees/head				59.3	11.6	12.7	12.7	5.1	-0.2	3.4
Unit labour costs whole economy				54.5	4.4	6.8	8.9	5.8	0.7	2.1
Real unit labour costs				-2.6	-2.5	-2.3	2.5	-5.1	-3.6	-3.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				58.6	7.1	9.3	6.2	11.4	4.5	5.5
Harmonised index of consumer prices				-	8.1	9.3	8.8	10.4	7.3	6.3
Terms of trade of goods				-0.1	-0.3	-4.9	3.3	-3.9	6.3	-1.9
Trade balance (c)				-6.3	-6.7	-7.5	-7.3	-7.2	-3.1	-4.1
Current account balance (c)				-1.7	-4.4	-5.8	-5.9	-5.7	-1.8	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-0.6	1.2	-1.0	-2.1	-4.6	-4.1
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	52.3	46.1	39.4	39.5	42.7	43.4

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



# Chapter 4

Other non-EU Countries

# 1. THE UNITED STATES OF AMERICA

## Private frugality and public largesse

### The deepest contraction since 1945

The US is currently in a severe recession affecting all sectors of the economy. Real GDP is estimated to have plunged at an annual rate of 6.3% in the fourth quarter of 2008 and a further significant decline is projected for the first half of this year. The magnitude of the contraction in 2008/09 is likely to exceed the decline in output during all previous recessions since the Second World War.

In the second half of 2008, real consumer spending fell at an annual rate of 4% and residential investment continued to decline at around 20%. In response to falling demand, businesses slashed production and employment aggressively, cut capital spending and liquidated inventories. The quickening pace of job declines and aggregate hours worked dragged down personal income and offset the sharp decline in oil prices on real purchasing power. The sharp decline in household net wealth and expectations of further declines in house prices encouraged more saving out of disposable income. Exports, which had been the strongest sector for some years, fell precipitously in the last quarter of 2008, reflecting the global economic slump.

The downturn in trade and fixed investment has continued unabated in the first quarter of 2009. It has been exacerbated by an acceleration of the de-stocking process. On the other hand, consumer spending has stabilised following a boost to disposable personal income in January from some one-off factors. But this is unlikely to have been sufficient to prevent another significant contraction

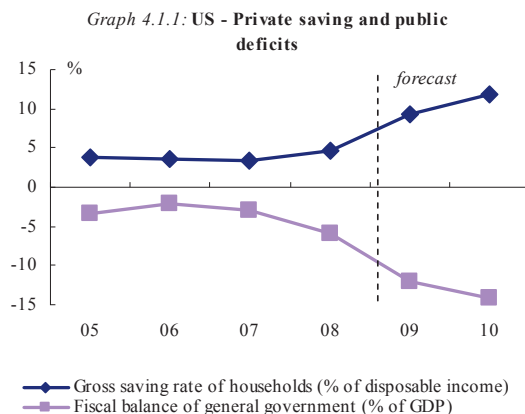
of real GDP.

### Recessionary dynamics are far from exhausted

The economy is facing formidable headwinds over the forecast period. The labour market is weakening rapidly with payroll employment having contracted at an annual rate of 6% over the winter and no sign of deceleration yet. Job losses will feed into declining incomes and consumption back into further redundancies. Falling house and equity prices have lowered household net worth by a staggering \$11.2 trillion, or 18%, in the course of 2008 and further losses have occurred in early 2009. Although house prices are already down by around 30% from their peak, another 10% drop can be expected in view of the remaining excess supply. As households strive to rebuild their wealth, their saving rate will rise. For households willing to spend, credit conditions have so far remained tight. Against this background, consumer confidence has fallen to all-time lows. Business investment is also weighed down by tight financial conditions and, more importantly, by the bleak outlook for overall demand. The international competitiveness of US goods and services has received a setback from the dollar's 15% real effective appreciation over the past twelve months. Consequently, net exports are now again likely to subtract from GDP growth.

### Macroeconomic policy at full throttle forward

Going forward, the negative factors facing the economy will partly be offset by strongly expansionary macroeconomic policies. A fiscal stimulus package worth \$787 billion (*The American Recovery and Reinvestment Act*) was adopted in February. It includes discretionary tax cuts and spending measures estimated at 2.1% of GDP in 2009 and 2.4% of GDP in 2010. The package will support overall demand, in particular in the second and third quarters of 2009. Subsequently, its effect will gradually diminish and even turn negative in the course of 2010. Following last year's aggressive cuts in the federal funds rate, monetary policy is now at the zero-bound for setting short-term interest rates. With overall financial conditions nevertheless remaining too tight for a recession, the Federal Reserve is therefore resorting to unconventional stimulatory measures, including quantitative easing. This





approach has already doubled the central bank's balance sheet.

In addition to the macroeconomic policy measures, the economy is also expected to benefit from a stabilisation of the housing market in the second half of 2009 and from the completion of the downward adjustment in business inventories.

#### Transition to sub-par growth in mid-2009

Real GDP is projected to contract at annual rates of 5.4% and 3.8% in the first two quarters of 2009. Subsequently, the balance of the above-mentioned forces should result in growth rates within the range of 1-1½% with the highest growth rate already occurring in the third quarter of this year due to the fiscal stimulus. Such growth rates are clearly below current estimates of long-term potential growth and will mean a steady widening of the output gap. They also imply a stagnation of the economy in terms of GDP per capita. Annual GDP growth would be -2.9% in 2009 and +0.9% in 2010.

In this scenario, the unemployment rate will rise above 10% next year. Increasing slack in resource utilisation, combined with modestly rising commodity prices, are expected to result in

headline inflation just above zero at the end of the forecasting period. The household saving rate (gross) will rise from below 5% in 2008 to almost 12% in 2010 - a level last seen in the mid-1980s. The fiscal deficit of general government already increased to 5.9% of GDP in 2008. It is projected to widen to 12% of GDP in 2009 and 14% in 2010. This projection is based on a relatively conservative estimate of the extent to which the rescue measures for the financial sector will appear as expenditures in the budget. The risks for the fiscal deficit are clearly on the upside. The current-account deficit narrowed to 4.6% of GDP in 2008 and is expected to further decline by around 1 pp. of GDP in 2009. However, the improvement this year is due to the lower level of oil prices and not to a further narrowing of the real trade deficit.

The risks associated with this forecast are unusually large, but appear to be balanced. The negative wealth effect and the recessionary dynamics could be stronger than assumed, but so could the impact of the macroeconomic policies which have already been put in place.

Table 4.1.1:

#### Main features of country forecast - THE UNITED STATES

	2007		Annual percentage change							
	bn USD	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	13807.7	100.0	3.2	3.2	2.9	2.8	2.0	1.1	-2.9	0.9
Private consumption	9710.2	70.3	3.6	3.0	3.0	3.0	2.8	0.2	-2.0	-1.2
Public consumption	2212.0	16.0	1.5	0.5	0.5	1.8	1.9	2.8	5.6	5.9
Gross fixed capital formation	2596.9	18.8	5.4	5.8	1.8	-2.2	-2.5	-12.1	3.6	
of which : equipment	1187.0	8.6	7.1	10.3	7.0	1.7	-1.6	-15.6	5.3	
Exports (goods and services)	1662.4	12.0	5.1	7.0	9.1	8.4	6.3	-14.0	0.5	
Imports (goods and services)	2370.2	17.2	8.4	5.9	6.0	2.2	-3.4	-10.7	1.5	
GNI at constant prices (GDP deflator)	13910.1	100.7	3.3	3.8	3.3	1.5	1.3	-2.9	0.9	
Contribution to GDP growth :										
Domestic demand			3.6	3.3	2.8	1.8	0.1	-2.9	0.7	
Stockbuilding			0.1	-0.1	0.0	-0.4	-0.2	-0.1	0.4	
Foreign balance			-0.5	-0.2	0.0	0.6	1.4	-0.1	-0.2	
Employment (*)			1.3	1.3	2.1	1.1	-0.5	-3.5	-0.9	
Unemployment rate (a)			5.5	5.1	4.6	4.6	5.8	8.9	10.2	
Compensation of employees/head			3.7	3.6	4.0	3.7	3.3	3.5	0.4	
Unit labour costs whole economy			1.8	2.0	3.3	2.8	1.7	2.9	-1.5	
Real unit labour costs			-0.2	-1.2	0.0	0.1	-0.5	1.3	-1.5	
Savings rate of households (b)			-	-	3.6	3.4	4.7	9.3	11.9	
GDP deflator			2.0	3.3	3.2	2.7	2.2	1.6	0.1	
General index of consumer prices			-	3.4	3.2	2.8	3.8	-0.7	0.3	
Terms of trade of goods			0.0	-3.2	-0.8	-0.1	-5.2	6.5	-0.7	
Trade balance (c)			-3.4	-6.4	-6.5	-6.1	-5.8	-4.6	-4.7	
Current account balance (c)			-2.6	-5.7	-5.9	-5.2	-4.6	-3.5	-3.7	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.2	-5.2	-4.7	-4.7	-4.6	-3.5	-3.7	
General government balance (c)			-2.4	-3.1	-2.1	-2.8	-5.9	-12.1	-14.2	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			64.9	62.7	62.1	63.1	64.7	77.7	91.1	

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

(\*) Employment data from the BLS household survey.

## 2. JAPAN

### Prolonged recession despite massive fiscal packages

#### The recession has intensified since the interim forecast ...

Japanese GDP contracted by 12.1% q-o-q annualised in the last quarter of 2008, posting the third consecutive quarterly decline. Over the year, Japanese GDP contracted by 0.7% in 2008 (after growing 2.4% in 2007). Until the collapse of Lehman Brothers, which triggered the global intensification of the crisis, the Japanese expansion had been supported by external demand and, to a lesser extent, by private consumption. Private investment had started to fall from the first quarter of 2008, as the decline in external demand from advanced economies and the first episode of yen appreciation (between the second half of 2007 and March 2008) were gradually weighing on export prospects and business leaders' confidence.

In the last quarter of 2008, the recession widened to all growth components. Private consumption diminished because of lower bonuses, fewer hours worked and a reduction in part-time and non-regular work. Business investment fell significantly, in line with the rapid and dramatic deterioration of the business environment. Industrial production collapsed while inventories surged. On the external side, exports to the rest of Asia started to decline from November onwards, adding to the already double-digit slump in exports to advanced economies. As a result, net exports were a significant drag on growth in the last quarter of 2008. At the end of 2008, the statistical carry-over of growth stood at -2.9%.

Exports continued to decline significantly at the beginning of 2009 and the drop was generalised to

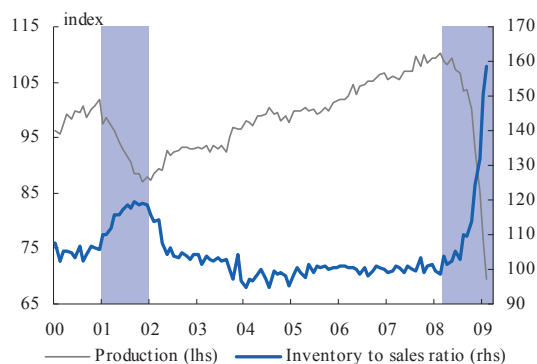
all export destinations, including China. Despite a fall in imports, the current account surplus shrank considerably and turned temporarily into deficit in January. Although still showing a declining trend from a year ago, March trade data provided however some signs of stabilisation. Industrial production continued to collapse in the first quarter of 2009 while the inventory adjustment has not kicked in yet. In addition, the level of inventory accumulation reached record levels, in particular if compared with the 2001 recession.

#### ... and is expected to continue throughout the forecast horizon

The global financial crisis is now severely affecting the Japanese economy. External trade is still collapsing, corporate profits are being eroded, confidence is low, financial market conditions are deteriorating and a negative feed-back loop from real-economy weakness to the financial sector has set in. Between autumn 2008 and March 2009, the Nikkei has declined by more than 30%. Despite the relaxation of accounting rules, banks' balance sheets have come under substantial pressure and lending conditions have been tightened. Even if, as the Bank of Japan (BoJ) asserts, the expected losses should not substantially affect the sector's fundamental soundness, if the economic downturn were to worsen and stock prices to decline further, the possibility of a broad credit crunch could not be excluded. However, this is not the central scenario – owing to both the sound initial position of the Japanese banking system and the various measures adopted to increase liquidity and to support the financial system.

Looking ahead, declining profits, more difficulties for SMEs in accessing credit, lower external demand and high inventories are expected to continue to weigh on the business environment. Investment spending is projected to be further slashed. Household consumption has remained relatively resilient, thanks partly to the fall in energy prices. However, the situation in the labour market has started to deteriorate, even though the unemployment rate remains relatively low. Total employment is on a declining trend, and the plunge in manufacturing activities to historical low will weigh on the entire economy, including labour income. This, combined with low confidence levels, can be expected to lead to declines in

Graph 4.2.1: Japan - Manufacturing production and inventories



consumer spending. With the external sector not providing substantial support to GDP growth, Japanese GDP is forecast to contract until the last quarter of 2009 when the policy packages are expected to jump-start the economy. In 2010, the gradual impact of policy measures implemented globally should also support Japanese exports, which, in turn, should contribute to the resumption of manufacturing activity. All in all, GDP is forecast to contract by 5.3% in 2009 and to grow by 0.1% next year.

### Back into deflation

Both the headline and the core (excluding food and energy) inflation fell 0.1% y-o-y in February. Looking ahead, the negative output gap and the strong yen are likely to lead to a return of falling prices in 2009 and 2010. The headline CPI is forecast to decline by 1.0% in 2009 (after +1.4% in 2008) and by 0.5% in 2010.

The BoJ cut its policy rate by 40 bp to 0.1% in the last quarter of 2008. In addition, it adopted a wide range of unconventional monetary measures, including increasing the amount and the range of Japanese Government Bonds accepted for outright purchases, and introducing additional (temporary) measures to facilitate corporate financing (e.g. the

outright purchase of commercial paper and corporate bonds and the purchase of stocks held by financial institutions).

### Public finances under strong pressure again

Several fiscal packages have been adopted, amounting to around 26.5% of GDP in total. The measures include around 5.5% of GDP of net additional spending in 2009-10, with a particular focus on income support, public works, financial support to investment, and credit guarantees. Although some improvement was registered in the fiscal year (FY) 2007 (ending 31/03/08), in calendar year terms, the general government deficit increased from 1.6% in 2006 to 2.5% of GDP in 2007. Up to the end of last year, the authorities' medium term fiscal consolidation programme implied two stages: first, a primary surplus to be achieved by FY2011; second, a progressive reduction in the debt-to-GDP ratio. Following the deterioration of the economic situation, it has now become evident that the first target will not be reached and the primary deficit is now projected to exceed 2% of GDP in FY2011. The overall deficit is forecast to gradually widen to 8.7% of GDP in 2010 while the debt-to-GDP ratio will approach 200%.

Table 4.2.1:

#### Main features of country forecast - JAPAN

	2007		Annual percentage change							
	bn YEN	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	515805.0	100.0		1.1	1.9	2.0	2.4	-0.7	-5.3	0.1
Private consumption	290445.0	56.3		1.3	1.3	1.5	0.7	0.5	-1.0	-0.2
Public consumption	92417.2	17.9		2.8	1.6	0.4	2.0	0.9	1.3	0.9
Gross fixed capital formation	120670.4	23.4		-1.1	3.1	0.5	1.1	-4.6	-11.9	-2.2
of which : equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	90830.4	17.6		4.8	7.0	9.7	8.4	1.7	-18.4	1.9
Imports (goods and services)	82198.0	15.9		3.9	5.8	4.2	1.5	1.1	-15.1	-1.4
GNI at constant prices (GDP deflator)	533043.4	103.3		1.2	2.4	2.5	2.9	-0.7	-5.7	-0.1
Contribution to GDP growth :										
Domestic demand				0.9	1.8	1.0	1.0	-0.6	-2.9	-0.4
Stockbuilding				0.0	-0.1	0.2	0.3	-0.1	-1.2	0.1
Foreign balance				0.2	0.3	0.8	1.1	0.1	-1.3	0.4
Employment				-0.2	0.4	0.4	0.5	-0.4	-3.0	-1.2
Unemployment rate (a)				4.0	4.4	4.1	3.9	3.9	5.8	6.3
Compensation of employees/head				0.1	-0.1	0.5	-0.6	0.5	-0.8	0.4
Unit labour costs whole economy				-1.2	-1.6	-1.1	-2.4	0.7	1.7	-0.9
Real unit labour costs				-0.6	-0.4	-0.2	-1.7	1.7	0.3	-0.5
Savings rate of households (b)				-	-	10.3	10.4	10.4	11.6	11.4
GDP deflator				-0.6	-1.2	-0.9	-0.7	-0.9	1.4	-0.4
General index of consumer prices				-	-0.3	0.3	0.0	1.4	-1.0	-0.5
Terms of trade of goods				-	-7.2	-8.0	-4.4	-11.0	14.6	-0.6
Trade balance (c)				2.6	2.1	1.9	2.4	0.8	1.7	2.2
Current account balance (c)				2.7	3.6	3.9	4.8	3.2	3.7	3.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.5	3.5	3.8	4.7	3.1	3.5	3.7
General government balance (c)				-5.5	-6.7	-1.6	-2.5	-2.9	-6.7	-8.7
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				116.3	177.3	180.3	167.1	172.1	185.3	194.0

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

### 3. CHINA

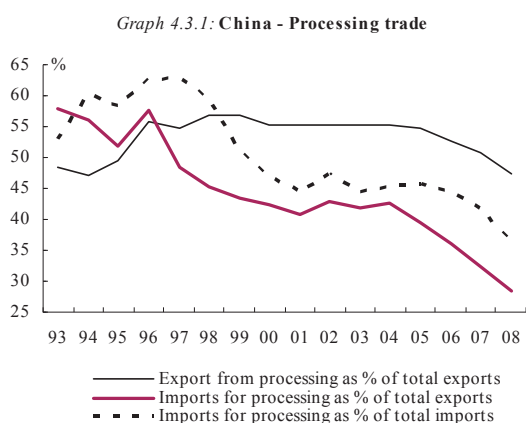
#### Still resilient and contributing most to world growth

##### Strong deceleration in growth

Following a growth rate of 13% in 2007, the economy slowed down to 6.8% in the fourth quarter of last year, bringing growth for 2008 as whole to 9%, making China once more the engine of the world economy.

In the first quarter of 2009, growth in annual terms slowed to 6.1% on the year due to the declining contribution of net exports. Since November, exports and imports are down considerably in year-on-year terms and data confirm that processing trade, which still accounts for around 45% of all Chinese exports, has been hit strongly by reduced demand in developed countries. There is now also strong evidence that trade in East Asia in particular has suffered from a freeze in trade credit at the end of last year. On the other hand, available figures for March for industrial output and fixed asset investment indicate that the stimulus package announced in November is showing its first effects.

Furthermore, there are first indications that trade in the region might be recovering. In February and March, exports by Taiwan and Japan to mainland China were strongly up in monthly terms and trade credit seems to have recovered somewhat. Furthermore, Chinese import figures indicate that the stimulus package might make its impact felt. All in all, the current forecast for Chinese ex-and imports, therefore, is much more positive than the trade figures seen in the first two months of this year.



##### China has more leeway than most other emerging countries

China is in a better position to counter the negative consequences of the turmoil in the international economy than most other emerging markets, inter alia because the arsenal of policy instruments available is wider and deeper.

Foreign reserves reached USD 1.95 trillion at the end of last year (up by USD 417 billion compared to end 2007). Although data seem to indicate that there has been a certain outflow of capital from China, there are no signs of serious pressures on the exchange rate.

Monetary policy has still some room to deliver cuts. With consumer price inflation coming down from a peak of 8.7% in February 2008 to -1.2% in February of this year, the People's Bank of China has lowered its benchmark interest rate from 7.47% in summer last year to a rate of 5.31% as of end March. Moreover, the government is using other instruments like moral suasion to encourage credit growth, a policy which is showing some effects if one looks at the extremely strong acceleration of credit growth since December.

##### The fiscal stimulus package

In the run-up to the G-20 summit in November last year, the Chinese leadership announced a huge fiscal stimulus package amounting to RMB 4 trillion or around 13% of (2008) GDP. Given the very low debt level (18% of GDP) China does have considerable margin for fiscal policies.

While many details remain unknown, the bulk of the programme is to be allocated to infrastructure and construction projects. A relatively small part only is foreseen for social security systems, in particular the health sector. Furthermore, the net additional spending is likely to be much lower than the overall figure, as the programme incorporates expenditure which had already been earmarked before (e.g. reconstruction following the 2008 earthquake in Sichuan province). Given that the package relies to a considerable degree on financing by lower levels of government, it is extremely difficult to assess its net impact on growth. The current growth forecast for 2009 (6.1%) assumes that provincial and local

authorities will stick to the level of debt issuance allowed by the central government for 2009 (RMB 200 billion) and will not use additional 'informal' financing to launch more investment projects.

Under these assumptions, the net impact of the stimulus programme would remain limited to 2.5 pps. of GDP in 2009 and 2010, insufficient to compensate for the declining growth contribution from net exports. In terms of quarterly profiles, however, the second quarter should show further signs that the stimulus package is driving the recovery of the Chinese economy. Fixed asset investment is likely to remain very strong, while a stronger performance of private consumption is unlikely due to ongoing uncertainties for employment prospects. The higher growth rate projected for 2010 (7.8% of GDP) would primarily result from the slight improvement in the external environment.

The risks to this forecast are slightly biased to the upside, as lower levels of government might spend more than assumed. There are, furthermore, strong rumours that the State Council considers a second stimulus package with a stronger focus on private consumption. Negative risks are linked to the timing of the recovery in developed countries.

In the absence of another stimulus package, the existing domestic imbalances of the Chinese economy – very high investment rate and extremely low share of private consumption in overall GDP – are projected to deteriorate even further in the forecast period.

#### External imbalances likely to decline only slightly in real terms

Given the focus of the stimulus package on infrastructure and construction projects, imports of commodities are likely to recover further in real terms in the course of 2009; with their price, however, strongly down in year-on-year terms, the trade surplus is likely to grow further in nominal terms, in spite of the overall decline in exports. As a consequence, the current-account surplus, while suffering from some losses in the income balance due to investments abroad, should also rise in nominal terms.

Both surpluses, however, are likely to decline in terms of GDP given the still high nominal growth rate.

Table 4.3.1:

#### Main features of country forecast - CHINA

	2007			Annual percentage change						
	bn CNY	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		24952.0	100.0	10.2	10.4	11.7	13.0	9.0	6.1	7.8
Private consumption		9245.0	37.1	-	-	-	-	-	-	-
Public consumption		3587.0	14.4	-	-	-	-	-	-	-
Gross fixed capital formation		11025.0	44.2	-	-	-	-	-	-	-
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		-	-	-	-	-	-	-	-	-
Exports (goods and services)	9248.0	37.1	17.7	21.0	21.7	22.2	8.5	-8.0	2.7	
Final demand	-	-	-	-	-	-	-	-	-	-
Imports (goods and services)	7259.0	29.1	16.5	11.3	14.3	13.4	7.8	-7.8	5.7	
GNI at constant prices (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth :										
Domestic demand				-	-	-	-	-	-	-
Stockbuilding				-	-	-	-	-	-	-
Foreign balance				-	-	-	-	-	-	-
Employment				1.1	0.8	0.8	0.8	0.8	-0.5	-0.1
Unemployment (a)				3.4	4.2	4.1	4.0	4.0	4.6	4.7
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Savings rate of households				-	-	-	-	-	-	-
GDP deflator				-	3.8	3.6	5.2	5.0	3.5	3.0
Private consumption deflator				-	-	-	-	-	-	-
Index of consumer prices (c)				5.9	1.8	1.5	4.8	-	-	-
Trade balance (b)				3.1	6.0	8.2	9.7	9.0	9.3	8.4
Current account balance (b)				1.7	7.2	9.4	11.0	11.0	10.5	9.2
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				-	-	-	-	-	-	-
General government balance (b)				1.5	-1.2	-0.8	0.7	0.5	-2.9	-2.9
General government gross debt (b)				-	-	-	-	-	-	-

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

## 4. EFTA

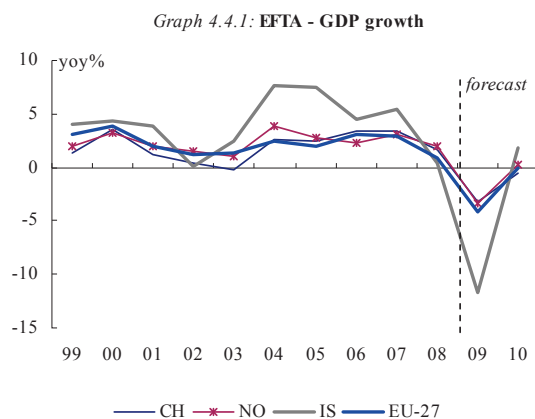
### The seven good years are over

#### Norway, pouring oil on the fire?

High interest rates, high inflation, a cooling housing market and weakening foreign demand slowed GDP growth in 2008 to 2.0%. Growth in Norway is traditionally broad-based, and the expected contraction is equally so. Even though Norway has more room for manoeuvre than most other countries in its fiscal and monetary policy, this will not prevent it from going into recession for the first time since the early 1980s.

Norway is relatively resilient to the weaker global demand through its large oil sector and its direct impact on the local economy via strong public consumption growth. The financial crisis will manifest itself chiefly by capital being harder to come by and more expensive. This would make it more difficult for the private sector to obtain funding. The large investments in the oil and gas sector that were spurred by soaring oil prices were completed in 2008, adding to the deceleration in investment growth that started already in 2007. Norway is expected to continue its expansionary fiscal policy, which is mainly funded through its high oil revenues. However, government consumption is expected to only partly offset weakening consumer spending. Similarly, while public investment will increase significantly, it might not offset the private sector collapse in investment in the forecast years.

All components of domestic demand are shrinking, apart from government spending, and external trade is also contributing to the contraction. Real GDP for 2009 is forecast to contract by 3.4% to only return to slight growth by the end of 2010.



This rebound to higher growth will be mostly driven by domestic demand, particularly consumer and government spending. A number of factors will contribute to the weakening of private consumption as compared with the recent years of dynamic growth: a deteriorating labour market, weak consumer confidence and further falling house prices are expected to stimulate (currently highly indebted) households to increase their savings.

Exports of traditional goods are forecast to shrink in 2009 and 2010 as global demand weakens and a steady decline in oil production is only partly offset by the slightly rising gas exports. Weak domestic demand will contribute to shrinking imports in 2009 and 2010. The contribution of the foreign balance, which was strongly negative in recent years, is likely to improve slightly with exports outperforming imports in the forecast years, though it is forecast to remain negative.

Unemployment reached its lowest level in 20 years in 2008, despite high labour force growth. However, it is now forecast to increase considerably in the next two years. Inflation peaked in 2008 at close to 4%, but is expected to decrease to just above 1% during the forecast years.

#### Switzerland enters a deep recession

Switzerland's four-year economic upturn ended in 2007. Foreign demand, which initially drove the upswing, will now become a major contributor to the contraction, along with shrinking domestic demand. The global slowdown will turn GDP growth in Switzerland negative: to -3.2% in 2009 and -0.5% in 2010. Foreign demand for Swiss goods and services is set to contract in 2009 and though demand for goods will rebound slightly in 2010, it is projected to remain negative overall. Consequently, real growth in exports of goods and services is expected to decelerate significantly in the forecast years, with the inroads into banking secrecy creating a major downside risk to the service sector which may have a serious impact on the contribution of the financial sector to GDP. Overall external trade should turn from a positive into a negative net contribution in the forecast period.

The Swiss economy is entering one of the deepest recessions in its recent history. With saving rates on the rise and consumer confidence low, household consumption will drop in 2009 and remain weak in 2010. Growth in public investment, effected through the government's increased spending on infrastructure in the framework of the fiscal stimulus, is expected to be modest in 2009-10. However, this will not offset the sharp fall in investment of both the households as well as the corporations, and gross fixed capital investment is expected to contract strongly this year and moderately in 2010. Weak export demand for Swiss machinery and equipment is expected to provide only little extra incentive for Swiss corporations to invest.

Employment is expected to decrease slightly in the forecast period, while the unemployment rate is expected to increase to around 5.0%. The prospects for employment and wage income are declining but are likely remain slightly positive and will support consumer confidence, which in turn should provide support to private consumption towards the end of the forecast horizon.

### Iceland to hit rock bottom before rebounding

After a period of high growth rates supported by large investment projects and strong domestic demand, which have generated significant imbalances, Iceland is now facing the consequences of the currency crash of 2008 and the ensuing economic crisis. Domestic demand declined sharply in 2008 and is forecast to further decrease significantly in the forecast years, due to very high interest rates and the collapse of private consumption. Incomes are under pressure and pensions in particular are facing cuts following the deterioration in the position of the Icelandic pension fund. Unemployment is set to increase significantly this year in all sectors, particularly the banking sector. Inflation peaked in 2008 and is expected to remain high in 2009 and 2010. The current-account deficit was high in previous years but is expected to decline significantly as a result of decreasing imports, and to turn into a surplus by the end of 2010. GDP growth should return to positive territory in 2010 though there are significant, mostly currency related, risks to the forecast.

Table 4.4.1:

#### Main features of country forecast - EFTA

(Annual percentage change)	Iceland			Norway			Switzerland		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
GDP at previous year prices	0.3	-11.6	1.8	2.0	-3.4	0.2	1.6	-3.2	-0.5
Private consumption	-7.7	-21.2	1.6	1.5	-4.1	0.5	1.7	-3.9	0.5
Public consumption	2.8	2.4	2.8	3.7	5.3	4.8	0.0	0.9	1.4
Gross fixed capital formation	-21.8	-31.8	5.1	3.3	-9.8	-1.0	-1.7	-5.6	-1.2
of which : equipment	-21.8	-27.0	5.6	5.9	-5.5	1.6	-1.7	-5.9	-2.5
Exports (goods and services)	7.1	-8.1	1.9	0.9	-7.6	-0.1	2.3	-9.0	-1.7
Imports (goods and services)	-18.0	-21.8	3.7	4.2	-9.8	2.8	-0.2	-11.2	-0.6
GNI at constant prices (GDP deflator)	-0.1	-11.3	1.5	2.0	-3.1	0.5	1.9	-2.6	0.1
Contribution to GDP growth :									
Domestic demand	-10.1	-18.5	2.5	2.0	-2.6	1.1	0.7	-3.4	0.2
Stockbuilding	-	-	-	-	-	-	-	-	-
Foreign balance	10.6	6.7	-0.6	-0.9	-0.8	-0.9	1.4	0.0	-0.7
Employment	-2.1	-2.9	-1.9	3.1	-2.4	-1.3	0.7	1.5	-0.5
Unemployment rate (a)	4.6	5.6	6.0	2.5	3.0	4.8	2.2	4.1	5.0
Compensation of employees/head	-	-	-	5.9	3.3	3.0	-	-	-
Unit labour costs whole economy	-	-	-	7.0	4.3	1.5	-	-	-
Real unit labour costs	-	-	-	-2.1	16.4	-2.9	-	-	-
Savings rate of households (b)	-30.8	-17.2	-34.9	3.6	9.4	12.2	14.6	17.2	15.4
GDP deflator	12.2	10.4	6.4	9.3	-10.4	4.6	2.1	2.0	-0.2
Harmonised index of consumer prices	12.4	13.6	5.1	3.8	1.4	1.1	2.4	0.1	0.4
Terms of trade of goods	-5.6	-6.7	-4.5	12.6	-33.1	9.6	-0.5	5.8	-1.4
Trade balance (c)	-0.4	4.8	2.7	16.4	5.7	7.8	2.7	4.7	4.3
Current account balance (c)	-8.4	-1.1	-3.9	17.6	7.0	8.8	14.6	16.5	15.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)	-9.1	-1.9	-4.7	17.7	7.1	8.8	14.5	16.4	15.5
General government balance (c)	-16.0	-22.9	-24.5	15.8	13.6	8.5	1.9	1.4	0.9
Cyclically-adjusted budget balance (c)	-	-	-	-	-	-	-	-	-
Structural budget balance (c)	-	-	-	-	-	-	-	-	-
General government gross debt (c)	13.8	34.7	54.5	-17.6	-35.9	-44.6	36.5	33.7	31.1

(a) unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

## 5. RUSSIAN FEDERATION

### The first recession in a decade

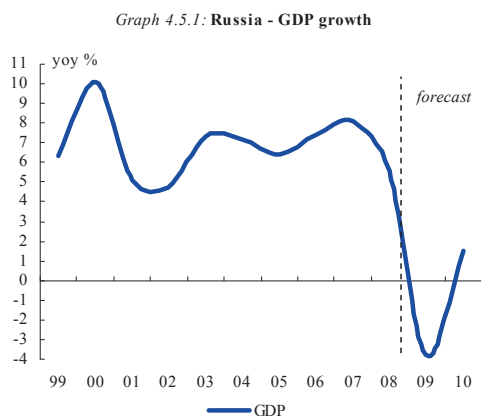
#### The first recession in a decade

More than ten years after the 1998 crisis and after a decade of robust growth (averaging 6.8%), Russia is facing a recession in 2009: real GDP is forecast to contract by -3.8% in 2009, before recovering to 1.5% in 2010.

In common with other emerging economies, Russia has suffered from the contraction in international liquidity, as well as from the substantial fall in commodity prices that accompanied the decline in global economic activity. Growth in 2008 fell to a still robust 5.6%, from 8.1% in 2007, but data on economic activity started to show a truly major economic slowdown from October 2008 onwards: the GDP growth rate fell from 9.5% in the last quarter of 2007 to a still respectable 6.2% three quarters later, and to an estimated mere 1% in the last quarter of 2008. Other indicators like the “basic sectors”<sup>7</sup> and industrial production indexes collapsed between September 2008 and March 2009, from, respectively, +7% to -12.5% and +6 to -13.7% y-o-y. On the demand side, the main cause of the deceleration is investment, which is anticipated to fall from the double digit positive growth rates of 2007 to a 17% contraction in 2009. Consumption, on the other hand, is to face a smaller fall, while unemployment is seen as almost doubling, to close to 10% in 2009. The 2010 recovery is expected to be driven by rather mild resumptions of both investment and consumption growth.

#### Loss of reserves and capital outflows

After record net inflows in 2007, the Central Bank



of Russia (CBR) estimates show a net capital outflow during 2008 of USD 130 billion (gross outflows reached USD 217 billion), while hard currency reserves fell by over USD 170 billion from their 2008 peak. Further reserves losses were observed during early 2009, leaving foreign currency reserves at USD 384 billion in mid-April, which is 36% lower than their mid-2008 peak.<sup>8</sup> According to CBR figures, Russia still ended 2008 with both a significant trade surplus (at USD 177 billion) and also a current-account surplus (of USD 99 billion). The forecast is for a fall in the trade surplus from around 10% of GDP in 2008 to 5.1% in 2009, recovering to 6.3% in 2010, while the current-account surplus is expected to fall from 6% in 2008 to 1.4% in 2009, albeit rising to 2.7% of GDP by 2010.

#### Changes in the exchange rate policy

The CBR previous aim was to stabilise a nominal euro-dollar currency basket (set at 0.45 cents of the EUR and 0.55 cents of the USD). In November 2008, faced with the need to adjust to both a terms-of-trade shock (the fall in commodity prices), which was reflected in a significant reduction of the trade surplus (of 50% in y-o-y USD nominal terms in January 2009), and to significant capital outflows, the CBR rouble policy changed towards greater flexibility. In November 2008, the CBR introduced a policy of periodic rouble “mini devaluations” against the basket, of around 1% per step, which progressively gained speed: from once per week in November 2008, they reached three devaluations per week in December 2008, and four by mid-January 2009. On 22 January 2009, the CBR announced another change, to an apparent “dirty float” with a wide band (26 to 41 to the basket) within which it would let the rouble float. Until early February 2009, the Russian currency suffered an additional depreciation, approaching the lower limit of the band, and stabilising close to it afterwards. The total depreciation to the basket since November 2008 has reached around 33%.

#### Sharp fiscal swing, while inflation stagnates

The budget surplus reached an estimated 4.1% of GDP in 2008. Due to the fall in oil prices and in economic activity (after energy export taxes, VAT is the other main source of tax revenues in Russia), plus the significant package of fiscal measures to



support the economy (see below), this figure is expected to swing into a deficit of 6.5% in 2009 and 2.7% in 2010. Importantly, these fiscal deficits are to be largely financed by drawing on the oil stabilisation funds. CPI inflation reached 13.4% in 2008 (year end), up from 11.9% in 2007, on the back of the rouble devaluation. The pass-through of the devaluation should be contained by the fall in economic activity and in commodity prices. Inflation is expected to stabilise in 2009, falling slightly below 10% by 2010.

### Policy measures

An extensive set of policy measures to cushion the downturn has been enacted by Russian policy makers. They include the provision of liquidity (domestic and external – i.e., replacing international capital, both short-term and long term), direct support to the banking sector and stock markets, other support measures for companies and households and flexibilisation of the exchange rate regime (as described above). The combined value of all the measures listed above is estimated at 14% of Russian GDP, though the large majority are of a *quasi-fiscal* nature. Also, they are spread out through 2008-2010.

### Overall prospects for 2009 and 2010

Following the global economic downturn, Russia's growth is expected to be negative in 2009 (-3.8%) and moderately positive in 2010 (1.5%). Inflation should remain at double-digit levels, decelerating slightly from almost 14% to around 10%, as the fall in economic activity and the reduction in commodity prices cushion the inflationary effects of the rouble devaluation. The budget is expected to swing sharply from a hefty surplus to large deficits, of respectively 6.5% and 2.7% of GDP, due to the reduction in commodity prices and in economic activity, plus the large fiscal stimulus packages. Russia is also forecast to see a significant fall in both its trade and current-account surpluses in 2009 and 2010, to, respectively, 5.1% and 6.3%, and 1.4% and 2.7% of GDP.

<sup>7</sup>This index is calculated on the real changes in the production volume of 1) agriculture, 2) mineral output, 3) processing manufacturing, 4) production and distribution of electrical power, gas and water, 4) construction, 5) transport and 6) retail and wholesale. It is considered as a good GDP proxy.

<sup>8</sup>Those figures include Russia's two oil stabilisation funds, the Reserve Fund and the National Welfare Fund, which together reached USD 220 billion (or 14% of GDP) as of 1 March 2009.

Table 4.5.1:

#### Main features of country forecast - RUSSIA

	2007		Annual percentage change							
	bn RUB	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices	32987.4	100.0	-	-	6.4	7.7	8.1	5.6	-3.8	1.5
Private consumption	15990.5	48.5	-	-	11.3	11.1	13.5	9.0	-3.5	1.5
Public consumption	5820.4	17.6	-	-	1.3	2.4	3.4	4.5	3.7	1.8
Gross fixed capital formation	7286.7	22.1	-	-	10.6	18.0	21.1	8.6	-16.9	0.4
of which : equipment	2616.3	7.9	-	-	-	-	-	8.9	-16.0	0.5
Exports (goods and services)	10067.3	30.5	-	-	6.5	7.3	6.4	3.0	-8.0	3.0
Imports (goods and services)	7224.9	21.9	-	-	16.6	21.3	26.6	13.2	-20.0	2.0
GNI at constant prices (GDP deflator)	32181.9	97.6	-	-	6.0	7.1	8.7	6.0	-2.9	1.4
Contribution to GDP growth :										
Domestic demand			-	-	7.8	9.1	11.1	7.0	-4.9	1.2
Stockbuilding			-	-	-	-	-	-	-	-
Foreign balance			-	-	-1.4	-2.0	-3.4	-2.0	1.9	0.3
Employment			-	-	0.6	0.6	0.8	-0.5	-1.3	0.6
Unemployment rate (a)			-	-	7.1	6.7	5.6	5.9	9.5	8.4
Compensation of employees/head			-	-	-	-	-	-	-	-
Unit labour costs whole economy			-	-	-	-	-	-	-	-
Real unit labour costs			-	-	-	-	-	-	-	-
Savings rate of households (b)			-	-	-	-	-	-	-	-
GDP deflator			-	-	19.2	15.5	13.9	18.6	0.2	9.4
General index of consumer prices			-	-	12.7	9.7	9.0	14.1	13.3	9.1
Terms of trade of goods			-	-	-	-	-	-	-	-
Trade balance (c)			-	-	15.5	14.1	10.1	10.8	5.1	6.3
Current account balance (c)			-	-	11.0	9.5	5.9	5.9	1.4	2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	9.4	9.5	5.1	-	-	-
General government balance (c)			-	-	-	-	-	4.1	-6.5	-2.7
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-	-
General government gross debt (c)			-	-	-	-	-	5.1	7.5	8.9

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



# Statistical Annex

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## STATISTICAL ANNEX : SPRING 2009 ECONOMIC FORECAST

 TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1992-2010) <sup>1</sup>

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	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	1.5	2.6	2.1	2.8	1.4	1.3	1.2	0.1	-1.9	-3.5	0.9	0.3	-0.2
Germany	1.4	2.1	0.9	2.5	1.7	1.3	1.3	0.0	-2.3	-5.4	1.0	0.7	0.3
Ireland	6.1	9.1	5.5	6.0	-1.6	-2.0	-2.3	-0.9	-5.0	-9.0	2.4	0.0	-2.6
Greece	1.1	3.8	4.3	4.0	3.1	2.9	2.9	2.5	0.2	-0.9	2.6	0.7	0.1
Spain	1.5	4.4	3.3	3.7	1.3	1.2	1.2	-0.2	-2.0	-3.2	0.5	-0.2	-1.0
France	1.2	3.0	1.7	2.2	0.9	0.7	0.7	0.0	-1.8	-3.0	0.8	0.4	-0.2
Italy	1.2	2.0	0.9	1.6	0.0	-0.6	-1.0	0.0	-2.0	-4.4	0.6	0.3	0.1
Cyprus	5.5	4.2	3.3	4.4	3.7	3.6	3.7	2.9	1.1	0.3	3.2	2.0	0.7
Luxembourg	2.6	6.3	4.4	5.2	2.5	1.0	-0.9	1.2	-0.9	-3.0	2.3	1.4	0.1
Malta	5.0	3.4	2.1	3.6	2.4	2.1	1.6	2.0	0.7	-0.9	2.2	1.3	0.2
Netherlands	2.5	3.7	1.6	3.5	2.3	1.9	2.1	0.4	-2.0	-3.5	0.9	0.2	-0.4
Austria	1.8	2.6	2.2	3.1	1.9	1.7	1.8	0.6	-1.2	-4.0	1.3	0.6	-0.1
Portugal	1.6	3.8	0.7	1.9	0.5	0.2	0.0	0.1	-1.6	-3.7	0.7	-0.2	-0.8
Slovenia	2.0	4.2	4.3	6.8	4.4	4.0	3.5	2.9	0.6	-3.4	3.7	2.3	0.7
Slovakia	:	2.7	5.9	10.4	7.0	7.1	6.4	4.9	2.7	-2.6	5.5	3.1	0.7
Finland	1.3	4.6	2.9	4.2	2.4	1.5	0.9	1.3	-1.2	-4.7	2.0	1.2	0.2
Euro area	1.5	2.8	1.7	2.7	1.2	0.9	0.8	0.1	-1.9	-4.0	0.9	0.4	-0.1
Bulgaria	-2.8	2.0	5.7	6.2	6.5	6.4	6.0	4.5	1.8	-1.6	4.7	2.5	-0.1
Czech Republic	2.3	1.2	4.6	6.0	4.4	4.2	3.2	3.6	1.7	-2.7	3.9	2.3	0.3
Denmark	2.6	2.4	1.8	1.6	0.7	-0.6	-1.1	0.1	-1.0	-3.3	0.9	0.6	0.3
Estonia	:	6.6	8.4	6.3	-1.3	-2.4	-3.6	-1.2	-4.7	-10.3	2.0	1.2	-0.8
Latvia	-8.8	6.3	9.0	10.0	-0.8	-2.3	-4.6	-2.7	-6.9	-13.1	1.0	-2.4	-3.2
Lithuania	-8.4	5.0	8.0	8.9	3.8	3.4	3.0	0.0	-4.0	-11.0	-1.1	-2.6	-4.7
Hungary	0.6	4.6	4.3	1.1	1.7	0.9	0.5	0.7	-1.6	-6.3	1.8	1.0	-0.3
Poland	4.9	4.4	4.1	6.6	5.4	5.0	4.8	3.8	2.0	-1.4	4.2	2.4	0.8
Romania	1.4	-0.9	6.2	6.2	8.5	7.8	7.1	4.7	1.8	-4.0	5.0	2.5	0.0
Sweden	1.2	3.3	3.2	2.6	1.0	0.5	-0.2	-0.2	-1.4	-4.0	1.6	1.2	0.8
United Kingdom	2.5	3.4	2.5	3.0	0.9	0.7	0.7	-1.0	-2.8	-3.8	0.4	0.2	0.1
EU	1.4	2.9	2.0	2.9	1.4	1.0	0.9	0.2	-1.8	-4.0	1.1	0.5	-0.1
USA	3.3	3.5	2.7	2.0	1.5	1.2	1.1	-0.5	-1.6	-2.9	1.0	1.7	0.9
Japan	1.4	0.5	1.7	2.4	0.4	-0.1	-0.7	-0.4	-2.4	-5.3	0.6	-0.2	0.1

<sup>1</sup> For 2008, 2009 and 2010 the current forecast (IV-2009) is compared with the autumn 2008 (X-2008) and the January 2009 interim forecast (I-2009).

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2008-2010)

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	0.4	0.3	0.1	-1.7	-1.6	-0.8	-0.4	-0.1	0.0	0.1	0.2	0.3
Germany	1.5	-0.5	-0.5	-2.1	-3.2	-0.5	-0.1	-0.1	0.0	0.1	0.1	0.2
Ireland	-1.0	-0.4	1.1	-7.1	-2.0	-1.8	-1.3	-1.3	-0.4	-0.1	0.1	0.1
Greece	0.9	0.9	0.4	0.3	-0.6	-0.7	-0.4	-0.4	0.1	0.3	0.4	0.4
Spain	0.4	0.1	-0.3	-1.0	-1.4	-0.9	-0.5	-0.3	-0.1	-0.2	-0.1	-0.1
France	0.4	-0.3	0.1	-1.1	-1.5	-0.7	-0.2	-0.1	0.1	-0.1	0.1	0.1
Italy	0.3	-0.6	-0.7	-1.9	-2.3	-0.3	-0.1	0.0	0.0	0.1	0.2	0.2
Cyprus	0.8	0.8	0.6	0.6	-0.1	-0.2	-0.4	-0.5	0.3	0.6	0.8	1.3
Luxembourg	-1.0	0.3	-0.3	-4.5	:	:	:	:	:	:	:	:
Malta	0.2	0.3	-0.3	-1.0	:	:	:	:	:	:	:	:
Netherlands	0.6	-0.1	-0.3	-1.0	-1.5	-1.1	-0.5	-0.1	0.0	0.1	0.1	0.2
Austria	0.5	0.2	0.0	-0.2	-2.2	-2.1	-1.0	-0.1	0.2	0.4	0.6	0.9
Portugal	-0.3	0.2	-0.2	-1.6	-2.0	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1	0.1
Slovenia	1.9	0.6	0.8	-4.1	-0.5	-0.6	-0.5	0.0	0.2	0.2	0.6	0.9
Slovakia	-3.4	1.9	1.8	2.1	-2.4	-2.2	-1.9	-1.4	0.5	0.6	1.1	1.3
Finland	-0.3	0.1	-0.3	-1.3	-3.3	-0.4	-0.1	0.1	0.1	0.1	0.2	0.2
Euro area	0.6	-0.2	-0.2	-1.6	-2.1	-0.7	-0.3	-0.1	0.0	0.1	0.1	0.2
Bulgaria	1.2	1.4	1.6	0.9	-1.4	-1.6	-1.4	-0.2	0.2	0.5	0.7	0.9
Czech Republic	0.6	0.7	0.3	-0.9	-1.5	-0.9	-0.4	-0.1	0.1	0.4	0.6	0.7
Denmark	-1.2	0.3	-0.8	-1.9	-1.0	-0.5	0.1	0.1	0.0	0.1	0.2	0.2
Estonia	-1.5	-1.7	-2.2	-4.3	-4.2	-1.7	-0.5	-0.4	-0.2	0.1	0.2	0.6
Latvia	-5.0	-1.4	-0.4	-3.9	-7.6	-2.1	-1.6	-1.1	-0.7	-0.6	0.0	0.2
Lithuania	0.2	0.2	-0.3	-1.4	-4.4	-5.5	-4.1	-2.3	-0.2	0.0	0.6	1.0
Hungary	0.5	-0.1	-0.6	-1.2	-3.9	-1.2	-1.9	-1.3	0.1	1.1	1.3	1.4
Poland	0.9	1.0	0.8	0.3	-0.8	-1.1	-0.9	-0.5	0.4	0.8	1.0	1.0
Romania	2.1	2.0	2.0	-2.8	-2.4	-1.0	-0.5	0.0	0.0	0.2	0.4	0.6
Sweden	-0.6	-0.5	-1.0	-2.4	-1.4	-0.4	-0.1	0.1	0.2	0.3	0.4	0.5
United Kingdom	0.3	0.0	-0.7	-1.6	-1.6	-0.7	-0.3	0.1	0.0	0.2	0.3	0.4
EU	0.5	-0.1	-0.3	-1.5	-2.0	-0.7	-0.3	-0.1	0.1	0.1	0.2	0.3
USA	0.2	0.7	-0.1	-1.6	-1.4	-1.0	0.4	0.3	0.3	0.3	0.3	0.3
Japan	0.3	-1.2	-0.4	-3.2	-2.3	-0.3	-0.2	0.3	-0.3	0.1	0.2	0.3

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2008-2010)

22.04.2009

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	1.9	1.9	1.2	-0.8	-2.9	-4.0	-4.5	-2.9	-1.3	-0.4	0.2	0.5
Germany	2.8	2.0	0.8	-1.6	-6.1	-6.1	-5.7	-3.7	-0.5	0.1	0.3	0.6
Ireland	-1.3	-0.6	0.3	-7.4	-8.3	-9.6	-11.7	-6.3	-4.8	-3.2	-1.8	-0.4
Greece	3.2	3.4	2.7	2.4	1.0	-0.6	-1.4	-2.1	-1.4	-0.3	0.5	1.4
Spain	2.7	1.8	0.9	-0.7	-2.6	-3.5	-3.7	-3.0	-1.7	-1.0	-0.7	-0.4
France	2.0	1.1	0.6	-0.9	-2.7	-3.1	-3.4	-2.4	-0.8	-0.2	0.1	0.3
Italy	0.4	-0.4	-1.3	-2.9	-5.4	-5.0	-4.5	-2.6	-0.3	0.0	0.3	0.4
Cyprus	4.2	4.1	3.5	2.9	1.9	0.8	-0.2	-1.3	-1.0	-0.2	1.0	2.9
Luxembourg	0.8	1.6	-0.7	-5.4	:	:	:	:	:	:	:	:
Malta	2.7	2.5	1.3	-0.8	:	:	:	:	:	:	:	:
Netherlands	4.1	3.4	1.8	-0.7	-2.9	-3.8	-4.1	-3.2	-1.6	-0.5	0.1	0.4
Austria	2.5	2.1	1.4	0.6	-2.2	-4.5	-5.4	-5.3	-3.0	-0.5	1.1	2.2
Portugal	0.8	0.6	0.4	-1.8	-3.6	-4.1	-4.2	-2.9	-1.1	-0.9	-0.7	-0.4
Slovenia	5.9	5.0	3.7	-0.9	-3.3	-4.4	-5.6	-1.6	-0.9	-0.1	1.0	1.9
Slovakia	8.1	8.1	7.3	2.4	3.3	-0.8	-4.4	-7.7	-5.0	-2.3	0.7	3.5
Finland	2.6	1.9	1.0	-1.8	-4.8	-5.2	-5.1	-3.7	-0.3	0.2	0.5	0.5
Euro area	2.2	1.5	0.6	-1.4	-4.1	-4.5	-4.6	-3.1	-1.0	-0.3	0.1	0.4
Bulgaria	7.1	6.3	6.8	5.2	2.5	-0.6	-3.5	-4.5	-3.0	-0.9	1.2	2.3
Czech Republic	4.9	4.0	2.9	0.7	-1.4	-2.9	-3.6	-2.9	-1.3	-0.1	1.0	1.8
Denmark	-0.4	1.0	-1.5	-3.6	-3.4	-4.1	-3.2	-1.3	-0.3	0.3	0.3	0.5
Estonia	0.7	-1.3	-4.4	-9.5	-11.9	-11.9	-10.3	-6.7	-2.7	-1.0	-0.3	0.8
Latvia	2.3	-2.9	-5.6	-10.4	-12.8	-13.4	-14.5	-12.0	-5.4	-3.9	-2.3	-1.1
Lithuania	7.0	4.6	2.0	-1.3	-5.8	-11.1	-14.5	-15.3	-11.6	-6.4	-1.8	1.5
Hungary	1.4	1.4	0.4	-1.3	-5.7	-6.7	-8.0	-8.1	-4.3	-2.1	1.2	4.0
Poland	6.1	5.5	4.9	3.1	1.3	-0.8	-2.5	-3.3	-2.1	-0.2	1.7	3.3
Romania	7.8	8.2	8.4	3.3	-1.3	-4.2	-6.5	-3.9	-1.5	-0.3	0.6	1.2
Sweden	2.0	0.8	-0.5	-4.4	-5.2	-5.0	-4.2	-1.7	-0.1	0.6	1.1	1.4
United Kingdom	2.6	1.8	0.4	-2.0	-3.3	-4.0	-3.6	-2.5	-0.9	0.0	0.6	0.9
EU	2.4	1.7	0.7	-1.4	-3.8	-4.4	-4.4	-3.1	-1.1	-0.3	0.2	0.6
USA	2.5	2.1	0.7	-0.8	-2.4	-4.0	-3.5	-1.7	0.0	1.2	1.1	1.2
Japan	1.4	0.5	-0.2	-4.3	-6.9	-6.1	-5.9	-2.5	-0.4	0.0	0.4	0.4

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.2	2.4	1.5	2.5	1.3	2.3	2.0	0.7	0.6	-0.6	-4.1	0.2	-0.9
Germany	0.9	1.9	0.9	1.2	0.8	3.1	2.6	1.9	1.5	0.1	-5.2	1.1	0.4
Ireland	5.5	7.8	3.5	2.9	4.1	3.1	3.5	-3.4	-4.1	-1.8	-9.4	1.6	-2.8
Greece	0.2	3.4	3.9	4.6	2.5	4.1	3.6	2.8	2.5	2.2	-1.2	2.3	-0.2
Spain	1.3	3.7	1.7	1.6	1.9	2.3	1.8	0.0	-0.4	-1.4	-4.4	-0.3	-1.8
France	0.8	2.4	1.1	1.8	1.3	1.6	1.6	0.4	0.2	-0.5	-3.4	0.3	-0.7
Italy	1.1	2.0	0.2	0.5	-0.1	1.5	0.8	-0.2	-1.7	-0.2	-4.9	0.4	-0.3
Cyprus	3.3	3.0	1.3	1.8	1.5	2.1	2.9	2.0	2.7	1.3	-1.0	1.6	-0.6
Luxembourg	1.1	5.1	2.9	3.1	3.6	4.8	3.6	1.6	-2.5	0.3	-4.4	1.5	-0.6
Malta	4.1	2.7	1.4	0.6	3.2	2.6	2.7	1.9	1.0	1.5	-1.4	1.7	-0.3
Netherlands	1.9	3.1	1.2	1.9	1.8	3.2	3.2	2.1	1.8	0.2	-3.7	0.7	-0.7
Austria	1.3	2.4	1.6	1.8	2.1	2.8	2.7	1.6	1.4	0.3	-4.3	1.0	-0.4
Portugal	1.4	3.3	0.2	0.9	0.5	1.0	1.7	0.3	-0.2	-0.1	-3.8	0.6	-0.9
Slovenia	2.1	4.2	4.1	4.2	4.2	5.5	6.2	3.7	2.0	2.7	-1.9	3.5	0.3
Slovakia	:	2.7	5.9	5.1	6.5	8.4	10.3	6.9	6.1	4.8	-2.6	5.4	0.6
Finland	0.8	4.4	2.6	3.4	2.4	4.5	3.8	2.0	0.5	1.0	-5.0	1.6	-0.1
Euro area	1.2	2.5	1.1	1.5	1.1	2.4	2.1	0.9	0.3	-0.2	-4.4	0.7	-0.5
Bulgaria	-2.2	3.1	6.3	7.2	6.8	6.6	6.2	7.0	6.5	5.0	-1.1	5.2	0.4
Czech Republic	2.3	1.4	4.5	4.4	6.0	6.4	5.4	4.2	2.5	3.4	-3.1	3.7	0.0
Denmark	2.2	2.1	1.5	2.1	2.1	3.0	1.2	0.4	-1.4	-0.1	-3.5	0.7	0.0
Estonia	:	7.5	8.8	7.9	9.4	10.6	6.5	-1.2	-3.5	-1.1	-10.2	2.1	-0.7
Latvia	-7.4	7.2	9.6	9.3	11.2	12.8	10.6	-0.3	-4.2	-2.2	-12.7	1.5	-2.7
Lithuania	-7.9	5.7	8.6	7.9	8.5	8.5	9.5	4.2	3.5	0.2	-10.4	-0.9	-4.2
Hungary	0.7	4.8	4.5	5.1	4.2	4.3	1.2	1.9	0.7	0.8	-6.3	1.9	-0.2
Poland	4.7	4.4	4.2	5.4	3.7	6.3	6.7	5.4	4.8	3.8	-1.3	4.2	0.8
Romania	1.8	-0.5	6.7	8.8	4.4	8.1	6.4	8.8	7.3	5.0	-3.8	5.4	0.2
Sweden	0.7	3.1	2.8	3.7	2.9	3.7	1.8	0.2	-1.0	-0.7	-4.2	1.3	0.7
United Kingdom	2.2	3.0	2.0	2.3	1.4	2.2	2.7	0.5	0.3	-1.4	-4.1	-0.1	-0.2
EU	1.2	2.7	1.6	2.0	1.5	2.7	2.4	1.1	0.5	-0.1	-4.2	0.8	-0.3
USA	2.0	2.4	1.8	2.7	2.0	1.8	1.0	0.6	0.2	-1.4	-3.8	0.1	0.0
Japan	1.1	0.2	1.6	2.7	1.9	2.0	2.4	0.4	-0.7	-0.3	-5.2	0.8	0.2

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
<b>Belgium</b>	1.3	2.4	2.0	2.8	2.2	3.1	3.3	2.5	2.4	0.2	-1.9	1.1	-0.2
<b>Germany</b>	1.5	1.5	0.1	-0.1	0.0	2.1	1.1	1.3	1.7	0.0	-2.3	0.8	-0.2
<b>Ireland</b>	3.9	8.2	5.5	4.3	8.7	6.1	3.7	-4.9	-5.7	-3.8	-11.9	2.1	-4.8
<b>Greece</b>	1.2	4.3	3.9	2.8	2.1	4.7	5.1	2.7	0.7	2.4	-1.0	2.6	0.1
<b>Spain</b>	0.8	5.0	4.4	4.8	5.1	5.1	4.2	0.8	0.1	-1.6	-4.9	0.0	-1.6
<b>France</b>	0.7	3.0	2.2	3.2	2.6	2.4	2.9	0.9	1.0	0.0	-1.9	0.6	0.0
<b>Italy</b>	0.0	2.6	1.3	1.3	0.9	2.0	1.4	-0.5	-1.3	0.0	-3.6	0.7	0.2
<b>Cyprus</b>	:	3.6	4.3	6.5	3.1	5.6	7.4	4.6	8.4	3.7	1.3	3.7	1.3
<b>Luxembourg</b>	1.6	5.9	2.5	3.3	4.9	1.5	3.7	2.5	1.5	1.9	-1.8	2.2	0.6
<b>Malta</b>	:	1.4	2.8	2.7	6.2	2.8	1.9	2.2	1.6	2.1	0.6	2.2	1.2
<b>Netherlands</b>	2.1	3.9	1.1	0.5	1.3	3.7	2.7	3.0	3.1	0.1	-1.8	0.6	-0.5
<b>Austria</b>	2.0	1.6	1.6	1.9	2.4	2.4	1.8	1.7	1.7	0.8	-2.8	1.2	0.3
<b>Portugal</b>	2.0	4.6	0.6	2.5	1.5	0.8	1.6	0.8	1.0	-0.5	-3.8	0.4	-1.5
<b>Slovenia</b>	5.2	4.2	4.1	4.8	2.1	5.7	8.0	4.9	3.7	3.2	-3.8	3.8	0.5
<b>Slovakia</b>	:	2.5	4.8	5.9	8.5	6.5	6.5	6.1	6.4	4.6	-0.6	5.0	0.8
<b>Finland</b>	-0.3	3.8	3.2	3.0	4.4	3.2	4.4	2.5	0.3	1.3	-2.1	1.8	0.4
<b>Euro area</b>	1.1	2.7	1.7	1.9	1.9	2.8	2.4	1.0	0.8	0.0	-2.9	0.8	-0.3
<b>Bulgaria</b>	:	5.2	8.4	7.3	10.0	10.2	9.3	8.3	6.8	5.7	-3.5	5.2	-0.4
<b>Czech Republic</b>	6.2	1.2	3.6	3.1	1.7	5.4	5.1	3.1	1.2	3.5	-1.3	3.6	0.2
<b>Denmark</b>	2.9	2.1	3.0	4.3	3.5	5.3	1.9	1.0	-0.5	-0.3	-2.4	0.3	0.7
<b>Estonia</b>	:	6.1	10.7	7.9	8.8	14.2	7.5	-4.0	-7.6	-2.9	-11.8	0.9	-1.5
<b>Latvia</b>	:	6.9	11.2	12.1	9.3	18.1	12.4	-6.6	-10.5	-7.6	-20.6	-1.0	-6.5
<b>Lithuania</b>	:	5.6	9.6	12.8	7.7	9.1	13.1	4.1	3.2	-3.0	-17.0	-0.7	-6.6
<b>Hungary</b>	0.6	4.9	4.0	4.4	1.4	1.8	-1.0	1.5	-0.1	0.3	-6.5	2.3	-0.6
<b>Poland</b>	5.4	4.5	3.9	6.2	2.5	7.3	8.6	6.6	5.0	4.9	-1.6	4.3	0.1
<b>Romania</b>	1.4	0.4	9.0	12.0	7.9	12.9	14.0	11.9	7.9	6.6	-5.6	6.9	-0.3
<b>Sweden</b>	0.0	2.6	2.4	2.0	3.1	3.8	4.0	1.2	0.2	-0.4	-4.6	1.2	-0.1
<b>United Kingdom</b>	2.3	4.1	2.8	3.4	1.9	2.6	3.5	0.7	0.6	-1.6	-4.7	-0.1	-0.2
<b>EU</b>	1.4	3.0	2.1	2.4	2.1	3.1	3.0	1.3	0.9	0.0	-3.3	0.9	-0.3
<b>USA</b>	3.5	4.2	3.0	4.1	3.0	2.6	1.4	0.1	-0.1	-1.5	-2.8	0.4	1.0
<b>Japan</b>	1.6	0.3	1.0	1.9	1.7	1.2	1.3	-0.5	-0.8	-0.8	-4.4	0.3	-0.3

TABLE 6 : Final demand, volume (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
<b>Belgium</b>	2.4	3.6	2.6	4.5	2.9	2.9	3.6	2.4	2.4	0.4	-7.1	1.7	-0.6
<b>Germany</b>	1.7	3.2	2.2	2.8	2.3	5.5	3.3	2.3	2.1	0.4	-6.9	1.8	-0.3
<b>Ireland</b>	8.3	12.4	5.2	5.8	7.0	5.9	5.2	-1.6	-3.1	-1.4	-10.4	2.6	-2.5
<b>Greece</b>	1.6	5.3	4.0	4.5	2.5	5.8	4.7	3.0	1.0	2.5	-2.2	2.7	0.3
<b>Spain</b>	2.3	5.8	4.3	4.7	4.6	5.4	4.3	1.3	0.2	-0.8	-5.9	0.5	-1.3
<b>France</b>	1.5	4.0	2.3	3.4	2.7	3.1	2.9	1.1	1.1	0.1	-3.8	1.0	-0.1
<b>Italy</b>	1.3	2.9	1.3	2.1	0.9	2.9	2.1	-0.3	-1.8	0.0	-6.3	0.9	0.2
<b>Cyprus</b>	:	4.5	3.3	6.0	3.6	5.0	7.3	4.9	6.0	3.3	-1.0	3.5	0.9
<b>Luxembourg</b>	3.0	8.9	6.3	8.6	5.7	10.4	4.2	3.1	0.7	0.3	-5.0	1.9	-0.5
<b>Malta</b>	:	2.7	2.9	0.9	3.6	6.3	2.6	1.2	-5.8	1.0	-3.0	1.3	0.2
<b>Netherlands</b>	3.5	5.6	2.6	3.5	3.3	5.2	4.4	3.5	2.9	0.7	-5.8	1.7	-0.4
<b>Austria</b>	2.3	3.8	3.1	4.7	4.0	4.2	4.4	2.4	1.9	1.2	-5.9	2.3	0.3
<b>Portugal</b>	2.7	4.8	1.3	2.9	1.6	2.6	3.1	1.1	0.7	-0.1	-5.6	0.9	-1.2
<b>Slovenia</b>	2.7	5.4	6.0	7.6	5.3	8.4	10.5	5.4	3.6	3.8	-7.0	5.3	0.2
<b>Slovakia</b>	:	5.4	7.9	6.6	9.2	13.1	10.0	7.9	4.8	5.2	-4.9	5.6	0.5
<b>Finland</b>	2.0	5.7	4.0	4.8	5.2	6.0	5.7	3.2	-0.2	1.8	-7.2	2.3	0.6
<b>Euro area</b>	2.0	4.1	2.6	3.4	2.8	4.5	3.5	1.7	0.9	0.3	-5.9	1.5	-0.3
<b>Bulgaria</b>	:	5.2	8.8	9.2	9.7	9.9	8.0	7.6	5.5	5.3	-6.0	5.4	0.4
<b>Czech Republic</b>	7.3	4.4	6.7	9.7	5.8	9.8	9.4	6.8	3.8	5.0	-5.9	5.8	0.4
<b>Denmark</b>	3.0	3.7	3.5	3.8	5.0	6.6	2.0	1.5	0.5	0.4	-5.4	1.1	0.4
<b>Estonia</b>	:	8.7	10.6	10.4	13.8	13.0	4.3	-3.7	-4.9	-1.0	-12.7	1.7	-0.7
<b>Latvia</b>	:	6.6	10.7	11.4	12.1	14.9	11.8	-4.4	-8.2	-4.7	-18.5	0.6	-4.5
<b>Lithuania</b>	:	5.7	10.4	10.1	10.7	10.1	9.9	6.8	6.0	-0.9	-16.3	0.9	-4.4
<b>Hungary</b>	:	9.1	7.1	8.8	5.8	9.6	7.5	4.3	2.5	0.8	-9.0	4.4	0.1
<b>Poland</b>	6.4	5.4	5.6	8.1	3.8	9.3	8.9	6.5	5.2	4.6	-4.2	4.6	0.1
<b>Romania</b>	0.9	2.6	9.6	12.5	7.8	12.3	12.7	11.4	10.2	6.6	-8.0	6.9	-0.1
<b>Sweden</b>	2.3	4.3	3.8	5.0	4.4	5.7	4.7	1.8	0.8	0.0	-6.3	2.0	0.3
<b>United Kingdom</b>	3.3	4.4	3.3	3.6	3.2	4.4	1.8	0.9	0.5	-1.0	-5.9	0.5	-0.3
<b>EU</b>	2.3	4.2	3.0	3.8	3.1	4.9	3.6	1.9	1.1	0.4	-6.0	1.6	-0.3
<b>USA</b>	3.8	4.2	3.1	4.6	3.4	3.2	2.0	1.0	0.5	-1.1	-4.1	0.7	0.9
<b>Japan</b>	1.7	0.5	1.9	3.2	2.3	2.3	2.2	0.4	-0.4	-0.3	-6.4	0.9	-0.1



TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.3	2.3	1.3	1.4	1.2	2.1	2.1	1.4	1.0	0.4	-0.7	1.0	-0.4
Germany	1.9	1.9	0.1	0.1	0.2	1.0	-0.4	-0.5	-0.1	0.2	-0.5	0.7	-0.7
Ireland	3.9	7.7	4.9	3.7	7.2	7.0	6.0	-0.3	-0.8	0.4	-7.9	2.0	-4.0
Greece	1.8	3.1	4.2	3.7	4.3	4.8	3.0	2.6	2.2	2.2	0.4	2.3	0.5
Spain	1.1	4.3	3.6	4.2	4.2	3.9	3.5	0.9	0.1	-0.4	-3.1	0.5	-1.1
France	1.0	2.8	2.3	2.5	2.6	2.3	2.4	0.9	1.4	0.5	0.2	0.9	0.3
Italy	0.5	2.5	0.9	0.8	1.2	1.3	1.2	-0.5	-0.9	0.2	-1.7	1.2	0.2
Cyprus	:	4.4	3.6	6.3	4.0	4.5	8.2	5.7	7.0	3.9	1.0	4.2	1.2
Luxembourg	1.7	4.3	1.5	2.7	1.9	2.9	2.0	2.4	1.8	2.7	1.2	2.4	1.5
Malta	:	3.6	1.5	2.5	2.0	0.6	1.7	2.2	4.1	1.7	0.8	1.8	0.7
Netherlands	2.1	3.9	0.5	1.0	1.0	0.0	2.1	2.0	1.6	0.6	-0.2	0.8	-0.5
Austria	1.9	1.6	1.9	2.2	2.6	2.4	1.0	1.1	0.9	1.0	0.1	1.2	0.4
Portugal	2.1	3.8	1.5	2.5	2.0	1.9	1.6	1.3	1.6	0.1	-1.3	0.3	-0.4
Slovenia	5.1	3.2	2.8	2.7	2.6	2.9	5.0	3.3	2.2	3.2	-0.4	3.4	0.6
Slovakia	:	3.7	4.8	4.6	6.5	5.8	7.0	6.7	6.1	5.0	0.5	5.2	0.9
Finland	0.5	3.2	3.5	3.0	3.3	4.1	3.3	3.2	2.0	2.1	-1.4	2.3	0.9
Euro area	1.4	2.7	1.5	1.6	1.8	2.0	1.6	0.5	0.5	0.4	-0.9	1.0	-0.3
Bulgaria	-1.4	2.0	6.8	5.9	6.1	9.5	5.3	5.0	4.8	4.4	-0.3	4.7	0.1
Czech Republic	6.2	1.5	3.8	2.9	2.5	5.4	5.3	3.2	2.9	4.1	0.2	4.2	0.3
Denmark	2.4	1.0	3.1	4.7	3.8	4.4	2.4	1.1	-0.1	0.8	-1.6	1.0	1.1
Estonia	:	5.9	10.6	9.5	9.9	12.7	7.9	-1.5	-3.8	-1.7	-9.0	0.7	-1.3
Latvia	:	4.7	11.4	9.7	11.2	21.2	14.8	-5.5	-11.0	-7.5	-22.0	-2.0	-6.5
Lithuania	:	4.8	10.2	11.9	12.2	10.6	12.4	5.6	4.7	-2.6	-17.5	-1.2	-7.2
Hungary	:	4.8	5.3	2.7	3.4	1.7	0.6	1.0	-0.7	-1.2	-6.6	1.4	-0.3
Poland	4.8	4.6	3.4	4.7	2.1	5.0	5.0	5.0	5.3	4.5	0.6	3.4	0.2
Romania	3.1	0.7	10.6	15.9	10.1	12.7	11.6	9.5	9.1	5.5	-3.7	5.6	-0.3
Sweden	0.0	3.0	2.4	2.6	2.7	2.3	3.0	1.7	-0.2	0.4	-3.0	1.2	0.5
United Kingdom	2.4	4.2	2.7	2.9	1.9	2.1	3.1	1.8	1.4	-2.1	-3.4	-1.1	-1.5
EU	1.7	3.0	2.0	2.1	2.0	2.3	2.2	1.1	0.9	0.2	-1.5	0.8	-0.4
USA	3.3	4.2	3.0	3.6	3.0	3.0	2.8	0.5	0.2	-1.6	-2.0	-0.9	-1.2
Japan	2.2	0.6	1.2	1.6	1.3	1.5	0.7	0.5	0.5	-0.3	-1.0	0.3	-0.2

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.2	2.0	1.5	1.8	0.4	0.1	2.3	1.9	2.1	1.5	1.8	1.5	1.7
Germany	2.4	1.1	0.4	-0.7	0.4	0.6	2.2	1.7	2.0	1.5	2.0	1.1	1.8
Ireland	3.4	7.3	3.9	2.3	3.1	5.3	6.8	4.7	2.1	0.5	-0.6	0.8	2.0
Greece	1.0	4.3	2.0	2.9	1.2	0.0	7.7	2.9	3.2	2.7	1.9	2.7	1.9
Spain	2.1	3.8	5.1	6.3	5.5	4.6	4.9	4.1	5.3	1.3	5.1	0.7	4.7
France	1.8	1.0	1.7	2.3	1.2	1.3	1.4	1.3	1.7	0.9	1.8	0.7	1.1
Italy	-1.0	1.7	1.8	2.2	1.9	0.5	1.0	1.1	0.6	0.6	0.7	0.5	0.6
Cyprus	:	5.3	3.5	-5.5	3.4	7.4	0.1	5.2	8.7	5.9	7.0	3.6	2.4
Luxembourg	4.1	4.8	3.9	4.6	3.4	2.7	2.6	4.3	1.3	4.2	5.0	4.0	2.4
Malta	:	0.0	2.6	0.4	-0.4	5.9	-0.8	4.3	8.3	2.8	-1.2	2.4	1.6
Netherlands	1.7	2.9	3.1	-0.1	0.5	9.0	3.0	1.2	2.1	2.1	2.0	1.0	1.0
Austria	2.6	2.0	1.3	1.0	1.5	2.3	1.8	2.6	0.5	1.9	0.6	1.7	0.8
Portugal	1.6	3.8	1.4	2.6	3.2	-1.4	0.0	-0.1	0.5	0.2	0.6	0.5	0.2
Slovenia	2.2	3.7	3.3	3.4	3.3	4.1	2.5	3.2	3.7	2.6	2.9	2.6	2.9
Slovakia	:	1.6	3.8	-2.2	3.3	10.2	-1.3	3.9	4.3	2.8	2.0	3.6	1.2
Finland	-0.6	1.5	1.7	1.8	2.0	0.6	0.8	1.5	1.7	1.4	2.3	1.2	1.9
Euro area	1.5	1.7	1.8	1.6	1.5	1.9	2.2	1.8	2.0	1.2	2.0	1.0	1.7
Bulgaria	-15.4	5.2	3.4	3.8	2.5	-1.3	3.1	4.1	0.1	4.0	0.2	4.0	0.4
Czech Republic	-1.7	1.9	2.4	-3.5	2.9	-0.7	0.4	1.1	0.9	0.7	0.5	0.6	0.4
Denmark	2.6	2.2	1.6	1.8	1.3	2.1	1.3	1.5	1.1	1.3	2.1	1.1	1.1
Estonia	:	0.1	1.5	2.3	1.9	1.8	3.9	2.6	4.4	-1.5	-3.6	0.6	-2.4
Latvia	:	2.8	2.7	2.1	2.7	4.9	3.7	3.5	1.5	1.0	-5.0	1.0	-2.0
Lithuania	:	3.0	4.1	8.2	3.5	3.7	3.3	5.3	4.3	3.7	-9.9	2.6	-3.2
Hungary	-1.7	2.1	3.9	1.8	2.4	4.3	-7.4	-0.8	0.5	2.1	-3.2	2.7	0.2
Poland	3.3	2.4	4.1	3.1	5.2	6.1	3.7	1.7	0.0	1.2	-0.3	1.5	0.7
Romania	3.6	-1.0	-0.9	-8.6	3.8	-4.1	1.6	3.5	3.2	3.5	-11.0	3.3	0.1
Sweden	0.4	0.8	0.9	-0.2	0.4	2.0	0.4	0.6	1.3	0.6	0.5	0.8	0.6
United Kingdom	0.6	1.9	2.7	3.4	1.7	1.6	1.5	2.0	3.4	1.3	3.6	2.0	2.9
EU	0.9	1.8	2.0	1.8	1.6	1.9	1.9	1.8	2.2	1.3	1.9	1.2	1.7
USA	-0.1	2.3	2.3	1.8	0.5	1.8	1.9	2.3	2.8	2.6	5.6	2.8	5.9
Japan	3.1	2.8	1.7	1.9	1.6	0.4	2.0	0.2	0.9	0.2	1.3	0.4	0.9

TABLE 9 : Total investment, volume (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	0.8	3.9	3.1	7.1	6.9	4.7	6.2	4.6	4.8	-1.4	-6.2	0.9	-2.2
Germany	0.7	1.8	0.3	-0.3	1.1	7.7	4.3	4.3	4.4	-1.7	-10.3	1.1	-0.8
Ireland	7.2	10.3	7.1	9.1	14.1	4.0	1.3	-18.9	-19.9	-17.4	-29.2	3.8	-15.6
Greece	-0.2	8.2	6.5	1.9	-0.5	9.2	4.9	3.2	-11.5	2.8	-5.6	3.3	0.7
Spain	-0.3	7.6	5.7	5.1	7.0	7.1	5.3	-1.6	-3.0	-5.8	-14.7	-1.7	-8.0
France	-0.9	5.0	2.6	3.6	4.4	4.7	4.9	0.4	0.5	-2.3	-5.9	-0.1	-2.6
Italy	-0.8	3.7	1.7	2.3	0.8	2.9	2.0	-0.3	-3.0	-1.5	-12.3	-0.5	-0.6
Cyprus	:	1.7	6.8	11.4	3.3	10.4	10.4	4.2	9.8	1.3	1.7	1.9	0.6
Luxembourg	1.1	8.2	3.4	0.8	3.4	1.0	11.8	2.7	1.7	-1.6	-8.9	1.4	-2.3
Malta	:	-0.1	1.9	-1.8	10.5	2.3	1.7	0.5	-19.7	3.1	3.4	3.5	3.1
Netherlands	3.3	4.9	0.6	-1.6	3.7	7.5	4.9	7.1	5.3	-2.7	-7.6	-0.5	-3.2
Austria	1.8	1.6	1.2	0.7	2.4	2.6	4.7	2.4	1.8	-0.5	-11.6	0.7	0.1
Portugal	2.7	7.2	-2.5	0.2	-0.9	-0.7	3.2	0.1	-1.1	-2.7	-14.4	0.5	-8.0
Slovenia	6.9	7.8	5.6	5.6	3.8	10.4	11.9	9.5	6.2	3.9	-13.6	5.6	-1.1
Slovakia	:	1.4	5.6	4.8	17.6	9.3	8.7	6.4	6.8	5.2	-5.2	6.0	0.2
Finland	-3.8	7.5	2.5	3.5	3.4	4.8	8.7	2.9	1.0	-0.6	-8.5	1.4	-2.9
Euro area	0.3	4.0	2.2	2.3	3.3	5.6	4.4	1.2	0.0	-2.6	-10.4	0.2	-2.7
Bulgaria	:	13.0	14.7	13.5	23.3	14.7	21.7	19.0	20.4	9.0	-12.7	7.0	-2.0
Czech Republic	10.9	0.3	3.5	3.9	1.8	6.5	6.7	4.5	3.1	4.4	-5.1	5.0	-0.2
Denmark	4.3	4.8	4.3	3.9	4.7	13.5	3.1	0.3	-3.6	-4.5	-9.1	-2.3	-0.7
Estonia	:	10.1	15.0	4.8	8.3	20.1	7.6	-2.0	-8.1	-6.2	-20.7	1.7	-1.2
Latvia	:	17.4	17.7	23.8	23.6	16.4	7.5	-10.0	-13.2	-9.0	-24.0	0.0	-8.0
Lithuania	:	8.1	14.1	15.7	11.2	19.4	20.8	-3.2	-6.0	-6.5	-22.1	-2.3	-7.3
Hungary	2.7	8.2	4.3	7.9	8.5	-6.2	1.5	1.5	-2.6	2.7	-10.6	4.6	-2.1
Poland	9.9	6.6	4.0	6.4	6.5	14.9	17.6	13.8	7.9	8.9	-6.2	8.7	-0.8
Romania	10.4	1.1	12.7	11.0	15.3	19.9	29.0	21.3	19.3	10.1	-6.5	10.8	-0.5
Sweden	-1.4	4.4	4.6	5.7	8.9	9.1	7.5	2.6	3.5	-2.3	-14.6	1.6	-2.9
United Kingdom	2.3	5.7	3.5	4.9	2.2	6.0	6.8	-3.3	-3.1	-3.0	-12.3	0.9	-6.3
EU	2.1	4.3	2.7	3.0	3.6	6.2	5.4	1.2	0.1	-1.9	-10.5	0.9	-2.9
USA	7.0	6.0	2.5	6.0	5.8	1.8	-2.2	-2.3	-2.5	-5.5	-12.1	2.5	3.6
Japan	-0.3	-1.6	-0.1	1.4	3.1	0.5	1.1	-2.6	-4.6	-1.8	-11.9	0.4	-2.2

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.4	1.4	3.4	5.7	8.7	4.4	4.4	2.6	2.0	-1.0	-3.0	1.0	-2.3
Germany	2.9	-1.6	-1.9	-3.9	-3.0	5.0	1.8	3.3	3.0	0.1	-4.0	1.7	1.9
Ireland	7.1	10.3	7.8	9.8	12.6	6.0	-1.9	-18.6	-20.2	-22.3	-31.9	4.4	-19.4
Greece	-3.1	6.6	4.0	-5.6	0.6	5.8	1.6	-1.9	-14.6	0.6	-3.9	1.3	0.1
Spain	-0.9	6.6	6.0	5.4	6.1	5.9	3.8	-3.8	-5.3	-7.6	-12.8	-3.0	-8.9
France	-2.5	2.8	3.2	3.6	4.7	5.6	4.2	-1.8	0.7	-3.5	-2.6	-0.5	-2.0
Italy	-2.0	2.2	2.4	2.2	0.5	1.0	1.0	-0.2	-1.8	-1.7	-8.2	-1.3	-1.3
Cyprus	:	-0.1	8.4	9.4	8.6	8.1	13.1	3.8	4.7	1.3	2.0	2.3	0.3
Luxembourg	4.1	6.2	4.5	-7.1	2.2	-0.5	3.6	1.1	1.4	0.0	-4.6	1.2	-1.6
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	1.4	3.7	-0.7	-1.9	3.7	4.1	5.7	6.2	5.3	-1.1	-6.3	-0.2	-4.9
Austria	2.1	-0.4	1.1	1.6	-0.4	4.2	2.8	2.0	1.5	0.2	-6.1	0.9	0.2
Portugal	3.3	6.5	-4.7	-1.8	-3.2	-5.4	-0.2	-3.6	-5.6	-1.5	-14.9	0.7	-9.3
Slovenia	2.3	4.5	4.1	2.0	3.2	6.7	13.5	10.4	8.1	4.7	-13.8	6.2	-1.6
Slovakia	:	1.7	6.9	7.0	13.3	31.0	4.4	6.1	2.0	5.2	-4.3	5.7	0.3
Finland	-5.9	7.8	2.7	4.8	4.1	5.0	8.4	4.0	-1.1	-1.3	-6.8	1.2	-3.1
Euro area	:	2.3	1.7	1.0	1.9	4.3	2.9	0.2	-0.3	-2.5	-6.5	-0.1	-2.5
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	4.3	-4.9	4.1	2.3	2.5	5.4	7.7	5.4	-2.6	5.4	-4.9	6.2	-0.1
Denmark	3.2	2.3	4.7	4.3	7.2	13.3	2.0	-1.6	-5.6	-5.5	-6.0	-4.1	-1.3
Estonia	:	:	:	:	:	:	:	-3.5	-8.1	-8.8	-25.4	1.1	-4.3
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	4.1	13.9	5.8	11.3	22.0	21.3	-2.2	0.4	-8.4	-23.7	-2.3	-7.3
Hungary	:	:	:	:	:	:	:	1.4	-4.9	1.8	-12.4	3.1	-2.8
Poland	:	5.6	3.7	5.3	5.0	13.0	13.3	10.9	2.9	10.2	-3.9	9.8	-1.8
Romania	15.0	3.3	9.9	14.3	13.4	20.1	31.0	21.9	19.7	10.9	-6.0	11.8	0.0
Sweden	-7.4	0.8	4.2	6.3	4.7	10.3	6.4	2.7	1.7	-1.9	-11.8	0.4	0.1
United Kingdom	0.8	2.6	4.7	3.2	3.0	7.3	5.7	-4.0	-3.7	-4.0	-13.2	1.8	-5.7
EU	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	3.9	3.4	1.8	5.1	3.4	-0.2	-4.5	-4.9	-3.7	-7.2	-7.6	2.2	1.5
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	-0.5	6.2	2.0	8.2	6.4	6.4	7.4	-1.8	-4.2	-9.0	0.9	0.3	-2.0
Germany	-2.9	6.3	2.9	6.9	5.4	5.6	5.3	-4.4	-10.0	-19.7	0.3	-1.1	-5.5
Ireland	9.0	10.0	5.6	14.1	-20.0	-10.0	-20.0	0.0	-20.0	-20.0	2.0	3.0	-5.0
Greece	7.4	10.9	10.7	9.1	8.0	4.3	-9.6	5.3	-1.4	-9.5	5.8	0.5	1.5
Spain	-0.1	9.1	5.1	10.0	0.8	0.1	-1.1	-5.2	-12.7	-23.3	-0.9	-4.5	-9.6
France	0.8	7.6	1.2	5.8	2.1	1.3	-0.5	-2.1	-7.8	-11.4	0.2	-0.4	-4.4
Italy	0.1	5.2	1.3	3.0	-0.7	-2.9	-4.6	-1.4	-10.2	-17.8	0.4	0.3	0.3
Cyprus	:	5.3	4.3	4.5	5.0	5.0	21.7	1.3	1.2	1.2	1.0	1.2	1.2
Luxembourg	-4.2	11.0	2.2	22.2	2.5	-10.0	0.0	-3.0	-8.0	-15.0	1.5	2.0	-4.0
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	4.5	6.2	2.4	9.8	8.6	9.7	5.2	-5.0	-5.6	-9.4	-0.9	-0.1	-0.6
Austria	0.9	2.9	0.5	5.9	2.8	2.4	1.2	-1.5	-6.1	-17.9	0.4	-0.7	0.1
Portugal	1.1	9.1	-0.2	8.0	3.8	3.7	3.9	-3.8	-11.0	-17.2	0.5	-3.0	-8.6
Slovenia	9.6	11.8	8.1	9.6	8.8	5.8	3.5	3.0	-2.1	-13.3	5.0	4.4	-0.5
Slovakia	:	1.8	4.4	4.2	6.4	7.2	19.6	4.8	2.3	-4.1	5.9	2.5	0.1
Finland	-1.4	6.7	1.2	11.7	2.0	2.3	3.7	0.7	-6.5	-12.0	2.1	0.6	-2.9
Euro area	:	6.9	2.6	6.9	2.7	2.2	0.6	-2.9	-9.2	-16.4	0.5	-0.8	-3.6
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	17.0	5.6	3.2	5.2	4.0	4.0	10.5	3.5	1.7	-5.9	3.8	1.7	-0.5
Denmark	3.4	6.2	2.8	5.4	1.7	-0.2	-3.7	-4.0	-3.2	-13.0	-0.1	-0.1	0.2
Estonia	:	:	:	:	0.1	-7.0	-9.0	-3.0	-15.0	-15.0	2.5	1.0	2.2
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	13.5	15.2	18.3	-5.5	-5.3	-18.9	-3.2	-9.4	-19.0	-2.6	-2.1	-8.3
Hungary	:	:	:	:	1.6	2.0	1.5	3.8	-4.0	-12.5	6.4	1.5	-1.5
Poland	:	7.1	4.8	22.7	11.5	8.1	14.8	7.4	-4.9	-9.2	7.3	-1.0	1.0
Romania	6.2	9.9	14.9	27.1	21.0	18.0	19.0	9.4	0.7	-7.0	9.8	2.2	-1.0
Sweden	5.1	5.9	5.2	10.1	2.6	4.0	7.2	-2.5	-6.2	-17.5	2.5	-2.0	-5.7
United Kingdom	4.6	8.1	2.3	9.4	-3.2	-2.6	-3.2	-2.5	-11.1	-12.7	-0.4	-2.8	-7.9
EU	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	10.6	7.6	3.8	1.7	-0.3	:	-1.6	-4.2	:	-15.6	2.7	:	5.3
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 12 : Public investment (as a percentage of GDP, 1992-2010)

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.6	1.8	1.7	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.8	1.6	1.8
Germany	2.4	1.8	1.5	1.4	1.4	1.4	1.5	1.5	1.5	1.6	1.9	1.6	2.0
Ireland	2.2	3.2	3.7	3.5	3.5	3.7	4.4	4.8	5.4	4.3	4.4	4.3	4.5
Greece	3.0	3.4	3.3	3.7	2.9	3.0	3.0	3.0	2.9	2.5	3.0	2.5	2.8
Spain	3.7	3.2	3.6	3.4	3.6	3.7	3.8	3.9	3.8	3.9	4.7	3.9	3.7
France	3.2	3.0	3.1	3.1	3.3	3.2	3.3	3.2	3.2	3.3	3.5	3.2	3.5
Italy	2.4	2.3	2.3	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.5	2.2	2.4
Cyprus	:	:	3.3	4.0	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Luxembourg	4.2	4.0	4.4	4.2	4.5	3.6	3.4	4.0	3.9	4.5	4.6	4.7	5.1
Malta	:	4.0	4.4	3.9	4.9	4.1	4.0	3.3	2.7	3.8	3.4	4.2	3.4
Netherlands	2.5	3.1	3.4	3.2	3.3	3.3	3.3	3.4	3.3	3.5	3.5	3.5	3.6
Austria	3.1	1.6	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Portugal	3.7	4.0	3.0	3.1	2.9	2.4	2.3	2.3	2.1	2.5	2.5	2.3	2.0
Slovenia	:	3.1	3.3	3.5	3.2	3.7	3.7	3.8	4.2	3.7	4.4	3.7	4.4
Slovakia	:	3.6	2.5	2.4	2.1	2.2	1.9	1.9	1.8	1.9	2.0	2.0	2.1
Finland	2.9	2.8	2.7	2.9	2.6	2.4	2.5	2.6	2.5	2.6	2.8	2.6	2.9
Euro area	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.5	2.6	2.9	2.6	2.8
Bulgaria	:	3.1	3.4	2.9	4.2	4.2	4.8	5.2	5.6	5.7	6.7	6.3	7.0
Czech Republic	:	3.8	4.6	4.8	4.9	5.0	4.7	4.9	4.8	5.2	5.4	5.3	5.8
Denmark	1.8	1.7	1.8	1.9	1.8	1.9	1.7	1.8	1.8	1.8	2.0	1.8	2.1
Estonia	:	4.3	4.5	3.8	4.0	5.1	5.4	5.6	5.6	6.0	6.2	6.2	6.8
Latvia	:	1.3	2.9	3.1	3.1	4.6	5.7	5.6	4.9	6.2	5.6	6.3	6.1
Lithuania	:	2.4	3.4	3.4	3.4	4.1	5.2	5.3	4.9	5.5	5.0	5.7	5.8
Hungary	:	3.1	4.1	3.5	4.0	4.4	3.6	3.3	2.8	3.1	3.1	3.2	3.6
Poland	:	3.4	3.5	3.4	3.4	3.9	4.1	4.0	4.6	4.9	5.5	5.3	6.0
Romania	:	2.5	3.8	3.0	3.9	5.1	5.7	5.7	5.4	5.8	6.3	6.0	6.7
Sweden	2.7	3.0	3.0	2.9	3.0	3.1	3.1	3.2	3.3	3.3	3.6	3.3	3.7
United Kingdom	1.8	1.3	1.4	1.7	0.7	1.8	1.8	2.0	2.3	2.0	2.7	2.2	2.7
EU	:	2.4	2.4	2.4	2.3	2.5	2.5	2.6	2.6	2.6	2.8	2.7	2.8
USA	2.4	2.5	2.5	2.5	2.5	2.5	2.6	3.4	3.5	3.6	4.3	3.7	5.6
Japan	6.2	5.5	4.0	3.9	3.6	3.3	3.1	3.0	3.0	2.9	3.2	2.8	3.2

**TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2010) <sup>1</sup>**

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-0.7	0.2	0.2	0.3	0.5	1.6	2.5	0.6	1.9	-1.1	-2.6	-1.9	-3.8
Germany	0.2	0.1	-0.4	-0.9	-0.9	1.1	2.7	1.6	3.0	0.2	-3.2	-0.2	-3.7
Ireland	-3.1	2.2	1.9	0.8	1.9	2.7	5.0	-1.4	0.8	-3.8	-7.2	-2.9	-8.5
Greece	-1.8	-1.2	1.2	2.2	1.3	2.0	2.5	1.5	2.5	0.7	-0.5	0.2	-2.4
Spain	-2.5	0.0	-0.1	-0.5	-0.3	0.6	1.4	-0.2	0.9	-2.1	-2.5	-3.1	-3.6
France	-2.1	-0.2	1.0	1.0	1.2	1.7	2.2	0.3	1.7	-1.1	-2.2	-1.6	-3.1
Italy	-1.4	-0.1	0.7	0.5	0.6	1.9	2.6	-0.3	0.9	-1.3	-3.7	-1.8	-4.0
Cyprus	:	0.1	0.1	-0.4	-0.3	0.5	1.9	0.2	2.2	-0.3	0.4	-0.4	-1.3
Luxembourg	-0.8	0.0	0.9	-0.5	0.9	3.9	5.6	0.7	1.2	-1.6	-4.2	-2.6	-5.9
Malta	:	2.0	-1.6	-3.4	-1.5	-0.2	1.4	0.6	1.8	0.2	-0.2	-0.1	-1.1
Netherlands	-1.0	1.0	-0.9	-1.4	-0.9	0.7	2.4	1.4	2.7	0.0	-2.0	-0.9	-3.3
Austria	-0.6	0.7	-0.6	-1.4	-0.5	1.2	2.7	1.3	2.9	0.0	-2.2	-0.5	-3.3
Portugal	-1.5	1.5	-0.5	-1.1	-0.9	-0.2	1.3	-0.6	0.8	-1.4	-2.7	-1.7	-3.5
Slovenia	:	0.2	-0.4	-1.1	-0.4	1.7	4.5	1.7	3.2	0.1	-1.3	-0.6	-2.7
Slovakia	:	-1.7	-1.0	-1.6	-0.7	1.8	6.5	2.9	8.0	0.8	0.9	-0.7	-2.2
Finland	-4.0	1.8	0.1	-0.3	-0.1	2.4	4.1	0.9	2.7	-0.6	-3.1	-1.1	-3.9
Euro area	-1.3	0.1	0.2	-0.1	0.0	1.4	2.5	0.6	2.0	-0.7	-2.8	-1.3	-3.6
Bulgaria	:	-3.0	2.5	2.7	2.9	3.3	3.6	1.5	3.7	-0.1	-2.0	-1.2	-5.4
Czech Republic	:	-2.8	-0.4	-1.6	0.9	3.8	5.9	2.4	5.3	1.2	-0.7	0.3	-3.3
Denmark	-1.1	1.1	0.3	-0.2	0.8	2.4	2.4	0.1	-0.2	-1.2	-4.0	-1.6	-4.5
Estonia	:	-1.2	3.3	1.6	4.4	8.8	10.4	1.1	3.3	-4.1	-8.6	-5.4	-10.3
Latvia	:	-1.5	3.0	1.3	4.6	10.1	15.0	3.6	6.6	-2.9	-7.9	-5.0	-10.6
Lithuania	:	-3.8	3.1	3.5	4.7	6.1	8.9	4.4	7.6	0.3	-6.1	-3.8	-11.7
Hungary	:	-0.9	1.1	0.9	1.6	3.6	3.3	1.2	3.0	0.0	-3.7	0.0	-4.1
Poland	:	0.4	-0.1	0.6	0.1	1.7	3.4	1.5	3.5	-0.1	-1.5	-1.0	-3.8
Romania	:	-5.5	0.9	2.2	2.1	5.4	6.6	4.8	8.5	3.4	0.2	2.8	-3.0
Sweden	-3.8	-0.8	0.9	0.8	1.7	3.2	3.3	0.4	0.9	-1.4	-3.8	-1.4	-3.4
United Kingdom	-1.7	0.5	0.8	1.0	0.8	1.4	2.4	1.0	1.6	-1.4	-3.1	-2.5	-3.8
EU	:	0.1	0.3	0.1	0.3	1.5	2.6	0.7	2.0	-0.8	-2.9	-1.5	-3.7

<sup>1</sup> When comparing output gaps between the spring and the autumn forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

**TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1992-2010)**

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	2.2	1.5	2.1	2.4	2.4	2.3	2.4	2.8	1.7	2.4	2.2	2.0	1.3
Germany	2.7	0.3	1.0	1.0	0.7	0.5	1.9	1.9	1.5	2.1	1.2	1.9	0.7
Ireland	2.8	5.2	3.0	2.0	2.3	3.4	1.4	-0.6	-0.3	0.7	-1.2	1.1	-0.3
Greece	11.5	4.8	3.4	3.3	3.4	3.2	2.9	3.7	3.3	3.3	2.1	3.2	2.7
Spain	4.7	3.0	4.2	4.0	4.3	4.0	3.2	3.2	3.0	2.1	1.1	2.4	1.8
France	1.6	1.1	2.1	1.6	2.0	2.5	2.5	2.5	2.4	1.9	1.4	1.8	1.2
Italy	4.3	2.4	2.6	2.6	2.1	1.8	2.4	3.3	2.8	2.3	1.9	2.2	1.5
Cyprus	3.6	3.0	3.0	3.3	2.4	3.0	3.4	4.4	4.8	3.3	5.3	3.5	2.5
Luxembourg	3.7	1.0	4.0	1.9	4.5	5.4	2.0	0.5	1.6	0.3	1.9	2.9	1.6
Malta	3.0	2.1	2.7	1.3	2.9	3.1	2.8	2.5	2.4	2.2	2.4	2.2	1.8
Netherlands	1.9	3.1	2.2	0.7	2.4	1.7	1.5	1.5	2.7	2.5	1.6	1.9	1.1
Austria	2.4	0.7	1.6	1.7	2.1	1.8	2.1	2.8	2.4	2.3	1.4	1.8	1.0
Portugal	6.4	3.5	3.0	2.4	2.5	2.8	3.0	2.1	1.8	3.1	2.2	2.2	1.6
Slovenia	47.9	7.2	4.0	3.4	1.6	2.0	4.1	4.3	4.0	4.1	1.9	3.8	2.0
Slovakia	:	6.6	4.1	5.9	2.4	2.9	1.1	3.7	2.9	3.7	3.6	3.3	3.7
Finland	1.7	2.4	0.7	0.6	0.5	1.3	3.2	3.4	2.7	2.4	1.7	2.1	1.5
Euro area	3.4	1.6	2.1	1.9	2.0	2.0	2.3	2.5	2.3	2.2	1.5	2.1	1.2
Bulgaria	71.8	72.6	4.7	5.1	3.8	8.5	7.9	10.1	11.4	7.8	4.9	6.1	3.1
Czech Republic	13.4	5.7	1.8	4.5	-0.3	0.9	3.6	3.2	1.7	2.3	1.6	2.0	1.4
Denmark	1.4	2.1	2.2	2.3	2.9	2.0	2.0	3.4	4.3	2.6	1.5	2.5	1.4
Estonia	:	6.8	4.8	3.3	5.3	7.0	9.6	9.2	7.8	5.3	-0.1	3.3	-0.8
Latvia	98.5	4.3	6.8	7.0	10.2	9.9	20.3	14.9	15.2	4.2	-2.2	4.1	-3.6
Lithuania	160.7	3.1	3.0	2.5	6.6	6.5	8.8	11.5	10.3	6.0	2.3	4.9	-1.2
Hungary	21.8	11.5	4.8	4.4	2.2	3.9	5.7	5.3	3.6	3.9	4.6	3.2	3.2
Poland	30.3	8.3	2.2	4.1	2.6	1.5	4.0	4.4	2.9	3.2	1.9	2.5	1.6
Romania	115.1	62.6	16.7	15.5	12.2	10.6	12.7	14.4	14.0	10.0	9.7	8.0	6.6
Sweden	2.3	1.4	1.3	0.2	0.9	1.7	3.0	1.1	3.3	1.8	1.6	1.8	0.9
United Kingdom	2.9	2.1	2.7	2.5	2.2	2.6	2.8	3.3	2.3	2.3	0.8	2.0	1.4
EU	20.6	2.3	2.3	2.1	2.1	2.2	2.6	2.9	2.6	2.4	1.5	2.2	1.3
USA	2.1	1.8	2.6	2.9	3.3	3.2	2.7	2.5	2.2	2.1	1.6	0.8	0.1
Japan	0.1	-0.7	-1.3	-1.1	-1.2	-0.9	-0.7	-0.7	-0.9	0.1	1.4	0.5	-0.4

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.8	1.7	2.2	2.6	2.9	2.8	2.8	4.6	4.3	2.5	0.3	2.1	1.2
Germany	2.4	1.0	1.4	1.3	1.5	1.3	1.7	2.4	2.2	2.0	0.5	1.8	0.7
Ireland	2.8	3.7	2.9	1.6	1.5	2.2	3.0	3.3	3.0	2.0	-1.6	1.6	0.3
Greece	11.6	4.5	3.2	3.3	3.4	3.5	3.2	4.5	4.1	3.9	2.0	3.5	2.1
Spain	4.9	2.8	3.3	3.6	3.4	3.4	3.2	4.1	3.8	2.2	0.2	2.7	1.7
France	1.6	0.9	1.7	1.9	1.8	2.2	2.0	3.0	2.7	1.8	0.3	1.7	1.0
Italy	5.1	2.4	2.6	2.6	2.3	2.7	2.2	3.6	3.2	2.0	0.8	2.1	1.8
Cyprus	:	2.3	2.6	1.8	2.5	2.3	2.8	4.6	5.7	3.0	1.4	3.3	2.3
Luxembourg	2.8	2.3	2.0	2.4	2.7	2.2	2.1	3.7	4.9	2.5	0.1	2.7	1.9
Malta	:	1.9	2.0	2.3	2.6	2.4	1.7	4.3	3.0	2.9	1.0	2.2	1.8
Netherlands	2.4	2.9	2.1	1.0	2.1	1.9	1.6	2.9	2.3	3.1	1.3	2.5	1.1
Austria	2.5	1.4	1.6	2.0	2.2	1.8	2.1	3.4	3.0	2.2	0.4	1.9	1.1
Portugal	5.7	2.8	2.9	2.5	2.7	3.1	2.7	2.9	2.7	2.4	-0.2	2.1	1.5
Slovenia	45.8	7.3	4.1	3.0	2.2	2.4	4.1	6.2	6.5	3.7	0.7	3.1	2.0
Slovakia	:	7.5	4.8	7.3	2.6	4.9	2.6	4.3	4.3	3.7	2.3	3.4	3.0
Finland	1.9	2.5	1.0	1.0	0.6	1.6	2.3	4.2	3.5	2.8	1.4	1.8	1.3
Euro area	3.5	1.7	2.1	2.1	2.1	2.2	2.2	3.2	2.9	2.2	0.5	2.1	1.2
Bulgaria	80.5	70.1	3.9	4.4	5.2	5.7	6.8	11.3	11.0	6.4	3.0	5.3	2.9
Czech Republic	11.2	5.3	1.3	3.3	0.8	1.5	2.9	5.9	5.4	3.0	1.0	2.5	1.5
Denmark	1.7	2.1	1.5	1.3	1.5	1.9	1.8	3.1	3.1	2.1	0.9	1.9	1.4
Estonia	:	6.6	2.7	2.0	3.5	4.1	7.8	10.6	10.2	4.8	0.7	3.3	0.6
Latvia	:	4.1	5.4	7.1	8.7	6.0	10.3	14.0	15.6	6.0	2.0	4.0	-1.0
Lithuania	:	3.0	0.9	-0.3	1.7	4.0	5.7	10.7	9.8	6.3	3.0	6.9	-1.1
Hungary	:	11.8	4.0	4.6	3.8	3.4	6.4	6.3	5.5	3.8	4.7	2.9	3.6
Poland	31.6	9.0	2.0	3.0	2.1	1.2	2.4	4.3	3.8	3.5	2.6	2.6	1.9
Romania	117.3	59.7	12.0	12.7	6.9	4.9	4.9	7.9	9.0	5.5	6.1	4.1	3.9
Sweden	3.1	1.3	1.3	0.9	1.2	1.0	1.1	2.8	2.8	2.4	1.2	1.9	0.9
United Kingdom	3.4	1.8	2.0	1.6	2.5	2.3	2.4	3.5	2.4	1.9	1.1	1.2	1.2
EU	20.9	2.5	2.1	2.1	2.2	2.2	2.3	3.5	3.0	2.3	0.8	2.0	1.3
USA	2.3	1.8	2.4	2.6	2.9	2.8	2.6	3.8	3.3	1.5	-0.4	0.8	0.0
Japan	0.2	-0.2	-0.8	-0.7	-0.8	-0.2	-0.4	0.4	0.5	0.1	-1.4	0.2	-0.6

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1992-2010)

	5-year averages			2007	2008			2009			2010		
	1992-96	1997-01	2002-06		X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	2.2	1.7	2.0	1.8	4.7	4.5	4.5	2.5	1.1	0.3	2.0	2.0	1.2
Germany	3.1	1.2	1.6	2.3	3.0	2.8	2.8	2.1	0.8	0.3	1.9	1.4	0.7
Ireland	2.2	3.0	3.2	2.9	3.3	3.1	3.1	2.1	0.7	-1.3	1.8	1.8	0.4
Greece	11.6	3.7	3.4	3.0	4.4	4.2	4.2	3.5	2.5	1.8	3.3	2.7	2.3
Spain	4.7	2.4	3.3	2.8	4.2	4.1	4.1	2.1	0.6	-0.1	2.8	2.4	1.4
France	2.0	1.2	2.1	1.6	3.3	3.2	3.2	1.8	0.8	0.2	1.7	1.5	0.9
Italy	4.6	2.1	2.4	2.0	3.6	3.5	3.5	2.0	1.2	0.8	2.1	2.2	1.8
Cyprus	4.3	2.7	2.6	2.2	4.5	4.4	4.4	2.9	2.0	1.1	3.2	2.3	2.0
Luxembourg	1.8	1.9	2.9	2.7	4.4	4.1	4.1	2.2	0.6	-0.6	2.7	2.5	2.0
Malta	3.3	3.1	2.5	0.7	4.4	4.6	4.7	3.0	1.9	1.0	2.2	2.2	1.8
Netherlands	2.5	2.6	2.1	1.6	2.5	2.2	2.2	3.0	1.9	1.4	2.3	1.8	0.9
Austria	2.9	1.3	1.7	2.2	3.4	3.3	3.2	2.1	1.2	0.5	1.9	1.6	1.1
Portugal	5.6	2.7	2.9	2.2	2.9	2.7	2.7	2.3	1.0	-0.3	2.1	2.0	1.7
Slovenia	:	8.0	4.3	3.8	6.2	5.5	5.5	3.7	0.9	0.7	3.1	2.8	2.0
Slovakia	:	8.5	5.3	1.9	4.0	4.0	3.9	3.5	2.9	2.0	3.3	3.5	2.4
Finland	1.5	1.9	1.1	1.6	4.2	3.9	3.9	2.6	1.8	1.3	1.8	1.8	1.1
Euro area	3.4	1.7	2.2	2.1	3.5	3.3	3.3	2.2	1.0	0.4	2.1	1.8	1.2
Bulgaria	87.7	:	5.5	7.6	12.4	12.0	12.0	7.9	5.4	3.9	6.8	4.8	3.6
Czech Republic	:	5.6	1.5	3.0	6.6	6.3	6.3	3.1	2.6	1.1	2.7	2.3	1.6
Denmark	1.9	2.1	1.8	1.7	3.8	3.6	3.6	2.3	1.6	0.9	2.0	1.9	1.4
Estonia	120.7	6.1	3.3	6.7	10.6	10.6	10.6	4.9	3.2	0.6	3.3	2.7	0.5
Latvia	70.3	3.9	4.9	10.1	15.7	15.3	15.3	8.2	6.8	4.6	4.7	2.4	-0.7
Lithuania	179.8	3.9	1.4	5.8	11.9	11.1	11.1	7.1	5.6	3.6	7.5	4.8	-0.4
Hungary	23.2	12.3	4.8	7.9	6.3	6.1	6.0	3.9	2.8	4.4	2.9	2.2	4.1
Poland	31.4	9.8	1.9	2.6	4.3	4.2	4.2	3.5	2.9	2.6	2.6	2.5	1.9
Romania	116.9	63.2	12.9	4.9	7.8	7.9	7.9	5.7	5.7	5.8	4.0	4.0	3.5
Sweden	2.4	1.5	1.5	1.7	3.0	3.3	3.3	1.7	0.7	1.6	1.9	1.0	0.7
United Kingdom	2.8	1.3	1.7	2.3	3.7	3.4	3.6	1.9	0.1	1.0	1.2	1.1	1.3
EU	22.1	4.3	2.3	2.4	3.9	3.7	3.7	2.4	1.2	0.9	2.2	1.9	1.3
USA	2.9	2.5	2.6	2.8	4.4	:	3.8	1.5	:	-0.7	0.8	:	0.3
Japan	0.7	0.1	-0.2	0.0	1.6	:	1.4	0.8	:	-1.0	0.7	:	-0.5

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2008-2010) 22.04.2009

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	3.8	5.0	5.6	3.6	1.6	-0.1	-0.5	0.4	0.9	1.3	1.3	1.2
Germany	3.1	3.0	3.3	1.7	0.8	0.2	-0.1	0.5	0.9	0.8	0.7	0.5
Ireland	3.4	3.6	3.3	2.1	0.2	-1.6	-2.2	-1.5	-0.4	0.1	0.6	1.0
Greece	4.3	4.8	4.8	3.1	1.8	1.5	1.8	1.9	2.1	2.1	2.3	2.6
Spain	4.5	4.7	5.0	2.5	0.4	-0.4	-0.9	0.7	1.4	1.6	1.3	1.3
France	3.3	3.7	3.6	2.1	0.7	-0.2	-0.2	0.5	1.1	1.0	0.9	0.8
Italy	3.3	3.8	4.1	2.9	1.4	0.6	0.1	1.0	1.7	1.8	1.8	1.8
Cyprus	4.4	4.7	5.2	3.3	0.9	0.4	1.0	2.1	2.1	2.1	2.0	1.8
Luxembourg	4.2	4.8	5.1	2.2	0.2	-1.4	-1.7	0.6	2.1	2.1	2.0	1.9
Malta	4.0	4.2	5.3	5.2	3.5	-0.7	-0.6	1.7	1.6	1.8	2.0	2.2
Netherlands	1.9	2.0	2.9	2.0	1.8	1.1	0.8	1.9	1.3	0.9	0.7	0.8
Austria	3.2	3.7	3.7	2.2	1.1	0.3	-0.3	1.1	1.5	1.4	1.1	0.5
Portugal	3.0	2.9	3.1	1.6	-0.1	-0.8	-0.5	0.5	1.2	1.5	1.7	1.9
Slovenia	6.5	6.4	6.1	3.1	1.7	0.0	-0.1	1.4	2.0	2.0	2.1	2.0
Slovakia	3.4	4.0	4.5	3.9	2.3	1.7	1.8	2.0	2.6	2.8	2.4	1.8
Finland	3.5	3.9	4.6	3.8	2.4	1.1	0.6	1.1	0.8	1.0	1.0	1.4
Euro area	3.4	3.6	3.8	2.3	1.0	0.2	-0.1	0.7	1.2	1.3	1.1	1.1
Bulgaria	12.4	14.0	12.5	9.0	5.1	4.0	3.1	3.3	3.8	3.8	3.6	3.2
Czech Republic	7.6	6.7	6.5	4.4	1.5	1.1	0.9	0.8	1.3	1.5	1.7	1.9
Denmark	3.2	3.7	4.6	3.0	1.7	0.9	0.2	0.7	1.1	1.3	1.6	1.5
Estonia	11.3	11.5	11.0	8.7	3.7	0.9	-0.8	-1.3	0.0	0.6	0.6	0.9
Latvia	16.3	17.5	15.6	11.9	9.0	5.4	2.7	1.5	-0.6	-1.1	-0.6	-0.4
Lithuania	10.8	12.3	12.0	9.4	8.4	4.8	1.9	-0.4	-1.8	-1.2	-0.1	1.5
Hungary	6.9	6.8	6.3	4.2	2.7	2.6	5.8	6.5	6.8	6.0	2.2	1.8
Poland	4.5	4.3	4.4	3.6	3.6	3.3	2.2	1.5	1.6	1.8	2.1	1.9
Romania	8.0	8.6	8.2	6.8	6.9	6.0	5.4	4.7	3.6	3.6	3.6	3.4
Sweden	3.1	3.6	4.0	2.7	2.1	1.8	1.5	1.1	0.8	0.7	0.6	0.6
United Kingdom	2.4	3.4	4.8	3.8	3.1	1.1	0.1	0.0	1.2	1.4	1.2	1.2
EU	3.5	3.9	4.3	2.9	1.6	0.7	0.3	0.8	1.3	1.4	1.3	1.2
USA	4.2	4.3	5.2	1.5	-0.1	-0.9	-2.1	0.2	0.7	0.4	0.2	0.1
Japan	1.0	1.4	2.2	1.0	-0.2	-0.9	-1.8	-1.2	-0.6	-0.5	-0.5	-0.3

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1992-2010)

	5-year averages			2008					2009		2010		
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	0.0	3.2	1.4	2.0	4.9	4.1	2.9	3.2	3.9	3.4	-2.4	2.1	1.6
Germany	0.4	0.5	-0.1	-0.2	0.6	1.3	0.5	2.1	0.5	2.5	-1.4	1.8	0.4
Ireland	1.4	1.4	-2.5	-3.5	-0.6	0.5	-3.6	-4.0	-3.0	1.9	-0.8	0.0	0.5
Greece	7.5	4.1	1.9	2.2	0.6	5.3	3.0	7.0	5.7	3.8	1.8	3.0	2.2
Spain	3.5	2.1	1.7	1.3	5.0	4.4	2.0	3.3	2.9	1.8	-1.7	1.8	1.8
France	-0.8	0.0	-0.1	0.5	1.5	2.3	0.4	1.6	0.1	2.4	-3.1	2.0	1.6
Italy	4.7	2.0	2.6	2.5	4.4	5.2	4.7	4.3	5.3	3.6	0.8	3.2	2.6
Cyprus	:	3.6	0.7	2.3	2.5	6.8	2.7	3.0	1.6	2.5	1.4	2.4	2.2
Luxembourg	-0.2	0.5	2.3	6.6	5.9	3.0	5.2	3.0	5.8	2.7	-1.5	2.0	1.0
Malta	:	1.4	-0.4	-6.1	-3.0	8.2	7.8	-1.7	10.2	-0.7	0.9	0.1	2.0
Netherlands	-0.9	0.9	0.5	0.5	3.7	3.3	1.4	3.4	4.5	2.3	-4.1	1.6	1.7
Austria	0.3	0.5	0.8	1.0	2.1	2.6	1.7	1.7	1.4	1.9	-0.9	1.7	0.5
Portugal	0.7	1.9	0.8	1.1	1.8	4.5	2.7	3.0	2.3	2.1	-0.9	2.4	2.1
Slovenia	39.9	5.3	2.8	2.6	2.7	2.8	2.8	3.0	1.5	3.0	0.2	2.4	1.9
Slovakia	:	5.0	1.7	2.7	1.5	1.8	0.5	-1.4	0.9	0.4	1.1	1.9	0.8
Finland	3.7	-1.6	-0.4	-0.6	1.0	3.0	0.1	1.7	0.5	0.2	-3.4	0.8	0.4
Euro area	1.6	1.1	0.5	0.6	2.3	2.8	1.4	2.4	1.9	2.5	-1.7	1.9	1.3
Bulgaria	:	:	4.8	6.5	7.5	17.0	5.9	8.1	8.1	3.5	-6.4	3.8	5.7
Czech Republic	:	2.0	-1.8	2.1	-2.8	-1.6	-0.1	-6.8	-5.9	1.3	5.1	1.6	0.9
Denmark	0.2	1.3	1.6	0.6	5.0	3.7	1.8	5.8	7.0	2.6	-3.2	2.0	0.8
Estonia	:	4.5	2.3	1.2	5.0	7.6	6.6	7.5	6.1	5.5	-4.0	3.3	-1.0
Latvia	:	-0.2	8.8	13.6	10.2	9.7	13.4	9.0	9.8	3.5	-11.0	3.5	1.0
Lithuania	:	0.8	2.9	7.7	9.6	4.9	6.7	15.0	13.5	4.7	-5.5	4.2	3.3
Hungary	:	8.6	-0.3	-1.6	-0.7	6.5	-4.5	4.3	0.6	3.7	13.9	3.0	2.0
Poland	21.1	6.5	3.8	9.4	-3.3	2.5	2.8	-2.8	-2.7	3.0	12.0	1.8	1.7
Romania	115.2	49.6	9.8	13.3	-0.2	5.8	0.4	17.0	6.6	8.0	11.7	6.4	4.1
Sweden	2.1	0.0	0.2	-0.7	2.9	3.7	2.1	2.0	3.4	2.0	10.0	1.5	1.0
United Kingdom	3.1	-2.7	0.9	-0.2	1.4	2.1	2.8	16.8	13.5	7.5	3.7	3.3	3.7
EU	:	5.8	0.7	0.8	2.0	2.8	1.5	2.7	2.8	2.7	0.0	2.1	1.5
USA	-0.3	-1.4	2.3	3.7	3.1	3.3	3.5	7.2	5.4	3.5	-7.0	2.0	0.6
Japan	:	-1.9	-0.3	-1.3	1.4	3.7	2.2	-1.0	-4.6	1.1	-6.0	1.4	1.4

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	0.2	3.9	1.5	2.8	4.8	4.4	2.3	4.3	7.4	3.8	-4.0	2.1	1.7
Germany	-1.2	1.2	-0.2	0.2	2.4	3.2	-0.4	3.3	1.5	2.3	-2.5	1.2	1.0
Ireland	1.6	3.4	-2.6	-1.6	-0.6	4.4	1.4	1.5	2.3	3.0	-4.4	1.0	2.4
Greece	7.2	4.3	3.2	1.7	9.1	3.9	3.0	6.7	6.9	4.9	-3.5	3.9	3.0
Spain	2.9	2.1	1.1	2.3	4.2	4.0	1.9	3.9	3.6	1.7	-4.1	1.6	2.4
France	-1.0	0.2	-0.1	0.7	2.8	2.8	0.2	4.4	2.9	2.5	-5.9	2.2	2.0
Italy	5.0	2.1	3.3	3.0	6.8	8.9	3.1	6.0	8.1	1.9	-6.2	2.5	3.0
Cyprus	:	2.3	2.4	4.0	6.4	2.3	2.6	4.6	4.4	2.5	-8.0	2.5	2.3
Luxembourg	0.4	1.9	1.6	6.2	6.4	1.3	1.7	4.0	6.5	2.5	-6.0	2.0	1.5
Malta	:	2.5	1.9	0.3	1.6	10.9	5.6	1.8	14.0	1.3	-1.8	1.5	2.2
Netherlands	-1.3	0.2	0.1	1.0	3.2	3.8	1.7	5.8	4.5	3.1	-4.9	2.6	2.3
Austria	0.4	0.7	0.9	1.1	2.9	3.7	1.6	2.7	2.5	2.2	-2.0	1.7	0.6
Portugal	0.6	1.7	0.9	2.2	3.0	4.0	1.2	5.0	5.1	0.7	-5.5	2.3	2.2
Slovenia	36.0	5.5	3.1	3.9	5.2	3.3	2.6	5.9	3.5	2.8	-1.1	2.1	2.0
Slovakia	:	4.6	2.1	2.3	1.7	3.6	1.6	-0.4	2.8	0.5	-0.1	2.2	-0.1
Finland	3.2	-1.0	2.0	2.2	5.5	7.1	1.8	3.6	3.4	1.5	-4.2	1.7	1.5
Euro area	1.1	1.5	0.8	1.3	3.7	4.2	1.2	4.2	3.9	2.4	-4.2	1.9	1.8
Bulgaria	:	:	4.0	5.9	10.0	11.4	7.3	8.0	10.8	1.7	-7.3	3.1	4.0
Czech Republic	:	1.9	-1.8	1.4	-1.1	0.1	-1.4	-6.0	-3.9	1.5	5.0	1.9	1.1
Denmark	-0.8	0.4	0.7	0.0	3.6	3.1	2.9	4.4	6.3	2.4	-3.9	1.9	0.8
Estonia	:	2.7	1.6	1.0	3.6	4.8	3.2	6.8	6.9	2.6	-6.0	2.8	2.0
Latvia	:	2.2	8.6	8.2	12.3	9.6	5.7	9.0	9.2	4.0	-7.0	3.5	3.0
Lithuania	:	-1.5	1.6	-0.5	9.0	8.8	4.8	9.9	9.0	2.9	-9.0	4.9	3.2
Hungary	:	9.1	0.6	-1.0	1.5	8.0	-4.4	4.4	1.7	3.4	12.5	2.8	2.0
Poland	19.3	7.7	3.5	4.9	-4.2	2.8	0.8	-3.0	-1.2	3.0	12.5	1.8	1.6
Romania	125.4	41.5	6.6	8.7	-3.6	-1.2	-9.0	7.5	3.6	3.1	3.5	1.8	2.0
Sweden	2.9	1.5	1.3	0.7	5.1	3.9	-0.5	7.0	4.2	3.0	7.5	1.8	2.0
United Kingdom	3.4	-2.8	0.4	-0.6	3.8	2.6	1.3	15.7	13.0	6.3	6.2	2.6	4.3
EU	:	5.2	0.8	1.2	3.4	3.9	0.9	4.0	4.7	2.6	-1.6	2.0	2.0
USA	-0.2	-1.7	3.3	5.0	6.5	4.2	3.6	12.3	11.2	0.2	-12.7	2.6	1.4
Japan	:	-0.8	4.2	2.8	9.3	12.6	7.0	6.0	7.2	1.5	-18.0	1.6	2.0

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-0.2	-0.7	-0.1	-0.8	0.1	-0.3	0.5	-1.0	-3.3	-0.4	1.7	0.0	-0.1
Germany	1.6	-0.7	0.1	-0.4	-1.8	-1.8	0.8	-1.2	-1.0	0.2	1.1	0.6	-0.6
Ireland	-0.2	-2.0	0.1	-1.9	0.0	-3.7	-4.9	-5.4	-5.2	-1.1	3.8	-1.0	-1.9
Greece	0.3	-0.1	-1.3	0.5	-7.8	1.3	0.0	0.3	-1.1	-1.0	5.4	-0.9	-0.8
Spain	0.6	0.0	0.5	-1.0	0.8	0.4	0.1	-0.6	-0.7	0.1	2.5	0.2	-0.6
France	0.1	-0.2	-0.1	-0.2	-1.3	-0.5	0.2	-2.7	-2.7	-0.1	3.0	-0.2	-0.3
Italy	-0.3	-0.1	-0.7	-0.5	-2.3	-3.4	1.5	-1.6	-2.6	1.7	7.5	0.7	-0.4
Cyprus	:	1.3	-1.7	-1.6	-3.7	4.3	0.1	-1.5	-2.6	0.0	10.2	-0.1	-0.1
Luxembourg	-0.6	-1.4	0.7	0.4	-0.4	1.7	3.4	-1.0	-0.6	0.2	4.8	0.0	-0.5
Malta	:	-1.1	-2.2	-6.5	-4.5	-2.5	2.2	-3.4	-3.4	-2.0	2.7	-1.3	-0.2
Netherlands	0.4	0.7	0.4	-0.4	0.5	-0.4	-0.3	-2.3	0.0	-0.8	0.8	-1.0	-0.6
Austria	-0.1	-0.2	-0.1	-0.1	-0.8	-1.1	0.1	-1.0	-1.1	-0.2	1.1	0.0	-0.1
Portugal	0.1	0.2	-0.1	-1.1	-1.2	0.4	1.5	-1.9	-2.6	1.3	4.9	0.1	-0.1
Slovenia	2.9	-0.2	-0.3	-1.2	-2.4	-0.4	0.2	-2.7	-2.0	0.3	1.3	0.4	-0.1
Slovakia	:	0.4	-0.3	0.4	-0.2	-1.8	-1.1	-1.0	-1.9	-0.1	1.3	-0.3	0.9
Finland	0.5	-0.6	-2.3	-2.8	-4.3	-3.8	-1.6	-1.8	-2.8	-1.3	0.8	-0.9	-1.1
Euro area	:	-0.4	-0.2	-0.7	-1.4	-1.4	0.2	-1.7	-1.9	0.1	2.5	0.0	-0.5
Bulgaria	:	:	0.8	0.6	-2.2	5.1	-1.4	0.1	-2.5	1.8	1.0	0.7	1.6
Czech Republic	:	0.1	-0.1	0.7	-1.7	-1.7	1.3	-0.9	-2.1	-0.2	0.1	-0.3	-0.2
Denmark	1.0	0.9	0.9	0.6	1.3	0.6	-1.1	1.3	0.6	0.2	0.7	0.1	0.0
Estonia	:	1.7	0.7	0.2	1.3	2.7	3.3	0.7	-0.8	2.8	2.1	0.5	-2.9
Latvia	:	-2.3	0.2	5.0	-1.8	0.0	7.2	0.0	0.6	-0.5	-4.3	0.0	-1.9
Lithuania	:	2.3	1.2	8.3	0.6	-3.5	1.8	4.6	4.1	1.7	3.8	-0.7	0.1
Hungary	:	-0.4	-0.9	-0.7	-2.2	-1.4	-0.1	0.0	-1.1	0.3	1.2	0.2	0.0
Poland	1.5	-1.1	0.3	4.3	1.0	-0.3	2.0	0.2	-1.5	0.0	-0.4	0.0	0.1
Romania	-4.5	5.8	3.0	4.3	3.5	7.2	10.3	8.8	2.9	4.8	7.9	4.5	2.1
Sweden	-0.7	-1.5	-1.0	-1.4	-2.0	-0.3	2.7	-4.7	-0.7	-1.0	2.3	-0.3	-1.0
United Kingdom	-0.3	0.1	0.4	0.4	-2.3	-0.6	1.5	0.9	0.4	1.1	-2.4	0.7	-0.6
EU	:	:	-0.1	-0.4	-1.3	-1.1	0.6	-1.2	-1.8	0.1	1.7	0.1	-0.5
USA	-0.1	0.4	-1.0	-1.2	-3.2	-0.8	-0.1	-4.6	-5.2	3.2	6.5	-0.6	-0.7
Japan	:	-1.1	-4.3	-4.0	-7.2	-8.0	-4.4	-6.6	-11.0	-0.4	14.6	-0.2	-0.6

TABLE 21 : Total population (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	0.3	0.2	0.5	0.4	0.5	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7
Germany	0.5	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2
Ireland	0.6	1.3	2.0	1.7	2.2	2.5	2.4	1.9	1.9	0.8	0.4	0.8	0.2
Greece	0.9	0.4	0.4	0.3	0.4	0.4	0.4	0.2	0.4	0.3	0.4	0.3	0.2
Spain	0.2	0.6	1.6	1.6	1.7	1.5	1.8	1.3	1.6	1.2	1.3	0.8	0.9
France	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Italy	0.0	0.0	0.7	1.0	0.7	0.6	0.7	0.2	0.7	0.1	0.6	0.1	0.4
Cyprus	2.1	1.2	1.9	2.4	2.4	2.0	1.5	1.6	1.0	1.6	1.3	1.6	1.3
Luxembourg	1.4	1.2	1.4	1.4	1.5	1.6	1.6	0.9	1.6	0.8	1.5	0.8	0.8
Malta	0.9	0.7	0.6	0.7	0.6	0.6	0.9	0.5	0.6	0.5	0.5	0.5	0.5
Netherlands	0.6	0.7	0.4	0.3	0.3	0.1	0.2	0.2	0.3	0.2	0.3	0.2	0.3
Austria	0.5	0.2	0.6	0.7	0.7	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Portugal	0.2	0.5	0.6	0.6	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.2
Slovenia	-0.1	0.0	0.2	0.0	0.2	0.4	0.5	0.7	1.5	0.2	-1.5	0.2	0.4
Slovakia	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Finland	0.4	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.3
Euro area	0.3	0.3	0.6	0.6	0.6	0.5	0.6	0.4	0.5	0.3	0.4	0.3	0.3
Bulgaria	-0.6	-1.2	-0.5	-0.5	-0.5	-0.3	0.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Czech Republic	0.0	-0.2	0.1	0.1	0.3	0.3	0.5	0.2	0.7	0.2	0.4	0.2	0.3
Denmark	0.4	0.4	0.3	0.2	0.3	0.3	0.4	0.2	0.3	0.3	0.3	0.2	0.2
Estonia	-2.0	-0.8	-0.3	-0.4	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Latvia	-1.5	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.5	-0.5
Lithuania	-0.6	-0.7	-0.5	-0.5	-0.6	-0.6	-0.5	-0.4	-0.5	-0.2	-0.6	-0.2	-0.6
Hungary	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Poland	0.2	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Romania	-0.3	-0.4	-0.5	-0.3	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.2	-0.3	-0.2
Sweden	0.5	0.1	0.4	0.4	0.4	0.6	0.7	0.8	0.8	0.5	0.2	0.3	0.1
United Kingdom	0.3	0.3	0.5	0.5	0.6	0.6	0.3	0.5	0.5	0.4	0.3	0.5	0.4
EU	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.2	0.3
USA	1.2	1.1	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Japan	0.3	0.2	0.1	0.1	0.1	0.0	-0.1	0.0	0.1	-0.1	-0.1	-0.1	-0.1

TABLE 22 : Total employment (percentage change on preceding year, 1992-2010)

	5-year averages							2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	0.1	1.3	0.7	1.8	1.2	1.5	1.6	-0.2	-0.7	-1.2	0.0	-0.9	-1.5
Germany	-1.4	0.0	-0.7	1.6	1.2	1.3	1.4	-0.3	-0.8	-1.5	0.2	-0.5	-2.2
Ireland	2.5	5.6	3.2	3.6	-0.2	-0.9	-0.9	-1.0	-4.0	-9.0	0.6	-1.5	-4.0
Greece	1.0	0.7	1.7	1.3	1.0	0.8	1.2	0.9	-0.1	-1.1	0.9	0.2	-0.1
Spain	-0.3	4.1	2.8	2.9	-0.2	-0.7	-0.6	-2.0	-3.9	-5.3	-0.9	-2.0	-2.7
France	-0.5	1.7	0.5	1.7	0.7	0.8	0.6	-0.6	-1.9	-2.2	-0.1	-0.7	-1.2
Italy	-0.9	1.1	0.8	1.0	0.7	0.3	-0.1	0.0	-1.8	-3.3	0.5	-0.2	-0.6
Cyprus	:	1.6	3.0	3.2	2.0	2.0	2.6	1.5	0.1	-0.4	1.6	1.0	0.1
Luxembourg	2.5	4.7	2.8	4.5	4.7	4.8	4.7	1.8	1.8	0.5	1.0	0.0	-0.8
Malta	1.5	0.8	0.7	3.0	1.7	1.1	1.1	0.9	0.2	-0.5	1.0	0.5	0.2
Netherlands	1.0	2.4	-0.1	2.3	1.8	1.8	1.8	0.3	-0.2	-1.0	0.3	-1.0	-2.8
Austria	0.0	0.8	0.6	1.8	1.8	1.6	1.5	0.2	-0.8	-2.7	0.3	-0.4	-0.9
Portugal	-0.8	2.1	0.0	0.0	0.8	0.6	0.4	0.0	-0.9	-1.4	0.2	-0.2	-0.6
Slovenia	:	0.2	0.6	3.0	1.8	1.8	2.9	0.1	-0.8	-4.7	0.5	0.4	-0.6
Slovakia	:	-1.1	0.9	2.1	2.2	2.3	2.9	0.8	0.1	-1.7	0.6	0.4	0.4
Finland	-2.3	2.3	0.9	2.2	1.5	1.4	1.5	-0.1	-1.5	-2.9	0.0	-0.3	-0.8
Euro area	-0.6	1.4	0.6	1.7	0.9	0.7	0.7	-0.4	-1.6	-2.6	0.1	-0.7	-1.5
Bulgaria	-1.6	-0.4	2.4	2.8	3.2	3.2	3.3	1.4	0.9	-2.2	1.3	0.7	-1.0
Czech Republic	:	-0.8	0.4	2.7	1.1	1.1	1.2	0.6	-0.2	-1.7	0.3	-0.5	-1.3
Denmark	0.1	1.0	0.3	2.7	0.7	0.2	1.0	-0.7	-1.7	-2.2	-1.1	-1.8	-2.0
Estonia	-5.2	-1.8	1.9	0.4	-0.5	-0.8	0.2	-1.8	-4.0	-7.3	-0.7	-1.1	-3.3
Latvia	-7.4	0.3	2.2	3.6	1.0	1.0	0.7	-3.8	-5.1	-8.9	-2.2	-2.8	-3.3
Lithuania	-2.7	-2.1	2.0	2.8	-1.3	-1.7	-0.5	-2.5	-3.9	-7.7	-1.5	-1.6	-2.4
Hungary	:	1.3	0.3	-0.1	-1.2	-1.2	-1.2	-0.8	-2.0	-3.0	0.2	-0.4	-2.0
Poland	:	-1.0	0.5	4.1	2.7	3.0	4.0	0.5	-0.6	-2.3	0.1	-0.8	-1.4
Romania	-2.8	-1.8	-1.1	0.4	1.2	1.1	0.3	0.6	0.0	-2.2	0.7	0.5	0.6
Sweden	-1.9	1.4	0.1	2.2	0.8	0.7	0.9	-0.6	-1.9	-2.4	-0.2	-1.3	-2.3
United Kingdom	0.0	1.2	0.9	0.7	0.5	0.5	-0.7	-1.6	-2.8	-2.4	0.3	0.6	-0.9
EU	:	0.9	0.6	1.7	0.9	0.9	0.7	-0.5	-1.6	-2.6	0.1	-0.5	-1.4
USA	1.8	1.7	0.6	1.1	-0.3	:	-0.5	-1.2	:	-3.5	-0.1	:	-0.9
Japan	0.4	-0.6	-0.2	0.5	-0.2	:	-0.4	-1.5	:	-3.0	0.1	:	-1.2

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.



TABLE 23 : Number of unemployed (as a percentage of total labour force, 1992-2010) <sup>1</sup>

22.04.2009

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	8.9	8.1	8.2	7.5	7.1	6.9	7.0	8.0	8.0	8.5	8.7	9.2	10.3
Germany	7.8	8.4	9.6	8.4	7.3	7.1	7.3	7.5	7.7	8.6	7.4	8.1	10.4
Ireland	13.9	6.3	4.5	4.6	6.1	6.5	6.3	7.6	9.7	13.3	7.4	10.7	16.0
Greece	8.8	10.9	9.9	8.3	9.0	8.3	7.7	9.2	9.0	9.1	9.3	9.4	9.7
Spain	17.8	13.1	10.1	8.3	10.8	11.3	11.3	13.8	16.1	17.3	15.5	18.7	20.5
France	11.0	10.0	9.1	8.3	8.0	7.8	7.8	9.0	9.8	9.6	9.3	10.6	10.7
Italy	10.3	10.6	7.9	6.1	6.8	6.7	6.8	7.1	8.2	8.8	7.3	8.7	9.4
Cyprus	:	3.9	4.5	4.0	3.9	3.9	3.8	3.8	5.1	4.7	3.7	5.5	6.0
Luxembourg	2.7	2.4	4.1	4.2	4.0	4.1	4.9	4.3	4.9	5.9	4.7	5.8	7.0
Malta	5.2	6.8	7.4	6.4	5.9	6.5	5.9	6.2	7.4	7.1	6.4	7.9	7.6
Netherlands	6.2	3.4	3.9	3.2	3.0	2.9	2.8	3.4	4.1	3.9	3.7	5.5	6.2
Austria	3.9	4.0	4.7	4.4	3.9	4.1	3.8	4.2	5.1	6.0	4.5	6.1	7.1
Portugal	6.2	4.9	6.7	8.1	7.7	7.8	7.7	7.9	8.8	9.1	7.9	9.1	9.8
Slovenia	:	6.9	6.4	4.9	4.5	4.5	4.4	4.8	5.2	6.6	4.7	5.2	7.4
Slovakia	:	15.8	16.8	11.1	9.9	9.8	9.5	9.8	10.6	12.0	9.6	10.5	12.1
Finland	14.9	10.6	8.6	6.9	6.3	6.4	6.4	6.5	7.8	8.9	6.4	8.0	9.3
Euro area	10.2	9.3	8.7	7.5	7.6	7.5	7.5	8.4	9.3	9.9	8.7	10.2	11.5
Bulgaria	14.1	16.4	12.6	6.9	6.0	6.0	5.6	5.8	6.3	7.3	5.7	6.4	7.8
Czech Republic	:	7.3	7.7	5.3	5.0	5.0	4.4	5.0	5.7	6.1	5.2	6.6	7.4
Denmark	7.8	4.8	4.8	3.8	3.1	3.5	3.3	3.5	4.5	5.2	4.3	5.6	6.6
Estonia	:	11.1	8.8	4.7	5.0	5.1	5.5	6.7	8.8	11.3	7.7	9.7	14.1
Latvia	13.8	14.0	9.8	6.0	6.5	6.5	7.5	9.2	10.4	15.7	9.6	11.4	16.0
Lithuania	5.0	13.3	10.3	4.3	4.9	5.4	5.8	7.1	8.8	13.8	8.4	10.2	15.9
Hungary	10.3	7.3	6.5	7.4	8.1	7.7	7.8	8.6	8.8	9.5	8.5	9.1	11.2
Poland	13.4	13.8	18.1	9.6	7.3	7.4	7.1	7.3	8.4	9.9	7.8	9.6	12.1
Romania	5.8	6.4	7.6	6.4	6.1	6.2	5.8	6.4	7.0	8.0	6.1	6.9	7.7
Sweden	8.5	7.1	6.2	6.1	6.0	6.2	6.2	6.8	7.9	8.4	7.3	8.7	10.4
United Kingdom	9.1	5.8	5.0	5.3	5.7	5.7	5.6	7.1	8.2	8.2	6.9	8.1	9.4
EU	9.8	8.8	8.8	7.1	7.0	7.0	7.0	7.8	8.7	9.4	8.1	9.5	10.9
USA	6.3	4.5	5.4	4.6	5.7	:	5.8	7.5	:	8.9	8.1	:	10.2
Japan	2.8	4.4	4.8	3.9	4.1	:	3.9	4.7	:	5.8	4.6	:	6.3

<sup>1</sup> Series following Eurostat definition, based on the labour force survey.

TABLE 24 : Compensation of employees per head (percentage change on preceding year, 1992-2010)

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	3.4	2.8	2.5	1.9	2.1	3.3	3.8	3.8	3.3	3.1	2.1	2.8	1.8
Germany	5.4	2.3	1.6	1.5	0.5	1.5	1.3	2.5	1.9	3.1	1.0	2.4	0.9
Ireland	4.5	5.9	5.4	5.3	6.4	4.6	6.0	3.5	5.5	2.3	-4.1	2.7	-2.4
Greece	10.8	7.0	5.4	5.1	4.9	1.0	9.1	8.1	7.5	7.4	4.4	7.2	1.9
Spain	6.0	2.5	3.5	3.0	3.7	3.9	3.7	5.0	5.2	3.2	3.4	2.4	2.7
France	2.8	2.1	3.1	3.4	3.1	3.4	2.6	2.8	2.8	2.6	1.3	2.5	1.5
Italy	4.8	2.1	3.1	3.3	3.2	2.7	2.2	4.4	3.3	2.2	2.1	2.3	1.5
Cyprus	:	4.6	3.8	1.9	1.8	3.0	2.1	5.5	4.0	5.7	5.4	4.5	4.3
Luxembourg	3.9	3.2	2.9	3.7	3.7	3.1	4.3	2.7	1.5	2.7	1.7	3.0	1.5
Malta	7.8	4.5	2.8	1.4	2.1	3.0	1.6	2.8	3.7	3.0	2.9	2.7	2.7
Netherlands	2.9	4.1	3.4	3.5	1.7	2.4	3.2	3.6	3.8	3.7	3.5	4.0	2.4
Austria	3.9	1.9	2.2	1.6	2.5	3.0	2.1	2.9	3.3	2.9	2.8	2.5	1.4
Portugal	8.2	5.4	3.3	2.6	4.7	2.1	3.3	3.1	3.1	2.7	-0.6	2.4	2.1
Slovenia	:	10.4	7.1	7.8	5.3	5.5	6.3	8.7	8.5	7.5	2.3	6.9	3.1
Slovakia	:	10.3	8.5	8.5	9.7	7.6	8.8	9.0	8.7	7.6	4.9	7.4	5.5
Finland	2.5	3.3	3.0	3.6	3.8	2.9	3.4	5.5	5.6	4.7	3.8	4.3	3.6
Euro area	4.6	2.5	2.6	2.6	2.2	2.5	2.6	3.6	3.3	3.1	1.9	2.7	1.5
Bulgaria	:	73.8	5.8	4.9	5.9	7.4	17.9	19.0	19.3	13.7	6.5	11.3	4.2
Czech Republic	:	7.8	6.6	5.7	4.7	6.3	6.4	7.6	6.3	8.1	3.1	8.0	3.4
Denmark	3.2	3.8	3.6	3.3	3.6	3.6	3.1	4.3	4.7	4.3	3.1	3.9	2.5
Estonia	:	13.5	11.5	11.2	11.0	14.0	26.5	16.5	14.7	6.7	0.7	4.0	-3.5
Latvia	:	7.3	15.4	14.3	25.3	23.6	34.8	21.0	16.7	6.0	-9.0	4.5	-3.0
Lithuania	:	9.1	10.5	10.9	11.5	16.7	16.9	19.0	14.5	10.8	-10.3	5.2	-8.8
Hungary	:	14.0	9.2	11.2	7.1	4.5	6.1	8.9	7.8	7.1	1.4	5.9	5.8
Poland	37.8	13.8	1.8	1.8	1.5	1.8	3.7	8.5	7.6	6.8	3.4	5.3	2.1
Romania	117.4	70.5	21.0	13.7	28.6	12.4	22.4	22.5	22.0	15.1	8.5	13.5	7.5
Sweden	4.8	4.0	3.1	4.0	3.1	2.1	5.1	3.5	1.6	3.5	2.1	3.1	2.0
United Kingdom	3.6	5.1	4.1	4.1	3.7	4.5	3.7	2.8	3.8	2.7	0.9	2.8	1.5
EU	:	4.1	3.0	2.7	2.7	2.7	3.0	3.7	3.5	3.2	1.9	3.0	1.6
USA	3.0	4.2	3.9	4.3	3.6	4.0	3.7	3.7	3.3	2.6	3.5	1.2	0.4
Japan	1.1	0.0	-0.8	-1.3	-0.1	0.5	-0.6	0.3	0.5	0.4	-0.8	0.1	0.4

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 25 : Real compensation of employees per head <sup>1</sup> (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.6	1.1	0.3	-0.7	-0.8	0.5	0.9	-0.7	-1.0	0.6	1.7	0.7	0.6
Germany	2.8	1.3	0.2	0.1	-1.0	0.2	-0.4	0.1	-0.2	1.1	0.5	0.6	0.2
Ireland	1.7	2.1	2.5	3.7	4.7	2.3	3.0	0.2	2.4	0.2	-2.6	1.1	-2.7
Greece	-0.7	2.4	2.1	1.8	1.4	-2.5	5.8	3.4	3.2	3.4	2.4	3.6	-0.2
Spain	1.0	-0.3	0.2	-0.5	0.2	0.5	0.5	0.8	1.4	1.0	3.2	-0.3	1.0
France	1.1	1.2	1.4	1.5	1.3	1.2	0.5	-0.2	0.1	0.8	1.0	0.8	0.6
Italy	-0.3	-0.2	0.5	0.7	0.9	0.0	-0.1	0.7	0.0	0.1	1.4	0.1	-0.3
Cyprus	:	2.2	1.2	0.2	-0.8	0.7	-0.7	0.9	-0.7	2.6	3.9	1.2	2.0
Luxembourg	1.0	0.9	0.9	1.3	0.9	0.9	2.2	-1.0	-3.3	0.2	1.6	0.3	-0.4
Malta	:	2.5	0.9	-0.9	-0.4	0.7	0.0	-1.4	0.7	0.1	1.9	0.4	0.9
Netherlands	0.5	1.2	1.3	2.5	-0.4	0.5	1.6	0.7	1.4	0.6	2.2	1.4	1.3
Austria	1.4	0.6	0.5	-0.3	0.3	1.1	-0.1	-0.5	0.3	0.7	2.4	0.5	0.3
Portugal	2.3	2.5	0.4	0.1	1.9	-1.0	0.5	0.2	0.5	0.3	-0.4	0.2	0.6
Slovenia	:	2.8	2.8	4.7	3.0	3.0	2.1	2.3	2.0	3.7	1.6	3.6	1.1
Slovakia	:	2.7	3.5	1.0	6.9	2.6	6.0	4.5	4.2	3.8	2.5	3.8	2.5
Finland	0.6	0.8	2.0	2.6	3.2	1.3	1.1	1.3	2.1	1.8	2.3	2.5	2.2
Euro area	1.3	0.7	0.5	0.5	0.1	0.3	0.4	0.3	0.4	0.9	1.4	0.6	0.3
Bulgaria	:	2.2	1.9	0.5	0.7	1.6	10.5	6.9	7.4	6.9	3.4	5.7	1.2
Czech Republic	:	2.4	5.3	2.3	3.9	4.7	3.4	1.6	0.8	4.9	2.1	5.4	1.8
Denmark	1.5	1.7	2.1	2.1	2.1	1.7	1.3	1.1	1.5	2.2	2.1	2.0	1.1
Estonia	:	6.5	8.6	9.0	7.3	9.5	17.3	5.4	4.1	1.9	0.0	0.7	-4.1
Latvia	:	3.1	9.5	6.7	15.2	16.6	22.3	6.1	0.9	0.0	-10.8	0.5	-2.0
Lithuania	:	6.0	9.6	11.2	9.7	12.1	10.6	7.5	4.3	4.3	-12.9	-1.6	-7.8
Hungary	:	1.9	5.0	6.3	3.2	1.1	-0.3	2.5	2.1	3.2	-3.2	2.9	2.2
Poland	4.7	4.4	-0.2	-1.2	-0.6	0.6	1.3	4.1	3.7	3.1	0.8	2.6	0.2
Romania	0.0	6.8	8.0	0.8	20.3	7.2	16.7	13.6	12.0	9.1	2.2	9.0	3.4
Sweden	1.7	2.6	1.7	3.1	1.9	1.1	3.9	0.7	-1.2	1.0	0.8	1.2	1.1
United Kingdom	0.2	3.2	2.1	2.5	1.2	2.1	1.2	-0.6	1.4	0.8	-0.1	1.5	0.3
EU	:	1.5	0.8	0.6	0.5	0.4	0.6	0.2	0.4	0.9	1.1	1.0	0.3
USA	0.7	2.4	1.6	1.6	0.6	1.2	1.1	-0.1	0.0	1.1	4.0	0.4	0.4
Japan	0.9	0.3	0.0	-0.6	0.7	0.8	-0.2	-0.1	0.1	0.3	0.6	-0.1	1.0

<sup>1</sup> Deflated by the price deflator of private consumption.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 26 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.3	1.3	1.4	2.3	0.5	1.6	0.9	0.2	-0.4	0.3	-2.3	0.9	1.2
Germany	2.8	2.0	1.6	1.7	1.3	2.7	0.9	0.5	-0.1	0.3	-3.9	0.8	2.5
Ireland	3.5	3.3	2.3	1.6	1.6	1.4	2.4	-1.4	-1.4	0.1	-0.1	1.8	1.5
Greece	0.1	3.1	2.5	2.5	1.9	2.3	2.7	2.1	1.7	1.6	0.3	1.7	0.2
Spain	1.8	0.2	0.5	0.6	0.4	0.7	0.8	1.5	1.8	1.8	2.3	1.4	1.8
France	1.6	1.2	1.2	2.3	1.3	1.4	0.5	0.2	0.1	0.6	-0.8	0.9	1.1
Italy	2.2	0.9	0.1	1.2	0.5	0.5	0.6	-0.7	-0.9	0.0	-1.1	0.0	0.7
Cyprus	:	2.6	0.3	0.4	0.3	2.3	1.2	1.6	1.0	1.4	0.7	1.6	0.6
Luxembourg	0.1	1.5	1.6	2.3	2.2	2.7	0.7	-2.1	-5.3	-0.6	-3.5	1.3	0.9
Malta	3.5	2.6	1.4	1.8	2.4	1.9	0.6	0.7	0.4	1.1	-0.4	1.2	0.0
Netherlands	1.4	1.4	1.7	3.3	2.1	1.5	1.1	0.5	0.3	0.1	-2.5	0.6	2.5
Austria	1.8	1.8	1.6	2.2	1.6	1.9	1.3	0.2	0.3	0.4	-1.3	1.0	0.8
Portugal	2.3	1.6	0.7	1.6	1.2	0.9	1.9	-0.3	-0.4	0.1	-2.3	0.5	-0.2
Slovenia	:	4.0	3.7	4.0	4.5	4.3	3.7	2.6	0.6	2.7	1.3	3.2	1.4
Slovakia	:	3.8	5.0	5.4	5.1	6.1	8.1	4.8	3.3	4.0	-0.9	4.9	0.2
Finland	3.7	2.3	2.0	3.3	1.4	3.1	2.0	0.9	-0.5	1.4	-1.8	2.0	1.0
Euro area	2.1	1.5	1.2	1.8	1.2	1.7	1.0	0.4	0.1	0.6	-1.4	0.9	1.5
Bulgaria	-1.2	2.4	3.3	3.9	3.5	2.9	3.3	3.2	2.7	3.0	0.6	3.4	0.9
Czech Republic	:	2.0	4.1	4.3	5.1	5.0	3.2	3.2	2.0	3.0	-1.1	3.6	1.6
Denmark	2.5	1.4	1.5	2.9	1.4	1.3	-1.0	0.0	-2.2	0.9	-1.0	2.1	2.3
Estonia	:	8.5	6.3	7.5	7.3	4.5	5.9	-0.8	-3.8	0.5	-3.2	2.7	2.6
Latvia	-1.5	6.0	6.7	7.5	8.7	7.2	6.2	-1.8	-5.3	1.1	-4.6	3.3	0.1
Lithuania	-5.9	7.2	5.9	7.4	5.2	5.9	6.0	5.1	3.5	2.7	-3.6	0.4	-2.4
Hungary	:	3.2	3.9	5.4	3.6	3.2	1.2	2.8	1.7	1.5	-3.5	1.6	1.8
Poland	:	5.5	3.6	4.0	1.3	2.9	2.4	2.6	0.7	3.3	1.0	4.0	2.3
Romania	4.3	0.9	7.3	10.3	5.8	7.1	5.8	7.2	6.8	4.0	-1.9	4.3	-0.6
Sweden	3.1	1.8	3.0	4.9	3.0	2.5	0.4	0.1	-1.1	0.4	-1.6	1.8	3.1
United Kingdom	2.5	2.1	1.6	1.7	1.0	1.9	2.3	0.4	1.4	0.6	-1.4	0.1	1.1
EU	:	2.0	2.0	2.6	1.6	2.2	1.6	1.0	0.7	1.1	-1.3	1.3	1.4
USA	1.5	1.8	2.1	2.7	1.6	0.7	0.9	1.8	1.6	0.7	0.6	1.0	1.8
Japan	1.0	1.1	1.9	2.5	1.5	1.6	1.9	0.6	-0.2	1.1	-2.4	0.5	1.3

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 27 : Unit labour costs, whole economy <sup>1</sup> (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	2.1	1.5	1.1	-0.4	1.5	1.7	2.8	3.6	3.7	2.7	4.5	1.8	0.6
Germany	2.5	0.3	-0.1	-0.2	-0.8	-1.2	0.4	2.0	2.1	2.8	5.1	1.6	-1.5
Ireland	1.0	2.5	3.0	3.7	4.7	3.2	3.6	5.0	7.0	2.2	-4.0	0.9	-3.9
Greece	10.7	3.8	2.9	2.5	2.9	-1.3	6.3	5.9	5.7	5.7	4.1	5.4	1.7
Spain	4.1	2.3	3.0	2.4	3.3	3.2	2.9	3.4	3.4	1.4	1.1	1.0	0.9
France	1.1	0.9	1.9	1.1	1.8	2.0	2.1	2.6	2.7	2.0	2.0	1.6	0.4
Italy	2.6	1.2	3.0	2.1	2.7	2.2	1.5	5.1	4.2	2.2	3.3	2.3	0.8
Cyprus	:	1.9	3.5	1.5	1.4	0.6	0.9	3.8	3.0	4.2	4.7	2.8	3.7
Luxembourg	3.8	1.7	1.4	1.4	1.4	0.4	3.6	4.9	7.2	3.4	5.4	1.7	0.6
Malta	4.2	1.9	1.5	-0.4	-0.2	1.2	1.0	2.1	3.3	1.9	3.4	1.5	2.7
Netherlands	1.5	2.7	1.6	0.2	-0.4	0.9	2.0	3.1	3.4	3.6	6.2	3.4	0.0
Austria	2.0	0.1	0.6	-0.6	0.8	1.0	0.8	2.7	3.0	2.5	4.1	1.5	0.6
Portugal	5.7	3.8	2.5	1.0	3.4	1.3	1.4	3.4	3.6	2.6	1.7	1.9	2.3
Slovenia	:	6.2	3.3	3.7	0.8	1.1	2.5	6.0	7.9	4.6	1.0	3.6	1.7
Slovakia	:	6.3	3.4	2.9	4.3	1.5	0.6	4.0	5.2	3.4	5.9	2.4	5.2
Finland	-1.1	1.0	0.9	0.3	2.3	-0.2	1.5	4.6	6.2	3.2	5.7	2.3	2.5
Euro area	2.5	1.1	1.6	1.0	1.3	1.0	1.7	3.3	3.3	2.5	3.4	1.9	0.1
Bulgaria	:	69.7	2.5	1.0	2.4	4.4	14.2	15.3	16.2	10.4	5.9	7.6	3.3
Czech Republic	:	5.7	2.4	1.3	-0.4	1.3	3.1	4.2	4.2	4.9	4.2	4.3	1.8
Denmark	0.6	2.3	2.1	0.4	2.2	2.2	4.2	4.3	7.0	3.5	4.1	1.8	0.2
Estonia	:	4.6	4.9	3.5	3.5	9.1	19.4	17.5	19.3	6.2	4.1	1.4	-5.9
Latvia	:	1.3	8.2	6.4	15.2	15.3	27.0	23.3	23.2	4.8	-4.6	1.2	-3.1
Lithuania	:	1.8	4.4	3.3	6.0	10.1	10.3	13.2	10.6	8.0	-7.0	4.8	-6.6
Hungary	:	10.4	5.0	5.5	3.4	1.3	4.9	5.9	6.0	5.6	5.1	4.3	4.0
Poland	:	7.9	-1.7	-2.1	0.3	-1.1	1.2	5.8	6.9	3.3	2.4	1.2	-0.2
Romania	108.4	69.0	12.8	3.1	21.6	4.9	15.7	14.3	14.3	10.6	10.5	8.8	8.1
Sweden	1.6	2.1	0.0	-0.8	0.1	-0.4	4.7	3.4	2.7	3.1	3.7	1.3	-1.1
United Kingdom	1.1	2.9	2.5	2.4	2.7	2.5	1.4	2.4	2.4	2.1	2.4	2.7	0.4
EU	:	2.2	1.8	1.1	1.7	1.3	2.0	3.4	3.5	2.7	3.3	2.1	0.2
USA	1.5	2.4	1.8	1.6	2.0	3.3	2.8	1.9	1.7	1.9	2.9	0.1	-1.5
Japan	0.1	-1.1	-2.6	-3.7	-1.6	-1.1	-2.4	-0.4	0.7	-0.7	1.7	-0.4	-0.9

<sup>1</sup> Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 28 : Real unit labour costs <sup>1</sup> (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-0.2	0.0	-1.0	-2.7	-0.9	-0.6	0.4	0.8	2.0	0.3	2.2	-0.2	-0.7
Germany	-0.2	-0.1	-1.0	-1.1	-1.5	-1.7	-1.4	0.0	0.5	0.7	3.8	-0.3	-2.2
Ireland	-1.7	-2.5	0.1	1.7	2.3	-0.2	2.2	5.6	7.3	1.4	-2.9	-0.2	-3.6
Greece	-0.7	-0.9	-0.5	-0.8	-0.5	-4.4	3.3	2.1	2.2	2.3	2.0	2.2	-0.9
Spain	-0.6	-0.7	-1.2	-1.5	-0.9	-0.8	-0.3	0.3	0.4	-0.6	0.0	-1.5	-0.9
France	-0.4	-0.2	-0.2	-0.5	-0.3	-0.5	-0.4	0.1	0.3	0.1	0.6	-0.2	-0.7
Italy	-1.6	-1.2	0.4	-0.5	0.6	0.3	-0.8	1.8	1.4	-0.1	1.3	0.1	-0.8
Cyprus	:	-1.1	0.6	-1.7	-0.9	-2.3	-2.4	-0.6	-1.8	0.9	-0.6	-0.7	1.2
Luxembourg	0.1	0.7	-2.5	-0.4	-2.9	-4.8	1.5	4.3	5.5	3.1	3.4	-1.2	-1.0
Malta	1.2	-0.2	-1.2	-1.7	-3.0	-1.8	-1.8	-0.3	0.8	-0.3	1.0	-0.7	0.8
Netherlands	-0.4	-0.4	-0.5	-0.5	-2.7	-0.8	0.5	1.6	0.7	1.1	4.5	1.5	-1.1
Austria	-0.3	-0.6	-1.0	-2.2	-1.2	-0.8	-1.3	-0.1	0.6	0.2	2.7	-0.4	-0.4
Portugal	-0.6	0.2	-0.4	-1.4	0.8	-1.5	-1.6	1.3	1.7	-0.5	-0.5	-0.3	0.7
Slovenia	:	-1.0	-0.7	0.3	-0.8	-0.9	-1.5	1.6	3.7	0.5	-0.9	-0.2	-0.4
Slovakia	:	-0.3	-0.7	-2.8	1.9	-1.4	-0.5	0.3	2.2	-0.2	2.2	-0.9	1.5
Finland	-2.8	-1.3	0.3	-0.3	1.9	-1.6	-1.7	1.2	3.4	0.7	3.9	0.2	0.9
Euro area	-0.7	-0.5	-0.6	-1.0	-0.8	-1.0	-0.7	0.7	0.9	0.3	1.9	-0.2	-1.1
Bulgaria	:	-1.7	-2.1	-4.0	-1.3	-3.8	5.9	4.7	4.3	2.4	0.9	1.4	0.2
Czech Republic	:	0.0	0.6	-3.1	-0.1	0.4	-0.5	0.9	2.5	2.5	2.6	2.2	0.3
Denmark	-0.8	0.3	-0.1	-1.9	-0.7	0.3	2.2	0.8	2.6	0.8	2.6	-0.7	-1.2
Estonia	:	-2.1	0.0	0.2	-1.7	1.9	9.0	7.7	10.7	0.8	4.1	-1.8	-5.1
Latvia	:	-2.8	1.3	-0.6	4.6	4.9	5.6	7.3	7.0	0.6	-2.4	-2.8	0.5
Lithuania	:	-1.2	1.4	0.8	-0.6	3.4	1.4	1.5	0.3	1.8	-9.1	-0.1	-5.4
Hungary	:	-1.0	0.2	1.1	1.1	-2.5	-0.8	0.6	2.3	1.6	0.4	1.1	0.7
Poland	:	-0.4	-3.8	-6.0	-2.3	-2.5	-2.7	1.4	3.9	0.2	0.5	-1.2	-1.7
Romania	-3.1	4.0	-3.4	-10.8	8.4	-5.1	2.6	-0.1	0.2	0.6	0.7	0.8	1.4
Sweden	-0.6	0.7	-1.3	-1.1	-0.8	-2.1	1.7	2.3	-0.6	1.3	2.1	-0.6	-2.0
United Kingdom	-1.7	0.8	-0.2	-0.1	0.5	-0.1	-1.4	-0.8	0.1	-0.2	1.6	0.6	-1.0
EU	:	-0.3	-0.8	-1.4	-0.6	-1.1	-0.8	0.4	0.7	0.2	1.8	-0.1	-1.1
USA	-0.6	0.6	-0.8	-1.3	-1.2	0.0	0.1	-0.6	-0.5	-0.2	1.3	-0.7	-1.5
Japan	0.0	-0.4	-1.3	-2.7	-0.4	-0.2	-1.7	0.4	1.7	-0.8	0.3	-0.9	-0.5

<sup>1</sup> Nominal unit labour costs divided by GDP price deflator.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1992-2010)

22.04.2009

	5-year averages		2002-06	2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01						X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	39.91	40.43	:	:	:	:	:	:	:	:	:	:	:
Germany	1.93	1.96	:	:	:	:	:	:	:	:	:	:	:
Ireland	0.79	0.78	:	:	:	:	:	:	:	:	:	:	:
Greece	282.43	328.65	:	:	:	:	:	:	:	:	:	:	:
Spain	152.86	166.45	:	:	:	:	:	:	:	:	:	:	:
France	6.62	6.58	:	:	:	:	:	:	:	:	:	:	:
Italy	1888.18	1936.35	:	:	:	:	:	:	:	:	:	:	:
Cyprus	0.59	0.58	0.58	0.58	0.58	0.58	0.58	:	:	:	:	:	:
Luxembourg	39.91	40.43	:	:	:	:	:	:	:	:	:	:	:
Malta	0.45	0.42	0.42	0.43	0.43	0.43	0.43	:	:	:	:	:	:
Netherlands	2.17	2.21	:	:	:	:	:	:	:	:	:	:	:
Austria	13.60	13.79	:	:	:	:	:	:	:	:	:	:	:
Portugal	190.37	200.35	:	:	:	:	:	:	:	:	:	:	:
Slovenia	143.42	197.20	235.62	239.09	239.57	239.60	:	:	:	:	:	:	:
Slovakia	:	41.54	40.01	40.02	38.60	37.23	33.77	31.24	31.24	:	:	:	:
Finland	6.05	5.94	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
Bulgaria	0.09	1.95	1.95	1.95	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Czech Republic	34.86	35.71	30.53	31.89	29.78	28.34	27.77	24.81	24.95	24.77	26.92	24.77	26.69
Denmark	7.53	7.46	7.44	7.44	7.45	7.46	7.45	7.46	7.46	7.45	7.45	7.45	7.45
Estonia	15.36	15.68	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65
Latvia	0.75	0.61	0.66	0.67	0.70	0.70	0.70	0.70	0.70	0.71	0.71	0.71	0.71
Lithuania	4.45	4.11	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45
Hungary	152.74	244.33	252.11	251.66	248.05	264.26	251.35	250.07	251.51	258.39	294.06	258.39	293.95
Poland	2.88	3.91	4.14	4.53	4.02	3.90	3.78	3.45	3.51	3.52	4.43	3.52	4.40
Romania	0.20	1.61	3.62	4.05	3.62	3.53	3.34	3.68	3.68	3.79	4.20	3.79	4.18
Sweden	8.73	8.81	9.19	9.12	9.28	9.25	9.25	9.50	9.62	9.78	10.88	9.78	10.87
United Kingdom	0.79	0.65	0.67	0.68	0.68	0.68	0.68	0.78	0.80	0.78	0.90	0.78	0.90
EU	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.25	1.03	1.16	1.24	1.24	1.26	1.37	1.48	1.47	1.36	1.32	1.36	1.33
Japan	135.36	122.59	133.27	134.44	136.85	146.02	161.25	154.99	152.45	137.44	129.82	137.44	132.52

TABLE 30 : Nominal effective exchange rates to rest of a group<sup>1</sup> of industrialised countries (percentage change on preceding year, 1992-2010)

	5-year averages		2004	2005	2006	2007	2008		2009		2010	
	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-1.1	1.4	1.1	-0.3	0.4	1.2	1.9	2.0	-1.0	0.8	0.0	0.0
Germany	-1.0	1.8	1.7	-0.6	0.5	1.8	1.9	1.9	-1.5	0.8	0.0	0.1
Ireland	-1.8	2.4	2.3	-0.1	0.6	2.6	3.9	4.0	-2.1	-0.1	0.0	0.1
Greece	0.3	1.7	1.4	-0.8	0.6	0.9	2.1	2.2	-0.6	1.7	0.0	0.0
Spain	-1.1	1.4	1.1	-0.4	0.4	1.3	2.1	2.1	-0.8	1.0	0.0	0.0
France	-1.0	1.7	1.4	-0.3	0.6	1.6	2.1	2.2	-1.3	0.5	0.0	0.1
Italy	0.1	1.9	1.7	-0.6	0.6	1.6	2.0	2.0	-1.3	0.5	0.0	0.1
Cyprus	5.0	1.6	0.8	0.7	0.6	-0.3	2.4	2.6	-0.6	2.1	0.0	0.0
Luxembourg	-1.1	1.4	1.1	-0.3	0.4	1.2	1.9	2.0	-1.0	0.8	0.0	0.0
Malta	0.4	1.3	1.9	-0.4	1.0	3.1	2.5	2.2	-2.9	-2.0	0.0	0.3
Netherlands	-1.0	1.2	0.9	-0.3	0.3	1.1	1.9	2.1	-0.8	1.3	0.0	0.0
Austria	-0.1	1.1	1.0	-0.7	0.3	1.0	1.1	1.1	-0.9	0.9	0.0	0.0
Portugal	-1.1	1.1	0.8	-0.2	0.3	1.1	1.8	1.9	-0.9	0.5	0.0	0.0
Slovenia	-3.9	-1.1	-1.4	-1.1	0.2	0.3	0.5	0.6	-0.4	1.8	0.0	0.0
Slovakia	-1.3	3.6	4.6	2.4	3.7	10.4	8.1	8.5	3.6	6.6	0.0	-0.1
Finland	-1.0	1.7	1.6	-0.4	0.5	1.6	2.0	2.1	-1.0	1.5	0.0	0.1
Euro area	-1.7	3.6	3.2	-1.0	1.2	3.5	4.3	4.4	-2.5	2.0	0.0	0.1
Bulgaria	-32.2	1.7	1.2	-1.2	0.8	0.6	1.7	1.9	-0.3	2.1	0.0	0.0
Czech Republic	0.8	4.5	0.4	6.2	5.2	2.3	12.6	12.2	-0.3	-5.4	0.0	0.8
Denmark	-1.0	1.4	1.2	-0.5	0.3	1.4	2.0	2.3	-0.6	2.2	0.0	0.0
Estonia	-0.4	1.0	0.9	-0.1	0.2	1.1	1.4	1.5	-0.5	1.8	0.0	0.0
Latvia	4.4	-3.4	-3.2	-5.0	0.0	0.0	0.9	1.1	-1.1	2.0	0.0	-0.1
Lithuania	8.3	2.1	1.1	-0.6	0.1	0.8	1.0	1.2	-0.4	2.6	0.0	0.0
Hungary	-4.7	0.3	1.5	0.7	-6.1	5.4	1.4	0.9	-3.7	-12.9	0.0	0.0
Poland	-1.1	-0.5	-2.3	12.1	3.5	3.4	11.0	9.2	-2.2	-19.5	0.0	0.5
Romania	-30.1	-4.7	-6.6	11.2	3.6	6.2	-8.1	-8.1	-3.4	-10.7	0.0	0.5
Sweden	-2.5	1.8	2.0	-2.4	0.8	1.7	-0.5	-1.6	-3.8	-11.2	0.0	0.2
United Kingdom	4.8	0.2	4.5	-1.2	1.0	1.9	-11.1	-12.9	-1.9	-13.1	0.0	0.5
EU	-0.8	5.2	6.1	-0.8	2.8	6.6	2.5	1.5	-4.8	-7.5	0.0	0.5
USA	5.0	-3.9	-6.5	-2.0	-0.8	-5.0	-5.0	-4.2	8.3	12.3	0.0	-0.4
Japan	1.5	-2.4	1.6	-2.4	-5.8	-5.9	9.1	11.4	10.1	14.1	0.0	-2.0

<sup>1</sup> 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

TABLE 31 : Relative unit labour costs, to rest of a group <sup>1</sup> of industrialised countries (nat. curr.) (percentage change on preceding year, 1992-2010) 22.04.2009

	5-year averages		2004	2005	2006	2007	2008		2009		2010	
	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
<b>Belgium</b>	-0.7	-0.5	-1.3	0.2	0.2	0.9	0.6	0.6	0.2	1.1	:	0.7
<b>Germany</b>	-2.9	-1.9	-1.2	-2.6	-3.2	-1.9	-1.4	-1.5	0.3	2.0	:	-1.8
<b>Ireland</b>	0.3	1.4	2.7	3.2	1.4	1.7	2.2	4.1	-0.1	-7.1	:	-3.7
<b>Greece</b>	-1.8	0.5	1.1	0.8	-3.2	3.3	1.6	1.5	2.4	0.6	:	1.2
<b>Spain</b>	-0.3	1.1	1.3	1.6	1.5	0.8	0.2	0.2	-1.2	-2.0	:	0.7
<b>France</b>	-1.8	0.2	0.1	0.2	0.4	0.1	-0.5	-0.6	-0.5	-1.3	:	0.5
<b>Italy</b>	-2.0	1.3	1.1	1.0	0.6	-0.7	1.9	0.9	-0.4	0.0	:	0.8
<b>Cyprus</b>	-6.4	1.5	0.0	-0.6	-0.9	-1.6	0.2	-0.6	1.2	1.3	:	3.3
<b>Luxembourg</b>	:	:	:	:	:	:	:	:	:	:	:	:
<b>Malta</b>	-0.1	0.1	-1.2	-1.5	-0.5	-0.4	-0.3	0.6	-0.2	0.2	:	2.9
<b>Netherlands</b>	0.6	0.2	-0.6	-1.7	-0.4	0.2	0.1	0.3	1.1	2.8	:	0.2
<b>Austria</b>	-2.5	-1.0	-1.4	-0.4	-0.1	-1.2	-0.6	-0.4	-0.3	0.4	:	0.7
<b>Portugal</b>	1.7	0.7	-0.2	1.6	-0.6	-0.8	0.3	0.4	0.3	-1.2	:	2.2
<b>Slovenia</b>	3.2	1.6	2.8	-0.6	-0.1	0.5	2.3	4.1	1.7	-2.6	:	1.6
<b>Slovakia</b>	2.9	2.0	2.3	3.4	0.6	-1.4	0.5	1.5	0.4	2.0	:	5.2
<b>Finland</b>	-1.7	-0.6	-0.5	1.0	-1.9	-1.1	1.2	2.5	0.5	2.3	:	2.8
<b>Euro area</b>	-3.7	-0.6	-0.5	-1.1	-1.7	-1.2	-0.3	-0.3	0.0	1.0	:	-0.3
<b>Bulgaria</b>	58.3	-0.4	-0.9	0.2	2.6	10.7	10.5	11.6	6.7	2.4	:	2.7
<b>Czech Republic</b>	2.9	1.1	0.7	-1.4	0.5	1.2	0.9	0.7	2.0	0.4	:	1.8
<b>Denmark</b>	0.1	0.8	-0.2	1.0	0.8	1.8	1.2	3.5	0.8	0.6	:	0.4
<b>Estonia</b>	1.5	3.1	2.6	1.3	7.0	15.0	12.3	13.6	3.0	1.0	:	-5.7
<b>Latvia</b>	-1.8	6.4	5.4	13.4	13.0	22.8	17.8	17.6	1.4	-7.2	:	-2.4
<b>Lithuania</b>	-2.1	2.3	2.3	3.7	7.6	5.9	7.8	5.0	4.8	-9.8	:	-6.2
<b>Hungary</b>	7.1	3.5	4.9	2.0	0.2	2.6	2.3	2.2	2.5	1.2	:	3.9
<b>Poland</b>	5.3	-3.2	-3.0	-1.0	-2.4	-1.1	2.3	3.1	0.4	-1.2	:	-0.1
<b>Romania</b>	61.7	10.3	1.5	19.6	3.1	12.9	10.0	10.2	7.4	6.9	:	7.8
<b>Sweden</b>	-0.6	-1.6	-1.7	-1.5	-2.3	2.2	0.2	-1.0	0.5	0.2	:	-1.2
<b>United Kingdom</b>	0.5	0.9	1.5	1.2	0.7	-0.8	-0.6	-0.8	-0.3	-0.7	:	0.8
<b>EU</b>	-3.3	-0.4	-0.2	-0.4	-1.9	-0.3	0.7	0.7	0.7	1.0	:	0.2
<b>USA</b>	-0.6	0.2	0.5	0.6	0.9	1.0	-1.2	-1.6	-0.6	-0.8	:	-1.9
<b>Japan</b>	-3.5	-4.4	-5.2	-3.4	-3.5	-4.5	-3.1	-2.1	-3.2	-1.8	:	-0.6

<sup>1</sup> 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

 TABLE 32 : Real effective exchange rate : ulc relative to rest of a group <sup>1</sup> of industrialised countries (usd) (% change on preceding year, 1992-2010)

	5-year averages		2004	2005	2006	2007	2008		2009		2010	
	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
<b>Belgium</b>	-1.9	0.9	-0.2	-0.1	0.6	2.1	2.5	2.7	-0.7	1.9	:	0.7
<b>Germany</b>	-3.9	-0.1	0.5	-3.2	-2.7	-0.1	0.5	0.4	-1.2	2.8	:	-1.7
<b>Ireland</b>	-1.5	3.8	5.1	3.1	1.9	4.3	6.3	8.2	-2.3	-7.2	:	-3.5
<b>Greece</b>	-1.5	2.2	2.5	0.0	-2.6	4.1	3.8	3.8	1.8	2.3	:	1.2
<b>Spain</b>	-1.3	2.5	2.4	1.2	1.9	2.1	2.3	2.3	-2.0	-1.1	:	0.8
<b>France</b>	-2.7	1.9	1.5	-0.1	1.0	1.8	1.6	1.6	-1.8	-0.7	:	0.6
<b>Italy</b>	-1.9	3.1	2.9	0.4	1.1	0.9	4.0	2.9	-1.7	0.5	:	0.8
<b>Cyprus</b>	-1.7	3.1	0.8	0.2	-0.3	-1.9	2.6	2.0	0.6	3.4	:	3.3
<b>Luxembourg</b>	:	:	:	:	:	:	:	:	:	:	:	:
<b>Malta</b>	0.3	1.4	0.7	-2.0	0.5	2.7	2.1	2.8	-3.0	-1.8	:	3.2
<b>Netherlands</b>	-0.4	1.3	0.2	-2.0	-0.1	1.2	2.0	2.3	0.2	4.1	:	0.2
<b>Austria</b>	-2.7	0.1	-0.4	-1.1	0.2	-0.2	0.5	0.7	-1.2	1.3	:	0.7
<b>Portugal</b>	0.6	1.8	0.6	1.4	-0.3	0.4	2.2	2.3	-0.6	-0.7	:	2.2
<b>Slovenia</b>	-0.8	0.5	1.4	-1.7	0.1	0.8	2.8	4.7	1.3	-0.8	:	1.6
<b>Slovakia</b>	1.5	5.6	7.0	5.9	4.3	8.9	8.6	10.2	4.1	8.7	:	5.2
<b>Finland</b>	-2.7	1.2	1.1	0.6	-1.3	0.5	3.2	4.7	-0.6	3.8	:	2.9
<b>Euro area</b>	-5.3	2.9	2.7	-2.1	-0.5	2.3	4.0	4.1	-2.4	3.1	:	-0.1
<b>Bulgaria</b>	7.3	1.3	0.3	-1.0	3.5	11.3	12.4	13.7	6.4	4.6	:	2.7
<b>Czech Republic</b>	3.7	5.7	1.1	4.7	5.7	3.5	13.6	13.0	1.8	-5.0	:	2.7
<b>Denmark</b>	-0.8	2.2	1.0	0.5	1.1	3.3	3.2	5.8	0.3	2.9	:	0.4
<b>Estonia</b>	1.1	4.1	3.5	1.2	7.3	16.3	13.8	15.3	2.5	2.9	:	-5.6
<b>Latvia</b>	2.4	2.8	2.1	7.7	13.1	22.7	18.9	18.9	0.3	-5.3	:	-2.5
<b>Lithuania</b>	6.0	4.5	3.5	3.1	7.7	6.7	8.9	6.3	4.4	-7.4	:	-6.2
<b>Hungary</b>	2.0	3.8	6.4	2.7	-5.9	8.2	3.7	3.2	-1.2	-11.8	:	3.9
<b>Poland</b>	4.1	-3.7	-5.2	11.0	1.1	2.2	13.5	12.6	-1.9	-20.5	:	0.4
<b>Romania</b>	13.0	5.1	-5.1	32.9	6.8	19.9	1.0	1.3	3.8	-4.5	:	8.3
<b>Sweden</b>	-3.1	0.1	0.3	-3.9	-1.6	3.9	-0.3	-2.6	-3.4	-11.0	:	-1.0
<b>United Kingdom</b>	5.3	1.1	6.0	0.0	1.8	1.2	-11.7	-13.6	-2.2	-13.6	:	1.3
<b>EU</b>	-4.0	4.7	5.9	-1.2	0.8	6.3	3.2	2.2	-4.2	-6.5	:	0.7
<b>USA</b>	4.4	-3.7	-6.0	-1.4	0.1	-4.1	-6.1	-5.7	7.6	11.4	:	-2.2
<b>Japan</b>	-2.1	-6.7	-3.6	-5.7	-9.1	-10.2	5.7	9.1	6.6	12.1	:	-2.6

<sup>1</sup> 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 33 : Short term interest rates (1992-2008)

22.04.2009

	5-year averages			1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	1992-96	1997-01	2002-06										
Belgium	6.2	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Germany	6.0	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Ireland	7.8	4.6	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Greece	20.3	9.8	2.6	10.1	7.7	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Spain	10.0	4.2	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
France	7.1	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Italy	10.3	4.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Cyprus	:	:	4.1	6.3	6.4	5.9	4.4	3.9	4.7	4.3	3.4	4.2	4.6
Luxembourg	:	:	:	:	:	:	:	:	:	:	3.1	4.3	4.6
Malta	:	5.1	3.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2	3.5	4.3	4.6
Netherlands	5.7	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Austria	5.9	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Portugal	11.5	4.3	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Slovenia	:	:	5.4	8.6	10.9	10.9	8.0	6.8	4.7	4.0	3.6	4.3	4.6
Slovakia	:	15.0	5.2	15.7	8.6	7.8	7.8	6.2	4.7	2.9	4.3	4.3	4.6
Finland	7.1	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Euro area	7.9	4.2	2.6	3.3	4.5	4.3	3.4	2.4	2.2	2.2	3.1	4.3	4.6
Bulgaria	:	:	3.9	5.9	4.6	5.1	4.9	3.7	3.7	3.6	3.7	4.9	7.1
Czech Republic	:	9.5	2.5	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	3.1	4.0
Denmark	7.8	4.2	2.7	3.4	5.0	4.7	3.5	2.4	2.2	2.2	3.2	4.4	5.3
Estonia	:	8.3	3.0	7.8	5.7	5.3	3.9	2.9	2.5	2.4	3.2	4.9	6.7
Latvia	:	7.0	4.0	8.4	5.4	6.9	4.4	3.8	4.2	3.1	4.4	8.7	8.0
Lithuania	:	:	3.0	13.9	8.6	5.9	3.7	2.8	2.7	2.4	3.1	5.1	6.0
Hungary	:	15.1	8.6	15.1	11.4	10.9	9.2	8.5	11.5	6.7	7.2	7.9	8.8
Poland	:	18.7	6.1	14.7	18.8	16.1	9.0	5.7	6.2	5.3	4.2	4.7	6.4
Romania	:	64.4	16.1	79.6	50.7	41.3	27.3	17.7	19.1	8.4	8.1	7.2	12.3
Sweden	8.9	4.1	2.9	3.3	4.1	4.1	4.3	3.2	2.3	1.9	2.6	3.9	4.7
United Kingdom	6.8	6.2	4.4	5.6	6.2	5.0	4.1	3.7	4.6	4.8	4.9	6.0	5.5
EU	:	8.5	3.3	5.0	5.9	5.4	4.1	3.0	3.1	2.9	3.5	4.6	4.9
USA	4.7	5.4	2.7	5.4	6.5	3.8	1.8	1.2	1.6	3.6	5.2	5.3	2.9
Japan	2.3	0.4	0.1	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.3	0.8	0.9

TABLE 34 : Long term interest rates (1992-2008)

	5-year averages			1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	1992-96	1997-01	2002-06										
Belgium	7.5	5.2	4.1	4.8	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3	4.4
Germany	6.9	5.0	4.0	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.2	4.0
Ireland	8.0	5.3	4.1	4.7	5.5	5.0	5.0	4.1	4.1	3.3	3.8	4.3	4.5
Greece	19.9	7.2	4.3	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1	4.5	4.8
Spain	10.4	5.3	4.1	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8	4.3	4.4
France	7.3	5.0	4.1	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8	4.3	4.2
Italy	11.3	5.4	4.2	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.1	4.5	4.7
Cyprus	:	7.2	5.1	7.4	7.6	7.6	5.7	4.7	5.8	5.2	4.1	4.5	4.6
Luxembourg	7.0	5.1	4.0	4.7	5.5	4.9	4.7	4.0	4.2	3.4	3.9	4.6	4.6
Malta	:	:	4.9	:	5.8	6.2	5.8	5.0	4.7	4.6	4.3	4.7	4.8
Netherlands	6.9	5.0	4.1	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.3	4.2
Austria	7.1	5.1	4.1	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3	4.3
Portugal	10.8	5.4	4.1	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9	4.4	4.5
Slovenia	:	:	5.5	:	:	:	8.7	6.4	4.7	3.8	3.9	4.5	4.6
Slovakia	:	:	5.0	:	8.3	8.0	6.9	5.0	5.0	3.5	4.4	4.5	4.7
Finland	9.1	5.2	4.1	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8	4.3	4.3
Euro area	8.6	5.2	4.1	4.7	5.4	5.0	4.9	4.2	4.1	3.4	3.8	4.3	4.0
Bulgaria	:	:	5.6	:	:	:	8.3	6.5	5.4	3.9	4.2	4.5	5.4
Czech Republic	:	:	4.2	:	:	6.3	4.9	4.1	4.8	3.5	3.8	4.3	4.6
Denmark	7.9	5.4	4.2	4.9	5.6	5.1	5.1	4.3	4.3	3.4	3.8	4.3	4.3
Estonia	:	:	5.4	11.4	10.5	10.2	8.4	5.3	4.4	4.2	5.0	6.1	8.2
Latvia	:	:	4.6	:	:	7.6	5.4	4.9	4.9	3.9	4.1	5.3	6.4
Lithuania	:	:	4.7	:	:	8.2	6.1	5.3	4.5	3.7	4.1	4.6	5.6
Hungary	:	:	7.2	9.9	8.6	8.0	7.1	6.8	8.2	6.6	7.1	6.7	8.2
Poland	:	:	6.1	9.5	11.8	10.7	7.4	5.8	6.9	5.2	5.2	5.5	6.1
Romania	:	:	:	:	:	:	:	:	:	:	7.2	7.1	7.7
Sweden	9.3	5.4	4.3	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.2	3.9
United Kingdom	8.2	5.6	4.7	5.0	5.3	5.0	4.9	4.6	4.9	4.5	4.4	5.1	4.5
EU	:	:	:	:	:	:	:	:	:	:	4.1	4.6	4.5
USA	6.7	5.7	4.4	5.6	6.0	5.0	4.6	4.0	4.3	4.3	4.8	4.6	3.7
Japan	4.0	1.7	1.4	1.8	1.8	1.3	1.3	1.0	1.5	1.4	1.7	1.7	1.5

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1992-2010) <sup>1</sup>

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	52.8	50.0	50.2	49.4	52.1	48.4	48.3	48.7	49.8	49.8	52.9	50.2	54.3
Germany	47.8	47.4	47.2	47.1	46.8	45.3	44.2	43.3	43.9	43.8	48.2	43.6	49.0
Ireland	39.4	34.1	33.7	33.7	33.7	34.0	35.7	40.1	41.0	42.1	45.8	42.8	49.1
Greece	44.3	45.6	44.1	45.5	43.1	42.0	43.7	43.2	44.9	43.4	45.3	43.5	45.2
Spain	44.6	40.0	38.6	38.9	38.4	38.5	38.8	39.9	40.5	41.0	45.2	41.3	47.1
France	53.3	52.5	53.0	53.2	53.3	52.7	52.3	52.5	52.7	53.3	55.6	53.6	56.4
Italy	53.2	48.3	48.0	47.7	48.1	48.7	47.9	48.9	48.8	48.8	51.2	48.7	51.1
Cyprus	:	:	43.0	42.8	43.6	43.4	42.9	44.6	44.0	44.9	44.4	44.9	45.0
Luxembourg	:	39.3	41.2	42.5	41.6	38.6	37.2	39.8	40.7	42.5	44.2	43.0	45.7
Malta	:	42.6	45.0	45.5	44.7	43.7	42.6	44.5	45.3	43.6	44.4	44.2	44.8
Netherlands	52.0	45.9	45.9	46.1	44.8	45.6	45.3	45.9	45.4	46.6	48.3	47.4	50.2
Austria	53.7	52.9	51.0	53.9	49.8	49.3	48.5	48.3	48.6	49.0	51.6	49.3	52.1
Portugal	41.4	43.3	46.0	46.5	47.7	46.3	45.7	46.2	45.9	45.6	48.9	45.9	48.7
Slovenia	:	46.1	45.7	45.8	45.3	44.6	42.4	42.4	43.6	42.4	47.7	42.0	48.6
Slovakia	:	47.6	39.6	37.6	38.2	36.9	34.4	34.3	34.9	34.3	38.3	34.2	39.4
Finland	59.8	51.3	49.5	49.9	50.1	48.6	47.3	47.1	48.3	47.7	52.8	48.0	54.3
Euro area	50.1	47.7	47.4	47.5	47.3	46.6	46.1	46.3	46.6	46.9	50.1	46.9	51.0
Bulgaria	:	:	39.2	39.7	39.3	36.5	41.5	38.1	37.4	38.1	39.5	38.2	39.3
Czech Republic	:	43.0	45.5	45.2	45.0	43.9	42.6	42.0	42.4	41.8	45.9	41.3	47.6
Denmark	59.0	55.1	53.6	54.4	52.6	51.5	50.9	50.9	51.8	51.4	55.0	51.9	57.0
Estonia	:	37.7	34.6	34.1	34.0	34.2	35.5	39.4	40.9	40.7	45.0	41.1	47.3
Latvia	:	38.0	36.0	35.8	35.6	38.2	35.9	39.5	39.5	42.3	46.8	42.0	49.8
Lithuania	:	41.3	33.6	33.3	33.3	33.6	34.9	36.6	37.2	38.2	39.5	39.6	42.7
Hungary	:	48.9	50.3	49.0	50.1	51.9	49.7	48.9	49.9	49.0	50.8	49.1	52.0
Poland	:	43.7	43.7	42.6	43.4	43.8	42.1	41.5	43.1	42.2	46.1	42.1	46.8
Romania	:	36.9	34.1	33.5	33.5	35.3	36.6	38.3	38.5	39.0	38.5	38.9	38.9
Sweden	64.4	57.9	55.5	55.3	55.0	54.0	52.5	53.5	53.1	54.9	56.6	55.0	57.3
United Kingdom	42.2	39.1	42.8	42.9	44.1	44.2	44.0	45.8	47.7	47.2	50.5	48.2	52.4
EU	:	46.7	46.8	46.8	46.8	46.3	45.7	46.2	46.8	46.9	50.1	47.1	51.1
USA	36.5	34.8	36.5	36.4	36.6	36.4	37.3	36.8	37.2	38.8	42.2	40.5	43.7
Japan	:	38.9	37.8	37.0	38.4	36.3	36.2	39.0	39.4	40.2	44.2	41.4	46.7

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 36 : Total revenue, general government (as a percentage of GDP, 1992-2010) <sup>1</sup>

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	47.4	49.4	49.6	49.1	49.4	48.7	48.1	48.2	48.6	48.3	48.4	48.4	48.2
Germany	44.8	45.9	43.9	43.3	43.5	43.8	44.0	43.4	43.8	43.6	44.3	43.1	43.0
Ireland	37.7	36.4	34.9	35.1	35.4	37.0	35.9	34.7	33.8	35.3	33.7	35.6	33.5
Greece	34.5	41.4	38.9	38.0	38.1	39.1	40.1	40.7	39.9	41.2	40.2	40.5	39.5
Spain	39.1	38.1	39.0	38.5	39.4	40.5	41.0	38.3	36.6	38.1	36.6	38.1	37.3
France	48.4	50.4	49.8	49.6	50.4	50.4	49.6	49.5	49.3	49.7	49.0	49.7	49.3
Italy	44.9	46.1	44.5	44.2	43.8	45.4	46.4	46.4	46.0	46.2	46.7	46.6	46.3
Cyprus	:	:	39.3	38.7	41.2	42.2	46.4	45.6	44.9	45.6	42.5	45.6	42.4
Luxembourg	:	43.8	41.7	41.4	41.6	39.9	40.8	42.5	43.3	43.8	42.7	43.5	42.9
Malta	:	35.0	39.9	40.7	41.8	41.2	40.4	40.7	40.6	40.9	40.8	41.7	41.6
Netherlands	48.7	46.0	44.6	44.3	44.5	46.2	45.6	47.1	46.4	47.1	44.9	47.5	44.1
Austria	49.6	51.2	49.1	49.5	48.2	47.7	48.0	47.7	48.2	47.8	47.4	47.9	46.7
Portugal	36.7	40.0	42.2	43.1	41.6	42.3	43.1	44.0	43.2	42.8	42.4	42.6	42.0
Slovenia	:	43.2	43.7	43.6	43.8	43.3	42.9	42.2	42.7	41.6	42.2	41.4	42.1
Slovakia	:	40.0	35.7	35.3	35.4	33.5	32.5	32.0	32.7	32.0	33.6	31.7	34.1
Finland	54.0	54.0	52.6	52.3	52.9	52.6	52.5	52.3	52.5	51.3	52.0	50.5	51.5
Euro area	45.1	46.0	44.9	44.6	44.8	45.3	45.4	45.0	44.7	45.0	44.8	44.9	44.4
Bulgaria	:	:	40.3	41.3	41.2	39.5	41.5	41.4	39.0	41.0	39.0	41.1	39.0
Czech Republic	:	38.6	41.0	42.2	41.4	41.2	42.0	40.8	40.9	40.5	41.6	39.9	42.7
Denmark	56.5	56.1	56.1	56.4	57.8	56.6	55.4	54.0	55.4	52.4	53.4	52.2	53.1
Estonia	:	37.3	36.2	35.7	35.5	37.1	38.2	38.0	37.9	38.5	42.0	38.3	43.4
Latvia	:	36.5	34.8	34.7	35.2	37.7	35.5	37.3	35.5	36.7	35.7	35.8	36.2
Lithuania	:	36.4	32.5	31.8	32.8	33.1	33.9	33.9	34.0	34.6	34.1	35.6	34.8
Hungary	:	43.7	42.4	42.6	42.3	42.7	44.8	45.5	46.5	45.6	47.4	45.8	48.1
Poland	:	39.8	38.7	36.9	39.1	39.9	40.2	39.2	39.2	39.8	39.5	39.7	39.5
Romania	:	32.8	32.5	32.3	32.3	33.1	34.0	34.9	33.1	34.9	33.4	35.1	33.3
Sweden	56.7	59.1	56.2	56.1	57.2	56.5	56.3	56.1	55.7	55.3	54.0	54.5	53.4
United Kingdom	36.2	39.7	39.9	39.5	40.7	41.5	41.3	41.6	42.2	41.6	38.9	41.7	38.7
EU	:	45.4	44.3	44.0	44.4	44.9	44.9	44.6	44.5	44.6	44.1	44.4	43.8
USA	32.3	35.2	32.9	32.1	33.5	34.3	34.6	31.6	31.3	31.6	30.1	31.5	29.5
Japan	:	31.6	31.7	30.9	31.7	34.7	33.7	37.1	36.6	37.7	37.6	37.8	38.0

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2010) <sup>1</sup>

22.04.2009

	5-year averages			2008			2009			2010			
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
<b>Belgium</b>	-5.4	-0.6	-0.5	-0.2	-0.5	-0.9	-1.2	-1.4	-3.0	-4.5	-1.8	-4.3	-6.1
<b>Germany</b>	-3.0	-1.6	-3.3	-0.2	0.0	-0.1	-0.1	-0.2	-2.9	-3.9	-0.5	-4.2	-5.9
<b>Ireland</b>	-1.7	2.4	1.2	0.2	-5.5	-6.3	-7.1	-6.8	-11.0	-12.0	-7.2	-13.0	-15.6
<b>Greece</b>	-9.8	-4.2	-5.2	-3.6	-2.5	-3.4	-5.0	-2.2	-3.7	-5.1	-3.0	-4.2	-5.7
<b>Spain</b>	-5.6	-1.9	0.4	2.2	-1.6	-3.4	-3.8	-2.9	-6.2	-8.6	-3.2	-5.7	-9.8
<b>France</b>	-4.9	-2.1	-3.2	-2.7	-3.0	-3.2	-3.4	-3.5	-5.4	-6.6	-3.8	-5.0	-7.0
<b>Italy</b>	-8.3	-2.2	-3.5	-1.5	-2.5	-2.8	-2.7	-2.6	-3.8	-4.5	-2.1	-3.7	-4.8
<b>Cyprus</b>	:	:	-3.7	3.4	1.0	1.0	0.9	0.7	-0.6	-1.9	0.6	-1.0	-2.6
<b>Luxembourg</b>	1.6	4.5	0.6	3.6	2.7	3.0	2.6	1.3	0.4	-1.5	0.5	-1.4	-2.8
<b>Malta</b>	:	-7.6	-5.1	-2.2	-3.8	-3.5	-4.7	-2.7	-2.6	-3.6	-2.5	-2.5	-3.2
<b>Netherlands</b>	-3.3	0.0	-1.3	0.3	1.2	1.1	1.0	0.5	-1.4	-3.4	0.1	-2.7	-6.1
<b>Austria</b>	-4.1	-1.6	-1.9	-0.5	-0.6	-0.6	-0.4	-1.2	-3.0	-4.2	-1.4	-3.6	-5.3
<b>Portugal</b>	-4.7	-3.4	-3.8	-2.6	-2.2	-2.2	-2.6	-2.8	-4.6	-6.5	-3.3	-4.4	-6.7
<b>Slovenia</b>	:	-2.9	-2.0	0.5	-0.2	-0.9	-0.9	-0.7	-3.2	-5.5	-0.5	-2.8	-6.5
<b>Slovakia</b>	:	-7.6	-3.9	-1.9	-2.3	-2.2	-2.2	-2.2	-2.8	-4.7	-2.5	-3.6	-5.4
<b>Finland</b>	-5.8	2.8	3.2	5.2	5.1	4.5	4.2	3.6	2.0	-0.8	2.4	0.5	-2.9
<b>Euro area</b>	-5.0	-1.6	-2.5	-0.6	-1.3	-1.7	-1.9	-1.8	-4.0	-5.3	-2.0	-4.4	-6.5
<b>Bulgaria</b>	:	1.5	1.1	0.1	3.3	3.2	1.5	2.9	2.0	-0.5	2.9	2.0	-0.3
<b>Czech Republic</b>	:	-4.4	-4.5	-0.6	-1.2	-1.2	-1.5	-1.3	-2.5	-4.3	-1.4	-2.3	-4.9
<b>Denmark</b>	-2.5	1.0	2.6	4.5	3.1	3.1	3.6	1.1	-0.3	-1.5	0.4	-1.5	-3.9
<b>Estonia</b>	:	-0.5	1.6	2.7	-1.4	-2.0	-3.0	-2.2	-3.2	-3.0	-2.8	-3.2	-3.9
<b>Latvia</b>	:	-1.5	-1.2	-0.4	-2.3	-3.5	-4.0	-5.6	-6.3	-11.1	-6.2	-7.4	-13.6
<b>Lithuania</b>	:	-4.9	-1.1	-1.0	-2.7	-2.9	-3.2	-3.6	-3.0	-5.4	-4.0	-3.4	-8.0
<b>Hungary</b>	:	-5.3	-7.9	-4.9	-3.4	-3.3	-3.4	-3.3	-2.8	-3.4	-3.3	-3.0	-3.9
<b>Poland</b>	:	-3.9	-5.0	-1.9	-2.3	-2.5	-3.9	-2.5	-3.6	-6.6	-2.4	-3.5	-7.3
<b>Romania</b>	:	-4.1	-1.6	-2.5	-3.4	-5.2	-5.4	-4.1	-7.5	-5.1	-3.8	-7.9	-5.6
<b>Sweden</b>	-7.7	1.2	0.7	3.8	2.6	2.3	2.5	0.4	-1.3	-2.6	-0.4	-1.4	-3.9
<b>United Kingdom</b>	-6.1	0.6	-3.0	-2.7	-4.2	-4.6	-5.5	-5.6	-8.8	-11.5	-6.5	-9.6	-13.8
<b>EU</b>	:	-1.4	-2.5	-0.8	-1.6	-2.0	-2.3	-2.3	-4.4	-6.0	-2.6	-4.8	-7.3
<b>USA</b>	-4.2	0.4	-3.6	-2.8	-5.3	:	-5.9	-7.2	:	-12.1	-9.0	:	-14.2
<b>Japan</b>	-2.5	-7.3	-6.1	-2.5	-1.9	:	-2.9	-2.6	:	-6.7	-3.5	:	-8.7

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1992-2010) <sup>1</sup>

	5-year averages			2008			2009			2010			
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
<b>Belgium</b>	9.5	7.0	4.8	4.7	4.2	3.9	3.8	3.7	3.7	3.7	3.9	3.6	4.0
<b>Germany</b>	3.3	3.2	2.9	2.8	2.8	2.8	2.8	2.7	2.8	2.7	2.9	2.6	3.0
<b>Ireland</b>	5.6	2.7	1.2	1.1	1.0	0.9	1.0	1.1	1.1	1.6	2.3	1.9	3.2
<b>Greece</b>	11.5	7.9	4.8	4.9	4.4	4.1	4.1	4.0	4.4	4.0	4.6	4.1	4.8
<b>Spain</b>	4.8	3.7	2.1	2.0	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.9
<b>France</b>	3.4	3.1	2.7	2.7	2.6	2.5	2.7	2.9	2.8	2.9	2.8	2.8	3.1
<b>Italy</b>	11.3	7.3	4.9	4.7	4.6	4.6	5.0	5.1	5.1	4.9	4.7	4.9	4.8
<b>Cyprus</b>	:	:	3.3	3.3	3.5	3.3	3.1	2.9	2.9	2.6	2.3	2.5	2.2
<b>Luxembourg</b>	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.6	0.6	0.6	0.6
<b>Malta</b>	:	3.3	3.6	3.6	3.7	3.5	3.3	3.4	3.3	3.4	3.5	3.3	3.5
<b>Netherlands</b>	5.7	4.1	2.5	2.5	2.3	2.2	2.2	2.2	2.2	2.3	2.6	2.3	2.7
<b>Austria</b>	4.0	3.5	2.9	2.9	2.9	2.7	2.7	2.6	2.5	2.6	3.0	2.6	3.2
<b>Portugal</b>	5.8	3.2	2.7	2.6	2.6	2.7	2.8	2.9	2.9	2.9	3.0	3.0	3.3
<b>Slovenia</b>	:	2.3	1.8	1.7	1.6	1.4	1.3	1.2	1.2	1.1	1.6	1.0	1.8
<b>Slovakia</b>	:	3.3	2.3	2.2	1.7	1.5	1.4	1.4	1.2	1.3	1.3	1.3	1.4
<b>Finland</b>	4.0	3.2	1.7	1.6	1.5	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.4
<b>Euro area</b>	5.6	4.3	3.1	3.1	2.9	2.9	2.9	3.0	3.0	2.9	3.0	2.9	3.2
<b>Bulgaria</b>	:	4.7	1.8	1.8	1.7	1.4	1.0	0.9	0.8	0.8	0.8	0.7	0.8
<b>Czech Republic</b>	:	1.0	1.2	1.2	1.2	1.1	1.2	1.2	1.1	1.2	1.2	1.1	1.1
<b>Denmark</b>	6.4	4.1	2.3	2.3	1.8	1.6	1.5	1.4	1.4	1.2	1.7	1.2	1.6
<b>Estonia</b>	:	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.5
<b>Latvia</b>	:	0.8	0.6	0.7	0.6	0.5	0.5	0.5	0.9	0.8	1.4	1.2	2.3
<b>Lithuania</b>	:	1.3	1.0	0.9	0.8	0.7	0.7	0.7	0.6	0.8	1.1	0.9	1.5
<b>Hungary</b>	:	6.8	4.1	4.4	4.1	3.9	4.1	4.0	4.3	4.2	4.8	4.2	4.9
<b>Poland</b>	:	3.5	2.8	2.8	2.8	2.7	2.3	2.5	2.2	2.7	2.9	2.8	3.0
<b>Romania</b>	:	4.2	1.5	1.4	1.1	0.8	0.8	0.9	0.8	1.0	1.5	1.1	1.6
<b>Sweden</b>	5.5	4.0	2.0	1.6	1.6	1.6	1.8	1.9	1.7	1.8	1.5	1.6	1.4
<b>United Kingdom</b>	3.1	3.0	2.0	1.9	2.1	2.0	2.2	2.3	2.3	2.5	2.2	2.6	3.0
<b>EU</b>	:	4.0	2.9	2.8	2.7	2.6	2.7	2.7	2.7	2.7	2.8	2.8	3.1
<b>USA</b>	4.7	3.8	2.7	2.6	2.7	2.8	2.9	2.9	2.9	3.1	2.6	3.3	2.6
<b>Japan</b>	3.6	3.4	2.6	2.5	2.4	2.4	2.5	2.8	2.5	3.1	3.0	3.3	3.5

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.



TABLE 39 : Primary balance, general government (as a percentage of GDP, 1992-2010) <sup>1 2</sup>

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	4.2	6.4	4.2	4.4	1.5	4.2	3.6	3.2	2.5	2.3	-0.6	1.9	-2.1
Germany	0.3	1.7	-0.4	-1.0	-0.5	1.3	2.6	2.7	2.6	2.5	-1.0	2.1	-2.9
Ireland	4.0	5.0	2.4	2.5	2.7	3.9	1.1	-4.4	-6.1	-5.2	-9.8	-5.3	-12.5
Greece	1.7	3.7	-0.4	-2.6	-0.7	1.3	0.5	1.5	-0.7	1.8	-0.5	1.0	-0.9
Spain	-0.8	1.8	2.5	1.7	2.8	3.7	3.8	0.0	-2.3	-1.3	-6.9	-1.6	-7.8
France	-1.5	1.0	-0.5	-0.9	-0.3	0.3	0.0	-0.2	-0.6	-0.7	-3.8	-1.0	-4.0
Italy	3.0	5.1	1.4	1.2	0.3	1.3	3.5	2.6	2.4	2.3	0.2	2.8	0.1
Cyprus	:	:	-0.4	-0.8	1.1	2.1	6.5	3.9	3.8	3.3	0.4	3.1	-0.4
Luxembourg	1.9	4.9	0.8	-0.9	0.2	1.5	3.9	3.0	2.9	1.9	-0.9	1.1	-2.2
Malta	:	-4.3	-1.5	-1.1	0.8	1.0	1.1	-0.4	-1.4	0.7	-0.2	0.8	0.4
Netherlands	2.4	4.1	1.1	0.7	2.1	2.8	2.6	3.4	3.2	2.9	-0.8	2.4	-3.4
Austria	-0.1	1.9	1.0	-1.5	1.3	1.1	2.2	2.0	2.1	1.4	-1.1	1.2	-2.1
Portugal	1.1	-0.1	-1.1	-0.7	-3.5	-1.2	0.2	0.8	0.3	0.0	-3.6	-0.3	-3.4
Slovenia	:	-0.6	-0.3	-0.5	0.1	0.1	1.8	0.9	0.2	0.3	-3.9	0.4	-4.7
Slovakia	:	-4.3	-1.6	-0.2	-1.1	-2.0	-0.5	-0.9	-0.9	-0.9	-3.3	-1.2	-4.0
Finland	-1.8	6.0	4.8	4.0	4.3	5.4	6.7	6.6	5.6	5.0	0.5	3.8	-1.5
Euro area	0.6	2.6	0.7	0.2	0.4	1.6	2.3	1.6	1.1	1.1	-2.3	0.9	-3.3
Bulgaria	:	6.2	2.9	3.4	3.6	4.4	1.1	4.1	2.4	3.7	0.3	3.6	0.4
Czech Republic	:	-3.4	-3.3	-1.8	-2.4	-1.5	0.5	0.1	-0.3	-0.1	-3.2	-0.2	-3.7
Denmark	3.9	5.1	4.8	4.3	7.0	6.8	6.1	4.4	5.0	2.3	0.1	1.5	-2.3
Estonia	:	-0.2	1.8	1.9	1.7	3.1	2.9	-1.3	-2.7	-2.0	-2.7	-2.6	-3.4
Latvia	:	-0.7	-0.5	-0.3	0.2	0.0	0.1	-1.7	-3.1	-4.8	-9.7	-5.0	-11.3
Lithuania	:	-3.6	-0.1	-0.6	0.3	0.3	-0.3	-2.1	-2.6	-2.8	-4.3	-3.1	-6.5
Hungary	:	1.6	-3.8	-2.0	-3.7	-5.3	-0.9	0.6	0.8	0.8	1.4	0.9	1.0
Poland	:	-0.3	-2.2	-2.9	-1.5	-1.2	0.4	0.2	-1.7	0.2	-3.7	0.4	-4.3
Romania	:	0.1	-0.1	0.2	-0.1	-1.3	-1.8	-2.5	-4.7	-3.1	-3.6	-2.7	-4.0
Sweden	-2.2	5.3	2.6	2.4	3.9	4.2	5.6	4.5	4.2	2.1	-1.2	1.2	-2.5
United Kingdom	-2.9	3.5	-1.0	-1.5	-1.3	-0.7	-0.5	-1.9	-3.1	-3.2	-9.4	-3.9	-10.8
EU	:	2.7	0.4	-0.1	0.3	1.2	1.9	1.1	0.4	0.4	-3.2	0.1	-4.3
USA	0.5	4.3	-0.9	-1.7	-0.4	0.7	0.2	-2.3	-3.0	-4.1	-9.5	-5.7	-11.6
Japan	1.1	-3.9	-3.5	-3.6	-4.3	0.8	0.0	0.9	-0.3	0.5	-3.6	-0.2	-5.2

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.<sup>2</sup> Net lending/borrowing excluding interest expenditure.

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-5.0	-0.7	-0.7	-0.4	-2.9	-0.5	-1.6	-0.8	-2.2	-0.9	-3.1	-0.7	-4.0
Germany	-3.1	-1.6	-3.1	-3.3	-2.8	-2.1	-1.5	-0.8	-1.7	-0.3	-2.3	-0.4	-4.0
Ireland	-0.3	1.4	0.5	1.1	0.9	1.9	-1.8	-4.9	-7.5	-5.3	-9.2	-6.1	-12.2
Greece	-9.2	-3.8	-5.7	-8.4	-5.7	-3.7	-4.7	-3.2	-6.1	-2.5	-4.9	-3.1	-4.7
Spain	-4.5	-1.9	0.4	-0.1	1.1	1.8	1.6	-1.5	-4.2	-2.0	-7.5	-1.9	-8.2
France	-3.9	-2.0	-3.7	-4.1	-3.5	-3.1	-3.8	-3.2	-4.2	-3.0	-5.5	-3.0	-5.5
Italy	-7.6	-2.1	-3.8	-3.8	-4.6	-4.3	-2.8	-2.3	-3.2	-1.9	-2.6	-1.2	-2.7
Cyprus	:	:	-3.8	-3.9	-2.3	-1.4	2.7	0.9	0.1	0.8	-2.1	0.8	-2.1
Luxembourg	:	4.5	0.1	-0.8	-0.4	-0.6	0.9	2.4	2.0	2.1	0.6	1.8	0.1
Malta	:	-8.2	-4.5	-3.5	-2.3	-2.5	-2.7	-4.0	-5.4	-2.8	-3.6	-2.5	-2.8
Netherlands	-2.7	-0.6	-0.8	-1.0	0.2	0.2	-1.0	0.4	-0.5	0.5	-2.3	0.6	-4.3
Austria	-3.8	-1.9	-1.6	-3.7	-1.4	-2.2	-1.8	-1.2	-1.8	-1.2	-3.2	-1.2	-3.8
Portugal	-4.1	-4.0	-3.6	-2.9	-5.7	-3.8	-3.2	-1.9	-3.0	-2.2	-5.3	-2.6	-5.1
Slovenia	:	-3.0	-1.8	-1.7	-1.3	-2.1	-1.7	-1.0	-2.5	-0.8	-4.9	-0.3	-5.2
Slovakia	:	-7.1	-3.6	-1.9	-2.6	-4.0	-3.8	-3.1	-4.5	-2.5	-4.9	-2.3	-4.7
Finland	-3.7	1.8	3.1	2.6	2.9	2.8	3.2	4.7	2.8	3.9	0.8	3.0	-0.9
Euro area	-4.4	-1.7	-2.6	-2.9	-2.5	-1.9	-1.9	-1.6	-2.9	-1.4	-3.9	-1.4	-4.7
Bulgaria	:	:	0.2	0.6	0.8	1.8	-1.2	2.8	0.2	3.0	0.3	3.3	1.6
Czech Republic	:	-3.4	-4.4	-2.4	-3.9	-4.0	-2.8	-2.0	-3.4	-1.7	-4.0	-1.5	-3.7
Denmark	-1.8	0.3	2.4	2.1	4.7	3.6	3.0	3.0	3.7	1.9	1.1	1.5	-1.0
Estonia	:	-0.1	0.6	1.2	0.2	0.2	-0.5	-1.7	-4.0	-1.0	-0.4	-1.2	-0.7
Latvia	:	-1.0	-2.0	-1.4	-1.7	-3.3	-4.5	-3.3	-5.8	-4.8	-9.0	-4.8	-10.7
Lithuania	:	-3.8	-2.0	-2.5	-1.8	-2.1	-3.4	-3.9	-5.2	-3.6	-3.8	-3.0	-4.8
Hungary	:	-4.9	-8.4	-6.8	-8.6	-10.8	-6.4	-3.9	-4.8	-3.4	-1.7	-3.3	-2.0
Poland	:	-4.0	-5.0	-5.9	-4.4	-4.6	-3.2	-2.9	-5.3	-2.5	-6.0	-2.0	-5.8
Romania	:	:	-1.9	-1.9	-1.8	-3.8	-4.5	-5.0	-7.9	-5.2	-5.2	-4.7	-4.7
Sweden	-5.5	1.7	0.2	0.3	1.3	0.7	1.9	2.3	2.0	1.2	-0.4	0.4	-1.9
United Kingdom	-5.4	0.3	-3.3	-3.8	-3.7	-3.3	-3.7	-4.6	-6.1	-5.0	-10.2	-5.4	-12.2
EU	:	-1.4	-2.6	-2.9	-2.6	-2.1	-2.1	-2.0	-3.3	-1.9	-4.6	-2.0	-5.6

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	4.6	6.3	4.1	4.3	1.2	3.4	2.3	2.9	1.5	2.9	0.8	2.9	0.0
Germany	0.2	1.6	-0.2	-0.5	-0.1	0.7	1.3	1.9	1.1	2.4	0.6	2.2	-1.0
Ireland	5.3	4.1	1.6	2.2	2.0	2.8	-0.9	-3.8	-6.4	-3.6	-6.9	-4.2	-9.0
Greece	2.3	4.1	-0.9	-3.5	-1.3	0.4	-0.6	0.8	-1.8	1.5	-0.3	1.0	0.1
Spain	0.3	1.8	2.5	1.9	2.9	3.4	3.2	0.1	-2.7	-0.4	-5.9	-0.3	-6.3
France	-0.5	1.1	-1.0	-1.3	-0.9	-0.6	-1.1	-0.3	-1.4	-0.1	-2.7	-0.2	-2.5
Italy	3.7	5.1	1.1	1.0	0.0	0.3	2.2	2.7	2.0	3.0	2.0	3.7	2.1
Cyprus	:	:	-0.4	-0.6	1.2	1.9	5.8	3.8	2.9	3.4	0.2	3.3	0.1
Luxembourg	:	4.9	0.3	-0.7	-0.2	-0.4	1.1	2.6	2.3	2.7	1.2	2.4	0.7
Malta	:	-4.8	-0.9	0.1	1.4	1.0	0.7	-0.6	-2.0	0.6	-0.1	0.8	0.7
Netherlands	3.0	3.6	1.7	1.5	2.6	2.4	1.2	2.6	1.7	2.9	0.3	2.9	-1.6
Austria	0.2	1.6	1.3	-0.9	1.5	0.6	1.0	1.4	0.8	1.4	-0.1	1.4	-0.6
Portugal	1.7	-0.8	-0.9	-0.2	-3.1	-1.1	-0.4	1.0	-0.1	0.6	-2.4	0.4	-1.8
Slovenia	:	-0.7	-0.1	0.0	0.3	-0.7	-0.4	0.2	-1.3	0.3	-3.3	0.7	-3.4
Slovakia	:	-3.8	-1.4	0.3	-0.9	-2.5	-2.4	-1.7	-3.3	-1.1	-3.6	-1.0	-3.3
Finland	0.3	5.1	4.8	4.1	4.4	4.3	4.6	6.1	4.2	5.2	2.1	4.3	0.5
Euro area	1.2	2.6	0.6	0.2	0.4	0.9	1.1	1.3	0.1	1.5	-0.9	1.5	-1.5
Bulgaria	:	:	2.0	2.4	2.5	3.2	-0.2	3.6	1.0	3.7	1.1	4.0	2.4
Czech Republic	:	-2.4	-3.2	-1.2	-2.8	-2.9	-1.6	-0.8	-2.3	-0.5	-2.9	-0.3	-2.5
Denmark	4.6	4.4	4.7	4.5	6.5	5.2	4.5	4.4	5.1	3.1	2.7	2.6	0.6
Estonia	:	0.2	0.8	1.4	0.4	0.4	-0.3	-1.6	-3.7	-0.8	0.0	-0.9	-0.2
Latvia	:	-0.2	-1.4	-0.7	-1.1	-2.8	-4.1	-2.8	-4.9	-4.0	-7.5	-3.6	-8.4
Lithuania	:	-2.5	-0.9	-1.5	-1.0	-1.4	-2.7	-3.2	-4.6	-2.9	-2.7	-2.1	-3.3
Hungary	:	1.9	-4.3	-2.4	-4.4	-6.9	-2.3	0.1	-0.5	0.8	3.1	0.9	2.9
Poland	:	-0.5	-2.2	-3.2	-1.6	-1.9	-0.9	-0.4	-3.1	0.2	-3.1	0.7	-2.8
Romania	:	:	-0.4	-0.4	-0.7	-3.0	-3.7	-4.1	-7.2	-4.2	-3.7	-3.6	-3.1
Sweden	0.0	5.7	2.1	1.9	2.9	2.3	3.7	4.2	3.7	2.9	1.1	2.0	-0.5
United Kingdom	-2.3	3.3	-1.3	-1.9	-1.6	-1.2	-1.5	-2.3	-3.8	-2.6	-8.0	-2.8	-9.2
EU	:	2.6	0.2	-0.1	0.1	0.5	0.6	0.8	-0.5	0.8	-1.8	0.8	-2.5

TABLE 42 : Gross debt, general government (as a percentage of GDP, 2001-2010)

	2004	2005	2006	2007	2008			2009			2010		
					X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	94.3	92.2	87.9	84.0	86.5	88.3	89.6	86.1	91.2	95.7	85.6	94.0	100.9
Germany	65.6	67.8	67.6	65.1	64.3	65.6	65.9	63.2	69.6	73.4	61.9	72.3	78.7
Ireland	29.4	27.5	24.9	25.0	31.6	40.8	43.2	39.2	54.8	61.2	46.2	68.2	79.7
Greece	98.6	98.8	95.9	94.8	93.4	94.0	97.6	92.2	96.2	103.4	91.9	98.4	108.0
Spain	46.2	43.0	39.6	36.2	37.5	39.8	39.5	41.1	46.9	50.8	44.4	53.0	62.3
France	64.9	66.4	63.7	63.8	65.4	67.1	68.0	67.7	72.4	79.7	69.9	76.0	86.0
Italy	103.8	105.8	106.5	103.5	104.1	105.7	105.8	104.3	109.3	113.0	103.8	110.3	116.1
Cyprus	70.2	69.1	64.6	59.4	48.2	48.1	49.1	44.7	46.7	47.5	41.3	45.7	47.9
Luxembourg	6.3	6.1	6.7	6.9	14.1	14.4	14.7	14.6	15.0	16.0	14.5	15.1	16.4
Malta	72.2	69.8	63.7	62.1	63.1	63.3	64.1	63.2	64.0	67.0	63.1	64.2	68.9
Netherlands	52.4	51.8	47.4	45.6	48.2	57.3	58.2	47.0	53.2	57.0	45.9	55.2	63.1
Austria	64.8	63.7	62.0	59.4	57.4	59.4	62.5	57.1	62.3	70.4	56.9	64.7	75.2
Portugal	58.3	63.6	64.7	63.5	64.3	64.6	66.4	65.2	68.2	75.4	66.6	71.7	81.5
Slovenia	27.2	27.0	26.7	23.4	21.8	22.1	22.8	21.1	24.8	29.3	20.1	25.8	34.9
Slovakia	41.4	34.2	30.4	29.4	28.8	28.6	27.6	29.0	30.0	32.2	29.3	31.9	36.3
Finland	44.2	41.4	39.2	35.1	31.6	32.8	33.4	30.2	34.5	39.7	29.8	36.1	45.7
Euro area	69.5	70.0	68.3	66.0	66.6	68.7	69.3	67.2	72.7	77.7	67.6	75.8	83.8
Bulgaria	37.9	29.2	22.7	18.2	13.8	13.8	14.1	10.6	12.2	16.0	7.9	10.7	17.3
Czech Republic	30.4	29.8	29.6	28.9	26.6	27.9	29.8	26.4	29.4	33.7	26.3	30.6	37.9
Denmark	44.5	37.1	31.3	26.8	21.1	30.3	33.3	21.1	28.4	32.5	20.1	27.0	33.7
Estonia	5.0	4.5	4.3	3.5	4.2	4.3	4.8	5.0	6.1	6.8	6.1	7.6	7.8
Latvia	14.9	12.4	10.7	9.0	12.3	16.0	19.5	17.7	30.4	34.1	23.0	42.9	50.1
Lithuania	19.4	18.4	18.0	17.0	17.5	17.1	15.6	20.0	20.0	22.6	23.3	23.3	31.9
Hungary	59.4	61.7	65.6	65.8	65.4	71.9	73.0	66.0	73.8	80.8	66.2	74.0	82.3
Poland	45.7	47.1	47.7	44.9	43.7	45.5	47.1	43.4	47.7	53.6	42.9	49.7	59.7
Romania	18.7	15.8	12.4	12.7	13.4	15.2	13.6	15.4	21.1	18.2	17.1	26.8	22.7
Sweden	51.2	51.0	45.9	40.5	34.7	34.8	38.0	33.8	36.2	44.0	32.4	36.0	47.2
United Kingdom	40.6	42.3	43.4	44.2	50.1	50.1	52.0	55.1	62.6	68.4	60.3	71.0	81.7
EU	62.2	62.7	61.3	58.7	59.8	60.6	61.5	60.9	67.4	72.6	61.8	70.9	79.4

TABLE 43 : Gross national saving (as a percentage of GDP, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	24.8	25.7	24.0	24.0	23.7	24.6	25.0	23.8	22.7	23.1	21.0	22.9	20.6
Germany	21.2	20.3	21.4	22.0	22.2	23.9	25.9	26.8	25.9	26.6	21.6	26.7	21.3
Ireland	18.6	23.8	23.4	24.0	23.9	24.8	21.8	16.9	17.6	14.9	14.9	15.3	13.9
Greece	19.3	15.1	10.8	12.3	10.3	10.2	8.6	8.0	8.4	7.3	6.8	6.9	6.5
Spain	20.6	22.3	22.5	22.4	22.0	21.9	21.1	20.0	20.0	19.5	18.5	19.1	17.2
France	18.9	21.1	19.1	19.0	18.5	19.1	19.3	18.9	18.7	18.3	16.3	18.2	15.8
Italy	20.6	21.3	20.0	20.3	19.5	19.6	20.0	18.8	18.2	19.1	16.0	18.9	15.8
Cyprus	:	13.8	14.7	15.2	14.1	13.8	10.6	11.1	6.1	10.9	8.7	10.9	9.0
Luxembourg	35.0	33.4	32.0	33.4	33.4	30.3	29.9	28.8	27.7	26.1	24.9	26.1	24.1
Malta	:	14.2	13.3	11.2	12.2	13.1	16.5	15.8	13.0	15.5	13.3	15.7	13.4
Netherlands	25.9	27.1	26.9	27.6	26.5	29.4	29.5	28.0	27.5	27.2	25.0	26.2	23.7
Austria	22.1	23.1	24.8	25.0	25.0	25.0	26.1	26.1	27.0	25.4	24.3	25.3	23.8
Portugal	20.3	18.4	14.6	15.3	12.8	11.7	12.4	10.6	10.3	10.9	9.6	11.0	8.8
Slovenia	23.5	24.3	25.1	24.8	25.3	26.3	27.4	26.8	26.1	26.6	23.8	26.9	23.1
Slovakia	:	23.9	20.1	19.7	20.2	20.4	22.8	22.1	22.0	22.9	20.4	24.2	20.3
Finland	18.0	26.9	26.3	26.4	25.4	26.6	27.1	27.7	24.8	26.6	21.9	26.4	20.9
Euro area	20.9	21.6	21.1	21.4	21.0	21.8	22.3	21.9	21.4	21.5	18.7	21.4	18.1
Bulgaria	:	:	15.8	17.3	16.5	13.1	14.3	14.7	13.5	16.2	14.4	17.1	14.8
Czech Republic	28.1	24.9	22.7	22.0	23.9	24.3	25.0	24.5	22.0	24.3	20.9	25.3	20.6
Denmark	19.9	22.0	23.9	23.4	25.2	25.2	23.6	23.9	24.4	22.8	21.2	22.7	20.0
Estonia	:	21.8	22.4	21.9	23.3	23.0	20.2	19.4	19.2	20.0	21.5	20.7	19.7
Latvia	31.2	16.6	20.0	20.2	21.9	17.2	17.9	16.7	21.2	18.2	27.4	20.3	25.1
Lithuania	:	13.8	15.7	15.2	16.8	16.0	15.4	14.3	14.5	15.8	19.8	14.5	21.5
Hungary	:	20.7	17.2	17.3	16.4	16.9	17.5	17.7	14.6	19.1	16.9	19.2	16.6
Poland	17.2	19.9	17.1	15.9	18.0	18.1	19.2	20.2	19.5	20.0	18.2	20.7	18.7
Romania	22.9	14.2	17.2	17.9	14.4	15.9	17.6	19.9	19.2	22.6	22.6	24.8	24.1
Sweden	17.5	21.9	23.8	23.1	23.4	26.8	28.7	24.4	26.0	23.3	24.3	23.5	24.3
United Kingdom	15.2	16.2	14.9	15.0	14.6	14.2	15.5	14.5	15.3	14.3	11.5	15.2	11.6
EU	:	20.9	20.0	20.2	20.0	20.6	21.2	20.6	20.4	20.3	17.7	20.4	17.3
USA	14.8	17.4	13.9	13.4	14.4	15.0	13.7	12.8	12.9	13.2	12.4	13.8	12.9
Japan	31.6	28.5	26.7	26.8	27.2	27.7	28.9	27.2	26.7	26.9	24.2	27.3	24.0

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1992-2010) <sup>1</sup>

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	28.0	23.8	22.4	22.6	21.9	22.5	23.1	22.2	21.9	22.6	23.3	22.7	24.4
Germany	20.8	19.6	22.1	23.3	23.1	23.2	23.5	24.4	23.6	24.5	22.6	25.0	24.5
Ireland	18.5	18.4	18.8	19.3	19.0	18.5	17.2	17.2	18.7	17.2	22.8	18.3	24.9
Greece	25.5	15.6	12.5	15.1	12.4	11.4	10.5	8.9	10.8	7.7	10.0	8.1	10.4
Spain	21.8	20.1	17.8	18.3	16.9	15.5	14.1	16.9	18.7	17.6	21.6	17.6	22.4
France	20.0	19.7	18.9	19.1	18.2	17.7	18.1	18.2	18.2	18.0	18.6	18.2	18.6
Italy	25.6	20.5	20.0	20.7	20.1	18.2	17.7	17.7	17.4	18.0	16.6	17.5	17.0
Cyprus	:	:	14.9	15.8	13.9	11.3	3.5	6.4	1.7	6.5	7.1	6.6	8.1
Luxembourg	:	24.4	25.8	28.9	27.7	23.8	21.8	20.8	20.1	19.0	20.8	19.7	20.8
Malta	:	17.9	15.1	13.4	13.7	14.4	16.2	17.1	15.1	15.9	15.1	16.0	14.9
Netherlands	26.4	24.1	24.9	26.2	23.7	25.8	25.9	23.2	23.0	23.0	24.6	22.3	26.0
Austria	21.6	21.2	23.0	22.9	23.4	23.5	23.5	23.9	24.4	24.0	25.5	24.0	26.3
Portugal	21.5	17.7	16.4	17.7	16.0	13.4	12.4	11.0	11.1	11.6	13.7	12.1	13.2
Slovenia	:	22.9	23.0	22.7	22.8	23.5	22.7	22.8	22.1	23.1	24.1	23.3	24.4
Slovakia	:	23.7	20.2	19.4	19.3	20.9	22.1	21.9	20.9	22.7	21.9	24.0	23.4
Finland	20.0	21.3	20.6	21.2	20.1	20.4	19.5	20.1	18.3	20.5	19.9	21.4	21.0
Euro area	22.3	20.2	20.4	21.1	20.3	19.8	19.6	19.9	19.9	20.1	20.3	20.2	21.1
Bulgaria	:	:	10.4	11.2	9.8	5.6	6.7	7.1	6.7	8.8	8.9	9.5	9.1
Czech Republic	:	21.5	19.8	18.0	20.4	20.6	20.3	20.2	18.0	20.1	18.9	21.1	19.0
Denmark	20.5	19.3	19.9	19.9	18.5	18.5	17.6	18.7	18.7	20.1	21.0	20.6	21.1
Estonia	:	17.8	16.5	16.7	18.1	15.5	12.3	15.4	15.8	16.7	19.1	17.9	17.8
Latvia	:	15.6	17.2	17.5	18.5	11.7	12.2	13.6	20.7	17.8	32.7	20.9	33.1
Lithuania	:	12.4	13.5	13.2	14.4	12.9	11.8	12.7	13.4	15.3	21.4	14.9	25.3
Hungary	:	20.2	19.6	19.4	19.6	20.9	17.9	17.2	14.9	18.9	17.2	19.2	16.8
Poland	:	19.6	17.9	17.6	18.3	17.5	16.6	18.7	18.1	18.3	19.2	18.6	19.9
Romania	:	14.8	13.9	14.5	11.0	11.6	13.4	16.3	17.9	19.6	20.1	21.2	21.7
Sweden	21.3	17.8	20.1	19.4	18.0	21.1	21.7	18.6	20.1	19.6	23.3	20.6	24.4
United Kingdom	18.6	14.5	15.6	16.2	15.8	14.4	15.8	15.7	17.2	17.1	19.6	18.6	22.1
EU	:	19.4	19.4	20.0	19.3	18.7	18.8	18.9	19.1	19.3	20.0	19.7	21.0
USA	16.8	14.8	15.1	15.2	15.1	14.8	13.9	14.6	14.9	16.7	18.2	19.0	21.4
Japan	26.6	27.7	28.4	29.4	28.6	27.6	28.7	27.9	27.1	28.5	28.3	30.1	30.2

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1992-2010) <sup>1</sup>

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-3.2	1.9	1.6	1.4	1.8	2.1	1.9	1.6	0.8	0.5	-2.3	0.2	-3.9
Germany	0.4	0.7	-0.7	-1.3	-0.9	0.7	2.4	2.4	2.4	2.2	-1.1	1.8	-3.1
Ireland	0.0	5.4	4.6	4.7	4.9	6.3	4.6	-0.3	-1.0	-2.3	-7.9	-2.9	-11.0
Greece	-6.2	-0.5	-1.7	-2.8	-2.1	-1.2	-1.9	-0.9	-2.4	-0.4	-3.2	-1.2	-3.8
Spain	-1.1	2.1	4.7	4.0	5.1	6.4	7.0	3.1	1.3	1.8	-3.1	1.5	-5.3
France	-1.1	1.5	0.2	-0.1	0.3	1.3	1.1	0.7	0.5	0.3	-2.4	-0.1	-2.8
Italy	-5.0	0.8	0.0	-0.4	-0.6	1.4	2.3	1.1	0.8	1.1	-0.6	1.3	-1.2
Cyprus	:	:	-0.3	-0.6	0.2	2.5	7.1	4.7	4.4	4.4	1.6	4.3	0.9
Luxembourg	:	9.0	6.2	4.5	5.7	6.5	8.1	7.9	7.5	7.0	4.1	6.4	3.3
Malta	:	-3.7	-1.8	-2.2	-1.6	-1.3	0.4	-1.3	-2.1	-0.5	-1.9	-0.4	-1.4
Netherlands	-0.4	3.0	2.0	1.4	2.8	3.6	3.6	4.8	4.5	4.2	0.4	3.8	-2.2
Austria	0.5	1.9	1.8	2.1	1.6	1.5	2.6	2.2	2.6	1.5	-1.3	1.3	-2.5
Portugal	-1.2	0.6	-1.8	-2.4	-3.2	-1.6	0.0	-0.5	-0.9	-0.7	-4.1	-1.1	-4.4
Slovenia	:	1.4	2.1	2.2	2.5	2.9	4.7	3.9	4.0	3.4	-0.3	3.7	-1.3
Slovakia	:	0.2	-0.2	0.3	1.0	-0.5	0.6	0.2	1.1	0.3	-1.5	0.2	-3.0
Finland	-2.0	5.6	5.7	5.2	5.3	6.2	7.7	7.7	6.6	6.1	2.0	5.0	-0.1
Euro area	-1.4	1.4	0.7	0.3	0.7	2.0	2.7	2.0	1.5	1.5	-1.6	1.2	-3.0
Bulgaria	:	6.1	5.4	6.1	6.6	7.5	7.6	7.5	6.8	7.4	5.6	7.7	5.7
Czech Republic	:	3.3	2.9	4.0	3.5	3.7	4.7	4.2	4.0	4.1	2.0	4.3	1.5
Denmark	-0.6	2.6	4.1	3.5	6.7	6.7	6.0	5.2	5.7	2.7	0.2	2.1	-1.1
Estonia	:	4.0	5.9	5.1	5.2	7.6	7.9	4.0	3.4	3.3	2.4	2.8	1.9
Latvia	:	1.0	2.8	2.7	3.5	5.5	5.7	3.1	0.5	0.4	-5.4	-0.6	-8.0
Lithuania	:	1.4	2.2	2.0	2.4	3.0	3.6	1.6	1.1	0.5	-1.6	-0.4	-3.8
Hungary	:	0.5	-2.3	-2.1	-3.2	-4.0	-0.4	0.5	-0.2	0.1	-0.3	0.0	-0.2
Poland	:	0.3	-0.8	-1.7	-0.3	0.6	2.6	1.5	1.4	1.7	-0.9	2.2	-1.2
Romania	:	-0.6	3.4	3.4	3.4	4.3	4.2	3.6	1.3	3.0	2.5	3.5	2.4
Sweden	-3.8	4.1	3.7	3.6	5.4	5.7	7.0	5.8	5.9	3.7	1.0	2.9	-0.1
United Kingdom	-3.4	1.7	-0.8	-1.2	-1.1	-0.2	-0.3	-1.2	-1.8	-2.7	-8.1	-3.4	-10.5
EU	:	1.6	0.6	0.2	0.6	1.8	2.4	1.7	1.2	1.0	-2.2	0.7	-3.7
USA	-1.9	2.6	-1.1	-1.8	-0.7	0.2	-0.1	-1.8	-2.0	-3.5	-5.8	-5.1	-8.5
Japan	5.0	0.8	-1.7	-2.6	-1.4	0.1	0.2	-0.7	-0.3	-1.6	-4.1	-2.8	-6.1

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 46 : Exports of goods and services, volume (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	3.9	5.2	3.4	6.5	3.6	2.6	4.0	2.2	2.4	0.6	-12.8	2.2	-1.0
Germany	2.8	9.1	7.4	10.3	7.7	12.7	7.5	4.4	2.7	1.0	-16.1	3.6	-0.4
Ireland	14.2	16.9	4.8	7.5	5.2	5.7	6.8	2.1	-0.4	1.2	-8.9	3.1	-0.2
Greece	4.2	11.2	4.5	13.9	4.2	10.9	3.1	4.2	2.2	3.1	-7.3	3.3	0.8
Spain	10.3	8.9	3.8	4.2	2.5	6.7	4.9	3.4	0.7	2.3	-10.2	2.8	0.1
France	5.2	8.1	2.5	4.0	3.1	5.4	3.1	2.2	1.2	0.9	-11.7	2.4	-1.0
Italy	7.7	4.3	1.4	4.9	1.1	6.2	4.6	0.3	-3.7	-0.1	-15.6	1.8	0.1
Cyprus	:	6.0	1.6	5.1	4.7	3.9	7.2	5.5	1.1	2.4	-6.2	3.2	0.2
Luxembourg	4.4	10.7	8.1	11.2	6.0	14.6	4.4	3.3	0.3	-0.4	-6.3	1.8	-1.0
Malta	:	4.8	3.0	-1.1	0.6	10.5	3.3	0.2	-14.0	-0.3	-7.8	0.1	-1.3
Netherlands	5.8	8.3	4.7	7.9	6.0	7.3	6.5	4.0	2.6	1.3	-10.7	3.0	-0.3
Austria	3.2	9.1	5.9	10.1	7.0	7.5	8.8	3.6	2.0	1.7	-10.9	4.1	0.4
Portugal	4.5	5.5	4.0	4.0	2.0	8.7	7.5	2.1	-0.5	1.1	-11.7	2.5	-0.1
Slovenia	-2.1	7.9	9.0	12.4	10.6	12.5	13.8	6.2	3.3	4.8	-11.8	7.5	-0.3
Slovakia	:	10.8	11.8	7.4	10.0	21.0	13.8	10.0	3.2	5.9	-10.2	6.2	0.2
Finland	10.7	10.6	5.6	8.6	7.0	11.8	8.1	4.6	-1.1	2.7	-18.3	3.3	1.2
Euro area	5.8	8.1	4.8	7.4	5.0	8.4	6.0	3.2	1.2	1.1	-13.2	3.0	-0.3
Bulgaria	:	5.5	9.2	12.7	8.5	8.7	5.2	6.5	2.9	4.6	-11.1	5.6	2.2
Czech Republic	9.7	10.3	11.3	20.7	11.6	15.8	14.9	11.1	6.9	6.8	-11.6	8.5	0.7
Denmark	3.4	7.2	4.6	2.8	8.0	9.1	2.2	2.4	2.2	1.7	-10.7	2.4	-0.1
Estonia	:	13.0	10.4	14.2	20.9	11.6	0.0	-3.3	-1.1	1.7	-14.1	2.9	0.4
Latvia	:	5.8	9.2	9.4	20.2	6.5	10.0	2.1	-1.3	3.1	-12.9	4.5	0.5
Lithuania	:	6.7	11.9	4.4	17.7	12.0	4.3	12.5	11.3	3.2	-15.1	3.7	-0.2
Hungary	11.7	16.3	10.9	15.0	11.3	18.6	15.9	7.7	4.6	1.3	-11.9	6.8	0.8
Poland	12.2	9.7	11.0	14.0	8.0	14.6	9.1	6.1	5.8	3.9	-11.0	5.6	0.2
Romania	10.4	10.8	11.6	14.1	7.6	10.4	7.9	9.2	19.4	6.4	-16.9	7.2	0.6
Sweden	7.7	8.2	6.3	11.0	6.6	8.9	5.8	3.0	1.7	0.8	-9.4	3.5	1.1
United Kingdom	7.2	5.4	5.3	4.8	8.1	11.0	-4.1	1.6	0.1	1.3	-10.5	2.7	-0.9
EU	6.8	7.9	5.2	7.5	5.9	9.2	5.0	3.4	1.6	1.4	-12.6	3.3	-0.2
USA	7.4	4.2	4.9	9.7	7.0	9.1	8.4	9.0	6.3	2.3	-14.0	3.3	0.5
Japan	3.5	2.9	9.4	13.9	7.0	9.7	8.4	6.1	1.7	3.0	-18.4	4.3	1.9

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1992-2010)

22.04.2009

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	3.7	5.1	3.3	6.6	4.1	2.7	4.6	3.6	3.7	0.6	-11.0	2.5	-0.9
Germany	3.2	7.5	5.8	7.3	6.5	11.9	5.0	3.8	4.0	1.3	-10.8	3.7	-1.7
Ireland	11.9	16.9	4.7	8.5	8.2	6.3	4.1	-1.7	-4.4	-2.1	-12.5	2.8	-2.5
Greece	3.8	10.8	3.2	3.3	1.4	9.7	6.7	2.6	-4.4	2.5	-6.0	3.0	0.9
Spain	6.4	11.4	7.5	9.6	7.7	10.3	6.2	1.3	-2.5	-2.5	-14.5	0.8	-2.4
France	3.2	8.6	4.4	7.1	5.9	6.1	5.6	1.9	2.2	0.8	-6.9	1.7	0.0
Italy	2.1	7.0	2.7	4.2	2.1	5.9	3.8	-1.2	-4.5	0.0	-12.8	2.2	0.2
Cyprus	:	4.8	3.4	9.6	3.1	6.6	12.5	7.1	9.9	3.8	-3.1	4.0	1.3
Luxembourg	3.6	11.1	7.7	11.8	6.0	13.4	3.5	3.4	1.8	-0.3	-6.3	1.7	-0.9
Malta	:	2.4	3.7	0.5	3.4	9.5	1.5	0.1	-13.1	-0.1	-5.4	0.3	0.1
Netherlands	5.5	8.9	4.2	5.7	5.4	8.2	5.7	5.2	4.1	1.0	-9.3	2.9	-0.4
Austria	3.3	6.7	5.0	9.8	6.3	5.1	7.5	3.3	1.6	2.2	-9.5	4.1	1.1
Portugal	5.6	7.7	2.7	6.7	3.5	5.1	5.6	2.6	2.1	-0.5	-10.0	1.3	-2.3
Slovenia	3.1	7.7	8.7	13.3	6.6	12.2	15.7	6.9	3.5	5.1	-12.0	7.4	-0.6
Slovakia	:	9.6	10.0	8.3	12.4	17.7	8.9	8.9	3.3	5.6	-7.6	5.6	0.3
Finland	5.7	8.7	6.6	7.2	11.8	7.8	6.5	2.6	-1.3	2.8	-15.7	3.1	1.9
Euro area	3.9	8.2	4.9	7.0	5.7	8.3	5.4	2.6	1.2	0.6	-10.5	2.7	-0.8
Bulgaria	:	13.1	12.7	14.5	13.1	14.0	9.9	9.0	4.9	6.3	-11.3	6.1	1.1
Czech Republic	20.1	9.8	9.9	17.9	5.0	14.2	14.2	9.9	4.6	7.0	-10.4	8.4	0.6
Denmark	4.3	7.2	7.6	7.7	11.1	13.9	2.8	3.1	3.7	1.0	-9.3	1.4	0.8
Estonia	:	12.5	13.8	15.5	17.5	20.4	4.2	-6.5	-7.9	-0.7	-16.0	1.5	-0.5
Latvia	:	7.3	13.6	16.6	14.8	19.4	14.7	-9.8	-13.6	-8.0	-27.7	-0.2	-7.0
Lithuania	:	7.5	14.6	14.9	16.4	13.7	11.6	11.4	10.0	-2.2	-23.8	3.8	-3.7
Hungary	12.0	16.9	10.3	13.7	7.0	14.8	13.1	7.7	4.0	0.8	-12.3	7.6	0.5
Poland	15.3	9.7	9.9	15.8	4.7	17.3	13.6	9.0	6.2	6.6	-10.8	5.7	-1.5
Romania	8.1	12.2	17.8	22.1	16.0	22.6	27.2	17.7	17.5	10.7	-17.3	11.1	-0.5
Sweden	4.4	7.6	4.9	6.8	7.0	8.7	9.4	3.8	3.0	0.4	-11.3	2.9	-0.6
United Kingdom	6.2	8.1	6.1	6.8	7.0	9.6	-1.5	0.8	-0.6	-0.9	-13.0	0.9	-2.0
EU	5.2	8.3	5.5	7.6	6.2	9.2	5.2	3.0	1.5	0.9	-11.0	2.9	-0.9
USA	8.9	9.2	6.1	11.3	5.9	6.0	2.2	-2.3	-3.4	-4.7	-10.7	-1.0	1.5
Japan	6.3	1.3	4.6	8.1	5.8	4.2	1.5	1.5	1.1	1.3	-15.1	3.3	-1.4

TABLE 48 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	3.3	3.2	2.7	2.9	1.9	1.3	1.2	-0.5	-2.2	-0.9	-2.3	-1.2	-2.4
Germany	2.2	3.6	6.7	7.0	7.1	7.1	8.4	8.5	7.5	8.6	4.8	8.9	5.1
Ireland	16.6	23.2	20.9	21.6	17.4	14.1	11.8	12.8	14.1	14.1	17.9	13.7	18.8
Greece	-12.5	-16.3	-17.9	-18.0	-16.8	-16.8	-18.7	-18.9	-16.9	-19.1	-14.8	-19.2	-15.0
Spain	-3.3	-4.6	-6.5	-6.3	-7.5	-8.5	-8.5	-8.1	-7.7	-6.7	-5.3	-6.1	-4.8
France	0.6	1.0	-0.5	-0.3	-1.3	-1.5	-2.0	-2.7	-2.9	-2.8	-3.1	-2.8	-3.4
Italy	2.7	2.1	0.4	0.6	0.0	-0.7	0.2	0.1	0.0	0.5	0.9	0.6	0.8
Cyprus	:	-24.6	-25.8	-25.6	-25.0	-27.2	-30.2	-31.7	-32.7	-32.1	-27.4	-32.3	-27.6
Luxembourg	-10.2	-12.7	-10.4	-10.0	-11.3	-9.6	-8.1	-8.8	-10.1	-8.5	-7.5	-8.1	-7.8
Malta	-22.4	-17.6	-14.8	-15.4	-18.8	-18.9	-18.1	-19.2	-20.9	-19.5	-18.9	-19.5	-19.6
Netherlands	5.0	5.3	7.2	7.2	7.9	7.8	7.7	6.0	7.0	5.7	5.8	5.2	5.5
Austria	-4.2	-2.2	-0.1	-0.2	-0.5	0.2	0.6	0.3	0.0	0.1	-0.2	0.1	-0.6
Portugal	-8.9	-10.6	-9.6	-9.5	-10.3	-10.1	-9.9	-11.1	-11.9	-10.0	-9.7	-9.8	-9.1
Slovenia	-1.1	-4.4	-2.9	-3.8	-3.6	-3.8	-4.9	-7.5	-7.3	-7.7	-5.9	-7.7	-5.7
Slovakia	:	-8.6	-5.2	-3.7	-5.4	-5.2	-1.7	-1.5	-1.7	-1.1	-2.8	-0.8	-2.1
Finland	7.5	10.0	6.9	6.7	4.9	5.5	4.9	4.8	3.5	4.1	2.1	3.8	1.6
Euro area	1.2	1.5	1.5	1.7	1.1	0.7	1.0	0.7	0.4	0.9	0.1	1.0	0.1
Euro area, adjusted <sup>1</sup>	:	:	1.2	0.6	0.2	0.6	0.4	0.0	0.6	-0.4	0.7	-0.3	
Bulgaria	-2.6	-5.6	-16.4	-14.9	-20.2	-22.0	-25.5	-26.6	-25.8	-26.0	-19.9	-25.8	-19.2
Czech Republic	-5.2	-5.3	-0.4	-0.5	2.0	2.0	3.4	3.4	2.8	3.2	1.7	3.1	1.7
Denmark	3.8	2.7	2.6	2.7	2.3	0.4	-0.8	-0.8	-1.1	-0.6	-1.0	0.0	-1.3
Estonia	:	-16.7	-16.1	-17.3	-13.9	-18.3	-17.6	-13.9	-11.9	-10.6	-8.4	-9.3	-9.6
Latvia	-7.0	-14.8	-19.7	-20.2	-18.9	-25.6	-23.9	-17.0	-17.0	-13.0	-10.5	-11.4	-9.7
Lithuania	:	-11.3	-10.8	-10.6	-11.3	-13.9	-15.1	-12.4	-11.9	-8.1	-2.8	-9.0	-1.2
Hungary	-5.6	-4.4	-3.1	-3.5	-2.5	-2.3	0.2	0.3	0.4	0.7	1.0	0.2	1.2
Poland	-0.1	-6.4	-2.3	-2.2	-0.9	-2.0	-4.0	-4.2	-4.3	-5.2	-4.6	-5.3	-3.9
Romania	-7.3	-6.5	-8.8	-8.7	-9.8	-12.0	-14.4	-14.4	-13.3	-14.2	-9.1	-13.9	-8.0
Sweden	5.0	6.9	6.2	6.8	5.8	5.6	4.6	2.8	4.0	2.6	4.9	2.7	5.1
United Kingdom	-1.8	-2.9	-5.0	-5.1	-5.5	-5.8	-6.4	-6.5	-6.4	-6.1	-6.1	-5.6	-6.0
EU	-0.2	0.7	0.3	0.4	-0.1	-0.5	-0.6	-0.8	-0.9	-0.6	-0.9	-0.5	-0.8
EU, adjusted <sup>1</sup>	:	:	-0.4	-0.8	-1.4	-1.2	-1.2	-1.5	-1.6	-1.3	-1.6	-1.1	-1.6
USA	-2.1	-3.6	-5.7	-5.9	-6.4	-6.5	-6.1	-5.7	-5.8	-4.3	-4.6	-3.9	-4.7
Japan	2.7	2.5	2.3	2.8	2.1	1.9	2.4	2.2	0.8	2.5	1.7	2.8	2.2

<sup>1</sup> See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1992-2010)

22.04.2009

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	4.6	4.8	3.7	2.4	0.6	-0.7	-1.7	0.3	-1.0	-2.0	0.1	-1.5	-2.2
Germany	-1.1	-0.8	4.1	7.6	7.5	7.1	6.6	7.7	5.2	3.6	7.9	5.4	3.4
Ireland	2.6	0.7	-1.2	-5.4	-5.3	-5.7	-4.6	-3.3	-3.5	-1.8	-2.9	-3.5	-0.4
Greece	-0.6	-7.0	-11.5	-14.0	-14.3	-13.4	-12.7	-15.0	-12.8	-11.5	-15.5	-13.2	-11.9
Spain	-1.4	-2.4	-6.0	-10.1	-9.9	-9.4	-9.5	-8.6	-7.1	-6.9	-8.2	-6.6	-6.3
France	0.5	1.9	-0.7	-2.8	-3.5	-3.8	-3.8	-3.7	-4.0	-4.3	-3.6	-3.9	-4.6
Italy	1.0	1.2	-1.0	-1.8	-2.1	-2.2	-3.0	-1.6	-1.2	-2.6	-1.6	-1.4	-2.7
Cyprus	:	-4.3	-4.8	-11.7	-10.5	-13.4	-18.2	-10.3	-12.0	-13.9	-9.8	-11.0	-13.5
Luxembourg	12.8	10.0	10.4	9.8	8.3	8.0	6.4	5.4	6.3	6.1	5.6	6.3	5.6
Malta	:	-6.4	-4.9	-6.1	-6.6	-6.5	-7.4	-7.1	-7.0	-7.6	-7.3	-7.1	-7.8
Netherlands	4.6	4.8	7.6	9.8	7.1	8.4	6.8	7.1	6.5	5.7	6.3	6.1	5.0
Austria	-2.5	-1.4	2.3	3.3	3.1	3.1	3.3	2.7	2.5	2.7	2.8	2.6	2.4
Portugal	-3.1	-8.7	-8.6	-9.7	-11.6	-11.8	-11.9	-10.6	-9.7	-9.8	-10.4	-10.2	-9.5
Slovenia	2.5	-1.8	-1.4	-4.0	-6.3	-6.0	-6.1	-6.3	-5.8	-4.6	-6.0	-6.0	-4.4
Slovakia	:	-6.4	-7.3	-5.1	-5.6	-6.0	-6.8	-4.7	-6.2	-7.5	-3.5	-6.3	-7.1
Finland	0.7	7.2	5.9	4.0	5.6	4.2	2.2	5.0	2.7	1.4	4.9	2.3	1.0
Euro area	0.3	0.4	0.5	0.2	-0.3	-0.4	-0.8	-0.1	-0.6	-1.4	0.0	-0.6	-1.5
Euro area, adjusted <sup>1</sup>	:	:	:	0.4	-0.4	-0.5	-0.7	-0.1	-0.7	-1.2	-0.1	-0.7	-1.3
Bulgaria	-4.3	-2.7	-9.0	-22.5	-23.8	-24.7	-24.8	-22.3	-20.8	-18.8	-21.5	-19.6	-17.2
Czech Republic	-2.1	-4.1	-4.4	-1.5	-1.9	-0.9	-3.1	-2.2	-2.1	-3.2	-1.2	-2.6	-3.3
Denmark	1.8	1.2	3.2	0.7	1.1	1.5	2.0	1.1	1.3	0.4	1.8	1.3	-0.6
Estonia	:	-7.5	-12.2	-18.3	-12.1	-10.1	-9.1	-8.1	-5.7	-1.1	-6.5	-4.3	-3.1
Latvia	6.0	-7.3	-12.5	-22.5	-14.5	-14.9	-13.6	-8.7	-6.5	-1.5	-6.2	-5.5	-1.9
Lithuania	:	-8.6	-7.4	-15.1	-13.8	-12.6	-12.2	-8.7	-7.0	-1.9	-8.9	-7.6	0.7
Hungary	:	-7.6	-7.8	-6.2	-6.3	-7.2	-8.4	-5.1	-5.5	-5.0	-5.5	-5.2	-4.8
Poland	0.6	-4.0	-2.4	-5.1	-5.2	-5.6	-5.3	-6.1	-5.6	-4.7	-6.1	-5.0	-3.7
Romania	:	-5.0	-6.3	-13.5	-13.5	-12.9	-12.3	-13.0	-11.9	-7.4	-12.6	-11.1	-6.1
Sweden	1.3	4.6	6.7	9.0	4.5	6.2	6.2	4.1	6.6	7.0	4.3	6.7	7.4
United Kingdom	-1.4	-1.5	-2.3	-2.9	-2.8	-2.3	-1.5	-2.6	-5.7	-2.8	-1.8	-5.9	-2.8
EU	-0.1	0.0	0.0	-0.6	-1.0	-1.0	-1.1	-0.8	-1.4	-1.5	-0.6	-1.4	-1.6
EU, adjusted <sup>1</sup>	:	:	:	-1.0	-0.9	-1.0	-1.5	-0.7	-1.5	-1.9	-0.6	-1.4	-2.0
USA	-1.1	-2.8	-5.2	-5.2	-4.6	:	-4.6	-3.2	:	-3.5	-2.8	:	-3.7
Japan	2.5	2.5	3.5	4.8	4.0	:	3.2	4.1	:	3.7	4.3	:	3.8

<sup>1</sup> See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1992-2010)

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	4.4	4.7	3.7	3.8	2.8	2.5	2.1	0.3	-2.1	0.1	-2.5	-0.1	-2.6
Germany	-1.1	-0.7	4.1	4.8	5.3	6.3	7.6	7.5	6.6	7.8	3.6	7.9	3.4
Ireland	3.8	1.6	-1.0	0.2	-2.9	-3.4	-5.3	-5.1	-4.5	-2.8	-1.8	-2.1	-0.4
Greece	:	-5.0	-10.0	-8.9	-9.3	-9.1	-12.1	-12.6	-11.0	-13.3	-9.8	-14.0	-10.2
Spain	-0.7	-1.4	-5.1	-4.8	-6.5	-8.4	-9.7	-9.5	-9.1	-8.2	-5.8	-7.8	-5.1
France	0.5	2.0	-0.8	-0.5	-1.8	-2.0	-2.8	-3.5	-3.8	-3.7	-4.4	-3.7	-4.7
Italy	1.1	1.4	-0.9	-0.4	-1.1	-1.9	-1.6	-2.1	-2.9	-1.8	-2.4	-1.7	-2.4
Cyprus	:	-4.3	-4.3	-4.1	-5.3	-6.8	-11.7	-10.2	-18.0	-10.0	-13.7	-9.6	-13.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	-6.0	-3.3	-4.5	-5.5	-6.2	-5.2	-5.6	-6.4	-5.8	-6.0	-5.4	-5.9
Netherlands	4.2	4.6	7.3	8.3	7.1	9.3	9.4	6.6	6.4	6.6	5.1	5.9	4.3
Austria	-2.6	-1.5	2.1	2.1	2.0	2.2	3.3	3.1	3.3	2.8	2.7	2.9	2.4
Portugal	-0.6	-6.4	-6.9	-6.1	-8.3	-9.3	-8.4	-10.1	-10.2	-9.4	-7.5	-9.3	-7.4
Slovenia	2.4	-1.7	-1.3	-2.5	-1.7	-2.3	-3.7	-6.2	-6.1	-6.3	-4.6	-6.1	-4.4
Slovakia	:	-6.5	-7.7	-6.4	-9.0	-7.0	-4.7	-4.9	-5.6	-3.6	-7.6	-2.1	-6.2
Finland	0.8	7.5	7.1	7.7	5.0	6.0	4.9	6.6	2.4	6.0	1.5	5.8	1.1
Euro area	0.4	0.7	0.7	1.2	0.4	0.4	0.4	-0.1	-0.6	0.2	-1.1	0.1	-1.3
Euro area, adjusted <sup>1</sup>	:	:	:	1.0	0.3	0.3	0.7	-0.1	-0.4	0.1	-0.9	0.1	-1.2
Bulgaria	-4.6	-2.5	-8.6	-5.0	-10.6	-17.9	-21.3	-22.4	-24.0	-20.7	-17.7	-19.7	-15.7
Czech Republic	-3.0	-4.0	-4.1	-5.4	-2.3	-1.8	-0.8	-1.7	-2.1	-1.9	-1.8	-0.9	-1.4
Denmark	1.8	1.4	3.3	3.0	4.5	2.9	0.7	1.1	2.1	1.2	0.4	1.8	-0.6
Estonia	:	-7.0	-11.3	-11.8	-9.4	-14.7	-17.1	-10.8	-8.0	-6.6	1.0	-4.8	-0.7
Latvia	11.9	-7.0	-11.6	-11.8	-11.2	-21.3	-20.6	-12.2	-12.1	-6.7	0.7	-4.1	0.8
Lithuania	:	-8.6	-6.6	-6.8	-6.1	-8.9	-13.2	-11.7	-10.4	-6.2	0.3	-5.8	3.5
Hungary	:	-7.3	-7.4	-8.8	-7.0	-6.7	-5.3	-5.1	-7.3	-3.7	-3.1	-3.8	-2.8
Poland	2.4	-4.0	-2.2	-3.9	-0.9	-2.4	-4.3	-3.7	-4.3	-3.7	-3.1	-3.8	-2.2
Romania	-3.8	-4.8	-5.7	-4.9	-7.9	-10.4	-12.8	-12.9	-11.8	-12.4	-6.4	-12.0	-5.1
Sweden	0.9	4.3	6.6	6.7	6.2	7.9	8.9	4.4	6.2	4.0	6.8	4.2	7.2
United Kingdom	-1.3	-1.4	-2.2	-1.9	-2.5	-3.3	-2.7	-2.5	-1.3	-2.4	-2.7	-1.7	-2.6
EU	-0.4	-0.4	-0.7	-0.2	-1.2	-1.9	-2.3	-2.7	-2.9	-2.4	-2.5	-0.4	-1.3
EU, adjusted <sup>1</sup>	:	:	:	-0.9	-1.6	-2.5	-2.7	-2.7	-3.3	-2.3	-2.9	-0.3	-1.7
USA	-2.8	-2.5	-5.0	-5.6	-5.2	-4.7	-4.7	-4.6	-4.6	-3.2	-3.5	-2.8	-3.7
Japan	2.4	2.3	3.4	3.6	3.5	3.8	4.7	3.8	3.1	4.0	3.5	4.1	3.7

<sup>1</sup> See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 2002-2010)

22.04.2009

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	10.2	9.7	8.3	5.7	4.1	3.9	-1.9	-7.7	-3.1	-7.7	-4.3	-8.3
Germany	136.6	131.9	154.0	160.2	165.1	204.4	212.7	187.2	219.8	114.0	236.3	122.0
Ireland	36.2	33.2	32.2	28.2	25.0	22.5	23.9	26.2	26.3	29.9	26.3	30.6
Greece	-30.0	-32.0	-33.4	-33.1	-35.8	-42.6	-46.1	-41.0	-49.4	-36.3	-52.7	-37.9
Spain	-36.6	-40.2	-53.2	-67.9	-83.0	-89.6	-89.2	-84.6	-75.0	-56.4	-70.4	-52.1
France	8.4	2.4	-5.1	-21.6	-26.6	-38.4	-53.8	-55.7	-56.4	-60.5	-56.9	-65.0
Italy	14.3	9.5	8.8	0.4	-10.2	3.2	2.1	0.2	8.4	14.1	10.3	13.2
Cyprus	-3.0	-2.8	-3.3	-3.4	-4.0	-4.7	-5.3	-5.5	-5.7	-4.9	-6.2	-5.1
Luxembourg	-2.5	-2.7	-2.8	-3.4	-3.3	-2.9	-3.3	-3.7	-3.2	-2.7	-3.2	-2.9
Malta	-0.4	-0.6	-0.7	-0.9	-1.0	-1.0	-1.1	-1.2	-1.2	-1.1	-1.2	-1.1
Netherlands	31.2	31.0	35.4	40.7	42.2	43.8	35.3	41.7	34.5	33.5	32.6	32.0
Austria	1.4	-1.5	-0.6	-1.2	0.6	1.5	0.9	-0.1	0.3	-0.6	0.3	-1.7
Portugal	-13.1	-11.2	-13.7	-15.4	-15.7	-16.2	-18.6	-19.8	-17.3	-15.8	-17.4	-15.0
Slovenia	-0.3	-0.6	-1.0	-1.0	-1.2	-1.7	-2.8	-2.7	-3.1	-2.2	-3.3	-2.2
Slovakia	-2.4	-0.7	-1.3	-2.1	-2.3	-1.1	-1.0	-1.1	-0.8	-1.9	-0.6	-1.5
Finland	13.5	11.4	10.2	7.7	9.2	8.7	9.1	6.6	8.2	3.8	7.9	3.0
Euro area	163.2	136.9	134.0	92.9	63.0	89.8	61.0	38.6	82.2	5.3	97.5	7.9
Euro area, adjusted <sup>1</sup>	122.8	98.8	95.2	47.0	19.8	57.5	33.9	-0.6	55.1	-33.9	70.4	-31.2
Bulgaria	-1.9	-2.4	-3.0	-4.4	-5.6	-7.4	-9.0	-8.8	-9.9	-7.0	-10.9	-6.9
Czech Republic	-2.3	-2.2	-0.4	2.0	2.3	4.3	5.3	4.1	5.2	2.3	5.4	2.4
Denmark	6.7	7.0	5.3	4.7	1.0	-1.7	-2.0	-2.6	-1.6	-2.3	-0.1	-2.9
Estonia	-1.2	-1.4	-1.7	-1.5	-2.4	-2.7	-2.3	-1.9	-1.8	-1.2	-1.7	-1.3
Latvia	-1.6	-1.8	-2.3	-2.5	-4.1	-5.1	-3.9	-3.9	-2.9	-2.0	-2.7	-1.8
Lithuania	-1.4	-1.5	-1.9	-2.4	-3.3	-4.3	-4.1	-3.8	-2.8	-0.8	-3.2	-0.3
Hungary	-2.3	-2.9	-2.9	-2.2	-2.1	0.2	0.3	0.4	0.8	0.8	0.3	1.1
Poland	-7.7	-5.1	-4.6	-2.2	-5.5	-12.3	-15.7	-15.5	-20.2	-13.4	-22.0	-11.6
Romania	-2.8	-4.0	-5.3	-7.8	-11.8	-17.9	-19.7	-18.2	-21.6	-11.5	-24.1	-10.9
Sweden	17.4	17.5	19.7	17.1	17.6	15.1	9.2	13.0	8.4	13.9	9.1	14.7
United Kingdom	-75.9	-70.3	-89.8	-100.3	-111.9	-131.2	-120.8	-116.1	-115.4	-95.2	-109.2	-94.1
EU	90.5	69.9	47.3	-6.7	-62.9	-72.9	-101.7	-114.6	-79.6	-111.2	-61.6	-103.8
EU, adjusted <sup>1</sup>	:	:	-43.1	-96.0	-164.1	-153.0	-188.9	-208.5	-166.8	-205.1	-148.8	-197.7
USA	-521.2	-495.3	-548.2	-640.8	-677.7	-610.3	-553.1	-565.9	-463.6	-485.0	-428.7	-505.1
Japan	97.9	91.5	103.5	75.5	64.8	76.4	74.0	26.5	95.0	64.9	105.6	79.0

<sup>1</sup> See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 2002-2010)

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	13.3	12.4	11.0	8.7	8.0	8.1	2.0	-5.8	1.1	-6.9	0.5	-7.5
Germany	46.1	44.4	106.5	119.1	145.2	184.0	188.9	165.3	197.8	85.9	208.3	82.6
Ireland	-0.4	1.4	0.1	-5.0	-6.2	-10.3	-9.8	-8.5	-6.2	-3.0	-5.6	-0.7
Greece	-19.8	-21.6	-19.3	-21.0	-24.3	-32.1	-35.0	-30.7	-38.7	-28.2	-42.5	-29.9
Spain	-27.4	-31.6	-49.5	-67.8	-88.8	-106.2	-109.2	-104.3	-96.6	-74.5	-93.9	-67.9
France	12.2	3.9	-9.7	-30.8	-37.4	-53.7	-68.4	-73.6	-73.4	-83.0	-74.7	-89.6
Italy	-4.3	-12.0	-7.6	-17.1	-29.6	-27.7	-34.0	-47.1	-26.7	-39.2	-27.0	-41.8
Cyprus	-0.4	-0.3	-0.6	-0.8	-1.0	-1.8	-1.8	-3.1	-1.8	-2.5	-1.9	-2.5
Luxembourg	2.5	2.1	3.3	3.3	3.5	4.4	3.1	2.3	2.0	2.2	2.3	2.1
Malta	0.1	-0.1	-0.3	-0.4	-0.5	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5
Netherlands	28.2	29.2	42.2	38.4	52.7	55.6	42.1	40.5	43.1	33.5	39.4	29.1
Austria	6.0	3.9	5.2	5.1	6.5	9.0	8.7	9.3	7.9	7.5	8.4	6.6
Portugal	-11.5	-8.9	-11.3	-14.6	-16.2	-15.8	-19.5	-19.8	-18.3	-16.0	-18.5	-15.6
Slovenia	0.2	-0.2	-0.7	-0.5	-0.7	-1.4	-2.4	-2.3	-2.5	-1.7	-2.6	-1.7
Slovakia	-1.9	-1.9	-2.3	-3.3	-3.3	-3.1	-3.8	-4.6	-3.5	-5.1	-2.8	-5.0
Finland	12.7	8.0	10.2	6.1	8.2	7.3	10.7	4.1	10.0	2.6	10.0	1.8
Euro area	55.6	28.7	77.2	19.4	16.2	15.8	-28.7	-78.5	-6.3	-128.7	-1.1	-140.5
Euro area, adjusted <sup>1</sup>	49.0	22.3	63.3	13.0	8.5	37.8	-33.1	-61.1	-10.7	-111.3	-5.5	-123.0
Bulgaria	-0.4	-1.0	-1.3	-2.5	-4.7	-7.2	-8.0	-8.5	-8.5	-6.6	-9.1	-6.2
Czech Republic	-4.9	-5.3	-4.8	-1.7	-2.5	-1.8	-3.0	-4.6	-3.6	-4.3	-2.0	-4.6
Denmark	4.6	6.5	5.9	9.0	6.3	1.6	2.5	4.7	2.8	0.9	4.5	-1.4
Estonia	-0.8	-1.0	-1.2	-1.1	-2.2	-2.8	-2.0	-1.4	-1.4	-0.2	-1.2	-0.4
Latvia	-0.7	-0.8	-1.4	-1.6	-3.6	-4.8	-3.3	-3.2	-2.0	-0.3	-1.5	-0.3
Lithuania	-0.8	-1.1	-1.4	-1.5	-2.5	-4.3	-4.5	-3.9	-3.0	-0.6	-3.2	0.2
Hungary	-4.8	-6.1	-7.4	-6.9	-6.7	-6.6	-6.8	-8.9	-5.6	-4.4	-6.4	-4.4
Poland	-4.5	-3.3	-8.4	-3.0	-8.1	-14.4	-19.3	-18.9	-23.6	-13.4	-25.6	-11.0
Romania	-0.5	-2.6	-3.5	-7.1	-10.4	-16.7	-18.4	-16.8	-19.8	-9.4	-21.7	-8.2
Sweden	14.4	18.9	19.2	18.1	26.7	21.7	14.9	20.4	13.3	19.7	14.4	21.3
United Kingdom	-29.7	-26.5	-37.1	-47.8	-66.0	-59.0	-51.6	-26.9	-48.4	-44.2	-35.6	-44.8
EU	27.5	6.4	35.7	-26.8	-57.5	-78.3	-128.2	-146.5	-106.1	-191.5	-88.4	-200.5
EU, adjusted <sup>1</sup>	:	:	-36.7	-75.3	-133.2	-120.9	-116.2	-196.3	-94.1	-241.3	-76.3	-250.3
USA	-485.7	-453.5	-502.3	-571.6	-614.7	-524.7	-442.9	-445.4	-346.0	-374.5	-308.0	-395.1
Japan	119.8	120.5	138.6	133.4	136.0	153.8	131.3	106.8	153.7	137.6	161.4	139.7

<sup>1</sup> See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2002-2010)

22.04.2009

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	:	:	:	6.1	8.8	5.3	3.5	2.1	1.3	-9.9	3.2	-0.2
Germany	:	:	:	6.2	8.7	6.8	4.6	2.2	2.4	-10.7	4.0	0.4
Ireland	:	:	:	5.7	8.3	4.1	2.7	1.2	0.6	-10.9	2.6	-0.1
Greece	:	:	:	6.5	8.7	5.7	3.6	1.7	1.6	-10.5	3.4	0.4
Spain	:	:	:	5.6	8.3	5.0	3.2	1.9	1.4	-10.0	3.1	-0.1
France	:	:	:	6.0	8.6	5.9	3.9	1.8	1.8	-10.5	3.7	0.0
Italy	:	:	:	6.7	9.2	6.6	4.7	2.7	2.4	-10.0	4.0	0.2
Cyprus	:	:	:	8.3	10.8	6.7	5.2	2.2	3.3	-11.5	4.4	0.0
Luxembourg (b)	:	:	:	5.3	7.9	4.9	2.8	1.6	1.0	-10.8	2.9	-0.5
Malta	:	:	:	6.4	8.6	5.2	3.5	1.8	1.7	-10.6	3.5	0.2
Netherlands	:	:	:	5.8	8.8	5.5	3.7	2.3	1.6	-10.7	3.5	-0.3
Austria	:	:	:	6.0	10.0	6.8	4.6	2.8	2.4	-11.0	4.3	-0.2
Portugal	:	:	:	6.2	8.7	5.5	2.7	0.9	0.3	-11.1	2.6	-0.6
Slovenia	:	:	:	5.5	9.3	7.3	4.8	2.7	3.0	-10.7	4.5	0.3
Slovakia	:	:	:	5.9	10.8	8.3	5.7	3.2	3.2	-11.2	5.1	-0.2
Finland	:	:	:	8.4	10.6	8.7	6.4	3.6	4.0	-11.7	5.1	0.4
Euro area (c)	:	:	:	6.1	8.8	6.1	4.1	2.2	2.0	-10.5	3.7	0.1
Bulgaria	:	:	:	6.6	9.4	8.5	5.9	2.4	3.6	-11.4	5.1	0.8
Czech Republic	:	:	:	6.5	10.8	7.0	5.1	3.2	2.7	-10.8	4.3	-0.4
Denmark	:	:	:	7.0	8.8	6.4	4.0	2.4	1.9	-11.0	3.7	0.2
Estonia	:	:	:	9.7	10.0	9.3	5.1	1.8	3.1	-14.9	4.7	0.1
Latvia	:	:	:	9.1	11.8	8.9	6.2	3.8	3.5	-14.7	5.0	-0.2
Lithuania	:	:	:	10.2	12.0	11.1	5.5	2.5	4.2	-14.7	5.5	-0.1
Hungary	:	:	:	6.2	10.2	7.8	5.5	3.5	3.2	-11.1	4.8	-0.2
Poland	:	:	:	7.3	10.5	8.0	5.5	3.5	3.1	-11.8	4.9	-0.2
Romania	:	:	:	5.6	8.4	7.0	4.3	1.7	2.6	-10.8	4.5	0.4
Sweden	:	:	:	7.5	9.0	5.9	3.7	2.3	2.0	-10.8	3.5	0.6
United Kingdom	:	:	:	6.5	7.8	6.2	3.4	1.6	1.3	-10.1	3.4	0.4
EU (c)	:	:	:	6.3	8.8	6.2	4.1	2.2	2.0	-10.6	3.8	0.1
USA	:	:	:	6.7	8.2	7.2	5.1	3.5	2.9	-11.0	4.3	1.0
Japan	:	:	:	7.2	8.8	7.7	6.2	3.7	3.2	-9.8	5.1	2.0

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.

(b) Included in the figures for Belgium up to 2003.

(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 2002-2010)

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	:	:	:	-2.4	-5.7	-1.3	-1.3	0.3	-0.7	-3.2	-1.0	-0.8
Germany	:	:	:	1.4	3.7	0.6	-0.2	0.5	-1.4	-6.0	-0.4	-0.8
Ireland	:	:	:	-0.4	-2.4	2.6	-0.7	-1.6	0.5	2.1	0.4	-0.1
Greece	:	:	:	-2.2	2.0	-2.4	0.6	0.5	1.5	3.6	-0.1	0.4
Spain	:	:	:	-2.9	-1.5	-0.1	0.2	-1.2	0.9	-0.2	-0.3	0.2
France	:	:	:	-2.7	-2.9	-2.6	-1.6	-0.6	-0.9	-1.3	-1.2	-1.0
Italy	:	:	:	-5.3	-2.7	-1.9	-4.2	-6.2	-2.4	-6.1	-2.1	-0.1
Cyprus	:	:	:	-3.4	-6.3	0.4	0.3	-1.1	-0.9	6.0	-1.1	0.2
Luxembourg (b)	:	:	:	0.7	6.2	-0.5	0.5	-1.3	-1.4	5.0	-1.1	-0.5
Malta	:	:	:	-5.5	1.7	-1.8	-3.2	-15.5	-2.0	3.1	-3.3	-1.5
Netherlands	:	:	:	0.2	-1.4	0.9	0.3	0.3	-0.3	0.0	-0.5	0.0
Austria	:	:	:	0.9	-2.3	1.9	-1.0	-0.8	-0.7	0.1	-0.2	0.6
Portugal	:	:	:	-4.0	0.0	1.9	-0.6	-1.3	0.8	-0.7	-0.1	0.5
Slovenia	:	:	:	4.8	3.0	6.1	1.3	0.6	1.7	-1.2	2.9	-0.6
Slovakia	:	:	:	3.8	9.2	5.1	4.1	0.0	2.6	1.1	1.0	0.4
Finland	:	:	:	-1.3	1.1	-0.6	-1.7	-4.5	-1.3	-7.6	-1.7	0.8
Euro area (c)	:	:	:	-1.0	-0.3	-0.1	-0.9	-1.0	-0.9	-3.0	-0.7	-0.4
Bulgaria	:	:	:	1.8	-0.6	-3.1	0.6	0.6	1.0	0.2	0.5	1.4
Czech Republic	:	:	:	4.8	4.5	7.4	5.7	3.6	4.0	-0.9	4.0	1.1
Denmark	:	:	:	1.0	0.3	-4.0	-1.5	-0.2	-0.2	0.3	-1.3	-0.3
Estonia	:	:	:	10.2	1.5	-8.5	-8.0	-2.8	-1.4	0.9	-1.7	0.3
Latvia	:	:	:	10.2	-4.7	1.0	-3.9	-4.9	-0.4	2.1	-0.5	0.7
Lithuania	:	:	:	6.8	0.0	-6.1	6.4	8.4	-1.1	-0.2	-1.7	0.0
Hungary	:	:	:	4.8	7.7	7.5	2.1	1.1	-1.8	-1.0	1.9	1.0
Poland	:	:	:	0.6	3.7	1.0	0.6	2.2	0.8	0.9	0.7	0.3
Romania	:	:	:	1.9	1.9	0.9	4.7	17.3	3.7	-6.8	2.6	0.2
Sweden	:	:	:	-0.8	-0.1	-0.1	-0.7	-0.6	-1.2	1.6	0.0	0.5
United Kingdom	:	:	:	1.5	3.0	-9.7	-1.7	-1.5	0.0	-0.4	-0.7	-1.3
EU (c)	:	:	:	-0.4	0.4	-1.1	-0.7	-0.6	-0.6	-2.3	-0.5	-0.3
USA	:	:	:	0.3	0.8	1.2	3.7	2.7	-0.6	-3.4	-1.0	-0.5
Japan	:	:	:	-0.2	0.8	0.7	-0.1	-1.9	-0.2	-9.5	-0.8	-0.1

(a) Index for exports of goods and services divided by an index for growth of markets.

(b) Included in the figures for Belgium up to 2003.

(c) Intra- and extra-EU trade.



TABLE 55 : World GDP, volume (percentage change on preceding year, 2003-2010)

22.04.2009

	(a)						2008		2009		2010	
		2003	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
EU	22.5	1.3	2.5	2.0	3.1	2.9	1.4	0.9	0.2	-4.0	1.1	-0.1
Euro area	16.4	0.8	2.2	1.7	2.9	2.7	1.2	0.8	0.1	-4.0	0.9	-0.1
Belgium	0.6	1.0	3.0	1.8	3.0	2.8	1.4	1.2	0.1	-3.5	0.9	-0.2
Bulgaria	0.1	5.0	6.6	6.2	6.3	6.2	6.5	6.0	4.5	-1.6	4.7	-0.1
Czech Republic	0.2	3.6	4.5	6.3	6.8	6.0	4.4	3.2	3.6	-2.7	3.9	0.3
Denmark	0.4	0.4	2.3	2.4	3.3	1.6	0.7	-1.1	0.1	-3.3	0.9	0.3
Germany	4.4	-0.2	1.2	0.8	3.0	2.5	1.7	1.3	0.0	-5.4	1.0	0.3
Estonia	0.0	7.1	7.5	9.2	10.4	6.3	-1.3	-3.6	-1.2	-10.3	2.0	-0.8
Ireland	0.3	4.5	4.7	6.4	5.7	6.0	-1.6	-2.3	-0.9	-9.0	2.4	-2.6
Greece	0.4	5.6	4.9	2.9	4.5	4.0	3.1	2.9	2.5	-0.9	2.6	0.1
Spain	1.9	3.1	3.3	3.6	3.9	3.7	1.3	1.2	-0.2	-3.2	0.5	-1.0
France	3.4	1.1	2.5	1.9	2.2	2.2	0.9	0.7	0.0	-3.0	0.8	-0.2
Italy	2.8	0.0	1.5	0.7	2.0	1.6	0.0	-1.0	0.0	-4.4	0.6	0.1
Cyprus	0.0	1.9	4.2	3.9	4.1	4.4	3.7	3.7	2.9	0.3	3.2	0.7
Latvia	0.0	7.2	8.7	10.6	12.2	10.0	-0.8	-4.6	-2.7	-13.1	1.0	-3.2
Lithuania	0.1	10.2	7.4	7.8	7.8	8.9	3.8	3.0	0.0	-11.0	-1.1	-4.7
Luxembourg	0.1	1.5	4.5	5.2	6.4	5.2	2.5	-0.9	1.2	-3.0	2.3	0.1
Hungary	0.2	4.2	4.8	4.0	4.1	1.1	1.7	0.5	0.7	-6.3	1.8	-0.3
Malta	0.0	-0.3	1.3	3.7	3.2	3.6	2.4	1.6	2.0	-0.9	2.2	0.2
Netherlands	1.0	0.3	2.2	2.0	3.4	3.5	2.3	2.1	0.4	-3.5	0.9	-0.4
Austria	0.5	0.8	2.5	2.9	3.4	3.1	1.9	1.8	0.6	-4.0	1.3	-0.1
Poland	0.6	3.9	5.3	3.6	6.2	6.6	5.4	4.8	3.8	-1.4	4.2	0.8
Portugal	0.3	-0.8	1.5	0.9	1.4	1.9	0.5	0.0	0.1	-3.7	0.7	-0.8
Romania	0.2	5.2	8.5	4.2	7.9	6.2	8.5	7.1	4.7	-4.0	5.0	0.0
Slovenia	0.1	2.8	4.3	4.3	5.9	6.8	4.4	3.5	2.9	-3.4	3.7	0.7
Slovakia	0.1	4.7	5.2	6.5	8.5	10.4	7.0	6.4	4.9	-2.6	5.5	0.7
Finland	0.3	1.8	3.7	2.8	4.9	4.2	2.4	0.9	1.3	-4.7	2.0	0.2
Sweden	0.6	1.9	4.1	3.3	4.2	2.6	1.0	-0.2	-0.2	-4.0	1.6	0.8
United Kingdom	3.7	2.8	2.8	2.1	2.8	3.0	0.9	0.7	-1.0	-3.8	0.4	0.1
Candidate Countries	1.5	5.2	8.8	8.0	6.7	4.8	3.4	1.3	2.7	-3.6	3.9	2.1
- Croatia	0.1	5.0	4.2	4.2	4.7	5.5	3.5	2.4	3.0	-3.0	4.0	1.5
- Turkey	1.4	5.3	9.4	8.4	6.9	4.7	3.4	1.1	2.7	-3.7	3.9	2.2
- The former Yugoslav Republic of Macedonia	0.0	2.8	4.1	4.1	4.0	5.9	5.5	5.0	4.6	-0.3	5.0	1.5
Potential Candidates	0.1	2.9	6.9	5.3	5.9	6.7	6.2	5.5	5.4	2.5	5.9	3.7
USA	21.6	2.5	3.6	2.9	2.8	2.0	1.5	1.1	-0.5	-2.9	1.0	0.9
Japan	6.7	1.4	2.7	1.9	2.0	2.4	0.4	-0.7	-0.4	-5.3	0.6	0.1
Canada	2.0	1.9	3.1	2.9	3.1	2.7	0.5	0.5	0.3	-2.6	2.0	1.7
Norway	0.4	1.0	3.9	2.7	2.3	3.1	1.9	2.0	1.3	-3.4	2.1	0.2
Switzerland	0.5	-0.2	2.5	2.5	3.4	3.3	1.8	1.6	1.2	-3.2	1.6	-0.5
Iceland	0.0	2.4	7.7	7.4	4.5	5.5	-3.4	0.3	-8.3	-11.6	2.0	1.8
Australia	1.2	4.0	2.8	3.0	3.2	4.2	2.5	1.9	2.1	-0.5	2.7	1.3
New Zealand	0.2	3.5	4.0	2.7	1.6	2.2	0.7	-1.0	1.0	-2.5	1.7	0.7
Industrialised countries	56.4	2.0	3.2	2.6	3.0	2.6	1.4	0.8	0.0	-3.6	1.2	0.5
Others	43.6	5.9	7.3	7.1	7.9	8.3	6.7	6.0	5.3	1.4	5.9	3.8
CIS	4.5	7.8	8.2	6.7	8.4	8.5	7.1	5.6	6.0	-3.8	6.3	1.4
- Russia	3.2	7.3	7.2	6.4	7.7	8.1	7.1	5.6	6.0	-3.8	6.5	1.5
- Other	1.3	9.0	10.8	7.5	10.0	9.3	7.2	5.4	6.0	-3.9	6.0	1.0
MENA	4.8	4.4	6.2	6.8	6.4	7.0	5.6	5.9	5.0	1.5	5.6	1.6
Other emerging markets	34.3	5.9	7.4	7.2	8.0	8.5	6.7	6.1	5.2	2.0	5.9	4.5
Asia	23.7	7.5	8.0	8.3	9.1	9.7	7.6	6.9	6.2	3.3	6.9	5.6
- China	11.0	10.0	10.1	10.4	11.7	13.0	9.7	9.0	7.9	6.1	8.8	7.8
- India	4.6	8.5	7.4	9.4	9.6	9.0	8.0	7.2	6.7	4.3	7.0	5.0
- Hong Kong	0.5	3.0	8.5	7.1	7.0	6.4	3.7	3.1	1.5	-3.3	3.0	2.8
- Korea	1.9	3.1	4.7	4.2	5.1	5.0	4.1	2.6	3.1	-3.9	3.5	1.8
- Indonesia	1.3	4.8	5.0	5.7	5.5	6.3	6.0	6.0	4.8	3.0	5.0	4.5
Latin America	8.3	1.9	6.1	4.6	5.4	5.6	4.4	4.2	2.3	-1.6	3.1	1.6
- Brazil	2.8	1.1	5.7	3.2	3.8	5.4	5.1	5.1	3.3	-1.4	3.8	2.2
- Mexico	2.1	1.4	4.0	3.2	4.8	3.2	1.9	1.3	0.8	-3.7	1.6	1.0
Sub-Saharan Africa	2.3	3.5	5.8	5.6	6.5	6.6	6.1	5.2	5.5	2.5	6.0	3.5
World	100.0	3.7	5.0	4.5	5.1	5.1	3.7	3.1	2.3	-1.4	3.2	1.9
World excluding EU	77.5	4.4	5.7	5.3	5.7	5.7	4.3	3.7	2.9	-0.7	3.8	2.5
World excluding euro area	83.6	4.3	5.6	5.1	5.5	5.6	4.1	3.5	2.7	-0.9	3.7	2.3

(a) Relative weights, based on GDP (at constant prices and pps) in 2007.

TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2003-2010)

22.04.2009

(a)	2003	2004	2005	2006	2007	2008		2009		2010		
						X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009	
EU (b)	40.1	1.9	7.5	5.9	9.2	5.0	3.4	1.6	1.4	-12.7	3.3	-0.2
Euro area (b)	30.2	1.3	7.4	5.0	8.4	6.0	3.2	1.2	1.1	-13.2	3.0	-0.3
Candidate Countries	1.0	7.6	10.3	7.3	6.6	6.8	6.2	2.5	4.7	-6.5	6.5	1.8
- Croatia	0.1	11.6	5.4	3.7	6.5	4.3	3.7	1.7	3.5	-5.2	5.0	1.1
- Turkey	0.8	6.9	11.2	7.9	6.6	7.3	6.6	2.6	4.9	-6.7	6.8	1.9
- The former Yugoslav Republic of Macedonia	0.0	-5.7	12.9	11.2	8.4	14.3	12.0	-8.7	6.0	-13.3	8.0	2.4
USA	9.8	1.3	9.7	7.0	9.1	8.4	9.0	6.3	2.3	-14.0	3.3	0.5
Japan	4.5	9.2	13.9	7.0	9.7	8.4	6.1	1.7	3.0	-18.4	4.3	1.9
Canada	2.9	-2.3	5.0	1.8	0.6	1.0	-4.2	-4.7	-3.3	-10.4	-0.7	1.2
Norway	1.0	-0.2	1.1	1.1	0.0	2.5	1.7	0.9	2.2	-7.6	3.0	0.0
Switzerland	1.4	-0.5	7.9	7.3	9.9	9.4	3.3	2.3	1.8	-9.0	2.4	-1.8
Iceland	0.0	1.6	8.4	7.0	-4.9	17.7	-8.3	7.1	-2.8	-8.1	3.6	1.9
Australia	1.1	-0.4	2.8	3.1	2.5	3.0	5.2	4.9	4.3	-7.3	5.6	3.1
New Zealand	0.2	1.1	5.3	-1.2	1.6	3.0	3.1	-1.2	3.0	-8.7	5.0	0.8
Industrialised countries	62.1	2.1	8.1	5.8	8.5	5.7	4.2	2.1	1.6	-12.8	3.2	0.2
Others	37.9	12.2	19.5	13.4	13.1	7.8	7.1	5.3	3.8	-9.4	5.3	1.6
CIS	3.3	12.3	15.6	6.8	10.0	9.8	6.9	3.9	6.3	-7.8	5.0	3.0
- Russia	2.3	12.5	11.8	6.5	7.3	6.4	6.5	3.0	6.8	-8.0	4.9	3.0
- Other	1.0	11.7	24.1	7.4	16.0	17.5	7.8	5.9	5.2	-7.4	5.2	3.0
MENA	5.4	12.0	19.1	16.0	14.0	-12.8	6.3	4.8	4.2	-8.3	5.2	-5.3
Other emerging markets	29.1	12.2	20.0	13.7	13.2	11.4	7.3	5.5	3.4	-9.8	5.4	2.7
Asia	22.3	14.7	21.7	14.4	14.7	13.7	8.3	6.9	4.0	-9.6	5.9	2.9
- China	8.3	29.0	28.0	21.0	21.7	22.2	11.3	8.5	4.7	-8.0	7.4	3.8
- India	1.3	6.1	26.1	23.1	22.5	9.5	7.0	5.0	2.8	-8.5	5.3	3.1
- Hong Kong	2.5	12.8	16.0	10.8	9.4	8.0	4.4	4.0	2.2	-9.4	4.0	3.0
- Korea	2.6	14.7	21.1	8.0	12.0	12.5	7.9	8.7	4.5	-9.4	5.2	2.1
- Indonesia	0.8	-4.6	9.8	63.3	7.8	9.8	7.7	7.7	2.9	-10.7	3.9	2.0
Latin America	5.1	4.7	16.2	8.7	11.1	4.2	4.0	1.3	1.1	-11.0	3.3	1.7
- Brazil	1.1	7.7	15.8	4.2	6.7	8.0	5.2	1.9	2.6	-9.0	4.2	1.8
- Mexico	1.7	3.6	12.1	6.2	10.8	5.8	2.0	-1.2	-1.6	-11.7	1.5	1.3
Sub-Saharan Africa	1.7	1.4	9.1	19.8	0.2	2.7	4.4	1.1	2.4	-9.2	4.6	1.9
World	100.0	5.9	12.4	8.7	10.2	6.5	5.3	3.3	2.4	-11.5	4.0	0.7
World excluding EU	59.9	8.6	15.7	10.6	10.9	7.4	6.5	4.5	3.1	-10.8	4.5	1.3
World excluding euro area	69.8	8.0	14.7	10.3	11.0	6.8	6.2	4.2	2.9	-10.8	4.5	1.1

(a) Relative weights, based on exports of goods and services (at current prices and current exchange rates) in 2007.

(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2007)

	Candidate Countries		USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
	EU											
EU	68.8	1.8	6.8	1.1	0.7	4.3	3.4	3.8	5.8	2.0	1.4	100
Belgium	77.1	1.1	5.8	0.8	0.7	2.7	1.4	3.1	4.8	1.3	1.3	100
Bulgaria	64.6	15.4	2.5	0.2	0.4	0.9	6.3	4.0	3.8	1.3	0.5	100
Czech Republic	85.7	1.1	1.9	0.4	0.1	2.3	3.8	1.5	2.1	0.6	0.4	100
Denmark	71.1	0.8	6.1	1.9	0.9	8.0	2.3	1.9	5.1	1.3	0.6	100
Germany	65.1	1.9	7.6	1.4	0.7	5.4	4.1	3.1	7.6	2.1	1.1	100
Estonia	70.3	1.3	4.1	0.5	0.9	4.0	11.5	1.2	2.2	0.4	3.5	100
Ireland	63.7	0.5	17.9	2.0	0.4	5.4	0.4	1.6	5.8	1.3	0.9	100
Greece	70.6	7.1	4.5	0.8	0.5	1.5	3.5	6.1	2.8	1.3	1.5	100
Spain	73.2	1.8	4.2	0.7	0.4	2.9	1.5	5.4	3.3	5.3	1.3	100
France	66.1	1.5	6.4	1.5	0.7	3.8	1.9	6.3	7.1	2.3	2.5	100
Italy	61.0	2.9	6.9	1.2	0.8	5.2	3.7	7.5	6.2	3.2	1.3	100
Cyprus	61.9	0.3	0.6	1.5	0.3	1.1	3.2	10.4	18.3	0.1	2.2	100
Latvia	72.8	0.1	1.4	0.5	0.3	3.9	18.0	1.4	1.1	0.5	0.2	100
Lithuania	64.8	0.8	2.6	0.1	0.4	3.4	24.6	1.1	1.3	0.4	0.4	100
Luxembourg	88.6	2.1	1.8	0.2	0.4	1.5	1.1	0.9	2.3	0.8	0.3	100
Hungary	80.3	3.2	2.4	0.4	0.2	1.6	6.0	2.3	2.3	0.4	0.9	100
Malta	48.0	0.4	11.2	4.8	0.5	0.9	0.2	5.0	26.0	1.0	1.8	100
Netherlands	78.9	1.1	4.4	0.7	0.4	2.5	2.4	2.5	4.1	1.4	1.6	100
Austria	73.2	2.2	4.9	1.0	0.8	5.5	3.7	2.2	4.3	1.3	0.9	100
Poland	79.3	1.5	1.5	0.2	0.4	2.8	10.1	1.2	1.6	0.9	0.5	100
Portugal	77.2	0.7	4.9	0.8	0.4	1.2	0.5	1.9	4.2	1.9	6.3	100
Romania	73.4	7.8	2.1	0.3	0.1	1.9	5.9	4.7	2.4	1.0	0.4	100
Slovenia	75.5	10.2	1.7	0.1	0.2	1.4	6.7	2.4	1.2	0.4	0.2	100
Slovakia	87.3	1.6	2.5	0.2	0.2	1.3	4.1	0.7	1.5	0.4	0.3	100
Finland	56.8	1.1	6.4	1.8	0.8	5.0	11.9	5.1	7.6	2.0	1.6	100
Sweden	61.4	1.0	7.6	1.2	1.0	12.1	2.8	3.0	6.3	2.2	1.5	100
United Kingdom	58.0	1.2	14.3	1.7	1.5	4.4	1.8	4.9	8.3	1.7	2.2	100

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2003-2010)

22.04.2009

(a)	2003	2004	2005	2006	2007	2008		2009		2010		
						X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009	
EU (b)	40.3	3.4	7.6	6.2	9.2	5.2	3.0	1.5	0.9	-11.1	2.9	-0.9
Euro area (b)	29.6	3.2	7.0	5.7	8.3	5.4	2.6	1.2	0.6	-10.5	2.7	-0.8
Candidate Countries	1.3	21.9	18.5	11.0	7.0	10.1	6.2	-2.2	4.1	-14.5	7.0	4.1
- Croatia	0.2	11.9	4.7	3.9	7.4	6.5	4.3	3.6	3.9	-6.1	4.8	2.6
- Turkey	1.1	23.5	20.8	12.2	6.9	10.7	6.5	-3.1	4.1	-15.9	7.4	4.4
- The former Yugoslav Republic of Macedonia	0.0	-15.2	16.7	6.2	10.9	17.4	19.0	-4.6	5.0	-9.0	7.0	5.6
USA	14.2	4.1	11.3	5.9	6.0	2.2	-2.3	-3.4	-4.7	-10.7	-1.0	1.5
Japan	4.2	3.9	8.1	5.8	4.2	1.5	1.5	1.1	1.3	-15.1	3.3	-1.4
Canada	2.8	4.1	8.0	7.1	4.6	5.5	2.7	0.8	1.8	-12.8	2.7	0.9
Norway	0.7	1.4	8.8	8.7	8.4	7.5	3.4	4.2	4.3	-9.8	4.3	2.8
Switzerland	1.2	1.3	7.3	6.6	6.5	5.9	2.6	-0.2	2.8	-11.1	2.8	-0.6
Iceland	0.1	10.7	14.5	29.3	10.4	-1.0	-13.1	-18.0	-0.2	-21.8	3.7	3.7
Australia	1.2	7.6	13.3	7.5	7.1	9.7	11.3	11.4	5.6	-2.7	4.9	3.4
New Zealand	0.2	5.5	12.9	5.9	0.0	5.8	6.0	2.8	3.3	-13.5	6.3	1.0
Industrialised countries	66.1	4.0	8.8	6.3	7.8	4.6	1.9	0.5	0.0	-11.3	2.2	-0.1
Others	33.9	12.3	15.4	11.4	11.1	11.5	10.4	6.9	6.6	-9.2	7.6	2.8
CIS	2.8	16.4	22.2	14.2	19.5	24.4	18.2	12.2	13.4	-18.0	11.0	2.4
- Russia	1.7	17.7	23.3	16.6	21.3	26.6	21.6	13.2	15.0	-20.0	11.0	2.0
- Other	1.1	14.3	20.6	10.5	16.7	21.2	13.1	10.8	11.0	-14.9	11.1	3.0
MENA	4.0	5.4	10.8	13.3	8.8	14.0	9.7	6.5	7.9	1.8	7.1	2.2
Other emerging markets	27.1	12.9	15.4	10.8	10.6	9.9	9.7	6.4	5.7	-9.9	7.3	2.9
Asia	20.5	14.2	18.6	11.5	10.6	9.2	10.7	6.4	6.5	-9.5	7.9	3.2
- China	6.6	31.7	24.3	11.3	14.3	13.4	17.8	7.8	10.7	-7.8	13.2	5.7
- India	1.9	19.2	16.2	47.1	20.0	15.3	12.1	4.0	4.5	-6.7	4.8	1.6
- Hong Kong	2.4	11.3	14.6	7.5	9.2	8.1	3.4	3.1	1.7	-9.3	3.2	1.9
- Korea	2.6	6.4	12.4	5.8	9.5	11.1	6.7	6.5	3.4	-14.1	3.6	0.9
- Indonesia	0.7	-0.1	18.6	22.2	-4.2	5.9	10.2	10.0	4.8	-11.8	6.5	1.3
Latin America	4.9	10.2	4.8	5.8	11.4	12.4	7.7	7.8	3.0	-12.4	4.9	2.6
- Brazil	0.9	28.2	-14.2	-5.6	7.5	14.0	16.8	18.6	4.4	-14.0	9.6	5.0
- Mexico	1.8	1.2	12.1	7.8	11.7	7.2	1.7	3.1	0.9	-13.8	1.5	1.5
Sub-Saharan Africa	1.7	5.0	8.1	16.8	8.0	10.4	3.3	1.6	3.5	-7.3	5.6	1.2
World	100.0	6.8	11.0	8.0	9.0	6.9	4.8	2.7	2.2	-10.6	4.0	0.9
World excluding EU	59.7	9.1	13.4	9.3	8.8	8.1	6.0	3.4	3.1	-10.2	4.7	2.1
World excluding euro area	70.4	8.5	12.9	9.0	9.3	7.7	5.7	3.3	2.8	-10.5	4.5	1.6

(a) Relative weights, based on imports of goods and services (at current prices and current exchange rates) in 2007.

(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2007)

	EU	Candidate Countries				Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
		USA	Japan	Canada								
EU	66.5	1.3	4.6	1.9	0.6	4.4	4.5	3.3	9.7	2.1	1.2	100
Belgium	72.7	0.5	6.6	2.1	0.7	2.2	0.9	3.0	7.9	2.3	1.2	100
Bulgaria	56.4	9.1	1.1	0.5	0.1	1.2	22.0	0.7	5.1	3.4	0.3	100
Czech Republic	81.3	0.6	1.1	2.3	0.2	2.3	4.8	0.3	6.7	0.2	0.1	100
Denmark	75.3	1.1	3.2	0.8	0.4	6.4	1.4	0.4	9.2	1.3	0.4	100
Germany	67.8	1.4	4.9	2.2	0.4	5.4	3.3	1.5	10.3	1.8	1.0	100
Estonia	75.7	0.5	1.5	0.8	0.2	1.3	12.6	0.1	6.8	0.4	0.1	100
Ireland	71.2	0.7	9.8	1.7	0.4	4.0	0.6	0.4	10.0	0.8	0.4	100
Greece	63.6	3.6	2.8	1.7	0.2	2.4	5.6	8.2	9.9	1.6	0.4	100
Spain	67.6	1.3	2.6	1.5	0.3	2.8	1.6	6.6	8.8	4.2	2.8	100
France	71.9	1.0	4.4	1.3	0.5	4.3	2.0	4.4	7.1	1.4	1.7	100
Italy	60.4	2.0	2.8	1.3	0.5	4.1	7.0	9.6	8.7	2.5	1.1	100
Cyprus	42.0	0.1	1.0	4.3	0.1	0.7	29.7	5.5	13.7	2.8	0.1	100
Latvia	66.6	0.6	2.1	0.5	0.2	2.1	21.8	0.3	5.7	0.1	0.0	100
Lithuania	65.5	1.1	3.1	0.5	0.2	1.6	21.8	0.4	5.3	0.5	0.1	100
Luxembourg	82.6	0.3	3.9	0.7	0.8	1.2	0.8	0.3	9.2	0.2	0.1	100
Hungary	72.2	1.2	1.4	2.6	0.2	1.2	8.7	0.3	11.9	0.2	0.1	100
Malta	53.4	10.6	2.5	2.3	0.1	1.7	6.7	1.6	20.6	0.3	0.1	100
Netherlands	49.3	0.6	6.3	3.6	0.7	4.4	9.5	3.7	16.1	4.3	1.6	100
Austria	84.1	1.0	2.0	0.8	0.2	3.7	2.8	1.8	3.0	0.3	0.2	100
Poland	74.7	0.9	1.8	1.0	0.2	2.0	10.0	0.3	7.8	0.8	0.4	100
Portugal	73.6	0.7	3.0	1.0	0.2	2.4	2.9	4.1	5.1	3.5	3.5	100
Romania	71.9	6.1	1.1	0.4	0.2	1.4	9.5	1.8	6.4	0.9	0.2	100
Slovenia	81.8	5.7	1.1	0.7	0.3	1.3	1.2	1.0	5.4	1.2	0.2	100
Slovakia	77.0	0.6	1.2	0.8	0.2	1.0	10.2	0.1	9.0	0.0	0.0	100
Finland	60.1	0.5	3.5	2.8	0.8	4.0	12.6	0.2	13.3	1.8	0.4	100
Sweden	76.4	0.7	3.1	1.3	0.3	7.4	2.3	0.4	6.4	1.3	0.4	100
United Kingdom	57.6	1.4	8.1	2.6	1.9	8.4	2.1	2.0	12.8	1.6	1.3	100

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 2002-2010)

22.04.2009

	2008						2009					
	2002	2003	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
EU	85.3	78.9	58.8	-8.3	-78.9	-99.9	-150.5	-168.4	-108.2	-146.7	-83.8	-138.0
EU, adjusted <sup>1</sup>	:	:	-53.6	-119.4	-206.0	-209.5	-279.5	-306.5	-226.8	-270.7	-202.4	-263.0
Euro area	154.0	154.6	166.5	115.5	79.1	123.0	90.3	56.7	111.8	7.0	132.6	10.6
Euro area, adjusted <sup>1</sup>	115.8	111.6	118.3	58.5	24.8	78.8	50.1	-0.9	74.9	-44.7	95.7	-41.6
Candidate Countries	-7.8	-13.5	-23.7	-32.3	-39.8	-61.1	-78.8	-71.1	-70.8	-33.0	-81.8	-42.6
USA	-491.7	-559.5	-681.2	-796.9	-850.6	-835.9	-818.5	-831.9	-630.5	-640.2	-583.0	-671.7
Japan	92.3	103.4	128.6	93.9	81.4	104.7	109.5	38.9	129.2	85.6	143.6	105.1
Canada	36.5	40.3	50.6	51.4	43.6	44.8	47.8	43.5	13.7	6.2	-3.8	5.0
Norway	23.4	27.0	32.4	46.8	55.9	54.6	99.1	74.5	72.0	18.7	75.2	27.0
Switzerland	3.3	3.2	5.4	2.4	4.1	7.8	10.2	13.4	7.5	21.5	7.4	19.5
Iceland	0.2	-0.2	-0.5	-1.5	-2.2	-1.4	-0.8	-0.1	-2.5	0.7	-3.1	0.5
Australia	-5.5	-15.3	-18.1	-13.4	-9.6	-17.8	-2.2	-19.9	-32.7	-75.7	-32.0	-79.5
New Zealand	0.1	-0.5	-1.4	-2.6	-2.0	-1.8	-2.9	-2.4	-2.1	2.2	-2.5	1.9
Industrialised countries	-263.9	-336.3	-449.2	-660.4	-798.2	-805.9	-787.2	-923.4	-624.6	-760.6	-563.8	-773.0
Others	285.1	381.2	518.0	766.1	1013.6	899.3	1079.8	1117.1	786.7	622.1	682.1	677.1
CIS	49.2	62.3	92.3	124.3	143.0	126.2	231.1	184.8	92.9	59.9	41.1	96.7
MENA	73.2	112.6	189.1	309.0	419.4	271.5	471.6	440.7	343.9	52.3	372.6	64.5
Other emerging markets	162.6	206.3	236.6	332.9	451.2	501.6	377.1	491.7	349.9	510.0	268.4	515.9
Asia	128.5	151.2	152.8	212.5	313.9	390.7	211.1	373.5	232.3	489.0	152.7	479.7
Latin America	21.4	43.3	58.8	81.2	99.1	70.7	91.5	66.7	51.8	-3.4	49.6	9.2
Sub-Saharan Africa	12.7	11.8	25.0	39.2	38.2	40.2	74.6	51.5	65.8	24.4	66.1	27.0
World	21.2	45.0	68.8	105.7	215.3	93.4	292.6	193.7	162.1	-138.4	118.3	-95.9

<sup>1</sup> See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 2002-2010)

	2008						2009					
	2002	2003	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
EU	25.9	7.2	44.3	-33.4	-72.1	-107.3	-189.7	-215.3	-144.3	-252.8	-120.2	-266.7
EU, adjusted <sup>1</sup>	:	:	-45.6	-93.6	-167.2	-165.6	-171.9	-288.5	-128.0	-318.5	-103.8	-332.9
Euro area	52.4	32.4	95.9	24.1	20.3	21.7	-42.5	-115.4	-8.6	-169.9	-1.5	-186.8
Euro area, adjusted <sup>1</sup>	46.2	25.2	78.7	16.2	10.7	51.8	-49.1	-89.8	-14.6	-146.9	-7.5	-163.6
Candidate Countries	1.7	-7.7	-14.8	-21.2	-30.6	-43.2	-56.0	-48.6	-48.3	-15.0	-57.3	-23.8
USA	-458.2	-512.3	-624.1	-710.9	-771.5	-718.6	-655.4	-654.7	-470.5	-494.4	-418.9	-525.5
Japan	113.0	136.1	172.2	165.9	170.6	210.7	194.4	157.0	209.0	181.7	219.5	185.7
Canada	14.0	12.0	22.1	20.8	19.4	13.6	13.3	11.6	-20.7	-20.4	-41.8	-22.5
Norway	24.2	27.7	32.9	49.1	58.1	59.6	112.7	80.1	82.5	23.0	85.7	30.5
Switzerland	20.8	39.0	41.6	51.0	53.7	56.4	43.6	71.6	36.2	75.7	34.9	71.0
Iceland	0.1	-0.5	-1.3	-2.6	-4.3	-0.7	-1.7	-1.2	-3.9	-0.2	-4.9	-0.7
Australia	-15.8	-28.7	-38.9	-41.0	-41.5	-56.8	-59.7	-50.4	-100.3	-24.1	-101.3	-28.7
New Zealand	-2.4	-3.5	-6.3	-9.3	-9.1	-10.2	-12.6	-10.5	-12.0	-5.7	-12.6	-6.0
Industrialised countries	-276.7	-330.8	-372.3	-531.5	-627.3	-596.6	-611.2	-660.5	-472.3	-532.1	-416.9	-586.6
Others	167.6	280.9	414.1	647.4	894.1	819.0	661.3	706.4	427.0	436.3	321.9	389.8
CIS	30.2	36.1	63.5	87.4	93.8	72.2	126.6	90.9	-8.7	-15.6	-57.8	15.0
MENA	35.8	77.0	156.2	274.9	380.7	228.6	139.5	173.6	97.9	53.0	82.9	-18.6
Other emerging markets	101.7	167.8	194.4	285.1	419.5	518.2	395.2	441.9	337.8	398.8	296.8	393.4
Asia	121.7	164.9	171.8	242.2	362.9	505.3	345.0	454.9	345.1	492.4	315.4	473.3
Latin America	-15.5	9.0	21.6	36.6	52.1	19.3	-1.4	-24.8	-44.8	-75.7	-54.5	-65.7
Sub-Saharan Africa	-4.5	-6.1	1.1	6.3	4.5	-6.5	51.6	11.8	37.5	-17.9	35.9	-14.1
World	-109.0	-49.9	41.8	115.9	266.7	222.4	50.1	45.9	-45.3	-95.8	-94.9	-196.9

<sup>1</sup> See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 2002-2010)

SITC Classification	2008						2009					
	2002	2003	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Food (0 + 1)	1.9	2.0	12.7	5.5	11.7	7.2	16.1	20.1	3.1	-8.1	2.3	2.1
Basic materials (2 + 4)	0.5	9.0	20.4	10.5	36.1	15.3	12.1	8.4	7.4	-26.2	1.8	-0.1
- of which :												
Agricultures non-food	5.2	7.2	6.7	-5.3	7.4	19.1	32.5	15.1	14.2	-8.6	0.9	-0.9
- of which :												
Wood and pulp	-2.9	6.8	12.9	3.7	8.7	0.8	10.4	3.0	0.2	-0.7	0.1	0.1
Minerals and metals	-4.3	10.9	35.2	24.0	54.7	13.7	3.8	5.2	3.8	-35.3	2.4	0.6
Fuel products (3)	-0.4	13.2	32.3	44.4	19.4	8.7	42.1	36.0	-17.1	-44.6	5.2	19.0
- of which :												
Crude petroleum	0.1	13.9	33.4	44.7	20.2	9.5	43.4	35.9	-17.5	-46.3	5.5	20.0
Primary commodities												
- Total excluding fuels	1.1	6.2	17.5	8.7	27.6	12.9	13.4	11.8	5.9	-20.6	2.0	0.7
- Total including fuels	0.1	11.7	28.0	36.0	20.9	9.5	35.4	31.1	-13.5	-40.4	4.6	14.8
Crude petroleum - price per barrel												
Brent (usd)	25.0	28.5	38.0	55.1	66.2	72.5	104.0	98.5	85.7	52.9	90.4	63.5
Brent (euro)	26.5	25.2	30.6	44.3	52.7	52.9	70.3	67.0	63.0	40.1	66.5	47.7

### *Note on concepts and sources*

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts twice a year : in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the seven largest Member States, EU and the euro area, are presented in between the fully-fledged forecasts.
2. Data for 2008, 2009 and 2010 are forecasts.  
The sources for all tables are the Commission services, unless otherwise stated.  
Historical data for the Member States are based on the European System of Accounting (ESA 1995). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms.  
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 Tables 16 and 17, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior to 1996.
5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.
6. Employment data used in tables 21-25, 27 and 31-32 are based on full-time-equivalents (FTEs), where available. Currently, Germany, Estonia, Spain, France, Italy, Hungary, the Netherlands and Austria report FTE data (taken together, these countries represent 90% of euro-area GDP and 65% of EU GDP). In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.
7. The nominal short term interest rates are defined as the 3-month inter-bank rates. The nominal long term interest rates are defined as the yield on the central government benchmark 10-year bond. For Estonia, where no appropriate benchmark government bond is available, the indicator provided in Table 34 is a weighted average of MFI interest rates for new EEK-denominated loans to households and non-financial businesses.
8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 48 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2008.
9. With respect to the 12 RAMS (recently-acceded Member States), which are currently in a transition phase, the quality of statistical data may not always be directly comparable to most EU15 Member States.
10. Geographical zones are defined as follows:
  - Euro area :  
EA 16 (BE,DE,IE,EL,ES,FR,IT,CY,LU,MT,NL,AT,PT,SI,SK,FI)
  - Candidate countries :  
Croatia, Turkey and former Yugoslav Republic of Macedonia.
  - Potential Candidates :  
Albania, Bosnia-Herzegovina, Kosovo, Montenegro and Serbia.
  - Industrialised Countries :  
EU, Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.
  - MENA (Middle East and Northern Africa) :  
Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, and the United Arab Emirates.
  - Asia :  
All countries except Japan and the Asian MENA countries.
  - Latin America :  
All countries.
  - Sub-Saharan Africa :  
All countries except the African MENA countries.



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