

No 5 / 2004

EUROPEAN ECONOMY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR ECONOMIC
AND FINANCIAL AFFAIRS



Economic forecasts
Autumn 2004

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

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European Commission

EUROPEAN ECONOMY

Directorate-General for Economic and Financial Affairs

2004

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Abbreviations and symbols used

Member States

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

EUR-12	European Union Member States having adopted the single currency (BE, DE, EL, ES, FR, IE, IT, LU, NL, AU, PT, FI), i.e. countries participating in the economic and monetary union without a derogation
EU-25	European Union, 25 Member States
EU-15	European Union, 15 Member States before 1 May 2004 (EUR-12 plus DK, SE and UK)
EU-10	European Union, 10 Member States that joined the EU on 1. May 2004 (CZ, EE, CY, LV, LT, HU, MT, PL, SI, SK)

Currencies

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

Other abbreviations

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

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Overview

The recovery surpasses expectations in Europe

Following the turnaround in the second half of 2003, economic activity in the euro area and the EU gathered speed this year. Supported by the continued buoyancy of global growth and trade, the growth rates are projected to reach 2.1% in the euro area and 2.5% in the EU this year. This is followed by a deceleration of the order of 0.1 to 0.2 percentage points in both regions in 2005, as the sharp rise in oil prices takes its toll, and a subsequent rebound in 2006 as the latter effect tapers off.

Apart from the external impulse from global demand, the main factors behind the outlook include accommodative macroeconomic policies, low inflation, supportive financial conditions, widening profit margins, and progress in structural reforms.

The consolidation of the recovery over the forecast horizon is underpinned by an acceleration of investment expenditure and a more gradual pick-up in private consumption. As the lagged effects of the protracted downturn dissipate, the performance of the labour market is expected to respond to the momentum of economic activity. Employment growth in the euro area, at 0.5% in 2004, is expected to accelerate to 0.9% in 2005 and 2006. For the EU as a whole, the pick-up profile is similar, although the rise in employment is projected to be slightly lower.

Global trade thrives, as world economic activity accelerates

The vigorous rebound in world trade in 2003 is set to be outperformed by a sharp rise to almost 10% in 2004. The near-term outlook is for a moderation to around 8% in 2005 and somewhat lower in 2006, as the world growth cycle matures.

The pace of world GDP growth registered 3.5% in 2003. This year, world economic activity should expand at 5%, the fastest pace since the seventies, before easing back to a robust 4.2% in 2005 and 2006. The surge in economic activity is driven by a number of factors, including supportive macroeconomic policies, historically low real interest rates, housing-market-induced wealth effects, and particularly strong growth in certain emerging economies, such as China.

The regional distribution of world growth has continued to widen in 2004, with stronger-than-expected contributions coming from the EU, Japan, the CIS, OPEC, Asia (especially China) and Latin America. In the US, helped by monetary and fiscal policy stimuli and solid underlying productivity growth, economic activity is expected to realise growth of 4.4% in 2004. Nonetheless, in view of the high and rising current account deficit and the large general government deficit, this pace of economic expansion is viewed as unsustainable, and accordingly the growth rate is expected to fall slightly below trend at 3% in 2005 and 2.9% in 2006.

After the marked improvement experienced by Japan this year, the growth rate is expected to move back towards potential, at 2.1% in 2005. Deflation is still present in the economy but appears to be diminishing, as prices have started to rise in certain sectors. The general government deficit is expected to edge to 7% of GDP and lower in 2005 and 2006. The economic outlook for Asia (excluding Japan) remains vibrant, with growth in the vicinity of 7% in 2005-6. During this period, some attenuation of China's vivid performance is expected, while India's growth rate continues to climb. Among the other emerging regions, economic activity in Latin America is expected to ease off in 2005-6, while growth should build up momentum in Africa. In the candidate countries, the strong performance in 2004 is expected to be followed by lower, but still robust growth in 2005 and 2006.

Rising commodity prices and flat stock markets

The global recovery has put upward pressure on both fuel and non-fuel commodity prices. In view of the sharp rise in oil prices since the first quarter of this year, the assumed profile for oil prices has been revised upwards compared to the Spring forecasts. From an average of USD 40.6 per barrel (Brent crude) in the third quarter of this year, the price of oil is assumed to rise to USD 50 in the fourth quarter, before declining gradually to USD 42.5 in the last quarter of next year, yielding an average of USD 45.1 per barrel for 2005. Some easing is foreseen during the course of 2006, leading to an average of USD 40.1 per barrel. After a projected rise of 38% this year, this profile implies a further increase of 15% next year, followed by a decline of 11% in 2006.

Although the oil price hike is less in real terms than during previous shocks and most industrialised oil-importing economies have reduced their dependence on oil, this year's sharp rise has already dented world growth for 2004. The persistence of higher oil prices and their increased volatility have adverse implications for the growth outlook over the forecast horizon.

Global equity prices have levelled off during the course of this year. Although long-term government bond yields have risen modestly with the measured tightening of monetary policy in some countries, they are still low by historical standards in both nominal and real terms. Corporate bond spreads have also remained narrow. Overall, these developments suggest that financing conditions in the global economy continue to be supportive of world economic activity.

Growth gathered momentum in the euro-area and EU economies in the first half of 2004

...

Following the turnaround during the second half of 2003, the recovery in both the euro area and the EU picked up speed in the first half of this year. The euro-area rebound has been driven by the sustained growth of exports, while the growth-contribution of domestic demand has remained relatively weak. Within the latter, the behaviour of investment has been particularly disappointing. Gross fixed capital formation, which shrank in the first quarter and barely increased in the second quarter, failed to make any contribution to growth in the first half of the year. After a relatively healthy performance in the first quarter, private consumption provided only a slight impulse to growth in the second quarter.

The outcome for the EU reveals a similar picture in terms of the composition of growth, although the relative contribution of domestic demand was stronger than that of external demand in the second quarter. In this context, the pick-up in gross fixed capital formation in the second quarter of this year is of particular interest. This is due mainly to an acceleration in investment in the UK.

The pace of the rebound in the first half of 2004 exceeded predictions in the Spring forecast. However, compared to previous economic upturns, external demand has continued to be the main support of the pick-up for a longer period of time, while the revival of internal demand has been slower.

...and will dip in 2005 as a result of the sharp rise in oil prices

Survey indicators have been sending out mixed signals this year concerning the prospects for the strength and sustainability of the recovery. The overall economic sentiment indicator has extended its slight upward movement this year, both for the euro area and the EU. While the composite Purchasing Managers Index (PMI) has remained approximately stable, both the PMI in manufacturing and the Commission's industrial confidence indicator have maintained an upward trend. In general, although the trends are similar, the confidence indicators for the EU tend to exceed those for the euro area.

Table 0.1

Main features of the Autumn 2004 forecast ¹ - EU-25

(Real annual percentage change unless otherwise stated)	Autumn 2004						Difference with Spring 2004 ^(a)	
	2001	2002	2003	2004	2005	2006	2004	2005
GDP	1.8	1.1	1.0	2.5	2.3	2.4	0.4	-0.2
Consumption	2.0	1.4	1.5	2.0	2.0	2.2	0.1	-0.3
Total investment	0.3	-1.4	0.0	3.2	3.8	4.0	0.1	-0.3
Employment	1.0	0.3	0.3	0.4	0.7	0.8	0.1	-0.1
Unemployment rate (b)	8.5	8.9	9.1	9.1	9.1	8.8	0.1	0.3
Inflation (c)	2.5	2.1	1.9	2.2	2.1	1.9	0.4	0.3
Governemnt balance (%GDP)(d)	-1.2	-2.3	-2.8	-2.8	-2.4	-2.3	-0.1	0.1
Governemnt debt (%GDP)	62.1	61.6	63.2	63.5	63.5	63.3	0.1	0.1
Current account balance (%GDP)	:	:	:	0.3	0.2	0.2	0.1	0.1

¹ The Commission services' Autumn 2004 Forecasts are based on available data up to October 18, 2004.

(a) A "-" sign means a lower positive figure or a higher negative one compared to Spring 2004.

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

(d) Including proceeds relative to UMTS licences.

In the services sector, confidence is still languishing. The trends in the confidence indicator for the euro area and the PMI for services have remained broadly flat this year. The corresponding confidence indicator for the EU has fared better, although it remains below the long-term average. The consumer and retail confidence indicators also appear to have tapered off and retail sales have remained volatile.

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

Summing up, the average growth rates in 2004 are projected at 2.1% for the euro area and 2.5% for the EU. The prolongation of higher oil prices is expected to dampen growth to 2% in the euro area and 2.3% in the EU in 2005. As the price of oil subsides, growth is set to pick up once again in 2006. Compared to the Spring forecast, this represents an upward adjustment in both regions for this year and a reduction for next year. Growth over the next two years is expected to be supported by domestic demand, which in turn will be sustained by an acceleration of capital formation during the course of 2005, followed by a more gradual pick-up in private consumption expenditure.

Table 0.2

Main features of the Autumn 2004 forecast ¹ - euro area

(Real annual percentage change unless otherwise stated)	Autumn 2004						Difference with Spring 2004 ^(a)	
	2001	2002	2003	2004	2005	2006	2004	2005
GDP	1.6	0.9	0.6	2.1	2.0	2.2	0.4	-0.3
Consumption	1.9	0.7	1.1	1.5	1.7	2.0	-0.1	-0.6
Total investment	-0.1	-2.4	-0.5	2.2	3.2	3.6	-0.2	-0.4
Employment	1.4	0.6	0.2	0.5	0.9	0.9	0.2	0.0
Unemployment rate (b)	8.0	8.4	8.9	8.9	8.9	8.6	0.1	0.3
Inflation (c)	2.4	2.3	2.1	2.1	1.9	1.7	0.3	0.3
Governemnt balance (%GDP)(d)	-1.7	-2.4	-2.7	-2.9	-2.5	-2.5	-0.2	0.1
Governemnet debt (%GDP)	69.4	69.4	70.7	71.1	71.1	70.9	0.2	0.2
Current account balance (%GDP)	0.5	1.2	0.6	0.8	0.8	0.8	0.1	0.2

¹ The Commission services' Autumn 2004 Forecasts are based on available data up to October 18, 2004.

(a) A "-" sign means a lower positive figure or a higher negative one compared to Spring 2004.

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

(d) Including proceeds relative to UMTS licences.

Encouraging labour market outlook

The tempered labour market response in the prolonged downturn has been followed by a slow response in the upturn. The rise in the unemployment rate was quite subdued in comparison to previous cycles. The euro area unemployment rate stabilised at 9% in the second quarter of 2004, after increasing by 1 percentage point during the slowdown in the current cycle. This contrasts with a rise of over 2 percentage points to above 10% in the trough of the early nineties. On the employment side, the picture is also more encouraging insofar as job losses are concerned. No jobs were lost in net terms in the recent downturn, while more than 2.5 million jobs disappeared in the 1992-93 recession.

In line with the usual lagged response of the labour market, about half a million jobs are expected to be created this year in the euro area and 0.8 million in the EU. However, these figures should almost double in 2005 as the recovery consolidates. The unemployment rate is expected to remain stable at 8.9% in the euro area and 9.1% in the EU this year and next, before edging downwards in 2006.

Headline inflation set to fall below 2% in the euro area in 2005, while remaining slightly higher in the EU

Headline inflation in the euro area remained sticky in 2004, buoyed up by such factors as energy price hikes and rises in indirect taxes. Compared to a projected 2.1% in 2004, headline inflation is expected to fall to 1.9% in 2005, as a result of weak domestic price pressures. Inflation should fall further to 1.7% in 2006.

Core inflation has also been rather sticky in the euro area this year. It has moved upwards since the beginning of the year, from 1.9% in January to 2.1% in September. The rise in underlying inflation is the result of higher processed food inflation in early 2004. This stems from increases in indirect taxes on tobacco in several Member States, combined with accelerating inflation in services, which is partly due to upward pressure from administered prices.

For the EU as a whole, a similar profile is expected over the forecast period for headline inflation, starting from 2.2% in 2004. The projected rate of decline is slightly lower. The generally higher inflation rates anticipated for the recently-acceded Member States means that inflation dispersion is greater in the EU than in the euro area.

Modest consolidation in euro-area deficits despite recovery

Following a moderate but non-negligible easing of fiscal policies since 2000, the recovery under way in the euro area since mid-2003 is foreseen to coincide with a modest discretionary tightening. As a result, based on current policies, the general government deficit is set to improve over the forecast period, from 2.9% of GDP in 2004 to 2.5% in 2005 and, under unchanged policies, would remain unchanged in 2006, while the cyclically-adjusted deficit is projected to improve by a slightly smaller amount. Deficits around or in excess of the 3% of GDP threshold are expected in Germany, Greece, France, Italy and Portugal, unless additional consolidation measures are adopted. Debt ratios in these countries are in excess of the 60% of GDP threshold and would either rise or fail to decrease significantly.

Outside the euro area, the United Kingdom is set to gradually reduce the deficit from the expenditure-induced peak in 2003 on the back of buoyant growth. In most of the recently-acceded Member States with high deficits, fiscal consolidation is expected to make headway during the forecast period, helped in some cases by a faster-than-expected resumption of growth at or above trend rates.

Upside and downside risks to the forecast

The broad-based simultaneous acceleration of growth across the world since the second half of last year has generated a mutually reinforcing growth momentum. Although this momentum is strong, it is not without its risks. The US, which has retained the role of the major driver of growth, is characterised by long-standing macroeconomic imbalances that may act as a brake on growth later in the forecast period. High and volatile oil prices and other commodity prices might also put a damper on global growth.

A renewed sharp appreciation in the euro exchange rate could undermine activity mainly in the euro-area manufacturing sector. This is especially relevant in view of the fact that the recovery in the euro area (apart from France) has continued to rely heavily on external demand as a driving force. On the other hand, any further appreciation would alleviate inflationary pressures and, accordingly, raise real disposable income.

The protracted nature of the downturn and uncertainties related to current and future income have undermined consumer confidence, leading to the postponement of consumption plans and sluggish private consumption. Survey indicators suggest that consumers are still wary about committing themselves to purchases of larger consumer durable goods. Furthermore, recurrent geopolitical tensions continue to weigh on consumer and investor confidence. Structural reforms may also have negative effects on confidence in the short-term. Although investment is being supported by favourable financing conditions and positive developments in earnings and profitability, the hesitant nature of the recovery in consumer demand may be holding back investment plans.

The above downside risks are, to some extent, offset by a few upside risks. With the resumption of confidence, the release of pent-up consumer demand would consolidate the return to potential growth. This could be financed through a reduction in the savings rate. The rise in house prices in a number of EU countries and the contribution of the rise in stock markets to the replenishment of household wealth should also support spending. Labour market reforms undertaken by Member States also represent an upside risk. Such reforms include the recent changes in Germany, which should begin to produce positive results over the forecast horizon, as well as the past reforms in other Member States, which have led to greater labour market resilience and a decline in the non-accelerating-inflation rate of unemployment (NAIRU).

Overall, however, the balance of risks for the coming two years has shifted towards the downside in recent months.

***Candidate
Countries***

The candidate countries are expected to continue to enjoy relatively strong growth. In Romania and Turkey, with particularly buoyant growth in the current year, some deceleration is foreseen over the forecast horizon, whereas growth in Croatia and in Bulgaria, at least in 2005, should accelerate further. Rising labour productivity and an expanding and modernised capital stock provide a basis for this continued expansion in the candidate countries. It is anticipated that private consumption and investment, in particular, will constitute the main demand forces supporting sustained growth over the next two years.

In all candidate countries, except Croatia, disinflation should continue. Croatia is likely to see a slight reacceleration of inflation from currently quite low levels. This positive outlook for the candidate countries is underpinned by a strengthening supply side, driven by high investment, and overall prudent fiscal and monetary policies, together with some real appreciation of the currencies in some countries. Turkey and Romania, especially, are set to take a further step towards price stability, as their inflation rates are expected to fall to around 7% in 2006.

Despite sustained gains in labour productivity, economic growth is expected to lead to a rise in employment in all countries except Romania, where restructuring in industry and agriculture is still in progress on a larger scale.

In Romania and even more so in Bulgaria, general government deficits are projected to remain quite moderate, also supported by strongly rising revenues, against the backdrop of sustained economic growth in these countries. In Croatia and particularly in Turkey, where deficits are presently at higher levels, government deficits are expected to narrow further.

In all candidate countries, strong domestic demand and higher world commodity prices should lead to rising merchandise trade deficits, which would only be partially offset by rising surpluses in other parts of the current account balance. As a result, current account deficits are likely to remain fairly high.

Chapter 1

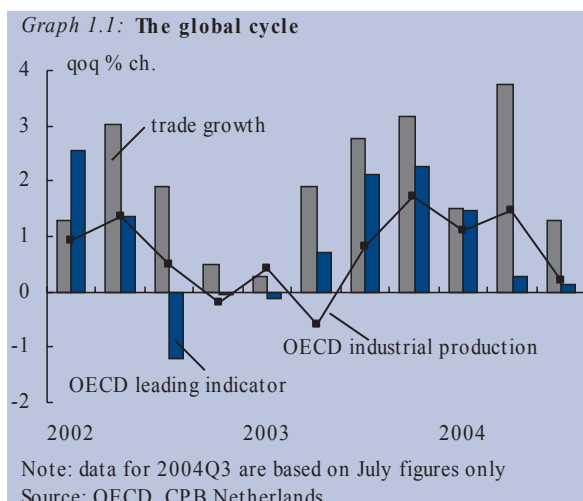
The world economy

1. Global growth matures

The global recovery has matured in 2004, amid uncertainties about the impact of higher oil prices and the extent of the slowing of the growth momentum. Despite the tightening of very accommodative monetary policies in some countries, real interest rates remain very low, and financial conditions remain supportive of world growth. Looking ahead, world growth should continue to be robust, although risks to the outlook have increased due to uncertainties about the potential impact of higher oil prices on the world economy, worsening external and internal imbalances in the United States, and the risk of a sharp slowdown in China.

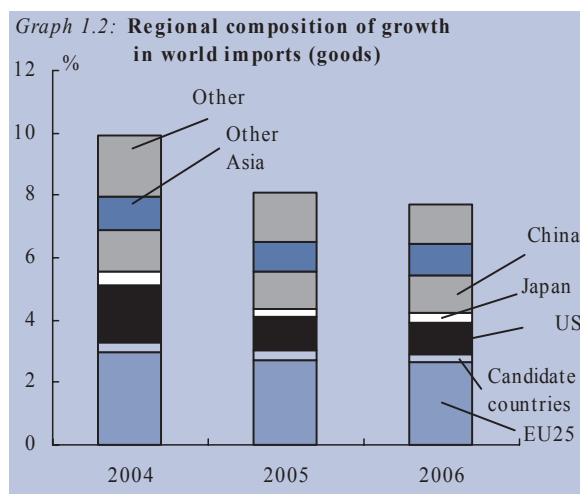
World growth moderating but remaining robust

After peaking in early 2004, global growth is expected to slow down moderately, while remaining nevertheless above 4% during the forecast period. Apart from the fact that above-trend growth is unlikely to be sustained for long, several indicators point to a moderation of growth in the global economy. World growth slowed in the second quarter of this year, notably in the US, Japan and China, all of which had experienced very brisk growth in the second half of 2003 and the first quarter of this year.



Industrial production in the OECD countries rose strongly between the third quarter of 2003 and the second quarter of 2004, growing on average by above 5% in annualised terms. Growth in world trade was also dynamic: world trade as measured by the CPB-Netherlands world trade indicator grew by more than 10% during the same period. However, there are signs that global trade growth is moderating along with GDP growth, since the rate of change in the world trade indicator decelerated in July. Developments in the OECD leading indicator also point to a slowdown of global growth.

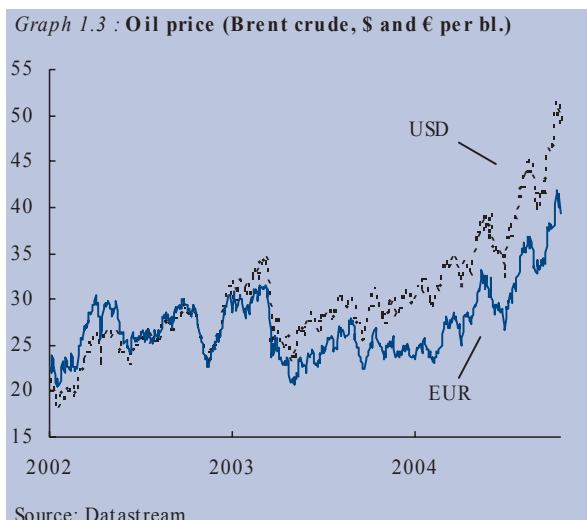
Despite the moderation in growth, world economic activity is expected to remain robust. This trend is also evident in world imports of goods, which are projected to grow by almost 10% in 2004, the highest rate since 2000, before decelerating slightly to 8.1% and 7.7%, respectively, in 2005 and 2006.



The balance of world trade growth is expected to be unchanged, with China and emerging Asia continuing to contribute strongly to world import growth. China's demand for imports is expected to slow somewhat from the projected 26% in 2004 to just below 20% in 2005 and 2006.

Oil prices have continued to rise

Since the publication of the Commission Spring forecast, oil prices have continued to rise, with Brent spot prices increasing to over 50 USD/bl. This represents an increase of more than 50% in both US dollar and euro terms since the beginning of the year. The surge in oil prices has been driven by a combination of strong demand and supply concerns. Stronger-than-previously-expected growth in the demand for oil has absorbed most of the spare production capacity (available, unused capacity). The International Energy Agency (IEA) has, since January 2004, revised upwards its projection of demand for oil in 2004 by 2.8 million barrels per day (mb/d). Of this increase, 1.3 mb/d is due to an upward revision of demand in 2003 and the remaining 1.5 mb/d to upward revisions of expected demand growth in 2004. The IEA now estimates that the demand for oil will increase by 2.7 mb/d in 2004, the highest annual increase in oil demand in over 20 years, before easing to 1.5 mb/d in 2005 in view of higher prices and a moderation of the world economic expansion.



The United States and emerging market countries, in particular China, have accounted for the major part of the increase in demand and this trend is expected to continue in 2005. As a consequence of the strong demand growth, surplus production capacity in world oil is now close to its lowest level in many years with oil-producing countries, including OPEC, unable to increase capacity in the short-term. Furthermore, stock levels in industrial countries remain low by historical standards.

As a result of the tight supply conditions, markets have become more concerned about potential supply disruptions and the uncertainty surrounding oil prices has increased, adding to the risk premium in oil prices. In this context, the situation in Iraq, terrorist attacks in Saudi Arabia, the Yukos case in Russia and instabilities in Nigeria and Venezuela have contributed to the risks of a possible shortfall in oil supply, and are likely to have significantly affected the risk premium.

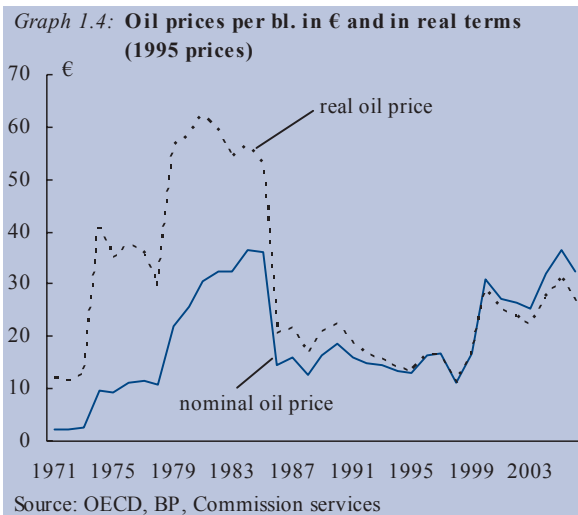
Looking ahead, oil prices are expected to remain high throughout the forecast horizon. Consistent with the path predicted by futures markets prices, the price of Brent oil is assumed to decline only very gradually, staying above 45 USD/bl. until the second half of 2005, and moving towards 39 USD/bl. at the end of the forecast period. This implies that the average annual oil price in 2004 will be 38% higher compared to the price in 2003, with a further increase of 15% in 2005, before declining by 11% in 2006.

Higher oil prices have dented world growth

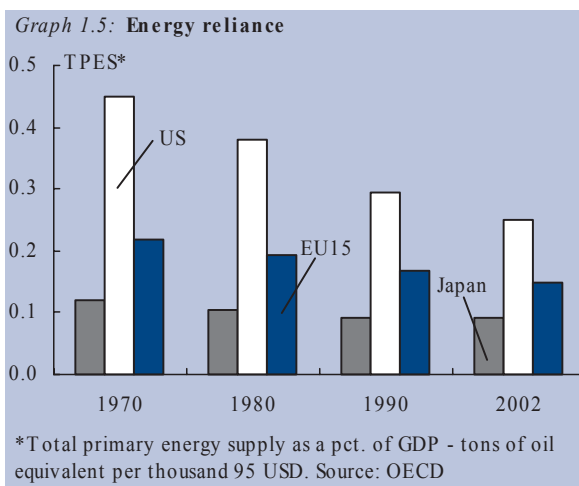
The increase in oil prices has already had an impact on the economic outlook, as higher oil prices transfer funds from oil importers to oil exporters and constitute a negative supply shock by increasing the cost of production of goods and services. Furthermore, if oil price increases are passed on through higher wages and prices, interest rates are likely to increase as monetary policy is tightened to control inflation. The moderation of world growth is probably due, in part, to the impact of higher oil prices. However, there are several factors that suggest that the world economy should be able to cope with higher oil prices.

Even though oil prices have recently reached record levels in nominal terms, the price in real terms remains far from the historical highs seen in 1981. In the latter year, the oil price averaged 62.1 EUR/bl. in 1995 euro-area prices, compared to the average estimated real price of 27.5 in 2004. Furthermore, the current increase in oil prices is relatively small in percentage terms, when compared to other episodes of rising oil prices.

Moreover, the global economy has become less vulnerable to higher oil prices, as industrialised countries have become more energy efficient compared to previous episodes of higher oil prices. Furthermore, the increased importance of excise duties, in particular in the EU, implies that after-tax percentage changes in the prices of fuel products tend to be much lower than the percentage changes in oil prices.



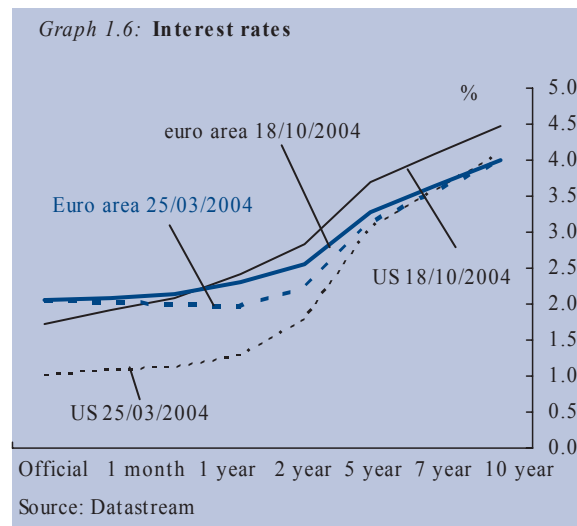
Despite these mitigating factors, the increase in oil prices and the projected higher oil prices throughout the forecast period have dented the outlook for growth. Simulations carried out using the Commission's QUEST model suggest that a permanent increase of oil prices by 25% (in USD/bl.) results in a lowering of GDP growth by 0.3 of a percentage point in the first year and by 0.1 of a percentage point in the second year. Furthermore, given the increased uncertainties in the oil market, downside risks have increased.



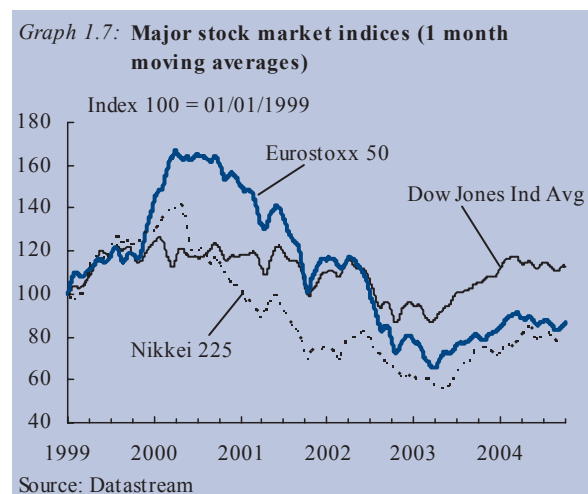
Monetary and financial conditions remain supportive

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

In the US, the Federal Reserve has, in the context of a maturing recovery, started to withdraw some of the policy accommodation injected in 2001-03, but real and nominal interest rates remain, nevertheless, very low.



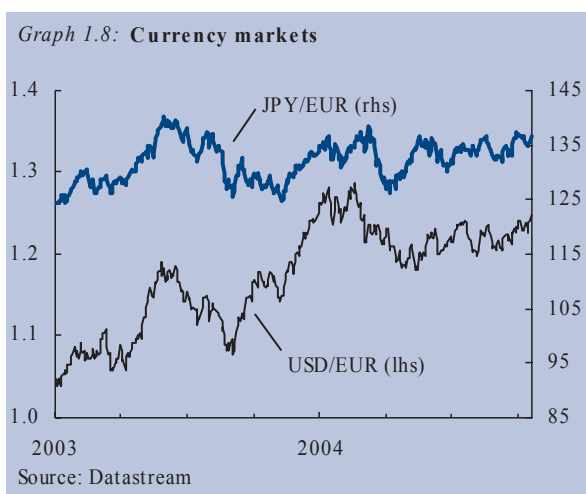
Yield curves for the euro area and the US are broadly unchanged compared to the spring, and the prolonged period of low interest rates has continued to provide supportive conditions for growth. Furthermore, financing conditions facing firms have continued to improve with corporate bond spreads narrowing slightly. Lower risk premia are benefiting emerging market economies, with bond spreads also at low levels in such economies.



Despite increasing oil prices and uncertainties concerning the soft patch in global growth in the second

quarter of this year, major equity market indices remain broadly unchanged compared to the spring. Average valuations are close to historical averages, as firms have continued to improve earnings and to consolidate balance sheets. Equity markets valuations are also consistent with a moderate slowing in the world economy, but, should growth falter, there could be a downside risk.

Currency markets have been characterised largely by stability. Following the record highs of the euro against the dollar in February and the beginning of monetary policy tightening in the US, major currency rates have been relatively stable and currency volatility has diminished.



Risks have increased

Despite the continued outlook for robust growth in the world economy, risks have increased. The probable persistence of higher oil prices and their increased volatility imply greater uncertainty about future growth. Furthermore, despite the apparent success of some tightening measures, the risk of a sharp slowdown in China remains a downside risk for the global economy. Finally, imbalances in the US economy still constitute a source of downside risk. Household indebtedness is still at record levels, and the current account deficit has continued to widen. A more abrupt adjustment of these imbalances would imply significantly lower growth in the US economy and, by implication, significant consequences for the world economy through financial market instability, lower trade growth and associated effects on confidence.

Outlook by region

The *US economy* is slowing down to a more moderate rate of expansion following a growth spurt, which lifted real GDP by 5% in the twelve months to the first quarter of this year. The slowdown to 3.3% annualised growth in the second quarter was primarily due to sharply lower consumer spending growth, although declining net exports also played a role. Investment, on the other hand, expanded briskly in the context of high profits and low interest rates and despite a relatively low capacity utilisation rate in industry. Notwithstanding the current strength in investment, consumption growth is expected to be relatively subdued over the forecast period. Fiscal policy has little leeway to provide further stimulus to growth, while the very accommodative stance of monetary policy is being rolled back to more neutral levels. US growth is, therefore, expected to slow to 3% in 2005 and 2.9% in 2006, slightly below the estimated potential growth rate. The current account deficit is expected to continue to deteriorate, reaching 5.5% of GDP in 2004 and 5.8% in 2005, before declining marginally to 5.7% of GDP in 2006.

The economic recovery in *Japan* has become more broadly based, underpinned not only by external demand but also by structural improvements in the corporate and the financial sectors. In the first half of 2004, the main sources of growth were private expenditure and net exports. Private consumption growth was supported by a more favourable labour market situation and a prolonged decline in the savings rate. Private investment kept on expanding, in line with robust profit growth and exports continued to expand briskly. It seems very likely, however, that the peak of the upturn has passed and that growth will continue at a more subdued pace. Growth is expected to average some 4.2% in 2004 and to decelerate, but remain above the economy's potential growth rate throughout the forecast period, registering 2.1% and 2.3%, respectively, in 2005 and 2006.

The *Chinese economy* has continued to be an engine of world growth, with 9.1% in 2003 and 9.7% in the first half of 2004. Growth has been driven in particular by the very strong performance of fixed investment, which has prompted concerns about overheating and overinvestment in several sectors. In response to these concerns, monetary and administrative measures have been taken to curtail investment and fiscal policy has been tightened. The government's tightening efforts seem to have been effective in curbing investment

growth in the second quarter of 2004, but exports and retail sales remain relatively robust. Looking ahead, growth is expected to reach 9.2% in 2004, before slowing down to around 8.2% in 2005 and 2006.

Growth momentum in the *rest of Asia* is expected to strengthen in 2004, and the region is set to continue to make a substantial contribution to global growth. Several Asian economies are expected to achieve real GDP growth in excess of 6% this year, underpinned by sustained robust growth of exports as the global recovery matures, and rebounding domestic demand. Growth in India is expected to strengthen slightly from 6.4% in 2004 to 6.6% by the end of the forecast horizon with structural reforms and world trade continuing to support growth.

In *Latin America*, the recovery of economic activity, following the 2002 contraction, has gathered strong momentum in 2004, and the region's overall GDP is projected to grow by 4.7% this year. The main explanatory factors include: the strengthening of global demand, higher commodity prices, the return of foreign investors' confidence with significantly lower risk premia on bonds, as well as still-competitive exchange rates (despite the appreciations experienced since early 2003). Over the rest of the forecast period, growth should remain strong, although a moderate slowdown is expected to around 3.7% in 2005 and 2006.

The *CIS region* is currently enjoying very high growth, thanks to the boom in the oil sector in Russia and Kazakhstan. Growth rates have reached or are close to double-digit levels in several CIS countries.

Non-oil-producing economies (such as Ukraine and Belarus) are also booming, supported by a pick-up in regional trade and, in some cases, by the beneficial effects of incipient structural reforms. The upswing seems quite solid and should continue over the forecast period, albeit at a somewhat slower, but still quite strong, pace.

Sustained high prices for hydrocarbons are boosting *Russia's* economy (the country ranks first and second in the world in terms of natural gas and oil exports respectively). In 2004, GDP is set to grow at a rate exceeding 7% for the second year running. Despite double-digit growth in imports, the current account surplus is projected to remain above 9% of GDP. The upswing appears broad-based, as both consumption and investment have been performing well. Since net exports are projected to grow more slowly in the coming years, GDP growth is set to decelerate gradually over the forecast horizon and should be increasingly supported by consumption and investment. Growth in 2005 and 2006 is, however, expected to remain above the 5% mark.

Table 1.1

International environment

	(Real annual percentage change)						Autumn 2004		Difference with Spring 2004	
	2001	2002	2003	2004	2005	2006	2004	2005		
Real GDP growth										
USA	0.8	1.9	3.1	4.4	3.0	2.9	0.2	-0.2		
Japan	0.4	-0.3	2.4	4.2	2.1	2.3	0.8	-0.2		
Asia (excl. Japan)	5.2	6.1	6.4	7.5	6.9	6.9	0.2	-0.1		
of which										
China	7.5	8.3	9.1	9.2	8.2	8.2	0.5	0.1		
ASEAN4 + Korea (a)	2.9	4.8	4.8	5.4	5.2	5.4	0.2	-0.1		
Candidate Countries	-4.3	7.0	5.4	7.8	5.0	5.2	:	:		
CIS	6.3	5.2	7.7	8.3	7.0	5.8	1.9	1.9		
of which										
Russia	5.1	4.7	7.3	7.4	6.6	5.1	0.9	1.2		
OPEC-Indonesia	2.1	1.4	3.4	7.9	7.0	5.3	2.9	2.3		
Latin America	0.3	-0.2	3.1	4.7	3.7	3.7	1.2	-0.6		
Africa	0.1	0.7	-0.6	3.3	4.4	4.5	-0.3	0.3		
World	2.4	2.7	3.5	5.0	4.2	4.2	0.5	-0.1		
World excl. EU-25	2.6	3.1	4.2	5.7	4.8	4.6	:	:		
World trade										
World import growth	-0.6	4.5	7.4	9.9	8.1	7.7	1.6	0.3		
World import growth excl. EU-25	-2.1	6.6	10.3	11.6	8.8	8.3	:	:		
Extra EU-25 export market growth	:	:	:	11.3	8.9	8.0	:	:		

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

Chapter 2

The economies of the euro area and the EU

1. Growth surpasses expectations in 2004

An upward revision of growth for 2004

Growth in the euro area and the EU in 2004 is projected to be stronger than foreseen in the Spring forecast. This is mainly due to a stronger-than-expected growth performance in the first half of 2004.

Table 2.1

Composition of growth in 2003 and 2004 - EU-25

(Seasonally and working day adjusted)	Quarterly % change			
	03Q3	03Q4	04Q1	04Q2
GDP	0.6	0.5	0.7	0.6
Private consumption	0.3	0.2	0.8	0.3
Government consumption	0.7	0.7	0.2	0.5
Gross fixed capital formation	0.5	1.2	0.2	0.6
Changes in inventories (% of GDP)	-0.2	0.5	0.3	0.4
Export of goods and services	2.3	0.6	1.4	3.1
Import of goods and services	1.5	2.3	0.6	2.8
	% contribution			
	03Q3	03Q4	04Q1	04Q2
Private consumption	0.2	0.1	0.4	0.2
Government consumption	0.1	0.1	0.0	0.1
Gross fixed capital formation	0.1	0.2	0.0	0.1
Changes in inventories	-0.2	0.7	-0.1	0.0
Net exports	0.3	-0.7	0.3	0.2

The composition of growth has turned out to be rather different from that envisaged in the spring. At that time, a zero growth contribution of net exports was projected for 2004, with euro-area exports and imports both growing at around 5%. In fact, exports grew at an average rate of 2.3% q-o-q in the first half of the year, against 1.6% for imports. Domestic demand, on the other hand, was surprisingly weak: on average 0.3% q-o-q in the first half of the year, with 0.5% for private consumption and no growth in gross fixed capital formation.

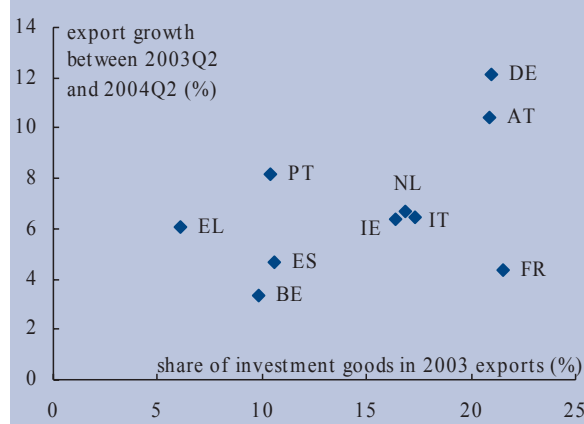
Specialisation has helped European exporters

In 2004, the world economy should grow at its fastest

rate since the seventies, reflecting the synchronised global recovery. The resulting dynamism in world imports (increasing by almost 10%) has translated into a vigorous expansion of the export markets of the EU (8.6% growth), which seems to have been sufficient to offset, to some extent, unfavourable competitiveness developments. The downward correction of the real effective exchange rate of the EU since the start of 2004 has been marginal compared to the close to 20% rise since the start of 2002.

In 2004, the euro area should continue to lose market shares. This results from the poor performance of all euro-area countries apart from Germany, the Netherlands and Portugal. The losses are expected to be strongest in Greece, France, Italy and Finland. Among the non-euro-area Member States, the recently-acceded Member States are set to perform better, with all countries, apart from Cyprus and Malta, increasing their market shares. The UK is also expected to suffer a considerable loss in market shares.

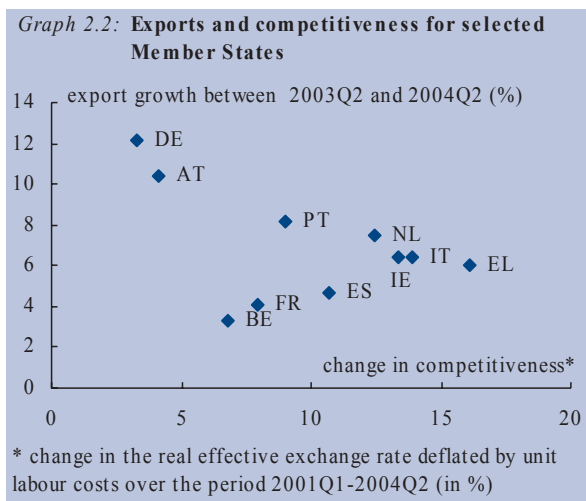
Graph 2.1: Exports: growth and structure for selected Member States



Nevertheless, the current levels of exchange rates do not appear to have prevented European firms from increasing their exports. One possible explanation for this is that the euro exchange rate is still fairly valued, as suggested by the fact that the real effective exchange

rate (deflated by unit labour costs) of the euro area is still close to its long-term average. Additionally, the appreciation may have induced European exporters to improve the non-price elements of their competitiveness, such as the quality of exported products and/or the product composition of the export basket. Finally, the widening of profit margins during the period when the euro was weaker may have provided European exporters with sufficient room to reduce margins substantially during the period of euro appreciation. As input prices for manufacturers have risen strongly this year, exporters may even have continued to export at a loss in those markets that are subject to high market-entry costs.

European exporters were also helped by the product composition of their export basket. Between the second quarter of 2003 and the second quarter of 2004, the global investment cycle turned strongly upwards: besides the boom in China, investment in equipment growth exceeded 10% in the US and Japan. At the same time, EU exports grew above average, since investment goods absorb a fairly large share of EU exports (18% in 2003).



The share of investment goods in total exports also provides a partial explanation for the divergent export performances of the individual Member States. With the exception of France, a positive correlation exists between the share of investment goods in the export basket of a Member State and its export performance during the last four quarters. Outside the euro area, Sweden and the Czech Republic have also experienced a high share of investment goods and strong export

growth.

An additional explanation for the better recent export performance of Germany and Austria lies in the more favourable evolution of their competitiveness. Outside the euro area, this is also the case for Sweden.

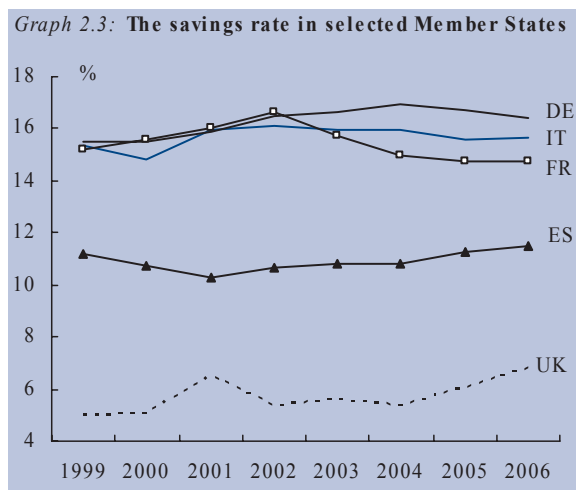
Overhang helps domestic demand growth in 2004

Domestic demand has remained weak in 2004. The relatively high annual growth rate foreseen for 2004 (1.9% in the euro area, 2.4% in EU) originates in the overhang from 2003. One-off increases in gross fixed capital formation and inventory building in the last quarter of 2003 were responsible for this.

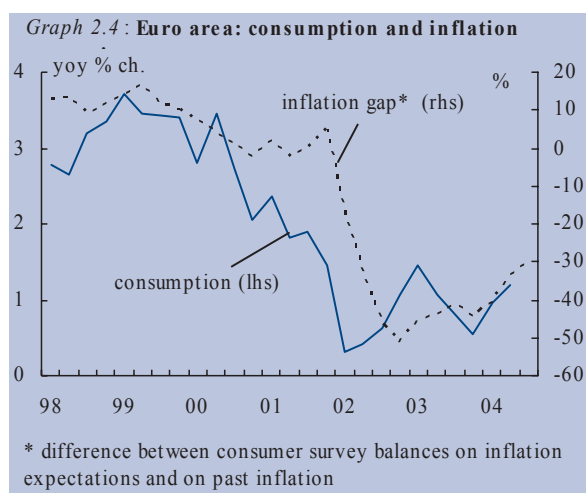
An uneven upturn in private consumption

Recent developments in private consumption have been weak and rather uneven. In both the euro-area and the EU, an apparent revival in the first quarter of this year did not persist. The evolution of private consumption expenditure has also been different across Member States. Over the last four quarters, the average growth rate of private consumption surpassed its long-term average in the majority of EU Member States. But the aggregates for the euro area and the EU were depressed by Germany and, to a lesser extent, Italy, the Netherlands and Austria.

However, a comparison with previous cycles has shown that, in those Member States with stronger growth rates, consumption growth in this upturn has not been as strong as would have been expected from previous experience.



In addition, in the period 2001-2003, consumption expenditure in the euro area was weaker than would have been predicted from the evolution of disposable income in a standard consumption equation. On the contrary, the household savings rate increased, although more recently there have been signs that the savings rate is stabilising.



Aggregate savings developments also hide divergent evolutions in individual Member States. The euro-area aggregate is heavily influenced by developments in France, where the savings rate declined substantially, from 16.6% in 2002 to an estimated 14.9% in 2004. This coincided with a release of pent-up demand, as illustrated by the 7.7% y-o-y increase in consumption of durable goods during the first eight months of 2004.

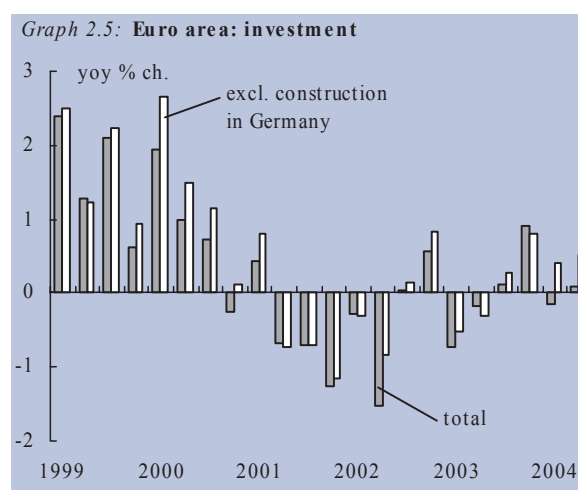
However, this experience has not been replicated in other Member States (apart from Belgium, Greece, Poland and Sweden). It appears that, notwithstanding the very low level of real interest rates, concerns about pressures on pension systems and public finance developments are keeping the savings rate at an elevated level. Moreover, the remaining gap between inflation expectations and past inflation perceptions in the consumer survey results suggests that, in some Member States, consumption might still be affected by unrealistic inflation perceptions.

Wealth effects, originating in divergent developments in the housing market, may provide an additional explanation for the divergences in savings and consumer behaviour (more on this in Section 2) across Member States.

A moderate recovery in investment

With the exception of the last quarters of 2002 and 2003, euro area investment has been very weak over the last three years. Investment was somewhat stronger outside the euro-area¹, in particular in the Czech Republic, Denmark, Cyprus, Lithuania and the United Kingdom.

The analysis in Section 2 of this chapter suggests that, for the past year, the overall financial situation of EU companies can no longer be viewed as holding back investment.

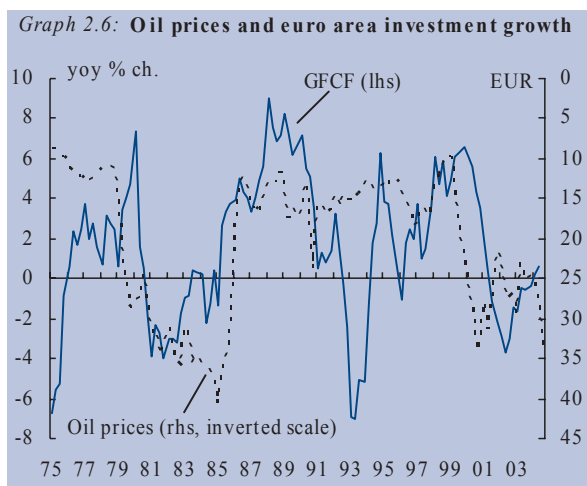


Before turning to the possible causes of investment weakness, a qualification is necessary. The structural decline of the construction sector in Germany is depressing overall euro-area investment. At its zenith in mid-1994, construction investment in Germany accounted for 25.5% of total euro-area investment (construction plus equipment). Since then, construction investment in Germany declined on average by 0.6% q-o-q, while euro-area investment excluding construction in Germany increased by 0.8% q-o-q. Although, over the last four quarters, euro-area investment excluding construction in Germany has shown consecutive positive quarterly growth rates, its pace is still very subdued: 0.5% q-o-q on average. While this rate is just above its long-term average growth rate, judging from previous cycles, a more dynamic pace would be expected during the upturn.

The weakness of euro-area investment in recent years is probably also linked to the poor performance of labour

¹ Among those Member States that publish quarterly national accounts.

productivity growth (0.8% on average over 1996-2003, against 1.2% in EU). Over the forecast period, however, investment should be supported by a recovery in productivity. Appropriate reforms in product and labour markets could lift productivity even further.



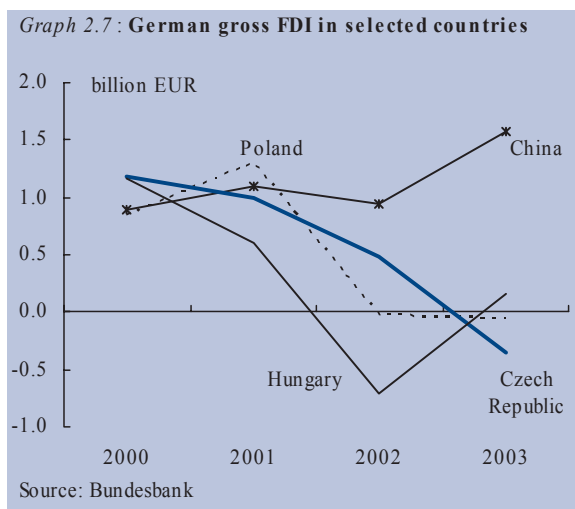
Another factor that has limited gains in corporate income and profitability of EU firms is the increase in energy prices. The fact that markets no longer consider the oil price increase to be a temporary event does not bode well for the future. The persistence of a much higher equilibrium oil price affects the future profitability of firms' investment projects, not only from the cost perspective, but also on the revenue side, as the higher oil price will weigh on overall demand.

Finally, delocalisation is often cited as a possible explanation for the weakness of investment in the euro area. The argument is that euro-area multinationals are investing in low-wage destinations such as China and the recently-acceded Member States rather than in euro-area countries.

It is, however, difficult to assess the extent to which euro-area firms invest abroad to the detriment of investment at home. In the case of dynamic economies, such as China and most recently-acceded Member States, the motive of bringing production closer, in geographical terms, to fast-growing consumption, seems to be a main driver of foreign direct investment (FDI). The cost motive behind FDI, on the other hand, will only play a role in those activities where third countries are able to reach a sufficiently high relative productivity level.

In any case, a gradual form of delocalisation should not be viewed as a negative development for euro-area

economies. It raises disposable income abroad and, as a result, expands export markets for the euro area. Moreover, low-wage countries export products at low prices, thereby raising the purchasing power of euro-area buyers of these products.



Industry rides the global wave

As the most open sector of the economy, the industrial sector usually benefits most from the strength of the international environment. As a result, the gross value added of the industrial sector has posted satisfactory growth rates more recently. But the services sector has also performed well so far in 2004, even the large sub-sector including the retail trade and transport sectors which, up to the first quarter, was probably not much affected by the rise of the oil price, mainly because of the strong euro. In the euro area, the strength of the services sector seems to be at odds with survey results, which did not rise much.

Table 2.2
Sectoral breakdown of quarterly growth - EU-25

(Season. & working day adj.)	Quarterly % change			
	03Q3	03Q4	04Q1	04Q2
GDP	0.6	0.5	0.7	0.6
Agriculture	-0.4	1.1	2.1	0.2
Industry	0.8	0.6	0.9	1.2
Construction	0.3	0.4	0.3	0.6
Wholesale and retail trade	0.7	0.2	1.0	0.7
Financial intermediation	0.7	0.4	0.6	0.8
Public administration and defence	0.3	0.5	0.3	0.6

Box 2.1: Some specificities behind the forecasts

Exchange rates

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

The reference period used for the exchange rate constancy assumption is the average exchange rate of 27 September to 8 October 2004, which is attributed to the fourth quarter of 2004. The average USD/EUR rate for that period was 1.23 and the JPY/EUR rate 136.6. This leads to implied average USD/EUR rates of 1.23 in 2004 and 1.24 in 2005 and 2006, and average JPY/EUR rates of 134.3, 133.9 and 130.1, respectively, in 2004, 2005 and 2006.

For the remaining recently-acceded Member States, currencies are treated according to their policy regimes. Hence for currencies pegged to a basket (Latvian lat and Maltese lira), the future rate is deduced from the evolution of the currencies constituting the basket.

Interest rates

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

Commodity prices

Commodity prices are forecast taking into account market conditions. In the case of oil prices special attention is paid to futures prices. Prices for Brent oil are, accordingly, projected to be 39.3 USD/bl in 2004, 45.1 USD/bl in 2005 and 40.1 USD/bl in 2006.

Prices of primary commodities, excluding fuels, are assumed to increase by 12.9% in 2004, to decline by 2.9% in 2005 and to remain almost stable in 2006. The strongest price increases in 2004 apply to the group of metals, with a 36% annual rise. In 2005, the prices of all groups, except for fuel products and metals, are expected to decline compared to 2004.

Budgetary data

Data for 2003 are based on the Excessive Deficit Procedure notification, submitted by the Member States in September 2004. This information is found in a Eurostat Report of 23 September (press release 117/2004). For year 2004, the budgets and information on the execution of these budgets are taken into account. For 2005, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2006, the "no-policy change" assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail at the time of the completion of the forecast.

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

Calendar effects on GDP growth and output gaps

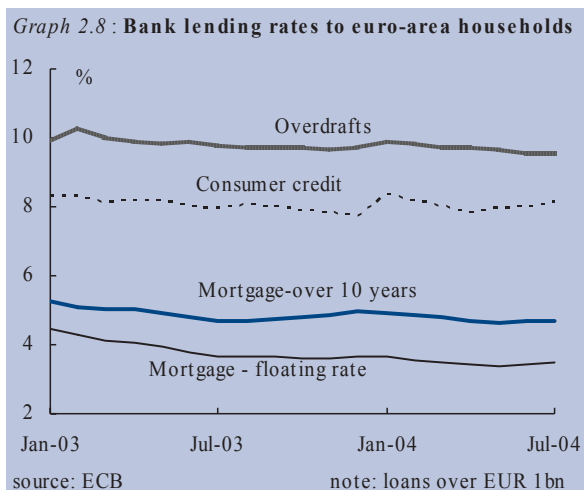
Year 2004 is a leap year. The addition of one extra working day implies that EU annual output increases, other things being equal, by about 0.3 of a percentage point. Annual GDP figures are not adjusted for the number of working days, while quarterly national accounts figures of most countries are. This implies that the simple addition of the four quarters of a single year may not add up exactly to the annual figure. Moreover, the calculation of potential GDP, from which the output gap is derived, does not involve any adjustment for the number of working days in the leap year, because this is considered to be a temporary phenomenon, which should not affect the cyclically adjusted balances that are calculated using these output gaps. Hence, for 2004, any increase in the negative output gap would be larger in the absence of this calendar phenomenon.

2. Financial conditions in the EU non-financial private sector

Financial conditions exert a crucial influence on short- and medium-term developments in the real economy. This section reviews the financial health and the evolution of financing of the corporate and household sectors, and their potential implications for investment and consumption spending.

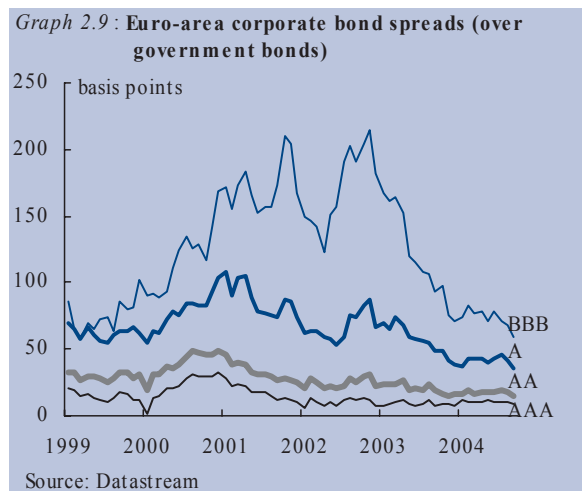
Non-financial corporations

The EU corporate sector has continued to benefit from low financing costs in 2004: equity prices, after the rise in 2003, have fluctuated in a relatively narrow range; short- and long-term bank lending rates have remained low in absolute levels and in real terms; and corporate spreads have moved only marginally above the end-2003 historical lows.



Companies have used the availability of funding at low interest rates mainly to improve the structure of their debt and to reduce financing costs. The distribution of corporate bond issuance over the past twelve months suggests that companies had satisfied most of their investment funding needs by the end of 2003, in anticipation of higher interest rates in 2004. While gross issuance of corporate bonds has continued to grow, net

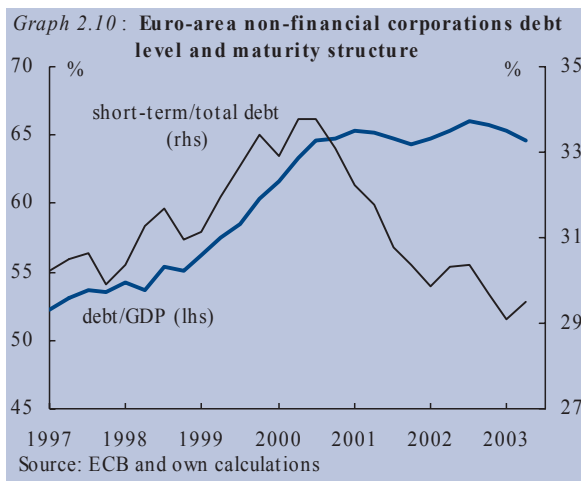
issuance has fallen sharply in the first half of 2004 relative to the corresponding period of 2003. Efforts to reduce debt levels have also been made with companies disposing of core assets and using their expanding cash balances - due to earlier cost-cutting and stronger profits - to finance buy-back transactions.



As a result of these efforts, the ratio of debt to GDP in the euro-area non-financial corporate sector started to decline in the second half of 2003 (though it remains high at around 65%), the average maturity of corporate liabilities has been lengthened, and the debt/equity ratio has diminished substantially from the peak in early-2003 (though only to the levels of mid-2002). Moreover, the recovery in profitability, which began at the end of 2002, has now extended into 2004. While higher profits were initially generated almost exclusively by cost-cutting measures, revenues have been rising since mid-2003. Forecasts of market earnings have recently been revised downward but remain relatively upbeat.

These developments have been reflected in a general improvement in market indicators of corporate creditworthiness, such as spreads between corporate and government bond yields, and credit rating assessments. The ECB bank-lending survey for July 2004 showed a continuing fall in the percentage of banks reporting a tightening of corporate credit standards, with the balance reporting a net easing in conditions for the first time since the survey began in January 2003.

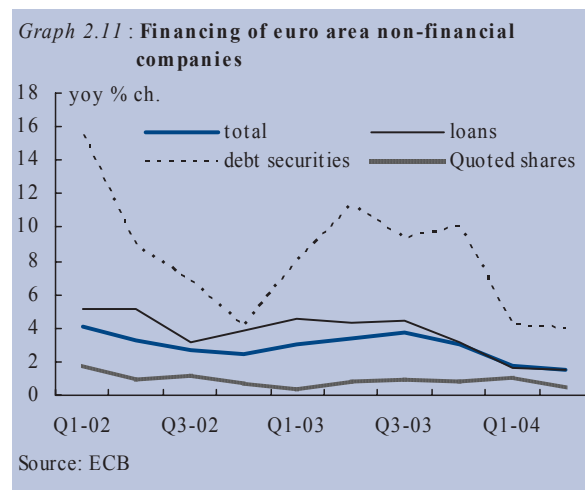
The exception to these generally favourable developments may be the small and medium-sized enterprise (SME) sector. The number of business failures amongst SMEs has continued to increase in some Member States. This probably reflects the fact that SMEs are typically unable to exploit directly favourable financial-market conditions, and are also likely to benefit less than large international companies from strong growth abroad. Successive ECB Bank Lending Surveys have shown tighter lending standards for SMEs than for large companies, though the latest survey (July 2004) has pointed to a substantial easing of standards in the second quarter 2004, and to a pronounced increase in loan demand from SMEs.



Favourable financing conditions and improved profitability have not yet translated into a sustained increase in investment expenditures. After a brief pick-up in the fourth quarter of 2004, capital spending in the euro area slowed down in the first half of 2004, and as such might be the primary factor behind the deceleration in debt financing in recent quarters.

The aggregate picture hides substantial differences in the financial behaviour of the corporate sector across

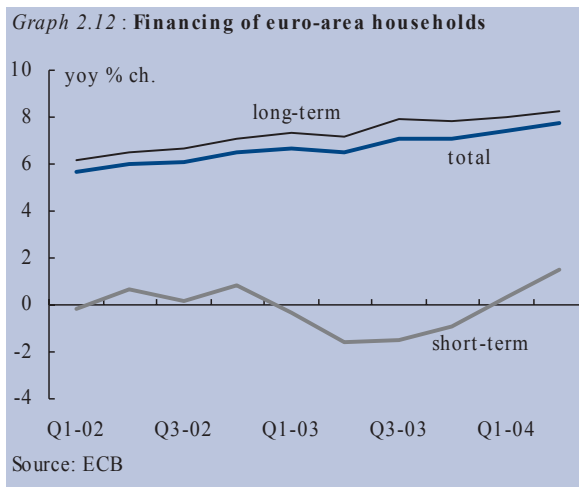
Member States. In Germany, where the need to repair balance-sheets was perhaps relatively more acute, non-financial corporations ran a financial surplus in both 2002 (0.6% of GDP) and 2003 (0.2% of GDP). Surpluses were achieved largely by cutting investment expenditures. Moreover, German companies have increasingly financed their reduced investment expenditures from internal funds (86.1% in 2003, up from 50.1% in 2000). In France and Italy, companies have continued to be net borrowers, while the financial surplus of companies in the United Kingdom has reached a ten-year high, due to lower investment spending, rising profits and dividend cutbacks.



On the whole, the overall financial situation of EU companies clearly improved in the past two years with respect to 2001-2002. Even though levels of debt and capital gearing ratios remain high and some further balance sheet adjustment cannot be excluded, non-financial corporations are currently able, on average, to access external finance at low costs. Moreover, many companies have been accumulating unusually large amounts of liquid financial assets, to the point of coming under pressure to give part of them back to shareholders. Accordingly, the source of the current weakness in investment seems more likely to be found in uncertainties concerning the medium-term demand outlook. In this context, investment plans could be further scaled down if external demand were to falter and/or if the euro were to appreciate further (denting exporters' profit margins). Rising commodity price and reduced scope for cost-efficiency improvements could also be weighing on investment prospects.

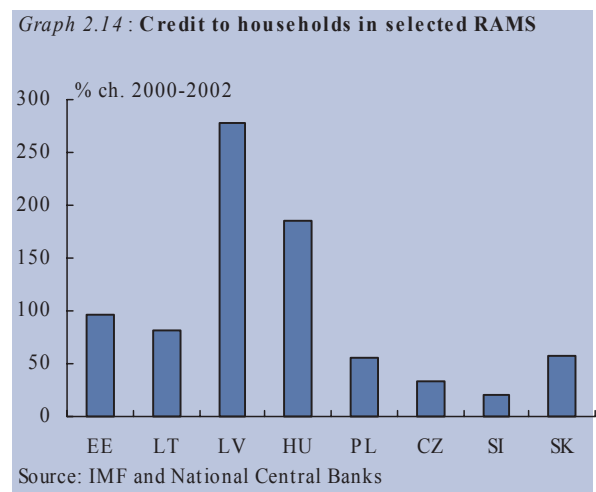
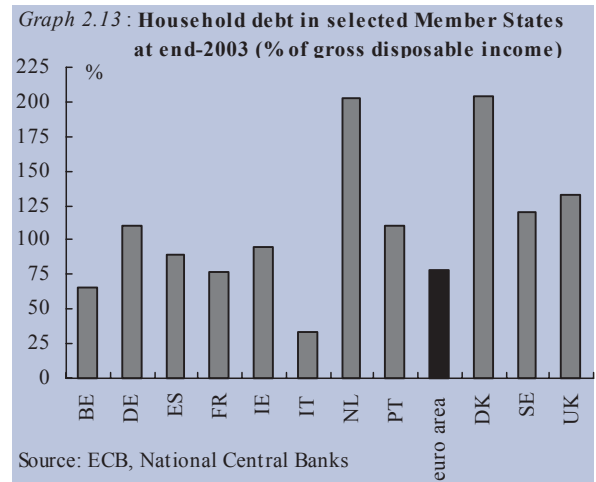
Households

Household borrowing in the EU has continued to expand at a brisk pace, supported by the low level of interest rates. The annual growth rate in household borrowing in the euro area accelerated to 7.3% in July 2004, up from 6.4% in December 2003. Including also loans originating from financial institutions other than euro-area MFIs, the dynamics of household debt is even stronger (for instance, the annual growth rate of this wider aggregate in Q1-2004 was 7.4%, as compared to 6.6% for euro-area MFI loans). Loans for house purchases have remained the most dynamic component of total borrowing, reaching an annual growth rate of 9.2% in July 2004. Credit standards applied to housing loans eased during the second quarter of 2004, and loan demand has remained strong, according to the ECB bank lending survey in July 2004.



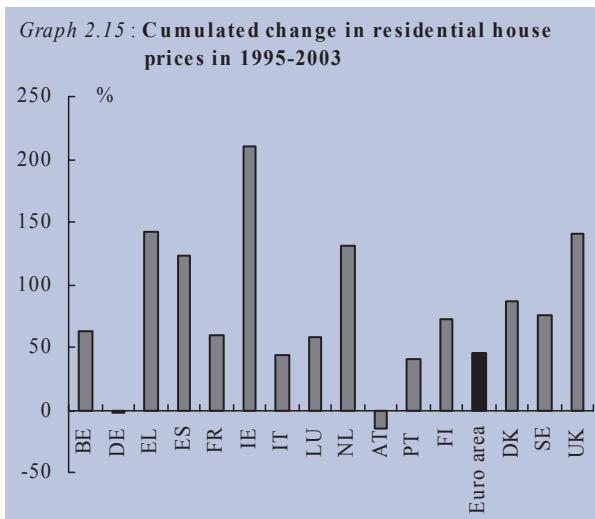
Consumer credit has also accelerated in 2004, consistent with the moderate revival in private consumption. As a result, the stock of euro-area household debt now exceeds 80% of disposable income and 53% of GDP. While these levels are not particularly high by international standards, the degree of dispersion within the euro area (and the EU more generally) is high. In particular, the debt-to-disposable-income ratio is well above average in the Netherlands, Portugal, Germany, Ireland and Spain. Households borrowing has been growing fast also in non-euro-area Member States. Debt-to-disposable-income ratios are high in the United Kingdom, Denmark and Sweden. In contrast, household debt ratios are generally relatively low in the recently-acceded Member States, reflecting a

less advanced state of financial intermediation, but borrowing is expanding at a very rapid rate.



House price inflation has continued at a relatively rapid pace on average but seems to have peaked in some Member States. In the euro area as a whole, house prices rose by more than 7% in both 2002 and 2003. While house prices have been decelerating in the Netherlands, Greece and Portugal, they have been accelerating in Italy and France. In the United Kingdom, house price inflation seems to be slowing, in response to successive interest rate hikes. Nevertheless, house price levels remain high and buy-to-let-mortgages have become increasingly common. In general, the outlook for house prices in each Member State hinges on a number of country-specific factors, including the degree of overvaluation of current prices,

the relative evolution of supply and demand for houses, household income growth, and the sensitivity of house prices to interest rates.



So far, high levels of indebtedness have not given rise to solvency concerns, because the net worth of households is generally positive and debt-servicing costs have been limited by low interest rates. Nevertheless, high debt ratios constitute an element of fragility with respect to changes in asset prices, income or interest rates. In particular, a rise in short-term interest rates would reduce disposable income of

households with variable-rate mortgage contracts. In this respect, it is noteworthy that the share of flexible interest rate mortgages in the euro area has been rising in recent years (to 55% of new loans for house purchase in recent months).

In some countries, the combination of record high debt levels and house prices raises concerns for the potential consequences of the expected slowdown in house prices. In a context of rising interest rates and low inflation, even the possibility of declines in nominal house prices cannot be excluded. To the extent that a positive housing wealth effect has supported consumption in some Member States in recent years, the opposite effect might also act as a drag on consumption growth. For instance, a negative housing wealth effect seems to have contributed to depressing consumption in the Netherlands. Structural factors and the sharp rise in both house prices and household debt in the United Kingdom, Ireland, Spain and Sweden imply some risks to demand from the housing market in these countries. However, the aggregate effect in the EU as a whole is likely to be contained, as house price inflation has been relatively moderate in the larger euro-area Member States (and consequently prices are generally not considered to be overvalued) and price cycles have not been fully synchronised.

3. Consolidation of growth over the forecast horizon

Downward revision for 2005

Although the growth outcome for the whole of 2004 is likely to exceed the expectations set out in the spring, the growth momentum envisaged for the second half of 2004 is weaker than anticipated in the spring. The effect of the continued rise in oil prices has led to a downward revision of the projected annual growth rate in 2005. Although the growth rate projected for 2006 is close to that of 2005, its composition is slightly different: domestic demand is set to become somewhat stronger and the external contribution turns slightly more negative.

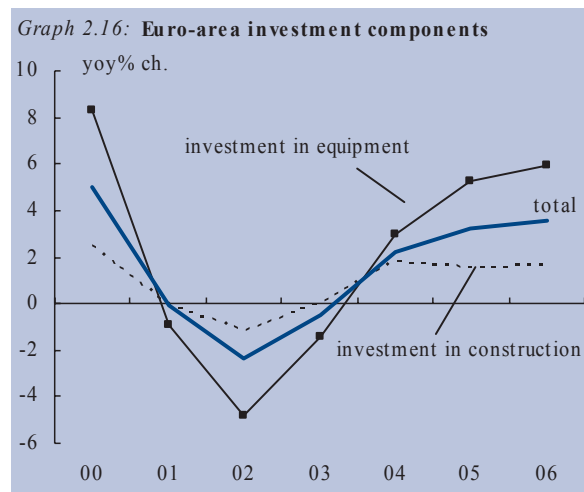
Domestic demand takes over from 2005 onwards

EU exports are set to decelerate marginally in 2005, as the slowdown in exports of goods is partly compensated by an acceleration in services. Import growth is expected to remain almost unchanged over the forecast horizon, in line with final demand. The net external contribution turns negative from 2005 onwards. A pick-up in employment and investment should transform the current externally-led recovery into a self-sustaining one.

In the euro area, domestic demand is set to be supported by an acceleration in its two main components, namely private consumption and gross fixed capital formation. Outside the euro area, domestic demand should decelerate in 2005, mainly due to developments in the United Kingdom. Nevertheless, domestic demand in the EU is expected to grow at a robust 2.4-2.6% during the forecast period.

Private consumption growth should be underpinned by an increase in real disposable income, originating in a pick-up in employment and real wages, and a slight decrease in inflation. Encouraging labour productivity developments, the improved overall financial situation of EU companies and an increase in demand are expected to stimulate investment in equipment during

the forecast period. After three years of stagnation or decline, euro-area investment in construction is set to grow again in 2004. This is the case for all euro-area Member States, except Germany.



Risks

Recent indicators, while not consistently positive, confirm the robust momentum in the major economies. The synchronised nature of the global upturn has increased its sustainability and created an upward risk to the export forecast. However, higher and volatile oil prices and other commodity prices might put a damper on global growth. The US economy, which has remained the major driver of global growth, is characterised by long-standing macro-economic imbalances that may act as a brake on growth later in the forecast period.

The global current account imbalances may give rise to large exchange rate adjustments. A renewed sharp appreciation in the euro exchange rate could undermine activity mainly in the euro-area manufacturing sector.

On the other hand, any further appreciation would ease inflationary pressures and, accordingly, raise real disposable income.

Consumption

A faster-than-expected decline in inflation would be supportive for real disposable income growth and, most likely, for consumption growth. Such a scenario could occur through favourable developments in commodity and food prices. However, a continuation of the upward trend in oil prices poses a downward risk to consumption. The recovery in employment, foreseen for 2005 and 2006, is not very rapid. A more pronounced pick-up in cyclical productivity would constrain employment growth.

The wealth effect of the rise in stock markets since the end of the war in Iraq may turn out to be larger than expected. Much will depend on households' assessment of the stabilisation in stock markets since March 2004. In some Member States, the combination of record high debt levels and house prices raises concerns for the potential consequences of the expected slowdown in house prices.

To the extent that a positive housing wealth effect has supported consumption in some Member States in recent years, any possible correction in housing markets due to overheating could act as a drag on consumption growth.

Investment

While investment is being supported by favourable financing conditions and positive developments in earnings and profitability, the high oil price and the hesitant nature of the recovery in consumer demand may be holding back investment plans. Visible progress in product and labour market reforms, on the other hand, could boost confidence and increase the expected productivity and profitability of new investment.

It should also be recognised that technical progress, specifically in information and communication technology, has shortened the average life-cycle of productive equipment, increasing the need for replacement investment.

Table 2.3

Composition of growth - EU-25

	2003		Autumn 2004							
	bn Euro curr. prices	% GDP	1999	2000	2001	2002	2003	2004	2005	2006
			Real percentage change							
Private consumption	5815.4	58.5	3.6	3.1	2.0	1.4	1.5	2.0	2.0	2.2
Government consumption	2088.3	21.0	2.0	2.2	2.5	3.1	1.9	1.8	1.3	1.7
Gross fixed capital formation	1906.1	19.2	5.2	4.8	0.3	-1.4	0.0	3.2	3.8	4.0
Change in stocks as % of GDP	10.0	0.1	0.4	:	:	:	:	0.2	0.3	0.3
Exports of goods and services	3460.2	34.8	5.2	12.1	3.3	1.8	0.9	6.5	6.5	6.1
Final demand	13279.9	133.5	3.9	5.5	1.9	1.2	1.4	3.9	3.9	4.0
Imports of goods and services	3335.9	33.5	7.1	11.1	2.1	1.4	2.3	6.3	6.6	6.5
GDP	9944.0	100.0	2.9	3.6	1.8	1.1	1.0	2.5	2.3	2.4
GNI	9888.7	99.4	2.9	3.6	1.7	1.1	0.8	2.6	2.3	2.5
p.m. GDP euro area	7265.8	73.1	2.8	3.5	1.6	0.9	0.6	2.1	2.0	2.2
	Contribution to change in GDP									
Consumption			2.5	2.3	1.7	1.4	1.3	1.5	1.4	1.6
Investment			1.1	1.0	0.1	-0.3	0.0	0.8	0.9	1.0
Inventories			-0.1	0.0	-0.5	-0.1	0.2	0.2	0.1	0.1
Exports			1.7	4.2	1.2	0.7	0.4	2.5	2.6	2.5
Final demand			5.2	7.3	2.5	1.7	1.9	4.8	4.9	5.0
Imports (minus)			-2.3	-3.7	-0.8	-0.5	-0.9	-2.4	-2.6	-2.6
Net exports			-0.5	0.4	0.5	0.2	-0.5	0.0	-0.2	-0.4

4. A mild acceleration of employment growth

A resilient labour market

Over the past two years, employment developments in the EU have been subdued, a lagged response to the prolonged economic slowdown of 2001-2003. Year-on-year employment growth decelerated from 1.4% in 2001 to just 0.2% in the euro area in 2003 and from 1% in 2001 to 0.3% in the EU. On the other hand, structural labour market adjustments in the recently-acceded Member States, on top of the cyclical impact of the slowdown, have led to a decline of employment by 0.5% between 2001 and 2003.

In the euro area and the EU, employment came to a standstill in the second half of 2002. Total employment remained virtually unchanged in the two regions last year and developments this year do not indicate any noticeable pick-up. In the first half of 2004, the level of employment was practically flat in the euro area. At the Member State level, available hard data for the second quarter are more mixed but remain consistent with sluggish employment growth in the region as a whole. Employment rose in Spain and Italy, but declined marginally in both Germany and France.

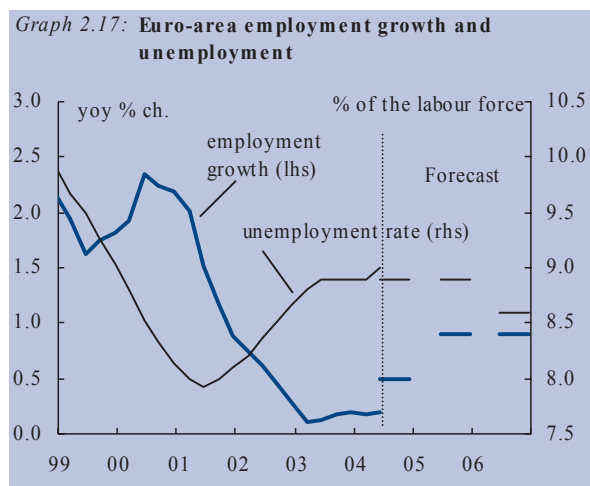
Subdued short-term employment prospects

Survey data for the second and third quarters of 2004 suggest that employment conditions may now be somewhat better than at the beginning of the year. According to the PMI for the manufacturing sector, the assessment of employment conditions improved in the second and third quarters compared to the first. Moreover, the closeness of the index to the 50 mark (which is interpreted as separating expansions from contractions) would appear to presage no further job losses in the sector. Similar developments are detected in employment expectations in the Commission's industry survey. However, the volatility of recent data suggests that the improvement should be interpreted with due caution.

A modest improvement of employment expectations is indicated also in the services sector, according to the PMI and the Commission's business survey data. While both indicators track actual developments in

employment relatively well, they are still consistent with weak short-term employment prospects. Furthermore, according to the Commission's survey data, a gap has built up over the summer between companies' expectations and their assessment of the recent past, showing that current employment developments have recovered more slowly than expectations. Overall, a significant acceleration of employment growth during the second half of the year appears unlikely.

Sluggish labour market developments for the remainder of this year are also supported by data on unemployment expectations. Households' unemployment expectations deteriorated in the second quarter of 2004 and, despite the fact that households were more optimistic in the third quarter concerning their labour market prospects, the current level of unemployment expectations remains above its long-term average.



All in all, for the year 2004 as a whole, employment growth is estimated at 0.5% in the euro area and 0.4% in the EU. In absolute terms, this translates into 0.6 million new jobs in the euro area and 0.8 million in the EU. This year, France, Finland and the Netherlands are set to experience negative employment growth. Germany should see a return to positive employment

growth, although this is likely to remain weak given the export-led nature of the recovery. In contrast, employment is projected to remain dynamic in Greece, Spain, Ireland and Luxembourg. Outside the euro area, employment growth should remain above the EU average in the UK and should be relatively stronger in the smaller recently-acceded Member States. On the other hand, employment is set to fall in the Czech Republic, Poland and Sweden.

As a result of job creation, which is projected to rise in line with labour supply, unemployment is expected to remain stable this year (compared to 2003), in both the euro area and the EU. Total unemployment in the euro area is estimated at 12.6 million in 2004 (19.4 in the EU), an increase of about 0.1 million people in both the euro area and the EU compared to last year. It is anticipated that the unemployment rate will be 8.9% in the euro area and 9.1% in the EU. However, a deceleration in the unemployment rate is expected in Greece, Spain, Ireland, Italy, Austria, Finland and, among the EU non-euro-area Member States, in Estonia, Cyprus, Latvia, Lithuania, Poland, Slovenia and the UK.

A mild acceleration in employment in the medium-term

The outlook for employment for 2005 and 2006 is more encouraging. However, although the consolidation of the recovery does not pose any apparent obstacle to employment growth in view of the usual lagged response of the labour market to the economic cycle, the pattern of employment growth is likely to remain softer compared to previous business cycle recoveries. Various elements contribute to a relatively subdued medium-term outlook.

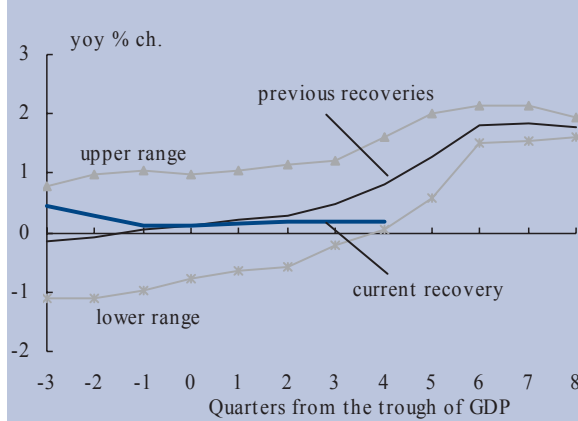
On the positive side, employment growth is expected to benefit from the shift in the sources of growth over the forecast period. Compared to 2004, GDP growth in the coming two years is projected to be more broad-based with a higher contribution from domestic demand and a reduction of the strong contribution from net trade. This change in the composition of growth is likely to increase the employment content of the recovery.

Weak job creation ahead?

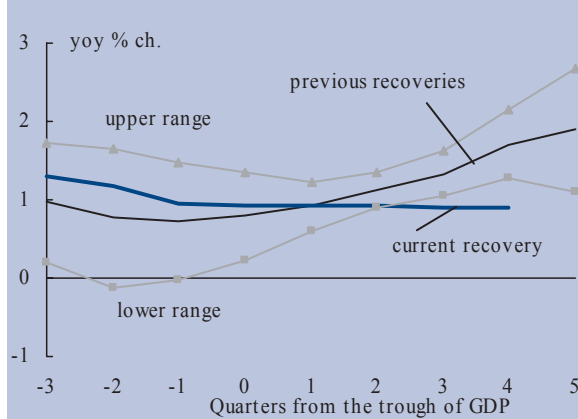
However, offsetting elements are also in place. First, employment was unusually resilient during the last downturn and did not contract either in the euro area or in the EU. The initial response of firms to the slowdown

was to cut back on capital spending rather than on their wage bill. Labour cutbacks emerged once the downturn became more protracted and expectations concerning its length changed. Some labour-hoarding may have taken place as suggested by the stronger deterioration in the cyclical component of labour productivity compared to previous slowdowns.

Graph 2.18: Euro-area employment growth in different recoveries, total economy



Graph 2.19: Euro-area employment growth in different recoveries, services sector



One possible consequence of employment resilience in the slowdown is a more muted response in the upswing. In fact, the pick up of employment appears to be somewhat weaker compared to past business cycle phases. In addition, the pattern of employment creation is more subdued in those sectors, such as financial intermediation, which were less severely hit in the downturn. The hypothesis of modest future job creation finds additional support in the observation that the

current unemployment rate is only slightly higher than the structural unemployment rate. This suggests that there is only little labour market slack to be unwound during the recovery.

Second, recently, plant-level agreements have taken place in a few countries to extend the working week in order to cut costs and reduce the likelihood of outsourcing of economic activities, in particular to East-Asia and the recently-acceded Member States. While such arrangements have implications for the medium- to long-term growth outlook (in the context of population ageing), they also indicate a possible reversal of Europe's negative trend in working hours or, at least, a trend deceleration. Other things being equal, this would imply a milder increase in the number of persons employed.

Third, the improved job performance in the euro-area labour market since the mid-1990s has been associated, inter alia, with the adoption of more flexible labour market contracts and a reduction of the tax burden of labour, which have led to an increase in part-time work and fostered the incorporation of low-skilled people in the labour force. While these changes are not expected to be reversed over the forecast horizon, they are likely to continue at a less rapid pace, thereby slowing down employment growth and accelerating productivity.

Fourth, following a prolonged period of subdued capital spending, investment in 2005 and 2006 is expected to increase capital-labour intensity in the economy. This would also contribute to rising labour productivity and a decline in recruitment.

The above-mentioned factors imply that a slow progression of employment can be expected over the forecast period. Overall, employment is projected to rise in the euro area by 0.9% in both 2005 and 2006 and by 0.7% and 0.8%, respectively, in the EU. Despite the gathering pace of employment creation in most euro-area countries, employment growth is predicted to remain rather weak in Belgium, Germany, France, Italy, Austria and Finland. A rate of net job creation significantly above the euro-area average is anticipated only for Spain, Ireland and Luxembourg. Outside the euro area, employment developments are expected to differ significantly across countries. The level of employment is set to remain unchanged in the Czech Republic and employment growth is expected to be weak in Denmark, Estonia, Latvia, Hungary, Malta, Slovenia and the UK. By contrast, the strongest employment gains are estimated for Cyprus, Lithuania

and Poland. In the latter, employment growth is expected to return to positive territory after five years of contraction.

Labour force participation is expected to rise by almost 1 million people in the euro area and almost 1.9 in the EU as a whole, over the period 2005-2006. As labour supply is projected to increase by somewhat less, the unemployment rate is set to decline in both regions. It is projected at 8.9% in the euro area in 2005 (9.1% in the EU) and 8.6% in 2006 (8.8% in the EU). Unemployment rates in Germany, Greece, Spain and France are expected to remain above the euro-area average. Among the recently-acceded Member States, the dispersion of unemployment rates is, not surprisingly given their catching-up status, wider than within the euro-area, ranging from above 15% in countries such as Poland and Slovakia, to around 8-10% in the Czech Republic and the Baltic countries and between 4% and 6% in Cyprus, Slovenia and Hungary. The structural component of the unemployment rate is projected to decelerate from 8.4% in 2004 to 8.2% in 2006 in the euro area and to stabilise around 8.7% in the EU as a whole.

Limited progress towards the employment rate targets of the Lisbon Agenda

The structural employment rate in the EU15, defined as the share of employed in the total population of the 15-64 age group, is estimated at 64.7% in 2004 and is forecast to rise to 65% in 2005 and 65.4% in 2006. On this basis, the employment rate would remain below the intermediate target for 2005 (67%). Cross-country differences in employment rates remain wide. In some Member States (Denmark, the Netherlands, Austria, Portugal, Finland, Sweden and the UK), employment is expected to remain above 67% of the working population in 2005. However, the four largest euro-area Member States (Germany, France, Italy and Spain) are not expected to reach the overall target by 2005.

To meet the Lisbon 70% employment target by 2010, the total employment rate in the EU15 would need to increase by more than 5 pp. This would require an average annual growth rate above 1%, based on the optimistic assumption that the working-age population remains unchanged over this period. However, an annual growth rate in excess of 1% is higher than that recorded in 2000-2003 period.

5. Inflation below 2% in the medium term

Various factors behind inflation persistence

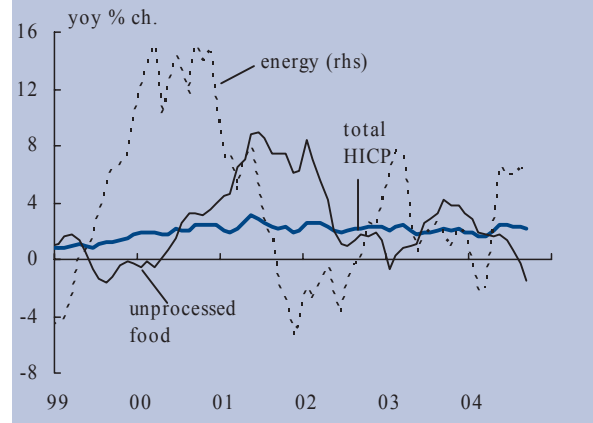
Over the last four years - between August 2000 and August 2004 - the annual rate of HICP inflation in the euro area remained for the most part at or above 2%. Between 2001 and mid-2003, the region also experienced a prolonged economic slowdown, while the nominal effective exchange rate of the euro appreciated from the second half of 2002 onwards. Despite the potential disinflationary impact of these two factors, inflation in the euro area has remained particularly sticky.

The persistence of inflation in the euro area is partly due to the occurrence of adverse shocks. These include, inter alia, the high food price inflation in 2001, the acceleration of food prices over most of 2003, the rise in administered prices and indirect taxes in several countries in 2003-2004, high oil prices in 2002 and the strong increase in oil prices since the beginning of 2004. In addition, labour productivity growth decelerated during the economic slowdown. With growth in compensation per head remaining broadly constant, this has exerted upward pressure on unit labour costs. The degree of inflation persistence was highest in the services sector due to the lower degree of competition and the higher influence of labour costs than in the industrial sector. Additional rigidities in the process of price formation, including the slow downward adjustment of import prices despite the appreciation of the euro, also contributed to the stickiness of inflation.

Inflation eased below 2% in early 2004 in both the euro area and the EU as a whole, but accelerated again between March and August to reach 2.3% in the euro area, before easing to 2.1% in September. The evolution of inflation in 2004 is attributable mainly to movements in energy prices and can be explained by two factors: first, the reversal of the favourable base effect that contributed to the decline in inflation in the first quarter of the year as oil and energy prices fell sharply after the start of the Iraq war; and second, the gradual transmission to consumer prices of the increase in oil prices over the past few months. By contrast,

developments in unprocessed food, the other non-core inflation component, have been decelerating since October 2003.

Graph 2.20: Euro-area total HICP, unprocessed food and energy inflation



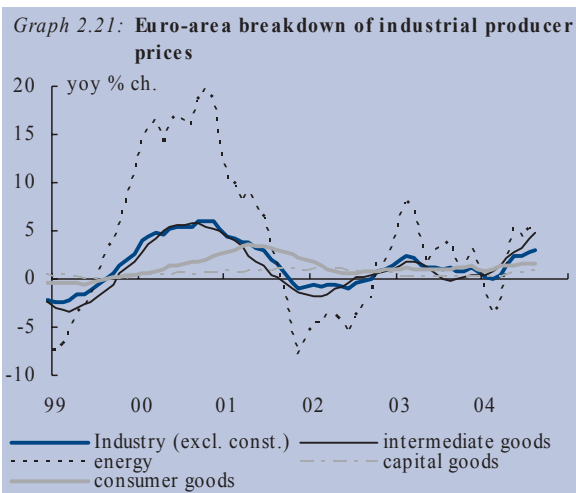
Core inflation (HICP excluding energy and unprocessed food) has also moved upwards, from 1.9% in January to 2.2% in August. The rise in underlying inflation is the result of higher processed food inflation in early 2004, stemming from increases in indirect taxes on tobacco in several Member States, combined with accelerating service inflation due to upward pressure from administered prices. In September, core inflation decelerated to 2%.

The euro area continues to be characterised by a broad dispersion of inflation rates, with the September data ranging from 0.2% in Finland to above 3% in Spain and Luxembourg. Headline inflation is currently above 2% in eight of the twelve euro-area countries.

Inflation outlook: Short-term upward revision due to energy prices

Updated information suggests that headline inflation may remain above 2% for longer than anticipated in the Spring 2004 forecasts. Developments in oil and energy prices are the chief elements behind the expected

upward shift in the profile for inflation over the coming months. With current oil prices close to 50 USD/bl., a rapid decrease is not anticipated in the near future. In the months to come, the direct impact of higher oil prices via the energy component of the HICP could be compounded by indirect effects on the prices of other goods and services through the effect of higher input costs for energy. There is some evidence of this effect already in producer prices. The latter have edged higher in the past few months not only because of accelerating prices in the energy sector but also reflecting increasing price pressures in the intermediate goods sector.



In addition to the direct and indirect effects mentioned above, higher oil prices could have a further impact on inflation. If workers attempt to recoup past losses in purchasing power, the result could be a wage-price spiral triggered by rising wage claims and generally anticipated by an upward revision of households' inflation expectations. Reassuringly, second round effects from higher oil prices to heightened wage claims and accelerating final prices were limited during the 1999-2000 oil shock. Given the weakness of domestic demand and the slack in the labour market, wage claims are expected to remain moderate also at this juncture. In fact, recent developments in terms of labour costs and inflation expectations are fairly encouraging. The annual growth rate in compensation per employee remained unchanged at 2.1% in the first quarter of 2004, while unit-labour-cost growth was 1%, the lowest increase since 2000. Hourly labour costs growth was 2.2% in the second quarter of 2004, down from 2.7% in the first.

Evidence from inflation expectations is more mixed.

Household expectations of short-term inflation, as measured in the Commission's consumer survey, have not drifted upwards so far. Similarly, long-term inflation expectations reported by the ECB's survey of professional forecasters for the third quarter of this year remained unchanged at 1.9%. On the other hand, the survey reported an upward revision of short-term inflation expectations from 1.9% to 2.1% for 2004.

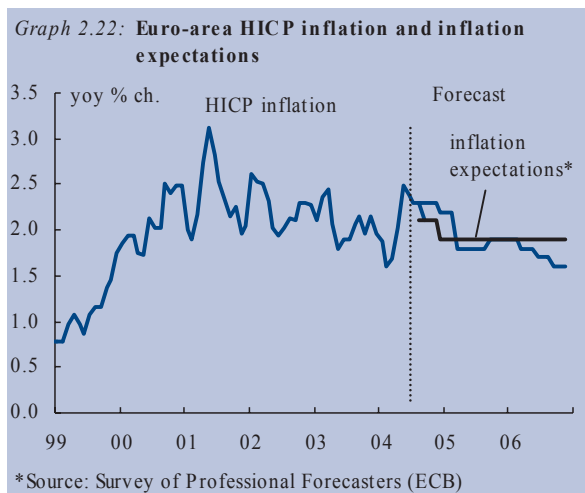
Overall, inflation in the euro area is expected to remain above 2% for the remainder of this year and the first quarter of 2005, mainly as a result of energy price developments. For 2004 as a whole, HICP inflation is estimated at 2.1% in the euro area and 2.2% in the EU. Compared to the Commission's Spring 2004 forecasts, inflation has been revised upwards in most euro-area countries. Greece is an exception due to lower-than-expected inflation recorded over the summer. Marginal downward revisions are envisaged also in the Netherlands and Finland. In Germany, France, Ireland, Luxembourg and Portugal, HICP inflation in 2004 has been affected by the impact of changes in indirect taxation and administered prices.

Moderate external and domestic price pressures in the medium term

Looking forward, inflation is expected to decelerate through 2005, falling from 2.2% in the first quarter of the year to about 1.8% in the remaining quarters. At the beginning, the easing of inflation results from the assumed deceleration of oil prices, which translates into lower energy inflation. Inflation in 2005 is also expected to benefit from lower rises in indirect taxes and administered prices compared to 2004. Overall, HICP inflation is projected at 1.9% in 2005 and 1.7% in 2006. The corresponding figures for the EU are 2.1% and 1.9%, respectively. On top of the dampening effect of the two above-mentioned factors, both external and domestic price pressures are expected to remain fairly weak over the forecast horizon.

Notwithstanding the acceleration of export prices in some important euro-area trading partners (US, Japan, UK), the impact of external price pressures on HICP inflation is forecast to remain moderate. During the course of 2005, inflation is expected to benefit from the lagged effects of the significant past appreciation of the euro, so that import prices will remain low, putting downward pressure on the overall inflation rate. The annual rate of change in import prices in the euro area is projected to decelerate from 1.5% in 2005 to 0.5% in 2006 (from 1.4% to 0.7% respectively in the EU).

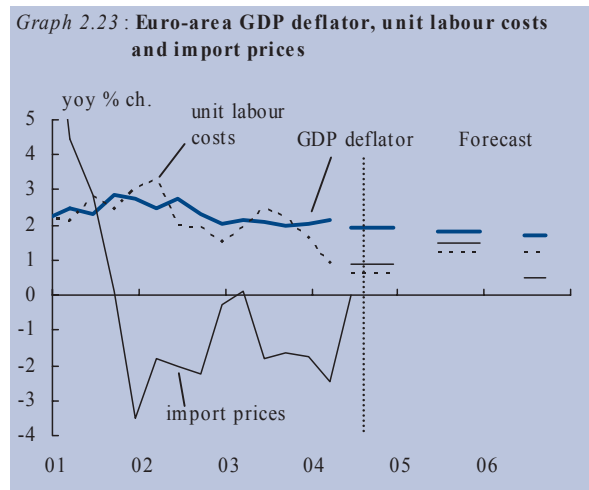
Accordingly, the rise in import prices is set to be significantly lower than the annual rate of change in the GDP deflator, which is forecast at 1.8% in 2005 and 1.7% in 2006. The corresponding figures for the EU are, respectively, 2% and 1.9%.



Domestic price pressures are also expected to remain subdued as a result of moderate wage growth and a limited acceleration in unit labour costs. Growth in compensations per employee is projected at 2.4% next year, rising marginally in 2006 to 2.5%. In the EU, the rate of change in nominal wages is forecast to be somewhat above 3% in both years. The relatively benign outlook for wage developments in 2005 rests on the hypothesis that the recent increase in oil prices will not produce significant second-round effects. In addition, the level of output in the euro area and the EU is projected to remain below potential in both 2005 and 2006, while the unemployment rate is expected to remain fairly stable over the forecast horizon. Hence, it is unlikely that wages will represent a significant source of inflationary pressure.

Finally, unit labour costs are expected to rise but at a moderate pace, benefiting from an improved pattern in labour productivity compared to the recent past (see also section 4 on the labour market). Labour productivity growth is forecast at just above 1% in both 2005 and 2006 in the euro area and at 1.6% in the EU in both years. This is slightly above the five-year average growth rate recorded in both regions during the previous business cycle, i.e. between 1996 and 2000. As a result, growth in unit labour costs is projected to be 1.2% in the euro area and 1.6% in the EU over the next two years. This evaluation implies increasing

profit margins as measured by the difference between the rate of change of the GDP deflator and that of unit labour costs.



At the Member State level, HICP inflation in 2005 and 2006 is forecast to remain low in Germany at around 1.2%, held down by weak domestic demand and relatively high unemployment. France should see inflation hovering around 2% next year and falling below 2% in 2006, although French services sector inflation remains relatively high. Inflation in Italy is forecast to remain above the euro-area average although moving below 2% in the second half of 2006. Services inflation remains high but relatively more moderate wage inflation compared to other euro-area Member States should lead to a decline in overall inflation. In Spain, inflation is also expected to decelerate, while remaining above the euro-area average as a result of relatively high growth in unit labour costs. By contrast, inflation in the Netherlands is set to benefit from a sharp contraction in unit labour costs. As regards the other euro-area Member States, it is anticipated that inflation will remain at or below 2% in Belgium, Austria and Finland. Greece, on the other hand, is expected to record the highest inflation rate, mainly reflecting the strength of domestic demand.

Outside the euro area, inflation in the UK is projected to rise, reaching 2% in 2006 (current Bank of England target). Among the largest recently-acceded Member States, Poland could experience inflation close or above 3% in both 2005 and 2006 on the back of the underlying strong recovery of the economy. In Hungary, inflation is set to decelerate markedly in 2005 and 2006 after being pushed up in early 2004 by large increases in energy and food prices. After a marginal

fall in the general price index in 2003, inflation in the Czech Republic is expected to average about 3% over the whole forecast horizon, largely reflecting rising unit labour costs. As regards the remaining recently-acceded Member States, the general picture is one of

decelerating inflation between 2004 and 2006. The exception is Lithuania, which experienced deflation in 2003.

Table 2.4

Inflation outlook - euro area and EU-25

(Annual percentage change)	euro area				Difference with Spring 2004		EU-25				Difference with Spring 2004	
	2003	2004	2005	2006	2004	2005	2003	2004	2005	2006	2004	2005
	Private consumption deflator	2.0	2.0	1.9	1.7	0.2	0.3	1.9	2.0	2.0	1.8	0.2
GDP deflator	2.0	1.9	1.8	1.7	0.1	0.2	2.2	2.1	2.0	1.9	0.0	0.1
HICP	2.1	2.1	1.9	1.7	0.3	0.3	1.9	2.2	2.1	1.9	0.4	0.3
Compensation per employee	2.6	2.2	2.4	2.5	-0.2	0.1	3.1	3.0	3.1	3.2	0.0	0.1
Unit labour costs	2.3	0.6	1.2	1.2	-0.4	0.2	2.3	0.9	1.6	1.6	-0.4	0.3
Import prices of goods	-1.6	0.9	1.5	0.5	2.1	0.9	-1.2	0.8	1.4	0.7	1.7	0.7

6. The recovery supports only modest fiscal consolidation in the euro area

Underlying deficits persist in the euro area

Following a moderate but non-negligible easing of fiscal policies since 2000, the recovery under way in the euro area since mid-2003 is expected to coincide with a modest discretionary tightening. As a result, the general government deficit is set to improve over the forecast period, from 2.9% of GDP in 2004 to 2.5% in 2006, while it is anticipated that the cyclically-adjusted deficit will improve by $\frac{1}{4}$ percentage point to 2.2% of GDP in 2006. The cyclically-adjusted primary balance is expected to also show a small improvement over the same period. It should be recalled that these figures and those that follow are based on current policies, that is, for most countries, they incorporate the measures announced with the budgets for 2005 but do not include possible budgetary adjustment measures for 2005 and 2006 beyond those resulting from policy decisions already taken.

High-deficit Member States struggling

While Member States with significant deficits remain committed to an adjustment of the order of $\frac{1}{2}$ % of GDP in cyclically-adjusted terms until the achievement of a budgetary position of close-to-balance, the forecast confirms the divide between those Member States that achieved the close-to-balance position during the previous upturn, and which are broadly set to maintain the medium-term objective (the deterioration of the budgetary balance in Austria being the most notable exception in this regard) and those Member States that failed to implement a timely adjustment and are obliged to struggle to approach a position of underlying balance.

Among the largest countries, which belong to the second group, some notable progress in this respect is expected to occur in Germany, although based on current policies the nominal deficit would fall below 3% of GDP only in 2006. By contrast, the reduction of the deficit in France to around 3% of GDP in 2005 is largely attributable to a sizeable one-off measure and

therefore is reversed in 2006. Finally, in Italy, where the breach of the 3% of GDP deficit threshold has been avoided so far only thanks to extensive recourse to one-off measures, based on current policies, the deficit could breach 3% of GDP this year and the next, and could increase significantly more in 2006, unless all announced consolidation measures are fully implemented.

Of the other countries, which currently have deficits close to or above the 3% of GDP threshold, only the Netherlands, where the breach of the threshold in 2003 coincided with a particularly severe recession, is set to regain a comfortable underlying fiscal position during the forecast period, on the back of the increasing strength of the recovery and decisive corrective action by the government. By contrast, in a situation of a persistently large negative output gap, structural adjustment is projected to stall in Portugal, leaving the country in a position in which only recourse to increasingly costly one-off measures can prevent a rebound of the deficit above the 3% of GDP threshold. In Greece, where successive rounds of statistical revisions have resulted in the highest budget deficit in the euro area, the deficit may fall to around 3% of GDP only by 2006 in a context of continued robust growth.

Trend reduction in revenues continues

The modest improvement in the fiscal position of the euro area reflects a reduction in the expenditure ratio (expenditure/GDP) that is in part offset by the continuation of a trend of decrease in the revenue ratio (revenue/GDP), which at the end of the forecast period is set to regain, at 45% of GDP, a level comparable to that prevailing before the Maastricht-induced adjustment.

Debt ratio in euro area to stay well above 60% of GDP

Reflecting the offsetting impacts of an only slightly smaller deficit and nominal GDP growth, the debt-to-

GDP ratio of the euro area is forecast to stay broadly unchanged during the forecast period at around 71% of GDP. Of the six euro-area countries currently with debt ratios in excess of the 60% of GDP threshold (Belgium, Germany, Greece, France, Italy, Austria), Belgium, Greece, Italy and Austria are expected to reduce their debt ratios during the forecast period. By contrast, the rise of the debt ratio is set to continue in Germany, France and Portugal reaching values around 65% of GDP at the end of the forecast period.

Diverse developments outside the euro area

Outside the euro area, the United Kingdom will probably reduce the deficit gradually from its expenditure-induced peak of 3.3% of GDP in 2003 with the help of buoyant growth, although both the current and the primary balances would remain in slight deficit throughout 2005, in both nominal and cyclically-adjusted terms.

In most of the new Member States with high deficits, fiscal consolidation could make headway during the forecast period, helped in some cases by a faster-than-expected resumption of growth at or above trend rates.

The fiscal outcomes foreseen for 2004 and 2005 are mostly in line with or sometimes in advance of current adjustment plans, with the deficit in Cyprus in particular falling to 3% of GDP threshold in 2005, broadly in line with plans. The forecasts for the deficits in 2006, even on an unchanged policy basis, also appear broadly in line with government plans, with the deficit in Poland approaching the threshold ahead of plans. The notable exception to this pattern of adjustment is Hungary, where the reduction in the deficit is now smaller than previously expected in spite of favourable growth conditions.

Latvia stands out as the only case among the recently-acceded Member States where a significant deterioration of the budgetary situation is projected based on current policies, with the deficit rising close to the 3% of GDP threshold already in 2004.

Table 2.5

General government budgetary position - EU-25

(% of GDP)				Autumn 2004			Difference with Spring 2004	
	2001	2002	2003	2004	2005	2006	2004	2005
Total receipts (1)	46.0	45.4	45.6	45.1	45.1	44.9	0.0	0.2
Total expenditure (2)	47.2	47.6	48.4	48.0	47.5	47.2	:	:
Actual balance (3) = (1)-(2)	-1.2	-2.3	-2.8	-2.8	-2.4	-2.3	-0.1	0.1
Interest (4)	3.6	3.3	3.1	3.0	3.0	3.0	:	:
Primary balance (5) = (3)+(4)	2.4	1.0	0.3	0.2	0.6	0.7	:	:
Gross debt	62.1	61.6	63.2	63.5	63.5	63.3	0.1	0.1
p.m. Actual balance euro area	-1.7	-2.4	-2.7	-2.9	-2.5	-2.5	-0.2	0.1
p.m. Primary balance euro area	2.3	1.3	0.7	0.5	0.8	0.8	-0.2	0.0
p.m. Cycl. adj. prim. balance euro area	1.7	1.2	1.3	0.9	1.2	1.1	-0.3	0.0

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

Chapter 3

Member States

1. Belgium

Steady growth but some challenges ahead

Economic recovery since the second half of 2003

After three years of weak economic growth, the economic activity in Belgium strengthened in the second half of 2003 and first half of 2004. Quarter-on-previous quarter GDP rose around 0.7% in these four quarters. In line with signs of a moderate slowdown in the international economy, some factors (namely survey data) have been pointing to somewhat lower economic growth in Belgium in the second half of the current year.

Both domestic and external demand have contributed to the recovery. In the first half of 2004 private consumption picked up substantially to 2.4% (year-on-year) as a result of higher employment and higher consumer confidence. Gross capital formation fell by 1.5% due to a reduction in corporations' investment but is expected to improve thanks to favourable domestic and especially external demand, an increasingly high capacity utilisation rate and continued low interest rates. Exports have been rising strongly as a result of vigorous external demand and the much lower appreciation of the euro. This should lead to a more balanced composition of growth than in 2003. Employment started to increase again but still at a low rate, not enough to reduce unemployment. Accordingly, productivity picked up vigorously, as it typically does in the first stages of an upswing. Inflation picked up in April and May as a result of the high oil prices but should rise by no more than 2% this year compared to 1.5% in 2003 (HIPC).

Prospects for 2005 and 2006

It is expected that, following a small slowdown in the

second half of 2004, GDP growth will pick up again as from the first half of 2005. Among the specific domestic factors which will affect economic developments in Belgium, the on-going direct tax reform will give a push to domestic demand by providing a temporary stimulus to consumption, especially in 2005 and 2006. Some expansionary effect is also expected from the 2006 local elections on local public investment, both in 2005 and the first half of 2006. Finally, wage moderation is expected to last because wage increases in the three main partner countries France, the Netherlands and Germany are anticipated to remain low. Employment is forecast to grow faster in 2005 and 2006, leading to some reduction in unemployment, which will however still remain high.

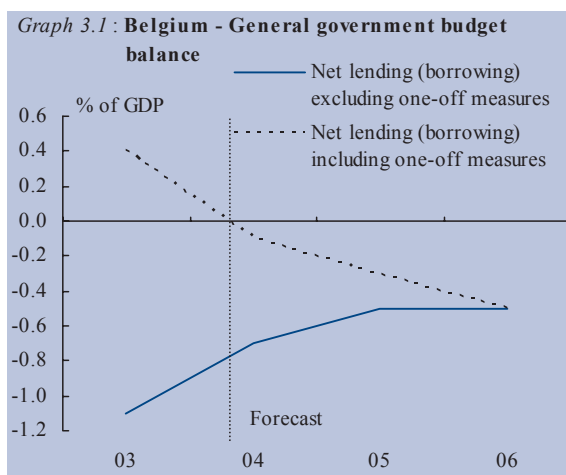
Given the expected wage moderation, the slightly lower productivity growth in 2005 and 2006 as compared to 2004 will not put at risk the external competitiveness. This is expected to allow for an increase in the companies' profit rates and a moderate recovery in investment.

Public finances: one-off measures and the direct tax reform raise challenges for the future

As regards public finances, in 2003 the government accounts benefited from a net amount of 1.5% of GDP in one-off measures, which contributed to a surplus of 0.4% of GDP. In 2004 the budget is affected by the following temporary measures: 1) the anticipation from 2004 to 2003 of a large part of the funding for the SNCB (0.4% of GDP); 2) sales in real estate of less than 0.1% of GDP; 3) the net impact of several changes in the withholding tax on earned income boosting tax proceeds by less than 0.1% of GDP; 4) the "declaration libératoire unique" would yield a net amount of 0.1% of GDP (compared to the 0.3% of GDP expected initially by the government). Taken together these four measures are expected to have a positive impact on the 2004 budget of the order of 0.6% of GDP.

Other than the temporary effects, the 2004 budget results are mainly affected by the economic recovery, which leads to higher increases in direct and indirect taxes than in the previous years, by the continued lowering in interest payments, and in the opposite direction, a sizable overrun in health care spending.

For 2005, a deficit of 0.3% of GDP is estimated. This



is partly explained by lower temporary measures stemming from the withholding taxes and sales of real estate (around 0.2% of GDP compared to previous 0.6%). Other factors that impact on the 2005 budget are: on the negative side, lower direct taxes (by 0.2% of GDP) as a result of the tax reform; some higher public investment in the run-up to the 2006 local elections and higher interest payments than otherwise because of the planned assumption by the state of the debt of the public railway company SNCB. From the positive side there is a package of measures in the draft 2005 budget roughly estimated at around 0.4% of GDP.

For 2006, under the no-policy change assumption, the deficit is projected to increase to 0.5% of GDP, despite lower interest payments. This is mainly due to the phasing out of the one-off measures (0.2% of GDP) and the lower direct tax yields than in 2005 (by 0.4% of GDP) under the last transition stage of the direct tax reform. As regards the debt-to-GDP ratio, it

is expected to come below 100% of GDP in 2004 for the first time since the early eighties and will continue to fall further in the whole forecast period. However, the decrease will be smaller in 2005 due to the planned assumption by the state of SNCB debt in the context of its restructuring. This is expected to raise the general government debt by EUR 7.4 billion or 2.6% of GDP. The government intends to make this operation next year provided that: 1) it is decided at the EU level that this measure only affects the debt, not the deficit; and 2) that the debt-to-GDP ratio remains below 100% after the operation which will be the case if our forecast materialises.

Finally, following a decision from the European Court of Justice, the government may have to pay back the amounts collected for many years on some stock exchange operations, but the procedural details and the amount are not yet known, hence the impact of this decision is not included in this deficit estimate.

Table 3.1

Main features of country forecast - BELGIUM

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	269.5	100.0	2.1	0.7	0.9	1.3	2.5	2.5	2.6	
Private consumption	146.8	54.5	2.0	0.6	0.3	2.2	2.1	2.3	2.5	
Public consumption	61.3	22.8	1.4	2.8	2.3	2.7	2.3	2.1	2.0	
Gross fixed capital formation	51.0	18.9	2.0	0.3	-3.7	-0.9	1.7	4.6	4.8	
of which : equipment	24.3	9.0	4.6	1.3	-3.0	-2.0	2.3	4.6	4.6	
Change in stocks as % of GDP	0.3	0.1	0.1	-0.1	0.5	0.5	0.7	0.6	0.6	
Exports (goods and services)	219.7	81.5	4.6	1.3	1.5	1.7	4.2	5.1	5.7	
Final demand	479.0	177.7	3.0	0.8	1.0	1.7	3.1	3.8	4.2	
Imports (goods and services)	209.5	77.7	4.3	1.0	1.0	2.3	3.9	5.4	6.1	
GNI at constant prices (GDP deflator)	274.7	101.9	2.2	0.6	1.5	0.8	2.4	2.4	2.5	
Contribution to GDP growth :										
Domestic demand			1.8	1.0	-0.1	1.6	2.0	2.6	2.7	
Stockbuilding			0.0	-0.6	0.6	0.1	0.1	-0.1	0.1	
Foreign balance			0.3	0.3	0.4	-0.4	0.4	-0.1	-0.2	
Employment			0.3	1.5	-0.3	0.0	0.4	0.7	0.8	
Unemployment (a)			9.0	6.7	7.3	8.0	8.2	8.1	7.9	
Compensation of employees/head			4.2	3.6	3.7	2.5	2.7	2.5	2.8	
Unit labour costs			2.5	4.4	2.5	1.3	0.6	0.7	1.0	
Real unit labour costs			-0.7	2.6	0.7	-0.6	-1.4	-1.3	-0.9	
Savings rate of households (b)			-	-	16.6	15.5	15.2	15.2	15.3	
GDP deflator			3.1	1.8	1.8	1.9	2.0	2.1	2.0	
Private consumption deflator			3.0	2.5	1.7	1.8	2.0	1.9	1.8	
Harmonised index of consumer prices			-	2.4	1.6	1.5	2.0	1.9	1.8	
Trade balance (c)			0.4	2.6	3.6	3.1	3.5	3.2	2.6	
Balance on current transactions with ROW (c)			2.4	4.5	5.8	4.4	4.5	4.3	4.1	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.3	4.3	5.2	3.7	3.8	3.7	3.5	
General government balance (c)(d)			-6.2	0.6	0.1	0.4	-0.1	-0.3	-0.5	
General government gross debt (c)			123.4	108.0	105.4	100.0	95.8	94.4	90.9	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. Czech Republic

Fiscal consolidation easier due to growth recovery

The situation in the first half of 2004

During 2004, the Czech Statistical Office revised the national accounts to adjust them to the ESA 95 methodology. This statistical revision shows a somewhat different cyclical pattern and, as regards demand components, weaker consumption growth and stronger investment growth than was recorded earlier. The changes in our forecast reflect to a large extent the new historical data.

In the first half of 2004, real GDP growth was strong and accelerating, reaching 3.5% y-o-y in the first and 4.1% in the second quarter. The improvement of economic activity was mainly due to buoyant gross fixed capital formation which increased in real terms by 9.6% y-o-y in the first and by 12.8% in the second quarter. Household consumption was robust, but decelerating against the backdrop of falling real disposable income and rising unemployment. Public consumption declined, reflecting the consequences of fiscal consolidation. The external sector was buoyant. Growth of exports strengthened to 23.1% y-o-y in the second quarter and growth of imports accelerated to 24.7%. The increase in foreign trade volumes in the second quarter was mainly due to the elimination of the remaining trade barriers with the EU-15.

Growth prospects

The immediate outlook for the Czech economy is for solid economic growth for the rest of 2004, leading to an annual growth rate of 3.8%. Investment is expected to be the main driving force. Public consumption and foreign trade should have a negative contribution to GDP growth.

GDP growth in 2005 will remain strong at 3.8%, accelerating further to 4% in 2006, supported by the external sector. Final domestic demand will stay robust. In particular, investment should continue to expand strongly, though at a slower pace than before.

Inflation

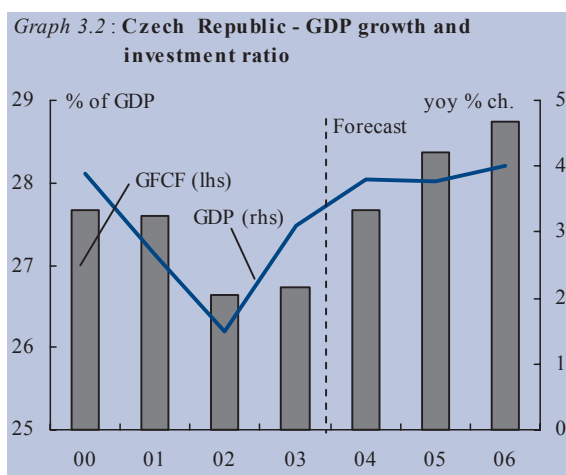
After several months of falling prices in 2003, inflation picked up in 2004 against the backdrop of an increase in indirect taxes and high oil prices. After around two years, this took inflation back into the target band of 2.2-4.2% in September 2004. With increasing signs of cost push inflation, the Czech monetary authorities hiked the base rate in two steps by a total of 50 basis points. Forecasting a further rise in prices in the remainder of the year, average inflation in 2004 is estimated to be 2.8%. Inflation is projected to stay above 3% in 2005 as high oil prices will translate into higher costs and the negative output gap will slowly close. Inflation for 2006 is estimated at 2.9% in line with the medium term monetary policy target.

Labour market

The labour market is slow to react to the pick-up in economic activity due to structural rigidities. This together with the ongoing adjustments of the industrial sector let the trend of decreasing employment continue in 2004 and 2005. A reversal is expected only in 2006. The unemployment rate is forecast to rise to 8.3% this year and to fall slightly thereafter against the backdrop of a strong economic performance.

Current account

The developments in 2004 were characterised by increasing deficits in the income balance, mainly due to high repatriated profits linked to previous FDI inflows. However, the overall structure of the current account appears healthy, with a slightly declining deficit in the trade balance and an increasing surplus in the service balance. This suggests that there is no major problem of international competitiveness for the Czech economy. The trade balance deficit is expected to further decrease to 2.4% of GDP in 2004 from 2.7% of GDP in 2003, while the current account deficit is projected to be 6.1% of GDP, almost the same as in 2003. The trade balance deficit is projected to remain at 2.4% of GDP in 2005, mainly due to high



oil prices, and to improve only slightly to 2.2% of GDP in 2006. The surplus in the service balance is expected to slightly rise. The current account deficit declines to 5.7% of GDP in 2006 as outflows of repatriated profits will be increasing.

Public finances

As a result of stronger growth, the general government deficit in 2004 is likely to be lower than expected, decreasing to 4.8% of GDP. Gross debt is foreseen to be unchanged compared with 2003, at 37.8% of GDP. The 2005 state budget deficit as approved by the Parliament is in line with the fiscal consolidation path set in the May convergence programme. As economic growth is expected to be strong, the general government deficit is forecast to diminish further in 2005, albeit slowly, to 4.7% of

GDP. If the expenditure ceilings of individual budget lines are applied prudently, the authorities could even over-achieve this target.

Continued strong GDP growth should further facilitate the process of fiscal consolidation in the election year 2006, but important expenditure cuts, particularly regarding government consumption, still need to be agreed upon. Therefore, the expenditure ceilings for 2006 are not taken into account and the 2006 deficit is projected to be 4.3% of GDP. If expenditure ceilings were fully applied, the deficit target of 3.8% of GDP foreseen in the convergence programme is in reach. Gross public debt is expected to increase from 39.4% of GDP in 2005 to 40.6% of GDP in 2006.

Table 3.2

Main features of country forecast - CZECH REPUBLIC

	2003			Annual percentage change						
	bn CZK	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		2532.4	100.0	2.2	2.6	1.5	3.1	3.8	3.8	4.0
Private consumption		1286.9	50.8	3.2	2.6	2.8	4.9	3.9	3.7	3.8
Public consumption		612.6	24.2	0.5	3.8	4.5	2.2	-0.2	-0.1	0.1
Gross fixed capital formation		676.9	26.7	3.7	5.4	3.4	7.4	11.7	8.8	6.8
of which : equipment		640.5	25.3	8.0	-5.6	1.7	2.6	9.7	8.0	6.4
Change in stocks as % of GDP		21.9	0.9	0.8	1.7	1.7	1.2	1.8	1.9	1.6
Exports (goods and services)		1591.0	62.8	10.6	11.8	2.7	6.2	15.0	10.7	7.9
Final demand		4189.3	165.4	5.7	7.2	3.1	5.3	9.8	7.4	5.7
Imports (goods and services)		1647.1	65.0	11.5	12.9	4.9	7.8	15.0	10.7	7.2
GNI at constant prices (GDP deflator)		2415.7	95.4	1.7	1.4	0.2	3.3	3.0	3.9	4.1
Contribution to GDP growth :										
Domestic demand				2.9	3.9	3.6	5.5	6.0	5.2	4.7
Stockbuilding				0.3	0.4	0.1	-0.4	0.7	0.1	-0.2
Foreign balance				-1.1	-1.8	-2.2	-2.2	-1.9	-1.5	-0.4
Employment				-	0.4	1.5	-0.1	-0.9	-0.1	0.1
Unemployment (a)				6.0	8.0	7.3	7.8	8.3	8.2	8.0
Compensation of employees/head				-	7.6	6.2	6.7	6.4	7.9	6.6
Unit labour costs				-	5.2	6.3	3.4	1.7	3.9	2.6
Real unit labour costs				-	0.3	3.4	1.6	-3.0	0.8	-0.1
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				7.0	4.9	2.8	1.7	4.8	3.1	2.7
Private consumption deflator				6.5	3.5	0.7	-0.7	2.2	2.0	1.9
Harmonised index of consumer prices				-	4.5	1.4	-0.1	2.8	3.1	2.9
Trade balance (c)				-6.3	-5.0	-3.0	-2.7	-2.4	-2.4	-2.2
Balance on current transactions with ROW (c)				-4.2	-5.4	-5.6	-6.2	-6.1	-6.0	-5.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.2	-5.4	-5.7	-6.2	-6.1	-5.9	-5.6
General government balance (c)(d)				-5.2	-5.9	-6.8	-12.6	-4.8	-4.7	-4.3
General government gross debt (c)				-	25.3	28.8	37.8	37.8	39.4	40.6

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Denmark

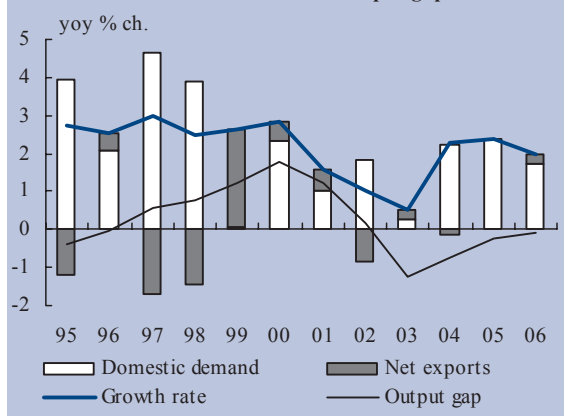
Consumption-led recovery on track

The situation in 2004

The recovery of economic activity in Denmark, which started in the second half of 2003, has continued in 2004. Exports expanded unexpectedly strongly in the first half of the year, but GDP growth remains driven mainly by domestic demand, in particular private consumption. Household spending has been boosted by substantial increases in real disposable incomes due to direct and indirect tax cuts, as well as the suspension in 2004 and 2005 of the contributions to a mandatory pension savings scheme. Car sales have rebounded strongly after the fall in 2003, and the robust increases in car sales in 2004 has contributed to the strength of private consumption. The target for real public consumption growth set by the government for 2003 was exceeded. However, the instruments applied by the government to limit local government spending are becoming more binding and public consumption is set to grow only modestly in 2004. Investment growth accelerated in the second quarter, in particular in equipment investment, and industry confidence indicators point to continued expansion. After a hesitant first quarter, exports grew robustly in the second quarter as foreign demand increased.

The present trends are expected to continue during the rest of the year. Backed by strong consumer confidence, consumption is expected to accelerate further to reach its highest growth rate since 1994, as the income tax cuts come through into take-home pay. As imports should increase robustly, the growth contribution of net exports is expected to be negative.

Graph 3.3: Denmark - GDP growth, growth contributions and the output gap



Prospects for 2005 and 2006

Continuing the upswing from 2004, domestic demand should lead to GDP growth of 2½%, slightly higher than in 2004. Private consumption is expected to remain buoyant, albeit growing by marginally less than in 2004. The suspension of the special pension savings contributions will again free funds for consumption. However, somewhat higher inflation reduces real disposable income and could marginally dampen consumption growth. Investment is set to accelerate as foreign demand remains high and capacity utilisation increases.

Denmark's export markets are foreseen to grow robustly in 2005, albeit slightly less than in 2004. Danish exports are set to grow less than export markets, thus losing market shares throughout the forecast period. A loss of market shares in an upswing is a recurrent phenomenon in Denmark and is linked to the composition of exports. Moreover, relatively high wage increases in recent years have put pressure on competitiveness. On this basis, Denmark's exports are expected to grow by some 5¼% in 2005, with a slight negative growth contribution from net exports.

In 2006, the stimulative effect of the March 2004 fiscal package is reduced as the special pension saving scheme (1% of gross income) is reinstated. Private consumption growth is thus dampened. Exports are expected to grow at a fairly robust, albeit declining, pace. Import growth decelerates due to lower domestic demand and the contribution to growth from net exports turns positive. On this basis, GDP growth is expected to be 2%, around the rate assessed to be sustainable in the medium term.

Labour market, costs and prices

After weakening substantially in 2003, with markedly falling employment and with unemployment rising to around 6%, the labour market started to improve in the first half of 2004. Employment increased but, as the labour force also increased, unemployment remained broadly unchanged. In view of the expected strength of domestic demand in the second half of the year, it is expected that the labour market will turn and unemployment will start to fall. The improvement in the labour market is expected to continue through out the forecast period, with unemployment reaching around 5% in 2006.

Wage growth has been higher in Denmark than in the euro area in recent years. In the context of a still-weak labour market, private sector wage growth decelerated in the first half of 2004. Over the forecast period, wage growth is expected to be some 3¼%, rising moderately as the labour market tightens towards the end of the period.

Consumer price inflation has been subdued in 2004, with average HICP inflation set to be 1.1%. The dampened inflation is due to lower import prices, reductions in excise duties and decelerating wage growth. In 2005, inflation is set to increase somewhat as the effects of the reduction in excise duties disappears and import prices are expected to be higher, in part due to higher oil prices.

Public finances

Public finances are set to remain sound over the forecast period. A surplus of 1% of GDP in 2004 is expected to increase to around 1½% of GDP in 2005 and 2006. This improvement is due to lower labour-market related expenditure, normalised revenues from the pension fund yield tax, but also substantially increased oil-related revenues from North Sea oil activities, as well as from the higher oil prices. Following a decision by Eurostat in March 2004, the surplus of the supplementary labour market pension (ATP) has been reclassified outside the government sector. This reduces the general government balance in Denmark by around 1 percentage point of GDP. This statistical change is of no consequence for the longer-term sustainability of public finances.

Table 3.3

Main features of country forecast - DENMARK

	2003			Annual percentage change						
	bn DKK	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		1398.3	100.0	1.9	1.6	1.0	0.5	2.3	2.4	2.0
Private consumption		659.3	47.1	1.4	-0.2	0.6	0.8	3.2	2.9	1.9
Public consumption		371.8	26.6	1.5	2.7	2.1	1.0	0.3	0.5	0.5
Gross fixed capital formation		279.6	20.0	3.0	4.9	4.5	0.1	3.2	3.5	2.6
of which : equipment		112.7	8.1	4.2	7.0	6.5	0.8	3.5	4.3	2.6
Change in stocks as % of GDP		-3.7	-0.3	0.5	0.2	0.2	-0.2	-0.3	-0.3	-0.2
Exports (goods and services)		605.0	43.3	5.1	4.4	4.8	0.0	5.6	5.2	4.6
Final demand		1911.9	136.7	2.6	2.1	2.9	0.2	3.5	3.4	2.8
Imports (goods and services)		513.6	36.7	5.0	3.4	7.3	-0.6	6.4	5.6	4.4
GNI at constant prices (GDP deflator)		1378.9	98.6	1.9	2.3	0.9	0.6	2.4	2.5	2.0
Contribution to GDP growth :										
		Domestic demand		1.7	1.7	1.9	0.7	2.4	2.3	1.7
		Stockbuilding		0.1	-0.7	0.0	-0.4	0.0	0.0	0.0
		Foreign balance		0.2	0.6	-0.8	0.3	-0.1	0.0	0.2
Employment				0.4	0.3	-0.4	-0.9	0.4	0.6	0.3
Unemployment (a)				6.8	4.3	4.6	5.6	5.8	5.3	4.9
Compensation of employees/head				5.1	4.6	3.2	3.6	3.3	3.3	3.5
Unit labour costs				3.5	3.3	1.8	2.2	1.4	1.5	1.8
Real unit labour costs				-0.6	1.2	0.2	-0.1	-0.4	-0.5	-0.2
Savings rate of households (b)				-	-	9.6	9.5	9.8	9.9	9.6
GDP deflator				4.1	2.1	1.6	2.2	1.9	1.9	2.0
Private consumption deflator				4.1	2.5	2.1	1.8	1.4	1.7	1.7
Harmonised index of consumer prices				-	2.3	2.4	2.0	1.1	1.9	1.6
Trade balance (c)				1.7	4.6	4.3	4.7	3.8	3.7	3.8
Balance on current transactions with ROW (c)				-0.8	3.1	2.0	2.9	3.2	3.5	3.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.8	3.0	2.1	2.9	3.1	3.3	3.4
General government balance (c)(d)				-1.7	2.1	0.7	0.3	1.0	1.5	1.7
General government gross debt (c)				66.6	49.2	48.8	45.9	43.4	40.3	38.0

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

4. Germany

Gradual shift from external to domestic demand

The economy in 2004

In the first half of 2004, Germany's economy grew at a solid pace, thus putting a long stagnation to an end. Quarterly growth rates of 0.4% in the first and 0.5% in the second quarter, albeit low in comparison with those of other EU countries, have been the strongest in three years.

The upswing is the result of booming export demand in particular for investment goods for which Germany continues to enjoy a strong competitive position. From the standard pattern for recovery in Germany, strong exports should have been transmitted relatively quickly into a turnaround in domestic demand. This has not occurred. Domestic demand fell strongly in the first quarter (-0.8%) and continued to contract in the second quarter, albeit slightly.

Most disappointing has been the performance of equipment investment, which is the more remarkable because practically the entire additional income resulting from the recent upswing has occurred as higher profits amidst stagnant labour compensation. Moreover investment volumes are one-fifth below their peak levels of 2000 and capacity utilisation rates have meanwhile returned to their long-term average. Despite a rather favourable current situation, companies remain apparently sceptical about the duration of the upswing, having been disappointed in their optimism for the previous three years. Rising oil prices and, to a lesser extent, the strong euro are likely to play a role in this context. Also, private consumption remained stagnant. Demand is suffering from very low wage increases (the mirror image of falling unit labour costs) and a still ongoing drop in employment. Only the tax reduction at the beginning

of 2004 compensated for the falling gross real wages and kept net wages slightly positive. However, an increase in the savings rate (not least driven by uncertainty related to labour market reforms) kept real consumption from increasing.

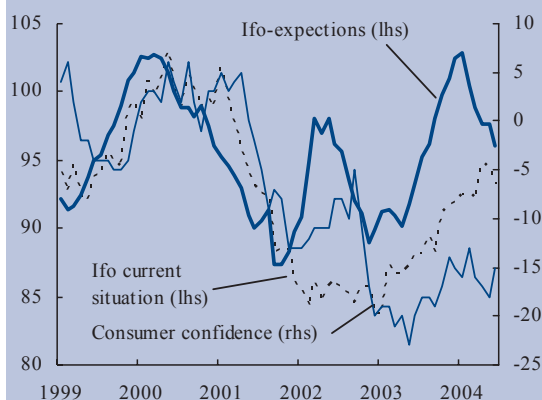
Prospects

Since the upswing seen in the first half of the year is exclusively based on global developments, it remains fragile. As the external impulse wears off due to less buoyant export growth combined with a stronger import demand, the overall growth rate might soften somewhat. Nevertheless there are first signs that at long last a spill-over into the domestic economy will take place, leading to a gradual shift from the external to a domestic growth contribution. Early indicators are a rise in investment goods sales, a strong import increase, and encouraging retail sales.

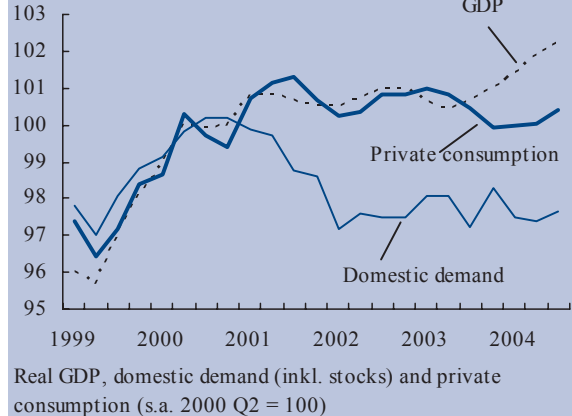
While an end to the decline of residential construction is not in sight, an increase in equipment investment volumes is likely. This increase should gradually strengthen as capacity constraints become more binding. Throughout the forecast period, companies should benefit from very low wage increases, as high unemployment and the weak labour market has left trade unions in a weak position. Private consumption should also start to rise. While wage increases will stay subdued, the fall in employment should reverse as the recovery continues. Labour market reforms will do their part to lower the employment threshold and reduce de facto unemployment.

As a major part of its "Agenda 2010" reform programme, the federal government passed legislation that improves incentives to take up work coupled with

Graph 3.4: Germany - Ifo and consumer confidence



Graph 3.5: Germany - GDP is up, domestic demand is flat



cuts in social transfers in 2005 (so-called “Hartz IV” package). As a consequence of tightening the social benefit eligibility criteria, more than 200 000 persons are estimated to be forced to register as unemployed in order to continue receiving social benefits. Thus the surge in unemployment in the table below occurs as a statistical effect due to the systems change. At the same time, it can be expected that the introduction of the Hartz-measures in January 2005 will quickly dispel much of the uncertainty even of large parts of the population that are not immediately concerned by the reforms. The savings rate is therefore projected to fall throughout the forecast period.

Government consumption in the next two years will provide no growth contribution due to the tight fiscal situation, although the composition of growth will become much more tax-friendly than in 2004.

Even though the assumption underlying the forecast is a complete replacement of the net foreign contribution with domestic investment and consumption demand, the growth profile should show neither a significant acceleration nor deceleration. The seeming slowdown in projected GDP growth from close to 2% in 2004 to values slightly above 1½% in 2005 and 2006 is almost entirely the result of changing calendar factors, which add some ½ pp to growth in the current leap year and subtract ¼ pp in each of the following years.

The main downside risk to the forecast can be seen in higher oil prices and a parallel strong slowdown in the world economy. On the upside, the Hartz-reforms leave Germany with a more flexible labour market and improve the economic growth potential. The dynamics of this are, however, hard to gauge and depend both on successful implementation and whether it is followed by further reforms.

As a consequence of low wage growth, inflation will remain moderate. After a relatively strong HICP increase in the current year (as a result of high oil prices and the statistical effect of medical co-payments), inflation should return to very low levels of 1¼ % annually.

Public finances

The general government deficit is projected to reach 3.9% of GDP in 2004, thus continuing its steady rise since 2001. This is mainly due to a projected fall in government revenues by 0.5% in 2004. One important

reason is the large reduction in income taxes rates equalling 0.7% of GDP that was implemented at the beginning of 2004 as part of the tax relief laws passed in 2000. This was only partly counterfinanced by a broadening of the tax base. In addition, lacklustre domestic demand has kept consumption tax revenues low. Tax shortfalls are further accelerated by low mineral oil taxes in the wake of rising oil prices and the fact that the increase in the tobacco tax rate in March 2004 did not translate into higher revenues so far. A tax amnesty, aimed at repatriating savings currently deposited undeclared abroad, is projected to contribute less than planned to government revenues.

General government expenditures are projected to remain almost unchanged in nominal terms. The health sector reforms introduced in the beginning of 2004 substantially reduced government spending on health care, which enables the statutory health insurance providers to run a surplus this year, reducing the debt they have accumulated over the last years. Also, pension transfers have been cut. However the ongoing worsening of the labour market has led to rising expenditures on transfers such as unemployment and social assistance.

In cyclically-adjusted terms, the deficit is expected to widen from 3.0% of GDP in 2003 to 3.4% of GDP in 2004. However, with the output gap closing, this is mainly the result of the tax-unfriendly composition of growth, rather than discretionary loosening.

Deficit above 3% of GDP in 2005

In 2005, the German general government deficit is projected to fall to 3.4% of GDP, on unchanged policies, which would imply a fourth consecutive breach of the 3% of GDP ceiling. General government revenue is expected to grow by almost 2% despite the implementation of the last stage of the tax relief law from the year 2000, not least because rising profits will lead to higher corporate taxes. In addition, the introduction of a road toll is expected to add to revenues.

Expenditures are expected to rise only slightly, though by more than in 2004. The dampening effect of the health sector reforms will abate. Whether statutory health insurers will continue to run surpluses to reduce their accumulated debt, may not least depend on political pressure on them to lower the

contribution rates. The Hartz IV reforms should reduce social spending, though initially this may be mitigated by administrative frictions in the transition to the new system.

In cyclically-adjusted terms, the deficit is expected to narrow by 0.5 percentage points to 2.9% of GDP in 2005, not least as the composition of GDP growth is projected to become more tax-friendly. The main budgetary risks for 2005 would be a continuing stagnation of private consumption translating into tax shortfalls and the labour market developing more unfavourably than projected.

The general government deficit is projected to fall below 3% of GDP in 2006 by a narrow margin. Growing private consumption is expected to bolster tax revenues, while no further tax cuts are planned. Again, the tax revenue effects from the growth

composition shifting to domestic demand will be mechanically reflected in a reduction of the cyclically-adjusted deficit. Expenditure growth is expected to accelerate, though yet moderately. A recovering labour market in combination with the legislated labour market reforms are expected to show effect on social transfers.

Nonetheless, the expenditure restraint of 2004 and 2005 comprised in part one-time measures, like pension and public sector wage freezes, and without further structural measures, health care spending may return to pre-2004 high growth rates. Thus, in order to bring the public finances on a sustainable path, further long-term consolidation measures on the expenditure side are needed. Government debt is expected to continue rising until 2006, staying considerably above the reference value of 60% of GDP.

Table 3.4

Main features of country forecast - GERMANY

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		2128.2	100.0	2.1	0.8	0.1	-0.1	1.9	1.5	1.7
Private consumption		1255.3	59.0	2.0	1.7	-0.7	0.0	0.1	1.1	1.7
Public consumption		408.5	19.2	1.6	1.0	1.9	0.1	0.0	-0.3	0.4
Gross fixed capital formation		379.8	17.8	1.7	-4.2	-6.4	-2.2	-1.0	2.3	3.6
of which : equipment		146.9	6.9	2.2	-4.9	-8.6	-1.4	-0.1	6.6	8.2
Change in stocks as % of GDP		-7.6	-0.4	0.0	-1.4	-1.8	-0.9	-0.6	-0.5	-0.4
Exports (goods and services)		769.3	36.1	5.7	5.7	4.1	1.8	10.5	6.8	5.7
Final demand		2805.3	131.8	2.7	0.9	-0.3	0.9	3.1	2.9	3.1
Imports (goods and services)		677.1	31.8	5.0	1.0	-1.6	4.0	6.6	7.1	6.9
GNI at constant prices (GDP deflator)		2114.2	99.3	2.1	0.7	-0.3	0.1	1.9	1.5	1.7
Contribution to GDP growth :										
	Domestic demand			1.8	0.2	-1.4	-0.4	-0.2	1.0	1.7
	Stockbuilding			0.0	-1.0	-0.4	0.9	0.3	0.1	0.1
	Foreign balance			0.4	1.6	1.9	-0.6	1.8	0.4	-0.1
Employment				0.7	0.4	-0.6	-1.0	0.1	0.8	0.7
Unemployment (a)				7.0	7.8	8.7	9.6	9.7	10.0	9.6
Compensation of employees/head				3.3	1.7	1.5	1.6	0.0	0.9	1.4
Unit labour costs				1.9	1.3	0.8	0.7	-1.7	0.2	0.4
Real unit labour costs				-0.5	0.0	-0.7	-0.4	-2.7	-0.8	-0.5
Savings rate of households (b)				-	-	16.3	16.4	16.8	16.5	16.2
GDP deflator				2.4	1.3	1.5	1.1	1.0	1.0	0.9
Private consumption deflator				2.4	1.6	1.1	1.0	1.7	1.3	1.1
Harmonised index of consumer prices				-	1.9	1.3	1.0	1.7	1.3	1.1
Trade balance (c)				3.6	4.9	6.5	6.3	7.9	8.1	8.0
Balance on current transactions with ROW (c)				0.9	0.4	2.4	2.4	4.2	4.4	4.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.9	0.4	2.4	2.5	4.2	4.4	4.2
General government balance (c)(d)				-2.2	-2.8	-3.7	-3.8	-3.9	-3.4	-2.9
General government gross debt (c)				47.0	59.4	60.9	64.2	65.9	67.2	67.9

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

5. Estonia

Buoyant exports and lively domestic demand set to continue

The situation in 2004

GDP growth accelerated during the first six months of 2004 to 6.3% year-on-year from an annual growth rate of 5.1% in 2003. Main drivers of growth in 2004 are net exports, supported by good results in foreign tourism, and buoyant domestic demand. Investment grew by 6.1% in the first half of this year, regaining strength since last year. Construction did particularly well on the back of a strong pre-accession housing boom that also boosted credit demand by over 30%. During the second quarter, CPI inflation picked up strongly, to rates around 4%, reflecting hikes in excise taxes and some administrative prices that were induced by EU accession. Since July, these one-off effects have started to abate and inflation is moderating again. Labour market conditions continue to improve. The unemployment rate declined to 9.1% of the labour force in the 2nd quarter, while employment is constantly increasing from a low level. The planned general government surplus for 2004 was revised downwards to 0.3% of GDP, from 0.7%, with a supplementary budget to the tune of 0.4% of GDP. On the whole, the situation in 2004 is marked by various EU accession effects, most of which can be expected to be temporary.

Prospects for 2004 and 2005

EU accession not only affected prices, but also triggered a housing boom supporting strong construction activity, combined with buoyant credit expansion. Household demand was reinforced by inventory build-up in the months prior to 1 May 2004. It also changes the composition of government

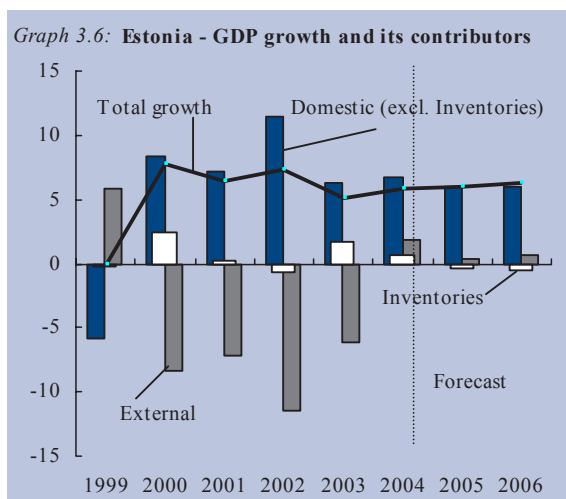
revenues, and inflates both revenue and expenditure ratios. Therefore, 2004 may display some irregular economic developments in response to this 'exogenous shock'. Given the strong base from the first two quarters, real GDP is expected to grow by 5.9% this year, and to further accelerate over the forecast horizon. With exports picking up strongly, and government consumption declining, growth should become somewhat more balanced. The fiscal stimulus from the reduction of the government surplus by roughly 2.5% of GDP this year, and the inflow of EU transfers will fuel growth well into 2005-2006. Investment is expected to remain strong, not least due to public infrastructure spending and smooth absorption of EU transfers since May. Inflation should peak at 3.5% in 2005 and abate gradually thereafter. Oil prices remain a risk factor to the inflation forecast, with a first petrol price increase in October.

Labour market, costs and prices

The strong growth performance over recent years continues to translate both into sustained employment gains and lower unemployment. Also, regional disparities in the labour market are starting to decline. These trends are forecast to prevail over the forecast period. The persisting skills mismatch will prevent a faster improvement in labour market conditions, and could at some point even lead to shortages of qualified labour, which are likely to be reinforced by strong demand for Estonian workers in neighbouring EU countries. As a result of higher inflation coupled with considerable wage moderation, real wages are increasing more slowly in 2004 than in 2003. Over the forecast period, declining real unit labour costs are expected to further improve Estonia's competitive position.

Balance of payments

External trade data are less reliable at present, following the methodological changes in computation that were required upon EU accession. Even if the levels and growth rates are uncertain, Estonia's trade balance has somewhat improved through a strong pick-up in exports that was caused by the rebound of external demand, both from the EU and beyond. The positive contribution from the services balance



increased, thanks to a good foreign tourism season. On the current account, these overall positive developments are largely offset by a negative income balance which reflects primarily repatriated profits (often in the form of reinvested earnings which come back on the capital account as FDI), but also large inter-banking operations between the dominating Scandinavian banks and their Estonian branches. On the capital account, increasing outward foreign direct investment of Estonian companies, primarily into the Baltic neighbour states is offsetting part of the incoming FDI. Overall, the capital account is expected to remain in surplus, which along with sizeable FDI and portfolio inflows will help to better balance the external account of Estonia in the medium term. On the whole, the decline of the high current account deficit risks being delayed beyond 2004. The deficit is forecast to remain around 13% of GDP in 2004, before starting to come down to a level around 10% of GDP at the end of the forecast period.

Public finance

A strong fiscal stimulus is supporting growth, since the revised surplus of 3.1% of GDP in 2003 is being reduced to an expected 0.5% this year. In the medium term, the Estonian government is targeting balanced budgets. However, prudent budget assumptions and continuing improvements in tax collection are likely to lead to modest surpluses also in 2005 and 2006. Certain local governments (notably the city of Tallinn) continue to report considerable deficits, albeit on a declining trend, since some are reaching their legal borrowing limits. A supplementary 2004 budget to the tune of 0.4% of GDP was presented to Parliament in September. It will compensate local governments for shortfalls in income tax shares that occurred as a consequence of the ongoing tax reform. The 2005 budget was adopted by the government in September, and foresees the implementation of a cut in the flat tax rate for both corporate and personal income tax by 2 percentage points.

Table 3.5

Main features of country forecast - ESTONIA

	2003			Annual percentage change					
	bn EEK	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005
GDP at constant prices	125.8	100.0	5.4	6.4	7.2	5.1	5.9	6.0	6.2
Private consumption	71.2	56.6	6.1	6.2	10.3	5.7	6.5	5.2	5.2
Public consumption	23.9	19.0	2.3	1.8	5.9	5.8	5.1	4.8	4.6
Gross fixed capital formation	35.7	28.4	7.3	13.0	17.2	5.4	5.5	6.0	6.2
of which : equipment	17.7	14.1	-	-	-	-	2.0	2.0	2.0
Change in stocks as % of GDP	3.4	2.7	1.3	2.7	3.8	3.5	3.7	3.2	2.5
Exports (goods and services)	94.3	75.0	12.4	-0.2	0.9	5.7	13.0	11.7	12.5
Final demand	228.6	181.7	8.5	3.8	7.2	5.5	9.2	7.9	8.4
Imports (goods and services)	104.4	83.0	12.4	2.1	3.7	11.0	9.1	9.7	10.2
GNI at constant prices (GDP deflator)	117.9	93.7	4.9	5.3	7.3	3.3	5.1	6.7	6.3
Contribution to GDP growth :									
Domestic demand			6.1	7.6	12.3	6.3	6.7	6.0	6.0
Stockbuilding			0.5	0.3	1.4	-0.2	0.6	-0.4	-0.5
Foreign balance			-1.1	-2.5	-3.1	-6.2	1.8	0.3	0.7
Employment			-3.1	0.8	1.5	0.8	0.3	0.3	0.4
Unemployment (a)			10.4	11.8	9.5	10.1	9.7	9.4	9.1
Compensation of employees/head			20.7	7.7	10.2	8.9	8.6	8.5	7.9
Unit labour costs			11.1	2.0	4.3	4.4	2.9	2.7	2.0
Real unit labour costs			-2.3	-3.5	-0.1	2.0	-0.9	-1.2	-1.0
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			13.7	5.8	4.4	2.4	3.8	3.9	3.0
Private consumption deflator			12.4	6.1	3.4	0.8	3.3	3.4	2.7
Harmonised index of consumer prices			-	5.6	3.6	1.4	3.4	3.5	2.8
Trade balance (c)			-18.6	-13.2	-15.4	-17.4	-15.2	-14.8	-14.0
Balance on current transactions with ROW (c)			-7.1	-5.6	-10.2	-13.2	-13.0	-11.6	-10.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-7.1	-5.6	-9.9	-12.7	-12.7	-11.2	-9.8
General government balance (c)(d)			-0.7	0.3	1.4	3.1	0.5	0.2	0.1
General government gross debt (c)			-	4.4	5.3	5.3	4.8	4.4	4.2

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

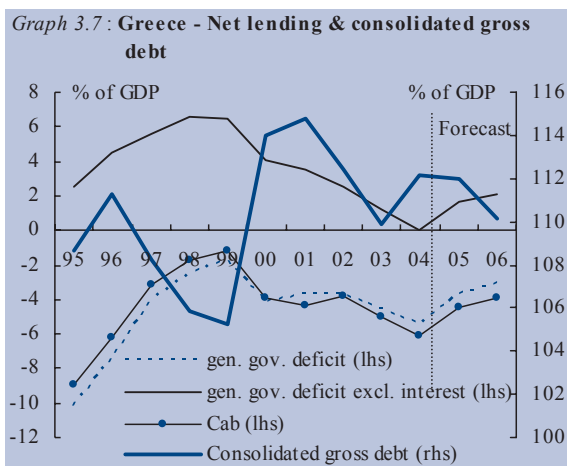
6. Greece

Challenges in the post-Olympic Games' period

Economic activity in 2004

Although decelerating with respect to the previous years, economic activity remained buoyant in 2004, with real GDP growth estimated at 3.8%, well above the euro area average. Growth was driven by domestic demand, in particular government consumption, linked to the Olympic Games. However, investment growth slowed down significantly compared with 2003, since the bulk of construction investment related to the Olympic Games was fully realised by June 2004. Yet, for the year as a whole, gross fixed capital formation was a significant contributor to GDP growth. Despite supportive monetary conditions, private consumption is expected to decelerate somewhat relative to the previous year, as real disposable income growth in 2004 seems to slow down. Owing to the sharp acceleration of exports of services and to an increase in the net current transfers from the rest of the world, the current account deficit seems to have narrowed in 2004. Exports of goods deteriorated due to substantial competitiveness losses. In parallel, imports of goods, in particular equipment, increased, pushed up by dynamic investment.

Employment growth was strong, following booming economic activity, and helped reducing the unemployment rate. Yet, the unemployment rate in Greece remained among the highest in the EU. Compensation per head increased due to the implementation of the 2004 wage agreement in the private sector, while consumer prices are expected to decline to 2.9% in 2004 from 3.5% in 2003.



Prospects for 2005 and 2006

As the Olympic Games related investments cease and the government implements significant, but likely insufficient budgetary adjustments, domestic demand is expected to decelerate. Nevertheless the domestic sector will continue being the main driving force of GDP growth. Real GDP growth should resume to a slightly above potential rate, reaching 3.3% in both 2005 and 2006. On the back of rising indebtedness and expectations for a deceleration of real disposable income, private consumption is expected to slow down. Public consumption is expected to sharply decelerate as the government undertakes measures to reduce the excessive deficit. Since the Olympic Games related investments will not be recurring in 2005, growth of fixed capital formation is expected to slow down, albeit still outpacing the euro area average.

The current account deficit is projected to decline in 2005 and in 2006, since exports of goods and services are expected to increase within the context of a global economic recovery. On the other hand, the growth rate of imports of goods should slow down due to the projected deceleration of investment. As a result, the negative contribution of the external sector should narrow in 2005 and be positive in 2006.

Costs and prices

The consumer price index (national definition) is expected to increase by 2.8% in 2005 and by 2.6% in 2006. According to the new two-year wage agreement concluded on 13 May 2004, employees will receive a nominal pay rise of 6.0% in 2004 and 5.5% in 2005. This is well above average inflation. Unit labour costs for the whole economy are expected to decelerate during the forecast period. Still the growth of unit labour costs in Greece will remain well above the euro area average. This may adversely affect competitiveness, since real wage growth will outpace productivity growth, which is projected at 2.3% and 2.2% in 2005 and 2006 respectively.

Public finances

The EDP notification of September 2004 showed that, in spite of strong growth, Greece has been in excessive deficit since 2000. After reaching 4.6% of GDP in 2003, the deficit is expected to further

increase in 2004 to 5.5% of GDP. Although partly attributable to some non-recurrent factors (e.g. organisation of the Olympic Games, electoral cycle), rising deficits clearly point to a lack of control over primary spending (wages, pensions and social transfers, operational spending), while budget revenues, including revenues from EU grants, seem to fall short of projections. The debt ratio is expected to significantly increase in 2004 (112.1% of GDP), up from 109.9% in 2003. Based on a rather optimistic macroeconomic scenario, the 2005 draft State budget targets a significant reduction in the general government deficit, from 5.3% of GDP in 2004 (EDP notification) to 2.8%, thus falling just below the 3% threshold as required in the EDP Council recommendation under Art.104(7). This improvement in the general government deficit by 2.5 pp (2.2 pp increase in primary surplus and 0.3 pp decline in interest payments) does not imply a tightening in fiscal policy stance as it stems mostly from the one-

off expenditures related to the Olympic Games in 2004 and from expected buoyant revenues, in particular from social contributions. According to the Commission Autumn 2004 forecasts, which are based on a more realistic scenario, the general government deficit is projected to fall by 1.9 pp and attain at 3.6% of GDP in 2005. This should be the result of a 1.6 pp increase in the primary surplus and a 0.3 pp decline in interest payments. Therefore the budgetary plans of the government appear insufficient to bring the nominal deficit below the 3% threshold. Under the assumption of unchanged policies a deficit of 3.0% of GDP is projected for 2006. The primary balance is set to improve by 0.5 pp in that year. The general government debt ratio is expected to still decline at a very slow pace during the forecasting period. In 2005, the debt ratio is projected to reach 111,9% of GDP and 110.2% in 2006.

Table 3.6

Main features of country forecast - GREECE

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	153.0	100.0	100.0	1.5	4.3	3.6	4.5	3.8	3.3	3.3
Private consumption	102.8	67.2	67.2	2.2	3.0	3.0	4.4	3.5	3.2	3.0
Public consumption	24.5	16.0	16.0	1.9	-3.1	5.3	-2.5	5.9	1.5	1.0
Gross fixed capital formation	39.3	25.7	25.7	1.9	6.5	5.7	13.7	4.9	3.6	3.5
of which : equipment	15.3	10.0	10.0	6.3	4.9	6.9	18.3	4.2	4.5	4.2
Change in stocks as % of GDP	0.1	0.1	0.1	0.0	-0.1	0.2	0.1	0.1	0.0	0.0
Exports (goods and services)	30.5	19.9	19.9	4.7	-1.1	-7.7	1.0	10.5	6.0	6.0
Final demand	197.2	128.8	128.8	2.4	1.7	2.0	4.6	5.2	3.5	3.4
Imports (goods and services)	44.1	28.8	28.8	6.3	-5.2	-2.9	4.8	9.4	4.5	3.9
GNI at constant prices (GDP deflator)	153.0	100.0	100.0	1.3	3.5	3.6	4.4	3.9	3.3	3.3
Contribution to GDP growth :										
Domestic demand				1.8	3.2	4.3	6.1	4.6	3.4	3.2
Stockbuilding				0.1	-0.4	0.3	-0.1	0.0	-0.1	0.0
Foreign balance				-0.6	1.7	-0.9	-1.3	-0.7	-0.1	0.1
Employment				0.9	-0.3	0.1	1.4	1.8	1.0	1.0
Unemployment (a)				8.0	10.4	10.0	9.3	8.5	9.0	9.0
Compensation of employees/head				14.6	5.2	9.2	4.0	6.5	5.5	5.3
Unit labour costs				13.9	0.6	5.5	0.9	4.4	3.2	3.0
Real unit labour costs				-0.4	-2.8	1.4	-2.5	0.8	0.0	-0.2
Savings rate of households (b)				-	-	13.6	12.4	11.4	10.2	9.1
GDP deflator				14.4	3.5	4.0	3.5	3.6	3.1	3.2
Private consumption deflator				14.0	3.3	3.6	3.4	3.1	2.9	2.8
Harmonised index of consumer prices				-	3.7	3.9	3.4	3.0	2.9	2.9
Trade balance (c)				-12.1	-16.2	-16.5	-16.8	-18.2	-17.9	-17.3
Balance on current transactions with ROW (c)				-1.8	-7.1	-7.7	-8.3	-7.5	-6.8	-5.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-4.8	-6.3	-7.1	-6.6	-5.9	-5.0
General government balance (c)(d)(e)				-9.0	-3.7	-3.7	-4.6	-5.5	-3.6	-3.0
General government gross debt (c)				79.0	114.7	112.5	109.9	112.2	111.9	110.2

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

7. Spain

Losing competitiveness

Economic developments in 2004

GDP growth in 2003 was recently revised upwards by 0.1 of a percentage point to 2.5%, with private consumption and investment in dwellings as the main driving forces. In contrast, the external sector posted a negative contribution to GDP growth of 0.8 percentage points. The first two quarters of 2004 offer a similar picture, with growth based on strong domestic demand, while the external sector recorded a growing negative contribution.

Private consumption, sustained by sound employment growth, is currently keeping its dynamism and even gaining some momentum compared with the previous year. Construction continues to grow slightly above 4% and is expected to remain robust during the second half of 2004. Investment in equipment was rather sluggish in the first two quarters and is expected to show a very limited recovery in the rest of the current year due to the still uncertain economic outlook. Overall, domestic demand should accelerate in 2004, sustained by private consumption expenditure and investment in dwellings.

The strength of domestic demand continues to boost imports of goods and services in 2004 whereas exports growth is less dynamic due to poor external market conditions and competitiveness losses stemming mainly from cumulated inflation and productivity differentials. As a result, the external sector is expected to register a negative contribution slightly above 1%. All in all, for 2004 as a whole, GDP is foreseen to grow by 2.6%, only 0.1 percentage point more than in 2003. These figures present an unbalanced growth scenario based on

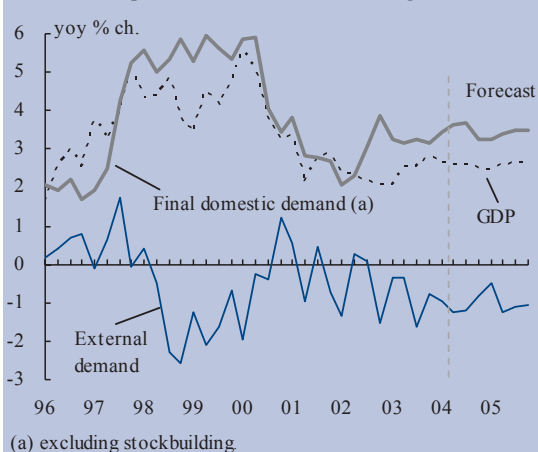
growing household indebtedness linked to the boom in residential construction. In addition, the high negative contribution of the external sector may reveal some weaknesses in the external competitiveness, which could challenge economic performance in the medium term.

Prospects for 2005 and 2006

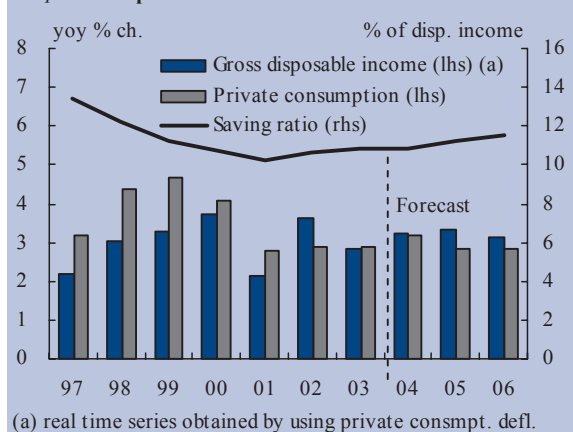
Due to still sound employment growth and easy monetary conditions, growth in 2005 will continue to be based on buoyant domestic demand, along with a broadly stable negative external contribution to GDP growth. The expected moderation of private consumption stems from the sizeable households' indebtedness while the still high inflationary pressures and the worsening in the terms of trade may also negatively affect consumers' purchasing capacity. Construction is also foreseen to register a moderate deceleration that should be offset by a mild pick-up in investment in equipment. The latter, although still behaving timidly, would be the main factor explaining the anticipated acceleration in gross fixed capital formation. Conversely, still uncertain prospects for the international economic setting would be behind the modest acceleration of exports, whereas the strong final demand would keep feeding imports growth well above exports. Accordingly, GDP growth would remain barely changed with respect to the previous year at 2.6%.

The year 2006 is projected to record a broadly similar performance, with GDP accelerating marginally to 2.7%, still below potential. Growth composition is expected to remain unbalanced, based on the strength

Graph 3.8: Spain - Contributions to GDP growth



Graph 3.9: Spain - Households use of income account



of domestic demand, while the negative external contribution would remain close to a bleak 1%. Although still recording healthy growth rates, households' indebtedness is expected to take its toll by constraining private consumption developments. Construction is expected to further decelerate, partly due to tighter monetary conditions, while investment should accelerate only slightly in line with the moderate recovery of exports.

Labour market

Employment growth should resume at close to 2% in terms of full-time equivalent jobs during the whole forecast period. Job creation is expected to be concentrated in sectors where productivity is low, mainly construction and some market services. In contrast, job losses, although at a lower pace, will continue in manufacturing activities in 2004 and 2005. This trend is expected to revert at the end of the forecast period. The employment rate is foreseen to follow an upward trend and increase by around two percentage points over the forecast period, ending at slightly above 63% (EUROSTAT definition).

Notwithstanding the envisaged increase in the active population by 2% throughout the forecast horizon, mainly due to still-high immigration flows and female participation, the expected employment growth should help reduce the unemployment rate below 11% in 2005 (EUROSTAT definition). Nevertheless, the decreasing path of unemployment reduction should be very flat and the unemployment rate should remain well above 10% at the end of the forecast period.

Costs and prices

Despite the moderation in unprocessed food prices, the oil price hikes in the second and third quarters of the year pushed up headline inflation significantly. As a result, HICP is forecast to grow slightly above 3% on average in 2004, barely changed compared to the previous year.

Inflation is expected to moderate from the second quarter of 2005. On average, HICP inflation should ease marginally to 2.9% in 2005 and fall further to 2.5% in 2006. Despite this deceleration in terms of HICP, inflationary pressures in the Spanish economy will persist during the projection period. Leaving aside energy components, prices of imported goods show a more moderate behaviour than domestically

produced goods. Thus, the GDP deflator should grow well above the HICP. While this gap is expected to be around 0.7 percentage points in 2004, it is foreseen to widen to almost 1% in 2006.

Compensation per head should decelerate in 2004. However, the rise in inflation in 2004 will accelerate wage increases through indexation provisions in 2005. In the absence of inflationary surprises in 2005, the effect of indexation clauses in 2006 should be more moderate. Accordingly, in 2006, compensation of employees per head is projected to decelerate to some 3.6%. This wage behaviour, coupled with sluggish apparent labour productivity, should imply a rise in unit labour costs in 2005 and lead to a moderation by the end of the projection period.

External sector

The growing trade deficit in goods reflects both strong domestic demand growth relative to weak external markets and the ongoing worsening in cost competitiveness. This deficit will be only partially offset by the services balance. The traditional surplus recorded by services is expected to narrow gradually during the forecasting period, mainly due to the subdued behaviour of tourism. Accordingly, the current account deficit is foreseen to widen further over the forecast horizon, raising concerns about its sustainability.

The increasing presence of Spanish firms overseas, coupled with falling flows of foreign direct investment, will tend to moderate the traditional deficit of the balance of primary incomes during the forecast period. In contrast, the high immigrant flows will keep the deficit of net current transfers broadly stable. As a result, the current account balance and the net lending position of the economy are envisaged to deteriorate steadily to nearly 5% and 4%, respectively. These numbers reveal a competitiveness loss that stems from the cumulated positive inflation differentials and low productivity growth and scant product differentiation.

Public finances

In 2003, despite personal income tax cuts, the general government balance achieved a better result than expected, supported by robust indirect tax collection and social security contributions, registering a surplus of 0.4% of GDP.

Revenues in 2004 remain buoyant because of the relatively strong domestic demand and robust employment growth. However, some one-off measures adopted by the new government in office since March 2004 that do not involve revisions for past years will affect the general government balance in the current year. Among them, the assumption of the Railway Network Company's debt by the Central government will increase its deficit by 0.7% of GDP. Other minor adjustments correspond to the inclusion of RTVE (public television) in the general government sector in 2004, which raises the State deficit by 0.08% of GDP and a credit granted to Argentina amounting to 0.03% of GDP. Overall, the initially planned balanced budget for the general government sector in 2004 is now expected to turn to a deficit of 0.5% of GDP.

In the budget for 2005, the government targets a small surplus of 0.2% of GDP for the consolidated balance of the State and the social security system. When including the territorial governments, the general government surplus is reduced to 0.1% of GDP.

The new draft budget plans to increase social protection and expenditure in infrastructures and R&D and innovation activities, which are considered to be the main spending areas. On the revenues side, indirect and direct taxes, as well as social security contributions are expected to remain buoyant, supported by strong job creation and firms' higher profits in 2005. The official target, however, might be based on optimistic growth assumptions. Therefore, a more realistic macroeconomic scenario would yield a marginal deficit of 0.1% of GDP.

Under a no-policy change assumption, 2006 could be close to a balanced budget for the general government as a whole. This projection is subject to a high degree of uncertainty and pressures for higher social expenditure might change this scenario. Accordingly, after deteriorating in 2004, the primary surplus is projected to remain broadly stable at around 2% in 2005 and 2006. The debt-to-GDP ratio is expected to continue to decline during the forecast period, falling below 50% of GDP already in 2004 and to around 43% of GDP by end-2006.

Table 3.7

Main features of country forecast - SPAIN

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	744.8	100.0		2.8	2.8	2.2	2.5	2.6	2.6	2.7
Private consumption	430.7	57.8		2.4	2.8	2.9	2.9	3.2	2.8	2.8
Public consumption	133.1	17.9		4.1	3.5	4.1	3.9	4.2	4.1	4.1
Gross fixed capital formation	190.4	25.6		4.0	3.0	1.7	3.2	3.3	3.7	4.0
of which : equipment	45.0	6.0		4.4	-1.2	-5.4	1.0	1.7	4.2	5.3
Change in stocks as % of GDP	2.8	0.4		0.3	0.3	0.3	0.4	0.5	0.7	0.7
Exports (goods and services)	207.0	27.8		7.7	3.6	1.2	2.6	4.5	5.2	5.7
Final demand	964.0	129.4		3.8	3.1	2.4	3.1	3.8	3.8	4.0
Imports (goods and services)	219.2	29.4		8.9	3.9	3.1	4.8	7.2	7.3	7.5
GNI at constant prices (GDP deflator)	734.7	98.7		2.8	2.4	2.3	2.5	2.8	2.8	3.0
Contribution to GDP growth :										
Domestic demand				3.0	3.0	2.8	3.2	3.5	3.4	3.5
Stockbuilding				0.0	-0.1	0.0	0.1	0.1	0.1	0.1
Foreign balance				-0.2	-0.2	-0.6	-0.8	-1.1	-1.0	-0.9
Employment				1.2	2.5	1.7	1.8	1.9	1.9	1.8
Unemployment (a)				15.5	10.6	11.3	11.3	11.1	10.8	10.6
Compensation of employees/head				7.7	3.8	4.2	4.2	3.7	4.0	3.6
Unit labour costs				6.1	3.5	3.7	3.5	3.1	3.4	2.7
Real unit labour costs				-0.6	-0.6	-0.8	-0.5	-0.7	-0.2	-0.7
Savings rate of households (b)				-	-	10.6	10.7	10.8	11.2	11.5
GDP deflator				6.7	4.2	4.5	4.0	3.8	3.6	3.4
Private consumption deflator				6.7	3.3	3.4	3.1	3.1	2.8	2.5
Harmonised index of consumer prices				-	2.8	3.6	3.1	3.1	2.9	2.5
Trade balance (c)				-4.2	-5.7	-5.1	-5.2	-5.9	-6.4	-6.6
Balance on current transactions with ROW (c)				-1.4	-3.1	-2.7	-3.3	-4.2	-4.8	-5.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.0	-2.2	-1.6	-2.1	-2.9	-3.6	-3.8
General government balance (c)(d)				-4.3	-0.4	-0.1	0.4	-0.6	-0.1	0.0
General government gross debt (c)				48.4	57.5	54.4	50.7	48.2	45.5	42.9

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

8. France

Sound growth and limited fiscal efforts

The situation in 2004

The economic recovery continued in the first half of 2004, when real GDP growth exceeded 3% in annualised terms, after 2.5% in the second half of 2003. This was the strongest performance in the last four years. Contrary to what was observed in the euro area as a whole, the French recovery was supported by domestic demand, especially by private consumption. In a context of protracted weakness of household's gross disposable income, the dynamism of consumption was driven by a large and unexpected decline in the saving ratio: after the implementation of reforms on pensions and healthcare, the latest consumer's surveys suggest that households are less concerned by their current financial situation. The rebound on equity markets and the increase in housing prices may also have encouraged households to free up some savings. Nevertheless, the decline in the saving ratio occurred despite the ongoing increase in unemployment: the clear rebound of real GDP growth observed for one year has not yet triggered any improvement in the labour market, with employment growth remaining very weak in the first half of 2004 (see graph below). In a context of improving demand prospects, and of increasing profit margins, business investment accelerated significantly in the first half of this year, contributing further to the economic rebound. The latter was limited by a significant drag from the external sector, which reflected the relative weakness of exports, especially compared to developments in some other euro area countries, and buoyant imports.

Recent macroeconomic indicators suggest that

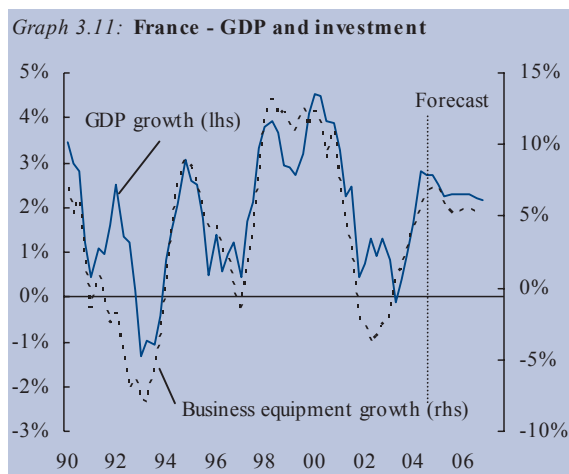
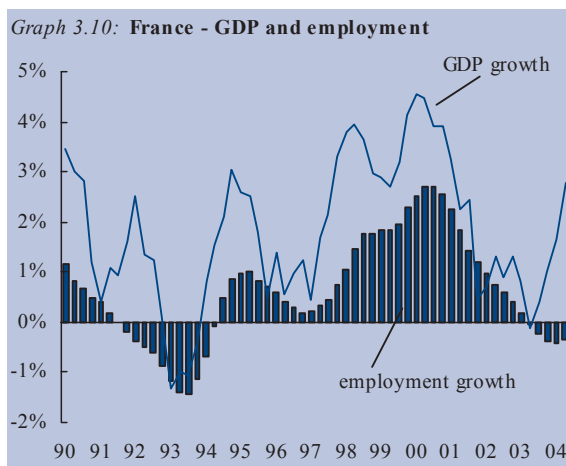
economic activity is gradually decelerating. Notably, personal business expectations in the manufacturing industry have hardly improved in the recent months. In such a context, and factoring in a rise in uncertainty linked to the sharp increase of oil prices, investment should be less buoyant in the second half of the year. Private consumption is likely to decelerate, also since the strong increase of the first half of the year was partly due to exceptional factors (energy consumption was particularly strong due to unusually bad weather conditions). Moreover, the short-term employment outlook does not augur well for consumption in the coming months: the latest surveys in the manufacturing and service sectors reveal that hiring intentions remain at a relatively low level, suggesting that employment growth may not accelerate significantly before 2005.

All in all, real GDP growth is projected to slow down to an annualised rate of less than 2% in the second half of 2004. On average, real GDP growth in 2004 would still post a clear acceleration compared to 2003, when it reached only 0.5%.

Prospects for 2005 and 2006

Real GDP growth is forecast to diminish somewhat in 2005 and 2006. Economic activity should be mainly driven by domestic demand, while the negative influence of net trade would gradually diminish.

Private consumption is projected to increase more in line with households' real disposable income, which would accelerate gradually in 2005 and 2006, due to the projected recovery in employment and wages. The savings ratio of households is still expected to edge



down marginally until next summer. This would reflect the introduction of tax exemptions on interest payments on consumer credits, and on inter-generational financial transfers which are expected to encourage households to free up some savings. In total, private consumption would increase by 1.7% and 2.1% in 2005 and 2006 respectively, after 2.4% in 2004.

Investment is projected to remain relatively dynamic in the next two years. It should still be supported by favourable financing conditions, and by the introduction of new tax incentives, notably cuts in the *taxe professionnelle* (a flat local tax on productive capital) on new capital expenditure. The gradual deceleration projected over the forecast period – from 3.7% in 2005 to 3.4% in 2006 – would be triggered by a slight deterioration in demand expectations.

After losing export market shares in 2003, mostly due to the appreciation of the exchange rate and to an unfavourable sectoral composition of global growth (recession in the electronic and aeronautic sectors), exports volumes are projected to increase more in line with export market growth over the next two years. This better performance would notably stem from an improvement of price competitiveness. In such a context, and despite the projected dynamism of imports, related to the robustness of final demand, net trade would no longer exert a significant drag on real GDP growth in 2005 and 2006.

Labour markets, costs and prices

The current weakness of employment growth, largely explained by the need for companies to improve their financial situation and uncertainties concerning the durability of the recovery, should come to an end in 2005 and 2006. This would allow a substantial decline in the unemployment rate, from 9.9% of the labour force in 2004 to 9.5% in 2006 (ILO definition). Such developments would be consistent with a gradual slowdown of labour productivity, after the strong cyclical rebound of 2004.

In a context of a still positive unemployment gap, wage moderation is expected to continue in 2005. Nevertheless, the harmonisation of the different levels of the minimum wage induced by the policies of reduction in working time to 35 hours per week will support the increase in real wages in 2005. In 2006, wages should post a slight cyclical acceleration, in

line with the improvement of the situation in the labour market.

As a consequence of the moderation in unit labour costs and import prices, core inflation is projected to remain roughly constant in 2005. A modest increase is projected for 2006. Headline inflation should nevertheless decline somewhat in 2005 due to the disappearance of the impact of past increases in tobacco prices (reducing the inflation rate by 0.5 percentage point in 2005), which would more than compensate for the increase in energy prices.

Government finances

The general government deficit is expected to decline from 4.1% of GDP in 2003 to 3.7% of GDP in 2004. The decline of the deficit is favoured by the improvement of the macroeconomic situation, which will trigger additional fiscal revenues of about 0.3% of GDP compared to Budget plans. Moreover, discretionary measures on the tax side will contribute to a reduction in the deficit by about 0.1% of GDP. The tax burden is nevertheless expected to decline marginally – from 43.8% of GDP to 43.6% of GDP, mostly due to the weakness of employment growth and its consequences for social contribution revenues. The ratio of general government expenditure to GDP is projected to decline from 54.7% of GDP to 54.2% of GDP. This assumes that the expenditure target in the State sector will be respected and that no further slippages will occur in the health and local authorities sectors, compared to those already acknowledged by the French authorities.

It is worth noting that the projection for the 2004 deficit is exactly the same as in Spring, when real GDP growth for 2004 was forecast not to exceed 1.7%, as against 2.4% expected currently. This is due to the fact that, in the meantime, the 2003 deficit was revised upwards, tax cuts were implemented, and expenditures were not kept in line with plans. All in all, according to Commission calculations, the cyclically-adjusted deficit will improve by 0.3 percentage point of GDP in 2004, as against 0.8 percentage point initially committed by the French authorities. The general government debt is expected to continue to increase from 63.7% of GDP in 2003 to 64.9% of GDP in 2004.

In 2005, the general government deficit is projected to decline further to 3.0% of GDP. This forecast assumes that expenditure plans included in the

Finance Law for 2005 will be respected, except for a slippage in health expenditure, which are projected to increase by 4.0%, as against 3.2% expected by the French authorities. Indeed, although the reform of the health insurance system adopted last Summer is likely to trigger substantial savings over time, the precise budgetary impact of some measures is uncertain. On the revenue side, the forecast incorporates one-off measures for a total amount of 0.5% of GDP. These revenues are related to the transfer to the social security sector of the responsibility for the payment of pensions to EDF employees. The macroeconomic and budgetary forecast for 2005 is consistent with an improvement in the cyclically-adjusted balance by 0.7 percentage point of GDP, the largest part of which reflects however the impact of the one-off measures. The risks to this government deficit forecast for 2005 are skewed to the upside. Beyond the uncertainties surrounding macroeconomic developments stemming notably from the recent increase in oil prices, further expenditure slippage cannot be ruled out, notably in

the health and local authorities sectors. Moreover, this forecast does not incorporate the cuts of taxes on energy announced by the Minister of Finance on 19 October 2004. While it is not possible to quantify the impact of these measures at the current juncture, it cannot be excluded that it would be sufficient to bring the 2005 deficit forecast above 3% of GDP.

In 2006, despite the fact that real GDP growth is expected to be close to its potential rate, the general government deficit is projected to increase again to 3.3% of GDP. This reflects the fact that the exceptional payments contributing to the deficit reduction in 2005 will vanish in 2006, and that significant tax cuts are already planned for that year (0.2% of GDP). This projection is based on the assumption that real government expenditures will increase by about 1¼ % in real terms, to be compared with a projection of 1.2% in the latest multi-annual budgetary projection of the French authorities.

Table 3.8

Main features of country forecast - FRANCE

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		1557.2	100.0	2.2	2.1	1.2	0.5	2.4	2.2	2.2
Private consumption		864.9	55.5	1.8	2.7	1.5	1.5	2.4	1.7	2.1
Public consumption		378.3	24.3	2.4	2.9	4.6	2.4	2.5	1.6	2.0
Gross fixed capital formation		298.7	19.2	2.3	1.9	-2.0	-0.2	3.6	3.7	3.4
of which : equipment		107.4	6.9	5.0	2.5	-3.5	-0.1	5.9	5.9	5.4
Change in stocks as % of GDP		-4.0	-0.3	0.2	0.4	0.2	0.0	0.7	1.0	1.1
Exports (goods and services)		401.9	25.8	5.5	1.6	1.9	-2.5	3.9	6.2	6.6
Final demand		1939.8	124.6	2.6	1.9	1.5	0.3	3.5	3.2	3.3
Imports (goods and services)		382.6	24.6	4.9	1.3	2.9	-0.1	7.8	6.9	7.0
GNI at constant prices (GDP deflator)		1560.1	100.2	2.2	2.1	0.9	0.1	2.4	2.2	2.4
Contribution to GDP growth :										
		Domestic demand		2.0	2.6	1.5	1.3	2.6	2.1	2.3
		Stockbuilding		0.0	-0.6	-0.1	-0.2	0.7	0.3	0.0
		Foreign balance		0.1	0.1	-0.2	-0.7	-1.0	-0.2	-0.2
Employment				0.3	1.9	0.9	0.1	-0.3	0.6	0.7
Unemployment (a)				9.7	8.4	8.9	9.4	9.6	9.5	9.3
Compensation of employees/head				4.9	2.7	2.4	2.3	3.3	2.9	2.9
Unit labour costs				3.0	2.5	2.2	1.9	0.6	1.3	1.4
Real unit labour costs				-0.8	0.7	-0.1	0.4	-1.2	-0.5	-0.3
Savings rate of households (b)				-	-	16.6	15.7	14.9	14.8	14.7
GDP deflator				3.8	1.8	2.3	1.5	1.9	1.7	1.7
Private consumption deflator				4.0	1.6	1.9	2.0	1.7	1.9	1.7
Harmonised index of consumer prices				-	1.8	1.9	2.2	2.3	2.0	1.8
Trade balance (c)				-0.7	0.2	0.5	0.2	-0.6	-1.0	-1.0
Balance on current transactions with ROW (c)				-0.6	1.5	1.5	0.4	-0.2	-0.5	-0.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.7	1.5	1.4	-0.1	-0.5	-0.6	-0.4
General government balance (c)(d)				-2.9	-1.5	-3.2	-4.1	-3.7	-3.0	-3.3
General government gross debt (c)				40.8	56.5	58.8	63.7	64.9	65.5	66.3

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

9. Ireland

Adjusting to sustainable growth levels

Activity in 2004

According to preliminary national accounts, real GDP increased by 4.1% on the year in the second quarter of 2004, after expanding by 6.1% in the previous quarter. On the domestic side, economic activity has been mixed. While consumer demand grew only modestly by comparison with previous years, investment growth has been strong and, in particular, residential building activity continued to grow at high levels. On the external side, figures for the first half of 2004 suggest a marked improvement in exports reflecting a more favourable trading environment. At the same time, imports have risen more slowly, resulting in a stronger growth contribution from net exports as compared to 2003. As regards the third quarter of 2004, the latest purchasing managers' indices for manufacturing and services continued to report increased activity. Confidence indicators also generally point to an improvement, although there have been some fluctuations in consumer sentiment.

For the year as a whole, real GDP growth is expected to reach 5.2% in 2004, compared with 3.7% in 2003. While still impressive, the extraordinary growth performance of the second half of the 1990s, then mainly due to a favourable external environment and sizeable pool of available labour, is unlikely to be repeated. As net profit outflows are projected to hold their normal upward trend, the corresponding growth rate in GNI terms is somewhat lower.

Prospects for 2005 and 2006

Growth of the economy is expected to stabilise close to the rate commonly thought to be sustainable in the

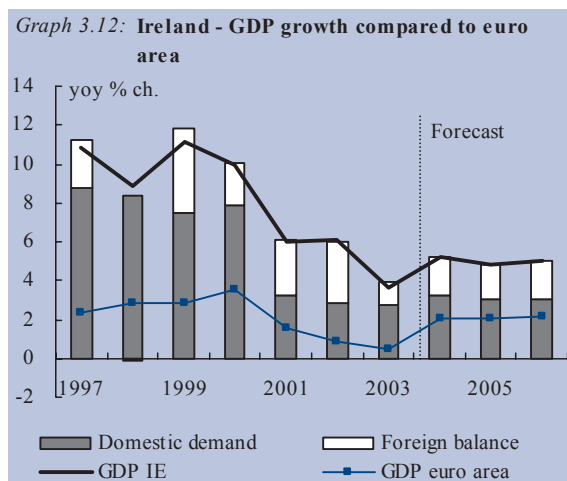
medium term. Overall, GDP is projected to grow by 4.8% and 5.0% in 2005 and 2006 respectively. On the domestic side, private consumption is underpinned into 2005 by healthy employment growth, but somewhat lower consumer confidence is likely to act as some offset. In 2006, private spending slightly accelerates as it is assumed to benefit from a modest fall in the savings rate, as funds in Special Savings Incentive Accounts (SSIA) reach maturity. By contrast, the contribution to growth of public consumption is subdued by virtue of further spending restraint. Investment in equipment should somewhat rebound over the forecast horizon, following a sustained period of weakness since 2001. However, as growth in housing completions is expected to taper off after double-digit growth in 2004, fixed investment should overall tend to record slower growth rates in 2005 and 2006. As a result, overall domestic demand growth should be fairly stable. On the external side, the performance of the international economy and oil prices are the key medium-term risks.

Labour market

In 2004, employment growth is set to strengthen to 2.4% on the year in response to improved economic conditions. However, in view of the expected economic activity and the cap on public sector employment, employment gains will be weaker in 2005 and 2006. With a somewhat slower rate of expansion projected for the labour force, unemployment should remain just under 4½% in the forecast period, implying fairly tight labour market conditions.

Cost and prices

In line with the available data for the first half of 2004, per capita compensation is estimated to grow at just above 5% on the year in 2004. Some further easing in view of fairly moderate pay provisions in the second half of the national agreement Sustaining Progress and a lower contribution from "benchmarking" awards to public sector wage growth (alignment of public sector wages with equivalent private sector) is expected to be partly offset by relatively tight conditions in the labour market. HICP inflation averaged 4.0% in 2003 and continued to decline markedly in the first months of 2004, bottoming out in April just under the euro area average. HICP inflation has somewhat picked up



since then, partly reflecting adverse energy price developments, and is likely to reach 2.3% for the year as a whole. As private spending revives further, HICP inflation is expected to rise gradually to just above 2½% by the end of 2006.

Public finances

The main measures implemented in the budget for 2004 included a further reduction of the growth rate of current discretionary expenditure, a return to positive growth in capital spending after a slowdown in 2003 and, on the revenue side, a modest increase in indirect taxes and a partial adjustment to inflation of the personal income tax system. Provided expenditures continue to be broadly in line with the

budget and taking account of one-off receipts from strengthened tax enforcement and all other factors (including duties on buoyant capital transactions), the actual outturn of the general government deficit is forecast to reach around 0.2% of GDP. The deficit is projected to stabilise at around ½% of GDP in 2005 and 2006. Given the non-indexed nature of the tax and social benefit systems, the no-policy change assumption for 2005 is made operational, in the absence of previously announced measures, by freezing average tax rates and adjusting social transfer payments by the forecast CPI inflation rate (with a small top-up). Government debt is projected to stabilise at just under one-third of GDP.

Table 3.9

Main features of country forecast - IRELAND

	2003		Annual percentage change							
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		134.9	100.0	5.4	6.0	6.1	3.7	5.2	4.8	5.0
Private consumption		60.9	45.1	3.6	5.2	2.6	2.6	3.0	3.8	4.8
Public consumption		21.4	15.8	2.2	11.3	8.4	2.6	2.2	2.3	2.3
Gross fixed capital formation		31.8	23.6	4.5	-1.5	3.0	3.4	8.5	4.6	2.8
of which : equipment		7.6	5.6	5.3	-10.4	1.0	0.5	6.0	7.5	6.5
Change in stocks as % of GDP		0.5	0.4	0.6	0.3	0.1	0.5	0.3	0.3	0.3
Exports (goods and services)		112.8	83.6	11.7	8.4	5.7	-0.8	6.2	7.0	6.7
Final demand		227.3	168.6	6.8	6.3	4.7	1.0	5.2	5.6	5.5
Imports (goods and services)		92.0	68.2	9.3	6.7	3.3	-2.3	5.3	6.5	6.1
GNI at constant prices (GDP deflator)		113.0	83.8	4.5	4.0	3.6	5.0	5.1	4.7	4.8
Contribution to GDP growth :										
		Domestic demand		3.2	3.8	3.1	2.3	3.4	3.0	3.1
		Stockbuilding		0.2	-0.6	-0.2	0.4	-0.1	0.0	0.0
		Foreign balance		1.9	2.8	3.1	1.2	2.0	1.8	1.9
Employment				1.7	3.0	1.8	2.0	2.4	1.7	1.5
Unemployment (a)				12.9	3.9	4.3	4.6	4.4	4.4	4.3
Compensation of employees/head				7.1	7.7	5.0	4.7	5.4	4.9	4.7
Unit labour costs				3.4	4.6	0.6	3.0	2.6	1.8	1.3
Real unit labour costs				-1.8	-1.0	-3.7	1.4	-0.4	-0.7	-0.7
Savings rate of households (b)				-	-	12.3	14.7	16.9	16.9	16.4
GDP deflator				5.3	5.7	4.5	1.6	3.0	2.5	2.0
Private consumption deflator				5.0	4.1	5.6	3.8	2.2	2.4	2.4
Harmonised index of consumer prices				-	4.0	4.7	4.0	2.3	2.4	2.4
Trade balance (c)				9.5	24.3	25.6	23.1	22.3	22.5	22.8
Balance on current transactions with ROW (c)				-1.5	-0.7	-1.3	-1.4	-1.6	-1.5	-1.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.6	0.0	-0.9	-1.1	-1.4	-1.3	-1.1
General government balance (c)(d)				-4.1	0.9	-0.2	0.1	-0.2	-0.6	-0.5
General government gross debt (c)				86.0	35.9	32.7	32.1	30.7	30.7	30.6

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

10. Italy

Muted and lagged response to the buoyant global environment

The economy in 2004

Following the meagre performance in 2003, when real GDP grew by only 0.3%, economic activity finally started to pick up again in the first half of 2004. However, the pace of recovery was significantly slower than in the rest of the euro area and appears to rest on uneven foundations. The driving forces have not consolidated yet, with private consumption expenditure exhibiting a fairly unsteady pattern, the inventory cycle tapering off and exports benefiting with a long lag from the buoyancy of world trade growth. Only gross fixed capital formation seems to have embarked on a steady upward path.

Based on the available evidence, the economic recovery is not likely to gain much momentum in the second half of 2004. It will continue at a relatively measured pace and is expected to yield an annual average rate of economic growth of 1.3%, 0.8 of a percentage point less than the euro area average.

Despite weak economic growth and a still sizeable negative output gap inflation remained sticky at around 2.3% throughout the year. As a reaction to this and in view of the high price of oil, the government decided to freeze a series of controlled prices and tariffs in 2004. It also reached an agreement with large retailers to keep prices of certain products unchanged until the end of the year on a voluntary basis in exchange for the prospect of new legislation liberalising the sector.

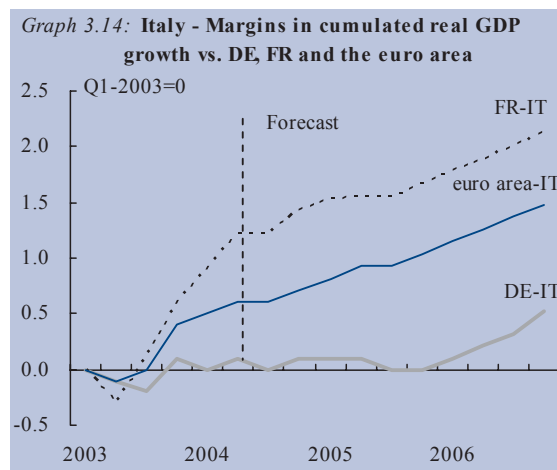
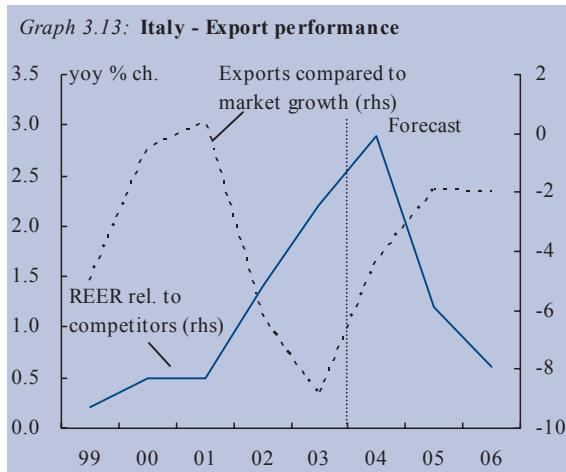
The labour market continued to create new jobs at a relatively healthy pace in the first part of 2004. According to the national accounts statistics the

number of full time equivalents increased by 0.6% compared to the same period last year. With a view to harmonise national statistics with EU legislation the Italian Statistical Office carried out a major reform of the labour force survey in 2004. The new method entailed a shift in the level of most labour market series. The rate of unemployment is consistently lower compared to the previous labour force survey. In particular, the 2003 annual average is now recorded at 8.4%, as opposed to 8.7% before.

Growth prospects to 2006

In view of the lagged revival in 2004, the Italian economy is expected to diverge somewhat from the cyclical pattern foreseen in the rest of the EU. While most EU economies are expected to decelerate somewhat in 2005 and 2006, echoing the assumed slowdown in world trade and global growth, Italy is projected to gradually catch up from behind. Real GDP growth is forecast to rise to 1.8% in 2005 and to stabilise in 2006. The growth differential vis-à-vis the euro area average narrows but stays negative.

The growth projection is essentially built upon the assumption that domestic demand will eventually steady and strengthen in view of a relatively broad set of favourable fundamentals. Private consumption expenditure should benefit from ongoing job creation, real wage increases, and rising house prices. In a similar vein, investment is expected to remain on the upward path traced out in 2004 on the back of the improving business confidence, low real interest rates and rising profit margins.



No major improvement is expected on the external side, where Italian exports are likely to face the *déjà-vu* of the recent past. In particular, the erosion of export markets is expected to continue reflecting the unfavourable specialisation of the Italian industry coupled with declining price competitiveness. As a result, net exports are projected to act as a drag on economic growth throughout the forecast period. The size of the drag is likely to decline as the appreciation of the euro levels out.

Costs and prices

Inflation is projected to ease only very slowly over the forecast horizon. Part of the stickiness will result from the lagged adjustment mechanism for electricity and gas prices charged to private households. This has dampened the impact of the sharp increase in oil prices in 2004 but will release the rest of the effect over the course of 2005. Moreover, the aforementioned effort of the government to postpone the increase of controlled prices as well as the negotiated temporary price stop in parts of the retail sector are likely to trigger a rebound at the beginning of 2005. Subsequently, the still negative output gap, the projected increase in productivity and slowing import prices, are expected to work their way through to consumer price inflation. Overall, the annual increase in the HICP is likely to drop below the 2% threshold only towards the end of 2006.

Labour market

The measured pace of economic expansion in 2005 and 2006 is projected to be accompanied by an essentially steady annual increase of employment. As in the past several years, the head count figures will grow faster than the full-time equivalents reflecting the higher degree of flexibility ensuing from the successive stages of labour market reform implemented since the mid-1990s. The job content of economic growth is projected to ease somewhat as the level effect resulting from the reforms is expected to peter out, giving way to a more traditional link between GDP and employment growth. The 'normalisation' of the labour market is also expected to flatten the downward trend in the rate of unemployment.

Public finances

The general government deficit is estimated to reach 3.0% of GDP in 2004, as compared to 2.4% of GDP in 2003 and to an initial target of 2.2% of GDP. A sizable decrease in interest expenditure falls short to compensate a marked deterioration of the primary surplus, which is forecast to drop to 2.0% of GDP. In cyclically-adjusted terms both the budget deficit and the primary surplus deteriorate significantly compared to 2003.

The budgetary outturn in 2004 also reflects a declining contribution from one-off measures. Specifically, in 2003 temporary measures reduced the deficit by more than 2 percentage points of GDP. In 2004, higher than planned revenues from tax amnesties are expected to offset the limited success of other temporary measures, i.e. the amnesty for zoning code violations and sale of publicly-owned real assets. In the Commission forecast, the total impact of one-off measures amounts to around 1½ pp of GDP in 2004.

The Commission deficit forecast of 3% for 2004 is marginally above the official target of 2.9% of GDP because of a residual uncertainty attached to a part of the very recently disclosed administrative measures complementing the additional fiscal correction announced in July this year.

In 2005, the general government deficit is projected to remain at 3% of GDP, while the primary surplus is expected to improve marginally to 2.1%. As the output gap is projected to narrow in 2005 this projection would entail a deterioration of the underlying budgetary position as measured by the cyclically-adjusted budget balance.

The Commission forecast presupposes a full implementation of the fiscal adjustment presented in the draft 2005 budget which is officially expected to close the gap between the unchanged legislation deficit of 4.4% of GDP and the target of 2.7% of GDP. The target is 1.2 percentage point higher than the objective presented in the 2003 updated stability programme. The difference between the Commission deficit forecast and the government target is due to the following two elements. First, the draft budget assumes an increase in real GDP of 2.1% as compared to 1.8% in the Commission scenario. The lower growth projection accounts for one decimal point of

the deficit to GDP ratio. Second, the remaining two decimal points of the difference in the deficit projection refer to a classification issue. The Italian Government has classified ANAS, the public company in charge of the maintenance of state roads, outside the general government sector as of 2005. However, at this stage it seems unlikely that ANAS will meet the ESA95 conditions to qualify as part of the private sector in that year.

The Commission deficit projection for 2005 does not incorporate the repeatedly announced tax cuts, as no measures were officially adopted before the cut-off date of this forecast.

The balance of risks is clearly skewed towards a higher deficit in 2005. The authorities plan to achieve a large fiscal correction combined with a deficit neutral tax cut. Overall, this strategy entails an adjustment of around 2¼ % of GDP, the largest of the

current legislative period. Implementation of the 2% ceiling on the nominal annual increase in primary expenditure excluding pensions - the main pillar of the fiscal adjustment - will prove very challenging especially in health care. Even a small deviation from budget plans will imply a deficit above the 3% of GDP reference value.

Following established practice, the deficit projection for 2006 of 3.6% of GDP is based on unchanged legislation.

In spite of privatisation and securitisation proceeds amounting to 1.5% of GDP, the debt ratio is projected to decline by only 0.2 percentage point in 2004, to 106% of GDP. In 2005, the debt is forecast to decrease to 104.6% of GDP, discounting the announced disposal of financial assets estimated at around 1.8% of GDP. The same volume of disposals is expected in 2006, when the debt ratio is projected to decline by a mere 0.2% of GDP.

Table 3.10

Main features of country forecast - ITALY

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	1300.9	100.0		1.9	1.8	0.4	0.3	1.3	1.8	1.8
Private consumption	786.2	60.4		2.2	0.8	0.5	1.3	1.5	1.6	1.7
Public consumption	253.4	19.5		1.6	3.9	1.9	2.2	1.0	1.1	1.1
Gross fixed capital formation	248.8	19.1		1.7	1.9	1.2	-2.1	3.6	3.2	3.0
of which : equipment	109.8	8.4		2.9	0.8	-1.1	-6.0	4.6	4.5	4.6
Change in stocks as % of GDP	5.7	0.4		0.7	-0.1	0.4	0.8	0.5	0.5	0.6
Exports (goods and services)	330.2	25.4		5.1	1.6	-3.4	-3.9	4.2	5.7	5.5
Final demand	1624.2	124.9		2.5	1.5	0.2	0.1	2.1	2.7	2.7
Imports (goods and services)	323.3	24.9		5.1	0.5	-0.2	-0.6	4.9	6.1	5.9
GNI at constant prices (GDP deflator)	1286.9	98.9		1.9	1.9	0.3	-0.1	1.5	1.8	1.8
Contribution to GDP growth :										
		Domestic demand		2.0	1.5	0.8	0.7	1.8	1.8	1.9
		Stockbuilding		-0.1	-0.1	0.5	0.5	-0.4	0.1	0.0
		Foreign balance		0.1	0.3	-0.9	-0.9	-0.2	-0.1	-0.1
Employment				0.3	1.6	1.3	0.4	0.8	0.7	0.6
Unemployment (a)				9.6	9.4	9.0	8.6	8.3	8.1	8.0
Compensation of employees/head				7.8	3.2	2.5	3.8	3.4	3.3	2.8
Unit labour costs				6.1	3.1	3.5	4.0	2.9	2.2	1.6
Real unit labour costs				-1.0	0.4	0.4	1.0	0.1	-0.1	-0.5
Savings rate of households (b)				-	-	15.9	15.8	15.8	15.4	15.5
GDP deflator				7.2	2.6	3.1	2.9	2.9	2.3	2.1
Private consumption deflator				7.1	2.8	3.1	2.5	2.4	2.4	2.0
Harmonised index of consumer prices				-	2.3	2.6	2.8	2.3	2.3	2.0
Trade balance (c)				0.9	1.8	1.6	1.1	0.8	0.9	1.0
Balance on current transactions with ROW (c)				-0.1	0.3	-0.3	-1.2	-1.0	-0.9	-0.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	0.4	-0.3	-1.0	-0.8	-0.7	-0.5
General government balance (c)(d)				-8.6	-2.6	-2.3	-2.4	-3.0	-3.0	-3.6
General government gross debt (c)				99.0	110.6	107.9	106.2	106.0	104.6	104.4

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

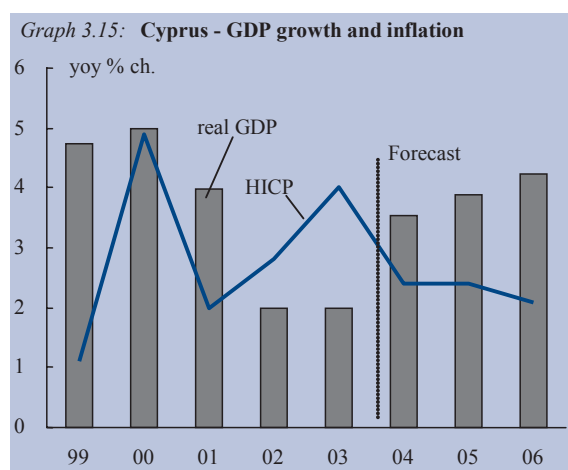
11. Cyprus

Growth picking up and fiscal consolidation

The economy in 2003

The unfavourable external environment continued to negatively affect tourism in 2003. As in 2002, real GDP growth reached 2%. Economic activity was mainly driven by domestic demand, notably in government and construction investment and consumption (notably public sector wages) as fiscal policy turned more expansionary, widening the fiscal deficit to 6.4% of GDP. Private consumption increased by 2.4%, underpinned by rising disposable income linked to high wage growth, continuing near-full employment conditions, and aided by tax reform (including lower marginal income tax rates). Private investment dropped by more than 3%. However, corrected for purchases of ships and aircraft in 2002, investment increased by about 4%, mainly driven by investment in construction and machinery/equipment. Demand was further supported through lower real interest rates, resulting from slightly increased inflation rates and a 0.5% nominal rate decrease in April 2003.

Tourist arrivals declined by nearly 5%, linked to the Iraq war, SARS and low EU growth. Moreover receipts fell by 10%, due to price discounts. Together with slow growth in Middle East export markets and deteriorating competitiveness as the Cyprus pound (linked to the euro) appreciated vis-à-vis the dollar and pound, total real export growth remained near-stagnant. Modest domestic demand and export growth made imports drop by 1%, while the terms of trade improved slightly. Altogether, the current account (CA) deficit decreased to 3.5% of GDP.



Prospects

The forecast for 2004 projects a modest rebound in real GDP growth to 3.5%. The recovery is mainly domestic-demand led, but the slightly more positive 2004 growth prospects for the EU (especially the UK and Germany, Cyprus' main tourist source countries) also support this outlook. The rebound is expected to strengthen somewhat further in 2005 and 2006 to around 4%. External demand (tourism) is also projected to accelerate after the sluggish expansion so far. However, uncertainties remain, notably in tourism and oil price developments, where Cyprus is vulnerable. Hence, given the fragile international growth outlook, the forecast remains cautious on tourist arrivals and receipts.

GDP components

The gradual recovery starting in the 2nd half of 2003 strengthened in early 2004, with GDP growth in Q1 and Q2 at y-o-y 3.6% and 4.1% respectively. For 2004 consumption growth is projected at 3.2% while for 2005-2006 marginally higher rates are foreseen, stimulated by much the same factors as 2003. Recovering investment growth in 2004 is expected to reach 5.3% and then continue to show vigorous growth for the remainder of the period, given that structural growth factors such as EU accession, ongoing liberalisation and restructuring in financial and utilities markets and planned infrastructure projects (airports in Larnaca and Paphos and a port in Larnaca) are still in place.

Tourism has been recovering markedly more slower than expected so far. Arrivals in Jan-September increased by only 2.9%, (well) below historical growth rates. With strengthening domestic demand and import growth, the CA deficit for 2004 is projected to rise to 4.5% of GDP and then to decline to 3.7% by 2006, linked to modest export recovery, fiscal consolidation, and –for 2006-improving terms of trade.

Costs and prices, labour market

Following increases in VAT and excise duties in line with the EU *acquis*, inflation increased to 4% in 2003, although the appreciation of the pound and the drop in industrial import prices tempered price pressures. For Jan-September 2004, inflation stood at 1.6% compared to the same period in 2003.

For both 2004 and 2005, inflation is expected to reach 2.4%, linked also to oil price pressures, before inching down to 2.1% by 2006, in line with previous VAT-related inflation spikes. To counter devaluation rumours related to, *inter alia*, political uncertainty after the Greek Cypriot 'No' vote to the UN Annan plan and capital outflow risks following full capital liberalisation on the eve of EU accession, the Central Bank of Cyprus in April increased interest rates by 1%-point. The Cyprus pound remained stable against the euro and in subsequent months, capital outflows reversed again.

Unemployment increased to 4.4% in 2003 but is expected to move downward again to below 4% in the forecast period as growth picks up. It can also be noted that the limited border opening with the Turkish Cypriot community (T/C) in the North has led to an

increasing share of daily commuting T/C workers in total employment (to about 1%).

Public finances

Government revenues in Jan-August 2004 increased by 15% and expenditure by 0.5% compared to the same period last year. However, major parts of expenditure takes place at the end of the year, while there have been delays in introducing some 2004 fiscal consolidation revenue measures. Nevertheless, given these results, the forecast expects that the 2004 deficit target of 5.2% of GDP will be met. For 2005 the deficit is projected at 3.0% of GDP or marginally above the Convergence Programme (CP) target, given the Commission's slightly more cautious GDP growth projection. Similarly, for 2006, the forecast projects a deficit of 2.4% or slightly higher than in the CP, mainly due to a relatively lower projected GDP growth.

Table 3.11

Main features of country forecast - CYPRUS

	2003			Annual percentage change						
	mio CYP	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		6700.8	100.0	4.2	4.0	2.0	2.0	3.5	3.9	4.2
Private consumption		4475.2	66.8	7.4	4.6	2.5	2.4	3.2	3.4	3.5
Public consumption		1356.5	20.2	2.7	10.4	8.5	1.7	-3.2	2.3	2.7
Gross fixed capital formation		1163.8	17.4	2.1	3.2	8.0	-3.4	5.3	6.4	6.6
of which : equipment		365.0	5.4	7.6	1.8	14.4	-16.6	5.0	6.5	6.5
Change in stocks as % of GDP		55.3	0.8	1.8	1.0	1.2	0.9	0.9	0.9	0.9
Exports (goods and services)		3180.5	47.5	7.3	3.4	-5.1	0.3	4.7	5.1	5.4
Final demand		10231.3	152.7	5.8	3.8	1.2	0.8	3.2	4.2	4.4
Imports (goods and services)		3534.7	52.8	8.7	3.8	1.5	-1.2	2.8	4.8	4.8
GNI at constant prices (GDP deflator)		6820.8	101.8	4.1	4.2	2.4	3.1	2.0	3.9	4.2
Contribution to GDP growth :										
		Domestic demand		5.6	5.4	4.6	1.3	2.6	4.0	4.1
		Stockbuilding		-0.4	-1.2	0.2	-0.2	0.1	0.0	0.0
		Foreign balance		-1.0	-0.4	-3.8	0.9	0.7	-0.2	0.0
Employment				-	1.9	1.4	0.9	1.1	1.3	1.3
Unemployment (a)				4.7	4.4	3.9	4.4	4.2	4.0	3.7
Compensation of employees/head				6.2	4.7	4.4	4.9	4.0	4.5	4.5
Unit labour costs				-	2.5	3.8	3.7	1.6	2.0	1.7
Real unit labour costs				-	0.3	1.0	-1.5	-1.4	-0.8	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.8	2.3	2.8	5.3	3.0	2.8	2.5
Private consumption deflator				2.5	1.8	2.4	3.8	2.4	2.4	2.1
Harmonised index of consumer prices				-	2.0	2.8	4.0	2.4	2.4	2.1
Trade balance (c)				-26.2	-29.0	-28.3	-25.4	-25.3	-25.0	-24.4
Balance on current transactions with ROW (c)				-4.0	-4.0	-	-3.5	-4.5	-4.4	-3.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-4.4	-4.3	-3.6
General government balance (c)(d)				-	-2.4	-4.6	-6.4	-5.2	-3.0	-2.4
General government gross debt (c)				-	64.3	67.4	70.9	72.6	72.4	69.4

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

12. Latvia

Continuous robust growth but with some imbalances

Recent developments in activity

In 2003, GDP growth was 7.5% (6.4% in 2002). Private consumption and gross fixed capital formation have been the driving factors for growth. Strong private consumption was supported by employment growth, rising real wages and increased bank lending. Gross fixed capital formation remained buoyant as a result of favourable credit conditions and reinforced macroeconomic stability. The first half of 2004 produced further expansion. Growth in the first two quarters was 8.8% and 7.7% respectively (y-o-y). Exports grew 4.3% y-o-y; however, imports grew three times faster (13.9%), widening the already large external deficit.

Prospects for 2004-2006

Growth prospects for 2004-2006 are strong with an expected growth rate of 7½% in 2004 and just below 7% in 2005 and 2006. Final domestic demand is expected to drive growth, primarily led by increases in private consumption on the back of sustained increases in real disposable income and better credit access. Over the entire forecast period, private consumption is expected to continue to show healthy growth peaking in 2004 followed by a slight easing in 2005 and 2006. The expansion of investment is likely to remain high over the forecast period with housing investment increasing strongly.

The recovery of the EU economy and positive externalities of Latvia's accession to the EU will keep export growth strong. Nevertheless, import growth is expected to remain robust due to the increase of investment and intermediate goods reflecting buoyant

investment and strong growth of manufacturing. Thus, for 2004 the negative growth contribution from net exports remains considerable at about 3 percentage points. Although import growth is expected to slow somewhat in 2005, allowing for a slight narrowing of the trade balance, the net contribution to GDP growth from trade is also expected to be considerable and negative in 2005 and 2006. Accordingly, real GDP is expected to grow at around 7% in all forecast years.

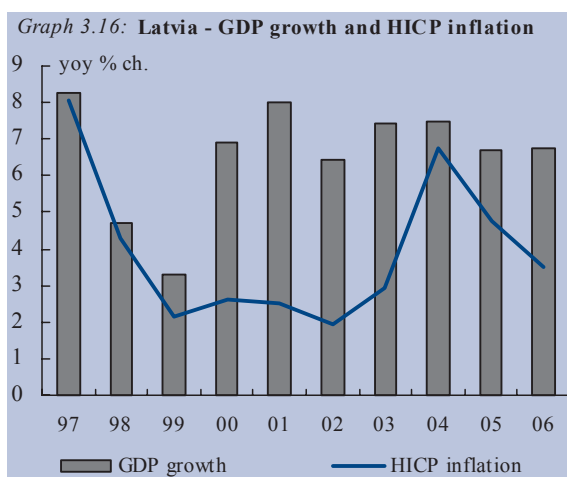
Labour market, costs and prices

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

Since summer 2003 inflation has been rising. The pick up of prices has been reflected in all inflation indices, with that for producer prices starting to outpace consumer prices. For 2003 inflation reached 2.9%, up from 2.0% in 2002. This was partly due to higher regulated prices for gas, heating and rent as well as to a sharp rise in healthcare costs. Imports also became more expensive. Price levels accelerated even further in the first quarter of 2004. The inflation increase in 2004 is largely the consequence of one-off events, such as EU entry-related tax and price adjustments, and a significant depreciation of the lats vis-à-vis the euro at the end of 2003. The main risk to the inflation outlook is that price increases could become persistent if strong demand continues to drive output above potential and feed into inflation expectations. Taking this into account, inflation is expected to reach 6.8% in 2004 and to fall back to a about 3½% in 2006.

The external account

Given the net export performance noted above, the current account deficit increased to 8.6% of GDP in 2003. In 2004 the current account balance will



deteriorate further to about 10% of GDP due to a disproportionate rise in imports of goods prior to Latvia's accession to the European Union, and the purchase of new vessels adding 1.5% of GDP to the current account deficit. Latvia's external balance will improve as soon as modernization of the economy allows an increase in share of high value-added exports. However, during the forecast period investment needs will dominate and improvement will be gradual. The worsening of the trade balance is expected to be compensated by increasing surplus on the services account, thus the current account deficit will remain roughly at the same level throughout the forecast period. The sectoral net lending position will improve relative to the current account, reflecting the build-up of capital transfers received from the EU.

revenues. In August 2004 the Latvian Parliament approved amendments to the budget law to provide for additional expenditure in 2004 of approximately 0.9% of GDP. Nevertheless, the budget deficit is expected to remain within the target of 2% of GDP in the light of very strong growth and an emerging tax overshoot in the first half of 2004. For the forecast period a broadening of the indirect tax base should outweigh the cut in the corporate income tax rate in force since January 2004. However, the draft 2005 budget law as adopted in September represents a marked shift towards a more expansionary fiscal policy. Consequently, in the absence of budget amendments, the deficit could be expected to approach 3% of GDP in 2005-2006.

Public finances

The general government deficit in 2003 decreased to 1.5% of GDP largely due to better than expected tax

Table 3.12

Main features of country forecast - LATVIA

	2003			Annual percentage change						
	mio LVL	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	6381.2	100.0	4.3	8.0	6.4	7.5	7.5	6.7	6.7	
Private consumption	3985.5	62.5	-	7.3	7.4	8.6	9.0	8.5	8.0	
Public consumption	1375.4	21.6	-	0.3	2.4	2.5	2.7	3.5	3.3	
Gross fixed capital formation	1528.2	23.9	-	11.4	13.0	7.8	12.0	11.0	10.5	
of which : equipment	-	-	-	-	-	-	-	-	-	
Change in stocks as % of GDP	295.9	4.6	-2.0	-4.2	-0.3	3.9	4.3	3.8	3.6	
Exports (goods and services)	2680.5	42.0	-	6.9	6.3	4.3	11.9	8.6	7.7	
Final demand	9865.5	154.6	-	9.5	5.8	9.4	10.0	8.1	7.7	
Imports (goods and services)	3484.2	54.6	-	12.6	4.5	13.1	14.3	10.4	9.2	
GNI at constant prices (GDP deflator)	6347.3	99.5	4.4	8.2	5.8	7.0	7.5	6.7	6.8	
Contribution to GDP growth :										
Domestic demand			-	7.6	8.6	8.1	9.6	9.4	9.0	
Stockbuilding			-	2.6	3.9	4.5	0.8	-0.2	0.0	
Foreign balance			-	-3.6	0.4	-5.5	-3.0	-2.4	-2.3	
Employment			-2.3	2.2	1.6	1.7	0.8	0.6	0.6	
Unemployment (a)			16.1	12.9	12.6	10.5	9.9	9.7	9.4	
Compensation of employees/head			11.4	3.4	4.4	10.8	14.0	10.0	7.0	
Unit labour costs			4.4	-2.2	-0.4	4.9	6.9	3.7	0.8	
Real unit labour costs			-3.6	-4.2	-3.7	1.5	0.1	-2.8	-4.0	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			8.2	2.1	3.4	3.4	6.7	6.8	5.1	
Private consumption deflator			-	2.6	2.2	2.9	6.7	4.8	3.5	
Harmonised index of consumer prices			-	2.5	2.0	2.9	6.8	4.7	3.5	
Trade balance (c)			-14.2	-16.4	-15.6	-18.0	-19.4	-20.1	-20.6	
Balance on current transactions with ROW (c)			-6.0	-8.9	-7.0	-8.6	-9.9	-9.8	-9.6	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-5.9	-8.4	-6.8	-8.3	-8.3	-7.1	-6.6	
General government balance (c)(d)			-1.6	-2.1	-2.7	-1.5	-2.0	-2.8	-2.9	
General government gross debt (c)			-	14.9	14.1	14.4	14.6	15.4	16.6	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

13. Lithuania

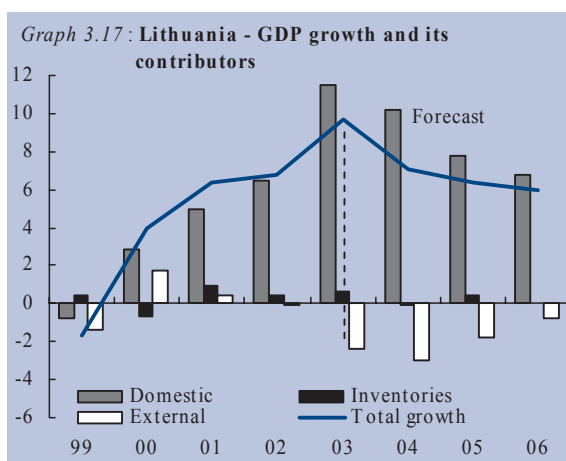
Strong growth with pressures on the external and fiscal balances

Recent developments

The Lithuanian economy continued to expand briskly in recent months. After increasing by 9.7% in 2003, real output expanded further by 7.2% in the first half of 2004 against the same period of the previous year. Growth continued to be driven by domestic demand, as the pace of expansion of investment and private consumption remained particularly rapid in the wake of EU accession-related investment projects, very strong credit growth and an improving labour market.

Although foreign trade data in 2004 are not fully comparable with 2003 due to methodology changes, data available point to an acceleration of exports in the first half of 2004 that was amply outpaced by import growth. Preliminary estimations set the current account deficit at some 10% of GDP in the first half of 2004, largely due to a widening trade deficit induced by the investment and consumption surge and a build-up of stocks in anticipation of higher taxes for certain imported goods after EU accession. Lithuania's contribution to the EU budget in the second quarter contributed further to the deterioration. A significant increase in foreign direct investment flows in the first half of the year has contributed to partly finance the deficit increase.

The deflationary trend initiated in 2002 reversed in the second quarter of 2004, mainly reflecting a strong contribution from oil and food prices and tax alignments required upon accession. Labour demand remained buoyant in the private sector and led to a further decrease in the unemployment rate, which is estimated to have fallen below 12.5% in the first half of 2004.



Growth prospects

Real GDP growth is expected to remain robust, sustained by continued buoyancy in private consumption and investment, but growth is foreseen to moderate gradually from 7.1% in 2004 to 5.9% in 2006. Domestic demand growth is estimated to slow down progressively in 2005-2006, partly in response to the reduced stimulus from fiscal policy and increasing interest rates.

GDP growth is expected to become more balanced towards the end of the forecast horizon, with the contribution of net exports gradually improving after a sharp deterioration in 2004. Export growth is foreseen to accelerate in 2005-2006 on the back of increasing external demand and expanded production capacity. The government's fiscal consolidation plans in 2006 and an expected moderation of the present credit growth dynamics are likely to contribute to improve Lithuania's savings-investment balance, with the current account deficit decreasing to about 7.9% of GDP from an expected peak of 8.7% in 2004.

Labour market, costs and prices

Inflation is expected to accelerate further in the second half of 2004, but the annual average inflation rate is forecast to increase only moderately by 1.2%. Higher oil, transport and health prices, coupled with the effect of tax alignments due to EU accession, are expected to continue leading the increase in inflation in the last months of 2004. Annual average inflation is expected to accelerate further in 2005-2006 and reach 2.8-2.9%, under the impact of higher wage inflation and price increases in the regulated sectors and public transport.

Overall, the labour market is expected to improve in line with the rapid economic expansion and more active labour market policies co-financed by the EU. Employment growth is foreseen to remain relatively strong, driven by firm labour demand by the private sector. The unemployment rate is expected to decline gradually from 12.7% in 2003 to 9.9% in 2006. Wage growth is expected to accelerate during the forecast horizon with some pressure on unit labour costs as a consequence.

Public finance

Recently revised data show that the general government deficit increased from 1.5% of GDP in

2002 to 1.9% in 2003, undershooting the 2.4% of GDP target foreseen in the budget for 2003.

The general government deficit is expected to increase significantly in 2004 to 2.6% of GDP. The main factors contributing to the deficit increase are a sharp increase in capital expenditure led by new investment projects co-financed by the EU, higher public consumption driven by salary increases for public sector workers, the transition costs of the pension reform and a significant increase in social welfare benefits and subsidies. Government investment and current expenditure growth are expected to remain robust in 2004-2005, due to co-financing of EU structural and cohesion funds projects, further salary increases in the public sector and rising pensions and social welfare benefits.

Revenue growth is expected to be strong over the forecast period, particularly income and wealth taxes and social contributions, on the back of increasing

minimum and average salaries, growing employment and rising corporate profits. The forecast assumes that, after the initial deterioration of the general government deficit, the government remains committed to fiscal consolidation, which is expected to play a role in containing external imbalances and smooth household consumption. The deficit is projected to decrease from 2.5% of GDP in 2005 to 1.9% in 2006, when public consumption and investment growth are expected to slow down, as the initial impact of accession on public investment gradually fades. The deficit projection for 2006 also assumes a lower increase in social spending and salaries than in 2004 and 2005. Several factors introduce some uncertainty for the general government deficit forecast, particularly the transition costs of the pension reform and the impact of the change of VAT collection upon EU accession.

Table 3.13

Main features of country forecast - LITHUANIA

	2003			Annual percentage change						
	bn LTL	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	55.7	100.0		4.0	6.4	6.8	9.7	7.1	6.4	5.9
Private consumption	36.5	65.5		-	3.6	6.1	12.4	9.1	6.5	5.9
Public consumption	10.4	18.6		-	0.3	1.8	4.0	6.8	6.7	4.1
Gross fixed capital formation	11.6	20.8		9.4	13.5	11.1	14.0	14.2	10.0	8.9
of which : equipment	4.4	8.0		-	22.3	10.8	5.4	11.0	8.9	8.8
Change in stocks as % of GDP	0.6	1.0		0.7	1.6	1.8	2.2	2.0	2.2	2.1
Exports (goods and services)	29.1	52.3		-	21.2	19.5	6.9	9.7	9.2	8.9
Final demand	88.1	158.1		-	10.2	10.7	9.9	9.6	8.1	7.1
Imports (goods and services)	32.4	58.1		-	17.7	17.6	10.2	13.4	10.6	8.8
GNI at constant prices (GDP deflator)	54.2	97.3		3.7	6.6	7.0	8.1	7.3	6.8	6.1
Contribution to GDP growth :										
Domestic demand				-	5.0	6.5	11.5	10.2	7.8	6.8
Stockbuilding				-	0.9	0.4	0.6	-0.1	0.4	0.0
Foreign balance				-	0.5	-0.1	-2.4	-3.0	-1.8	-0.8
Employment				-1.2	-3.3	4.0	2.3	1.6	1.1	0.9
Unemployment (a)				13.7	16.4	13.5	12.7	11.4	10.6	9.9
Compensation of employees/head				22.7	3.4	1.4	8.2	7.8	8.1	7.5
Unit labour costs				16.5	-6.0	-1.2	0.9	2.2	2.6	2.4
Real unit labour costs				2.7	-5.9	-1.2	1.7	0.5	-0.3	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				13.4	-0.1	0.0	-0.8	1.7	2.9	3.3
Private consumption deflator				-	2.4	-0.2	-2.6	1.0	2.8	2.7
Harmonised index of consumer prices				-	1.3	0.4	-1.1	1.2	2.9	2.8
Trade balance (c)				-11.7	-9.2	-9.4	-8.7	-10.7	-11.7	-11.3
Balance on current transactions with ROW (c)				-9.5	-4.7	-5.2	-6.9	-8.7	-8.5	-7.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-9.6	-4.7	-4.8	-6.5	-8.0	-7.4	-6.8
General government balance (c)(d)				-3.0	-2.0	-1.5	-1.9	-2.6	-2.5	-1.9
General government gross debt (c)				-	22.9	22.4	21.4	21.1	21.7	21.3

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

14. Luxembourg

Still growing faster than its neighbours

The situation in 2003 and 2004

Growth in Luxembourg was significantly stronger in recent years than had been previously thought as real GDP rose by 1.5% in 2001 and 2.5% in 2002 (revised data) and by 2.9% in 2003 according to a first estimate. Once again, Luxembourg has thus succeeded in keeping a significant positive growth differential with its neighbours. Private consumption was rather subdued in 2003 as the positive effects of the 2001-2002 tax cuts had probably for a large part faded away. Investment decreased by more than 6% but only because of a drop in the purchase of airplanes by Luxembourg-based airlines. Exports of goods decreased too but also because of exceptional factors, namely a fall in the re-exports of cellular telephones.

This rather strong activity resulted in a rise in domestic employment by 3% in 2002 (after 5.7% in 2001) and 1.8% in 2003, which was much faster than in neighbouring countries. Like in previous years, however, national employment only rose by about 1%, while the number of non-residents working in Luxembourg, in comparison, increased by nearly 4%. Consequently, job creation was not strong enough to prevent a further increase in unemployment, which rose from 2.8% of active population in 2002 to 3.7%.

There are no quarterly national accounts in Luxembourg but all available indicators show a significant acceleration in growth this year. Industry is performing very well with the steel sector recording exceptional growth rates. Construction is buoyant too, with the sole exception of public works which had

been rising very fast in recent years due to a strong increase in government investment. In the financial sector, activity has stopped decreasing and is posting positive growth rates since the first half of 2004. Moreover, both private consumption and investment should accelerate, the former because it grew below its long term average in 2003 and both job creation as well as wage increases should boost it, the latter because its fall last year was only due to incidental factors.

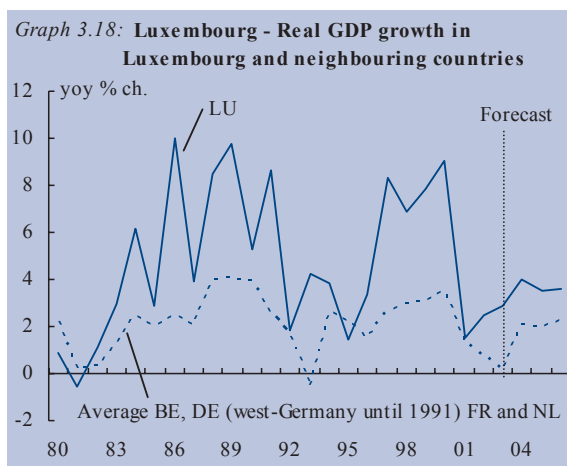
The creation of jobs is accelerating again, rising year-on-year by more than 2% in the latest months. As usual, this entails a significantly slower increase in residents employment (about 1% in annual terms at the moment) and a much faster rise in the number of non-resident workers (more than 4% a year in recent months).

Inflation has been accelerating in recent months but mostly due to the rise in oil prices and to the exceptionally high weight of oil products in the HICP in Luxembourg: the annual rate of increase in the HICP, which was 2.5% on average in 2003, jumped to between 3½% and 4% since May. However, the rise in the national CPI (from which purchases by non residents are excluded, especially their substantial purchases of car fuel and tobacco) is still in the neighbourhood of 2.5%, as against 2% in 2003.

Prospects for 2005 and 2006

GDP growth is expected to decelerate slightly in 2005 and to remain more or less at the same level in 2006: whereas private consumption should continue to speed up in line with job creation, the external environment is likely to be less supportive with export market growth slowing down slightly. Investment should be rather buoyant but the small size of the country makes it extremely erratic and difficult to forecast.

In the light of the expected acceleration in activity, employment growth, too, should slightly increase over the forecast period. As a result, unemployment should probably stop rising next year and could even begin to decrease in 2006. However, this decrease might happen later and be slower than the rapid growth in employment would suggest: there seem to be increasing signs of mismatches between the skills of the unemployed and those required by firms; Moreover, due to higher wages and unemployment benefits in Luxembourg, the reservation wages of



residents are clearly higher than those of non residents, which favours the latter in the competition for available jobs.

Inflation should slow down slightly during the forecast period in line with the expected decrease in oil prices, with the HICP slowing more than the national CPI because of the larger weight of oil products.

Public finances

Last March, Luxembourg authorities had reported a very slight deficit (0.1% of GDP) for 2003. However, it turns out that this was actually a 0.8% of GDP surplus due to better-than-expected revenues from both indirect and direct taxes but also to lower than projected expenditure, especially investment by local authorities. For this year, reportings by the Luxembourg authorities show a deficit at about 1.9%

of GDP. However, tax revenues seem more buoyant than projected because of faster-than-expected growth and of the relatively rapid rise in wages. As a result, the deficit should be significantly lower than was expected up to now.

There is no budget yet for 2005 and, due to the June general election, it will not be submitted to Parliament before October 20th. Consequently, the projection for 2005 and 2006 is purely technical and based on a “no policy change” assumption. Its main feature is that the rise in revenues would gradually accelerate over the forecast period while expenditure would slow down from the high rates of increase recorded in recent years. However, spending would still be rising faster than receipts at the end of the period. As a result - and bar a faster-than-expected increase in revenues (which is often the case in Luxembourg) - the deficit should progressively widen.

Table 3.14

Main features of country forecast - LUXEMBOURG

	2003		Annual percentage change							
	mio Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		23956.0	100.0	5.2	1.5	2.5	2.9	4.0	3.5	3.6
Private consumption		10048.0	41.9	3.2	5.1	3.2	1.6	2.2	2.6	3.0
Public consumption		4361.0	18.2	4.2	6.5	3.2	5.0	3.6	3.5	3.5
Gross fixed capital formation		4738.0	19.8	4.6	10.0	-1.1	-6.3	6.3	5.2	5.0
of which : equipment		1363.0	5.7	5.7	8.6	-2.5	-20.0	6.0	6.0	6.6
Change in stocks as % of GDP		321.0	1.3	1.2	1.1	-0.7	1.4	1.1	0.8	0.4
Exports (goods and services)		32924.0	137.4	7.8	1.8	-0.6	1.8	6.3	6.1	6.0
Final demand		52392.0	218.7	6.1	2.8	-0.4	2.2	5.1	5.0	4.9
Imports (goods and services)		28436.0	118.7	6.9	3.7	-2.6	1.6	6.0	6.2	6.0
GNI at constant prices (GDP deflator)		21286.0	88.9	4.9	4.4	0.7	-0.5	3.7	2.8	1.7
Contribution to GDP growth :										
Domestic demand				3.4	5.4	1.7	0.1	2.9	2.8	3.0
Stockbuilding				0.4	-1.7	-1.9	2.2	-0.3	-0.3	-0.4
Foreign balance				1.4	-2.0	2.5	0.5	1.3	0.9	1.0
Employment				2.6	5.7	3.0	1.8	2.0	2.4	2.7
Unemployment (a)				2.5	2.1	2.8	3.7	4.3	4.6	4.4
Compensation of employees/head				4.8	3.9	3.7	2.1	3.3	3.2	3.2
Unit labour costs				2.2	8.1	4.2	1.0	1.3	2.1	2.3
Real unit labour costs				-1.4	6.1	3.1	-1.0	-0.9	-0.3	-0.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.6	1.9	1.1	2.1	2.3	2.4	2.9
Private consumption deflator				3.6	3.2	2.1	1.9	2.3	2.1	2.0
Harmonised index of consumer prices				-	2.4	2.1	2.5	3.0	2.3	1.6
Trade balance (c)				-11.6	-12.5	-10.5	-10.6	-11.3	-11.6	-11.8
Balance on current transactions with ROW (c)				-	-	-	-	-	-	-
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	6.4	2.8	0.8	-0.8	-1.6	-2.0
General government gross debt (c)				8.1	5.5	5.7	5.3	4.9	4.8	4.7

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

15. Hungary

Favourable shift in growth components

The situation in 2004

The pick-up of real GDP growth continued in the first half of 2004 with year-on-year real growth rates of over 4%. This dynamism is expected to continue in the second half of the year and to result in an annual real GDP growth rate of close to 4%. Since the last quarter of 2003, real GDP growth has been increasingly based on strongly accelerating export and investment growth. At the same time, private consumption, which had bolstered GDP growth in recent years, more than halved due to a significant decrease in net disposable income.

Following three years of strong wage increases, public real wages decelerated in 2004 and even slightly declined below zero. After a strong slowdown in the first half of 2004, private wages picked up in the second half of the year. Consumer price inflation accelerated sharply to a level of around 7% in 2004. In the first quarter of 2004 the increase was mainly related to indirect tax increases and price adjustments, while supply-side factors (rising oil and unprocessed food prices) accounted for the high levels in the second quarter. The moderate disinflation of the third quarter is expected to continue.

Unemployment remains slightly below 6%. Despite some fiscal tightening, the current account deficit is forecast to remain at about 9% of GDP in 2004. This is largely due to the widening of the trade deficit and the deceleration of private consumption growth. The acceleration of import growth in the first half of the year might have partly been related to pre-purchases before Hungary's EU-accession. It is expected to

remain dynamic for the remainder of the year, given the high import share of the strongly growing exports.

Growth prospects for 2005 and 2006

Real GDP growth is forecast to remain solid in the forecast period, based further on exports, investment and consumption. Export growth, however, is expected to slightly slow down after the strong 2004 performance. After easing somewhat in 2005, investment growth is expected to be boosted by EU related investment. Given the moderate growth of real disposable income, private consumption is forecast to grow only moderately above 3% during the forecasting period, with an upward risk in the election year 2006.

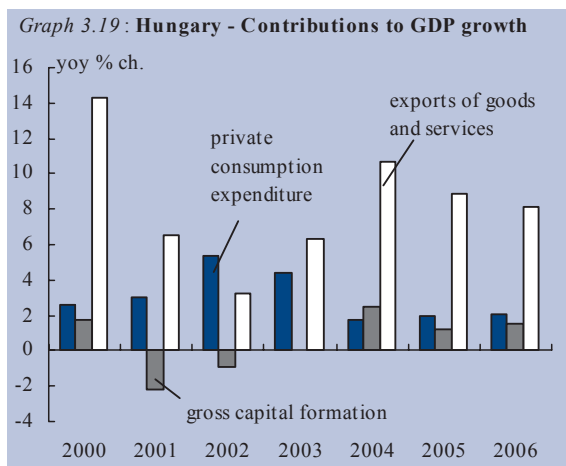
Following their significant deceleration in 2004, public wages are forecast to increase only marginally in the remaining forecast period. Private sector wages would grow faster, against the risk of bottlenecks in the labour market. The unemployment rate is forecast to decline slightly from 5.9% of the labour force in 2004 to 5.8% by 2006. Employment would continue to grow by around ½% per year. The moderate disinflation that started in the second half of 2004 is expected to accelerate sharply in the first months of 2005 due to base effects. A further continuous but moderate disinflation is projected for the remaining forecast period.

Balance of payment developments

The moderate domestic demand growth and some fiscal tightening will contribute to some narrowing of the current account deficit, but it would still remain at around 8½ % of GDP by 2006¹.

Public finances

The reduction of the general government deficit continued in 2004. However, despite the higher-than-expected real GDP growth in 2004, the official general government deficit target of 4.6% of GDP for this year will be missed. This was acknowledged by the upward revision of the official target to 5.3% of GDP. The slippage can be attributed to higher-than-



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

expected VAT and personal income tax revenue shortfalls and higher-than-forecast expenditures. The Commission forecasts with 5.5% of GDP a slightly higher deficit than the revised official target.

As for the remainder of the forecast period, several measures (which were partly carried out in the previous years, but will only have fiscal effects in 2005 or 2006) should help to contain overspending and revenue shortfall as experienced in the last two years. These measures are notably the narrowing of the eligibility criteria for housing loans and tax exemptions, an agreement with pharmaceutical producers on the maximum amount of subsidies, the ongoing downsizing of public employees. The fact that a large majority of the public investment is planned to be carried out as a public private partnership project, should result in a one off saving effect in 2005.

However, there are also indications that no substantial consolidation can be expected for the rest of the forecast period. While the foreseen cuts in personal income tax are not fully compensated by the increase of other taxes, resulting in a decline of the revenue/GDP ratio, there is still the risk of overly optimistic assumptions for certain revenues (mainly VAT). Also, the budget is burdened by high net interest payments, accounting for about 4½% of GDP. Moreover, the more substantive expenditure saving structural reforms announced in the convergence programme have not yet been effectively addressed. The double election year of 2006 indicates, furthermore, the risk of higher current expenditure on central and local government level in both 2005 and 2006. Gross debt will remain slightly below 60% of GDP during the forecast period.

Table 3.15

Main features of country forecast - HUNGARY

	2003			Annual percentage change						
	bn HUF	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	18568.3		100.0	3.6	3.8	3.5	3.0	3.9	3.7	3.8
Private consumption	10151.6		54.7	1.2	5.7	10.2	8.0	3.1	3.4	3.7
Public consumption	4490.6		24.2	-0.2	6.2	5.0	5.4	0.0	1.0	2.2
Gross fixed capital formation	4141.3		22.3	6.3	5.0	8.0	3.4	10.0	6.0	6.5
of which : equipment	-		-	-	-	-	-	-	-	-
Change in stocks as % of GDP	555.4		3.0	5.6	3.7	0.9	-0.1	-0.2	-0.6	-0.9
Exports (goods and services)	11514.0		62.0	21.7	7.8	3.7	7.6	12.3	9.5	8.2
Final demand	30852.9		166.2	8.7	4.4	4.7	6.4	7.8	6.2	6.0
Imports (goods and services)	12284.7		66.2	18.4	5.1	6.2	10.4	12.1	8.7	8.2
GNI at constant prices (GDP deflator)	17619.4		94.9	3.2	3.8	3.4	3.5	4.0	3.8	3.9
Contribution to GDP growth :		Domestic demand		1.9	5.4	8.3	6.4	4.4	3.8	4.4
		Stockbuilding		1.1	-3.3	-2.8	-0.9	-0.1	-0.5	-0.3
		Foreign balance		0.6	2.1	-2.1	-2.6	-0.4	0.4	-0.3
Employment				0.3	0.4	0.7	2.5	0.5	0.5	0.6
Unemployment (a)				8.4	5.6	5.6	5.8	5.8	5.9	6.0
Compensation of employees/head				16.1	15.7	12.1	12.8	8.8	7.0	6.2
Unit labour costs				12.5	11.9	9.0	12.3	5.2	3.7	2.9
Real unit labour costs				-3.1	3.1	0.1	4.3	-0.9	-0.5	-1.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				16.0	8.6	8.9	7.6	6.2	4.3	3.9
Private consumption deflator				16.7	8.2	3.7	4.6	7.0	4.8	4.3
Harmonised index of consumer prices				-	9.1	5.2	4.7	6.9	4.6	4.2
Trade balance (c)				-4.1	-4.3	-3.2	-3.9	-4.1	-4.1	-4.2
Balance on current transactions with ROW (c)				-	-	-7.1	-9.0	-8.7	-8.5	-8.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-8.4	-7.9	-7.8
General government balance (c)(d)				-	-4.4	-9.2	-6.2	-5.5	-5.2	-4.7
General government gross debt (c)				-	53.5	57.2	59.1	59.7	59.5	58.9

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

16. Malta

Paving the way for economic recovery

Recent economic developments in 2004

Real GDP grew by 0.2% in 2003, mostly stemming from both private and public consumption and gross fixed capital formation. The GFCF growth rate was artificially inflated by the base effect of a one-off operation (the disposal of an aircraft of Air Malta) registered as a negative investment in 2002. The change in stocks added notably to the GDP growth as well, whereas the external sector contribution was negative.

After reaching 2.3% in the first quarter, GDP growth could not maintain momentum and fell by 1.5% in the second quarter. In the first half of 2004, private consumption remained sluggish, partly because of high household spending in the last quarter of 2003 in anticipation to the rise in the VAT standard rate as from 2004. For the year as a whole, private consumption is expected to fall slightly due to the uncertain economic environment, whereas public consumption is set to decelerate significantly. As a consequence of ongoing fiscal consolidation, the main contribution to GDP growth, however, comes from gross fixed capital formation, which albeit briskly decelerating, is set to grow by 7%, mainly due to infrastructure investment. Overall, domestic demand is expected to positively contribute to growth (1.5%), although partially offset by a negative contribution of stockbuilding of half a percentage point.

Within this scenario of domestic demand, imports are projected to slowdown substantially. Conversely, exports are set to pick up sharply due to more dynamic world demand. As a result, the external

sector is foreseen to record a slightly positive contribution to GDP growth, which should post a rate of 1% in 2004, up from 0.2% in 2003.

Prospects for 2005 and 2006

For 2005 and 2006, private consumption is expected to gain momentum and thus become the main growth driving force. However, public consumption is projected to keep decelerating and stay rather flat. Furthermore, the gradual completion of public investment projects will moderate investment. All in all, the joint contribution of domestic demand and stockbuilding should remain almost unchanged at around 1%. Conversely the contribution of the external sector is foreseen to increase gradually to reach almost 1% stemming mainly from exports recovery. On these bases, GDP growth is set to speed up to 1.5% and 1.8% in 2005 and 2006, respectively.

Costs and prices

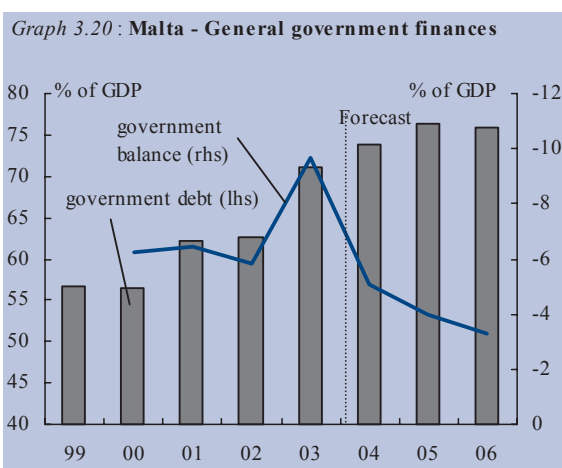
The sharp increase in oil prices has not yet fully impacted on costs and prices due to the time lag between price rises in the international market and the moment they are reflected to the internal energy prices. Despite subdued internal demand the HICP will raise to 3.7% in 2004, reflecting higher fuel prices and the increase of VAT rates. The impact of the latter will dilute in 2005 and 2006, bringing the HICP down to 3.1% and 2.6% respectively.

Labour market

In accordance with sluggish economic activity, job creation will remain modest. Moreover, slow growth and on-going restructuring in the manufacturing sector are likely to increase the unemployment rate to 8.4% in 2004. As economic recovery gains momentum and the real unit labour costs increases remain modest, the unemployment rate should gradually improve in the subsequent years.

External accounts

The current account deficit is set to narrow to 4% of GDP in 2004 from 5.3% of GDP in 2003, as a result of stronger exports. The predicted economic recovery, partly sustained by external demand, should entail a declining current account deficit throughout the forecast period to 2.8% of GDP in 2006. Indeed, while export growth is foreseen to accelerate to



2.6% in 2005 and to 3.1% in 2006, imports are expected to rise by 1.8% and 2% in 2005 and 2006, respectively. The volatility and magnitude of the off-shore banking operations makes it difficult to project future developments of the financial account. Indeed, EU funds will limit the deterioration of the external position of Malta.

Public Finances

The general government deficit² is foreseen to fall from 9.6% of GDP in 2003 to 5.1% of GDP in 2004. It will follow a downward path and reach 4% of GDP in 2005 and 3.3% of GDP in 2006. Gross public debt is expected to increase from 70.3% of GDP in 2003, to 74.2% of GDP in 2006. Since the Maltese

government will present the 2005 draft budget only by the last week of November, these forecasts do not take into account a number of measures, which are not mentioned in the convergence programme (CP) with sufficient detail and affect current revenues and expenditures. However, the projections presented in the CP for capital transfers and public gross fixed capital formation in the CP have been included in the forecasts since they referred either to funds received from the EU and from the Italian government or to expenditures linked such funds or to other multiannual plans.

Table 3.16

Main features of country forecast - MALTA

	2003		Annual percentage change							
	mio MTL	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		1848.9	100.0	4.8	-2.2	1.8	0.2	1.0	1.5	1.8
Private consumption		1129.2	61.1	-	-0.7	-0.4	1.5	-0.3	0.6	1.1
Public consumption		388.0	21.0	-	0.0	4.0	2.2	0.7	0.2	0.2
Gross fixed capital formation		392.8	21.2	-	-8.9	-11.7	19.0	6.9	2.9	1.2
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		35.7	1.9	-	-	-	-	1.4	1.2	1.1
Exports (goods and services)		1420.6	76.8	-	-4.9	4.8	-2.0	2.0	2.6	3.1
Final demand		3366.3	182.1	-	-5.5	-0.2	3.5	1.3	1.7	1.9
Imports (goods and services)		1517.4	82.1	-	-8.7	-2.3	7.0	1.6	1.8	2.0
GNI at constant prices (GDP deflator)		1864.3	100.8	-	1.7	1.3	0.9	1.0	1.5	1.8
Contribution to GDP growth :										
Domestic demand				-	-2.4	-1.9	4.8	1.4	1.1	1.0
Stockbuilding				-	-	-	-	-0.5	-0.2	-0.1
Foreign balance				-	4.4	6.6	-8.4	0.2	0.6	0.9
Employment				1.1	2.1	-0.7	-1.0	0.6	0.3	0.8
Unemployment (a)				6.4	6.7	7.5	8.2	8.6	8.5	8.4
Compensation of employees/head				7.3	5.9	1.5	1.5	0.6	2.4	2.4
Unit labour costs				3.5	10.4	-0.9	0.3	0.2	1.2	1.4
Real unit labour costs				1.1	5.2	-1.2	-3.8	-3.1	-1.1	-0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.4	5.0	0.3	4.2	3.4	2.4	2.1
Private consumption deflator				-	3.1	1.1	1.0	3.4	2.4	2.2
Harmonised index of consumer prices				-	2.5	2.6	1.9	3.7	3.1	2.6
Trade balance (c)				-20.6	-16.9	-12.9	-16.0	-17.0	-16.8	-16.5
Balance on current transactions with ROW (c)				-	-	-	-	-4.0	-3.6	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-4.0	-3.6	-2.8
General government balance (c)(d)				-	-6.4	-5.8	-9.6	-5.1	-4.0	-3.3
General government gross debt (c)				-	62.0	62.3	70.4	72.4	73.7	74.2

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

² The shipyards restructuring in 2003 implied one-off increase in the general government deficit of 3.2% of GDP

17. Netherlands

Emerging gradually

The situation in 2004

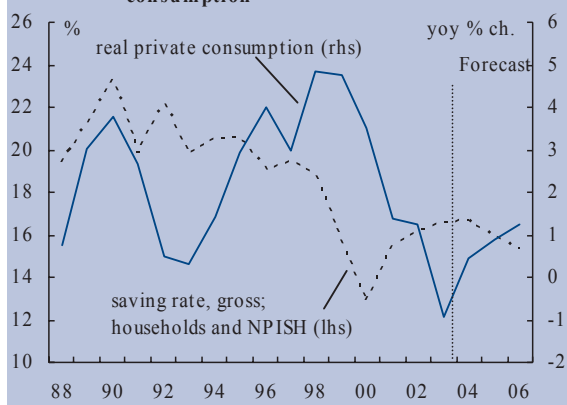
According to the most recent data, real GDP fell by 0.9% in 2003, the first time that overall economic activity contracted since 1982. However, economic activity recovered in the second half of the year. This recovery continued into 2004 and available data and indicators show a steady, albeit gradual, improvement in underlying economic conditions. Increasingly, the Dutch economy benefited from booming international trade. At the same time, domestic demand remained lacklustre, as private consumption was held back by weak household disposable income and low confidence, fiscal policy was tightened, and investment adjusted to low profitability during the downturn. The labour market deteriorated in a lagged response to the downturn, but the decline in employment was more moderate in the second quarter, while over the summer the seasonally adjusted unemployment rate even fell slightly. Consumer price inflation decreased markedly in the first nine months of the year, to 1.0% in September, the lowest rate since June 1989, reflecting weak economic activity, low import prices, and the effect of the agreement among social partners to moderate wage increases.

Sluggish recovery in domestic demand

Economic activity is forecast to further improve over the projection period, albeit only gradually. This mainly reflects the sluggish performance of domestic demand, primarily private consumption. A recovery in private consumption appears to be held back not only by weak disposable income, but also by low confidence among consumers. This seems to reflect inter alia the uncertainty among consumers

concerning the consequences of the restructuring of the social security and pension systems, as well as increasing tensions between the government and social partners. In 2005, private consumption growth is expected to reach 0.9%, compared to 0.5% in 2004. Consumption is expected to grow modestly in 2005, in spite of weak real disposable income (due to the moderate rise in compensation, further increases in pension premiums, the impact of higher oil prices, and fiscal tightening) as the household savings ratio decreases somewhat. Private consumption growth will be barely more than 1% in 2006, but this is largely due to the mechanical impact of the reform in the healthcare system that will take place in that year.³ The reform should imply a shift in the recorded expenditure from private consumption to public expenditure on health care. While fiscal restraint should hold back government consumption and public investment, private investment is expected to accelerate in response to an improvement in profitability and improving demand conditions. The relatively low capacity utilisation in the near term would, however, militate against a sharp rise in the investment ratio. In contrast to the relatively sluggish recovery in domestic demand, the contribution from net exports should remain buoyant, as Dutch exporters benefit from the strength of world demand and an improvement in competitiveness. Despite high oil prices, inflation should remain relatively subdued and pick up only slightly in 2006. This relatively benign inflation development results from the impact of moderate wage increases, a cyclical pick-up in productivity growth, and weak import prices. The labour market will still deteriorate in 2005, with the unemployment rate peaking at 5.0%. However, as employment growth is expected to reach 1.2% in 2006, unemployment is forecast to fall slightly in that year.

Graph 3.21 : Netherlands - Gross Saving rate & real private consumption



Deficit to fall in response to economic recovery and fiscal tightening

Annual national accounts confirmed a general government deficit of 3.2% of GDP in 2003, an increase of 1.3% of GDP compared to the previous year. This marked deterioration occurred despite substantial fiscal tightening. It shows the sensitivity of Dutch public finances to the deep and protracted

³ Due to the large uncertainties on the details of the health care reform, the present forecast encompasses a conservative estimate of the impact on consumption.

economic slowdown. However, other factors, including the rise in tax-exempt pension premiums, tax-deductible interest payments on mortgages, and a larger-than-expected rise in the deficit of the sub-sector local government also played a role in the widening of the deficit. In order to stem the worsening of the public accounts, the authorities implemented a supplementary package of savings equivalent to 0.6% of GDP in April 2004; around half of these measures were of a one-off nature. As a consequence, the general government deficit is expected to fall to 2.9% of GDP in 2004.

The 2005 budget contains consolidation measures equivalent to around half a percentage point of GDP. The deficit-reducing measures in the 2005 budget comprise cuts in health expenditures, increases in income tax rates, reduced access to unemployment benefits, higher disability premiums, and the phasing out of subsidies on low-paid labour. For a large part,

the savings in 2005 reflect the structural impact of measures that were part of the April 2004 adjustment package. The main additional savings in the 2005 budget are an increase in the rate for the first two income tax brackets and further cuts in net spending of ministries. In 2006, an end to fiscal facilities for early retirement should also help improve the general government balance. In the wake of fiscal tightening and a recovery in revenues in line with the expected economic recovery, the deficit is expected to fall to 2.4% of GDP in 2005 and 2.1% of GDP in 2006. By contrast, the government debt to GDP ratio is projected to rise over the forecast horizon as a consequence of the rather modest pick-up in nominal GDP and the persistence of a headline deficit. The debt ratio is expected to increase from 54.1% in 2003 to 58.4% in 2005.

Table 3.17

Main features of country forecast - NETHERLANDS

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	454.3	100.0	2.6	1.4	0.6	-0.9	1.4	1.7	2.4	
Private consumption	224.3	49.4	2.0	1.4	1.3	-0.9	0.5	0.9	1.2	
Public consumption	115.3	25.4	2.4	4.8	3.6	1.8	0.8	0.5	2.5	
Gross fixed capital formation	91.6	20.2	2.6	0.2	-3.6	-3.1	1.6	2.0	3.5	
of which : equipment	28.3	6.2	4.0	-1.3	-3.5	1.3	2.7	2.5	3.7	
Change in stocks as % of GDP	0.1	0.0	0.3	0.0	-0.1	0.0	0.1	0.3	0.3	
Exports (goods and services)	279.4	61.5	5.6	1.6	0.8	0.0	6.8	6.2	5.8	
Final demand	710.8	156.5	3.4	1.7	0.7	-0.3	3.3	3.4	3.8	
Imports (goods and services)	256.6	56.5	5.0	2.2	0.8	0.6	6.3	6.1	5.7	
GNI at constant prices (GDP deflator)	447.7	98.6	2.5	0.3	-0.1	-0.9	2.6	2.1	2.5	
Contribution to GDP growth :										
Domestic demand			2.1	1.8	0.7	-0.7	0.7	1.0	1.9	
Stockbuilding			-0.1	-0.1	-0.2	0.2	0.0	0.2	0.0	
Foreign balance			0.5	-0.3	0.1	-0.4	0.7	0.5	0.4	
Employment			1.1	1.3	-0.1	-1.0	-1.7	0.5	1.2	
Unemployment (a)			6.6	2.5	2.7	3.8	4.6	5.0	4.4	
Compensation of employees/head			2.8	5.5	6.2	3.9	2.4	0.7	1.0	
Unit labour costs			1.4	5.4	5.4	3.8	-0.8	-0.4	-0.1	
Real unit labour costs			-0.7	0.1	2.3	0.8	-1.6	-1.2	-1.1	
Savings rate of households (b)			-	-	15.0	15.3	15.3	14.5	14.0	
GDP deflator			2.1	5.2	3.1	3.0	0.9	0.8	1.0	
Private consumption deflator			2.4	4.6	2.7	2.3	1.1	1.2	1.4	
Harmonised index of consumer prices			-	5.1	3.9	2.2	1.2	1.3	1.4	
Trade balance (c)			4.0	5.1	5.1	5.1	5.5	6.0	6.4	
Balance on current transactions with ROW (c)			3.9	3.8	2.8	2.7	3.7	4.2	4.5	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			3.7	3.6	2.6	2.5	3.5	3.5	3.3	
General government balance (c)(d)			-3.4	-0.1	-1.9	-3.2	-2.9	-2.4	-2.1	
General government gross debt (c)			69.9	52.9	52.6	54.1	55.7	58.0	58.4	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

18. Austria

Cyclical upswing, but government deficit rising

Developments in 2004

Real GDP is expected to grow in line with potential growth by 1.9% in 2004, following the modest 0.8% increase in 2003. Corresponding to the typical pattern of economic recovery in Austria, export demand will provide the initial impulse to stronger activity, before investment and finally private consumption follow.

However, the composition of GDP in 2003 and 2004 looks unusual (see graph below). This is due to the private sector response to an investment subsidy that was paid for any additional investment exceeding the average of the last three years. Initially limited to 2003 only, this policy measure resulted in a good deal of investment being carried forward in expectation of the recovery. This accounts for the strong contribution of domestic demand to GDP growth in 2003 (rendering the contribution of external demand even negative), but also for the dip in investment in 2004, even though the subsidy was eventually extended to 2004. On average over 2003 and 2004, investment grew according to the cyclical pattern of the economy.

Prospects for 2005 and 2006

Despite government consumption remaining moderate, domestic demand is expected to contribute more strongly to real GDP growth, projected to accelerate until 2006. The income tax cuts taking effect in 2005 will gradually support private consumption. Also, strengthening demand for labour and higher nominal wages per capita will boost disposable income. However, higher energy costs are eroding households' real purchasing power. Moreover, private confidence may be undermined by

the fact that the tax cuts are leading to a wider government deficit than originally announced. Thus, the household saving ratio is projected to change little over the forecast period.

After the policy-induced dip, investment is expected to return to healthy growth rates, underpinned by rising export earnings and the cuts in income and corporate taxes. However, construction investment may post only moderate gains, in view of slack demand for new homes and the persistent excess capacity of office space. In line with the assumption of a gradually slowing world economy and firming domestic demand, the contribution of net exports to GDP is expected to be positive but diminishing over the projection period.

Labour market, costs and prices

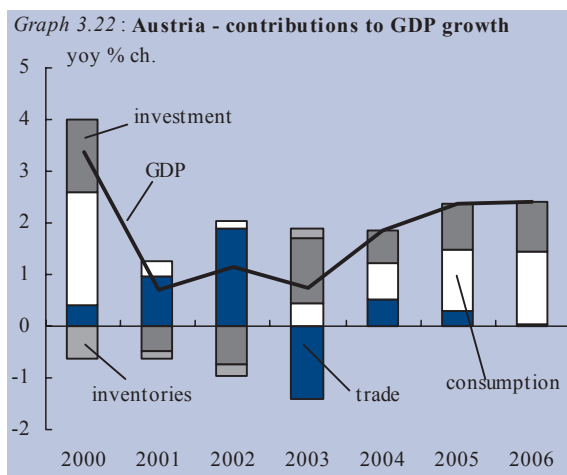
After a slight decline in the previous year, total employment will pick up slightly in 2004 and continue rising up to the forecast horizon. With an elastic labour supply, unemployment is expected to fall only by a little in 2005. The secular fall in self-employment, in particular in agriculture, is continuing.

Consumer price inflation in 2004 is expected to rise considerably from last year, to a projected rate of 2.2%, the main cause being oil prices, but also an increase in energy taxes and excise duties on tobacco. Towards the end of the forecast period, inflation should subside somewhat, with no further consumption tax increases planned and the oil price hike withering. Tariff wages are expected to mirror the cyclical upswing; however, the wage drift is not expected to accelerate.

Public finances

In January 2004, the first step of tax reform took effect. However, implicit shortfall in direct tax revenues was offset by rises in energy taxes and social contributions. Furthermore, the low profit by the central bank in 2003 (due to low interest rates and a depreciating US-dollar) will dampen government revenue in 2004.

Government expenditures are expected to grow by 2.5% in 2004, even though collective consumption expenditure is almost stagnating due to wage moderation and the beneficial effects of pension



reform on government expenditure. The budget deficit is expected to widen slightly to 1.3% of GDP in 2004, as compared with a narrowing to 0.7% of GDP in the last stability programme update.

In 2005, a tax relief equalling 1% of GDP will be implemented. Wage and income taxes as well as enterprise taxes will be affected to a similar extent. However, as private consumption is projected to recover only gradually from its meagre growth in 2003, tax revenues in 2005 may be slightly weaker than expected by the government. Expenditures are expected to rise by a moderate 1.5% in 2005. The

government deficit is projected at 2% of GDP in 2005.

Whereas the output gap is closing and event turning positive by 2006, earlier plans of an early return to budgetary balance have been at least postponed. The cyclically-adjusted deficit is expected to jump by almost one percentage point to 1.9% of GDP in 2005, but to drop slightly to 1.7% of GDP in 2006.

General government debt will thus remain above the reference value of 60% of GDP throughout the forecast period and decline in 2005 and 2006.

Table 3.18

Main features of country forecast - AUSTRIA

	2003			Annual percentage change					
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005
GDP at constant prices	226.1	100.0	2.5	0.7	1.2	0.8	1.9	2.4	2.4
Private consumption	126.9	56.1	2.6	1.0	-0.1	0.6	1.2	2.1	2.4
Public consumption	40.6	18.0	2.0	-1.4	1.1	0.4	0.3	0.5	0.5
Gross fixed capital formation	48.6	21.5	2.2	-2.1	-3.4	6.2	2.9	4.0	4.3
of which : equipment	19.2	8.5	2.7	0.6	-7.8	5.5	4.6	4.3	5.9
Change in stocks as % of GDP	0.9	0.4	0.5	0.5	0.3	0.5	0.4	0.4	0.4
Exports (goods and services)	109.1	48.2	4.8	6.8	3.8	1.4	5.6	5.7	5.6
Final demand	326.1	144.2	3.0	1.9	0.7	1.8	2.8	3.4	3.6
Imports (goods and services)	100.1	44.3	4.2	5.0	-0.2	4.8	5.0	5.6	6.1
GNI at constant prices (GDP deflator)	222.7	98.5	2.5	0.2	2.0	0.9	1.9	2.4	2.4
Contribution to GDP growth :									
Domestic demand			2.4	-0.2	-0.6	1.7	1.3	2.1	2.3
Stockbuilding			0.0	-0.2	-0.2	0.2	0.0	0.0	0.0
Foreign balance			0.2	1.0	1.9	-1.4	0.5	0.3	0.1
Employment			0.3	0.4	0.1	0.0	0.5	0.7	0.8
Unemployment (a)			3.4	3.6	4.2	4.3	4.2	3.9	3.4
Compensation of employees/head			4.3	1.4	1.7	2.1	2.5	2.5	2.6
Unit labour costs			2.0	1.2	0.7	1.4	1.1	0.8	1.0
Real unit labour costs			-0.7	-0.6	-0.7	-0.2	0.0	-0.4	-0.2
Savings rate of households (b)			-	-	12.6	14.1	13.7	13.9	13.8
GDP deflator			2.7	1.7	1.3	1.6	1.1	1.2	1.2
Private consumption deflator			2.9	1.9	1.2	1.5	2.0	1.8	1.5
Harmonised index of consumer prices			-	2.3	1.7	1.3	2.1	1.8	1.4
Trade balance (c)			-3.5	-0.5	1.8	0.8	1.3	1.1	0.9
Balance on current transactions with ROW (c)			-0.9	-0.4	2.5	1.5	1.9	1.9	1.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.9	-0.7	2.3	1.4	1.8	1.9	1.8
General government balance (c)(d)			-3.0	0.3	-0.2	-1.1	-1.3	-2.0	-1.7
General government gross debt (c)			56.6	66.1	65.7	64.5	64.0	63.9	63.4

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

19. Poland

Growing investment and improving fiscal outlook

Economic situation in 2004

After two years of slow growth in 2001 and 2002, the Polish economy is experiencing a strong recovery. The upswing gradually gained strength in 2003 and in early 2004, with real GDP growth accelerating to 6.5% year-on-year in the first half of 2004 from 4.7% in the last quarter of 2003 and 3.8% in 2003 as a whole. Growth has become more balanced, with domestic demand gradually taking over from net exports as the main contributor to growth. The expansion has been underpinned by supportive monetary conditions reinforced by a considerable loosening of fiscal policy this year. Moreover, the rapid growth of domestic demand in the first half of the year reflected a transitory pre-EU entry economic boom. As a result, activity is set to moderate in the coming quarters, and real GDP growth is projected to average 5.8% in 2004 as a whole.

Prospects in 2005 and 2006

With the withdrawal of fiscal and monetary stimulus, growth is expected to decelerate over the next two years. In particular, the forecast incorporates the recent interest rate hikes decided by the National Bank of Poland in response to the acceleration in inflation. Given also the expected moderate appreciation of the zloty against the euro, monetary conditions are set to be less supportive in the short term, while the long-delayed fiscal adjustment is projected to start in 2005. Overall, real GDP growth is projected to ease to 4.9% in 2005 and 4.5% in 2006. Growth will be driven by domestic demand, with rising private consumption and a gradual rebound in investment spending, while the contribution of net

exports is expected to turn negative from 2005 onwards.

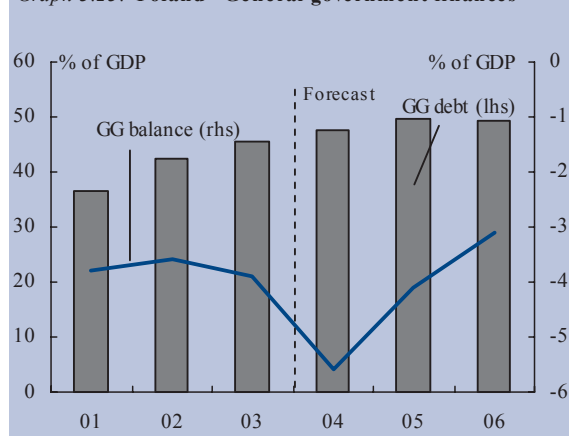
GDP components

After falling for 10 consecutive quarters by over 15% in total, investment activity has started to recover timidly since the third quarter of 2003. Fixed investment remained weak in the first half of this year, rising by only 3.4% year-on-year. Investment growth is projected to accelerate gradually in the remainder of 2004 and in the next two years, against the backdrop of emerging capacity constraints, strong corporate profitability and accession-related business opportunities. By 2006, investment should replace exports as the most dynamic element of aggregate demand.

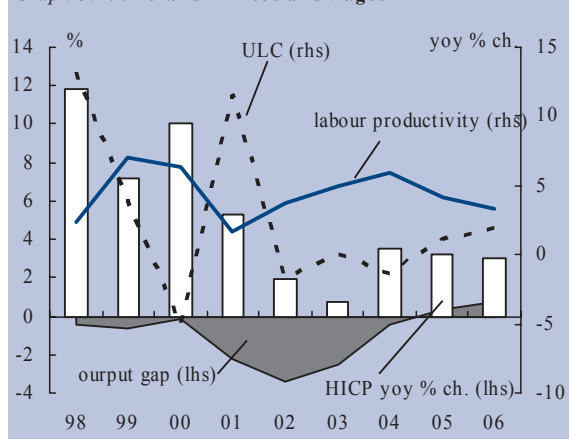
Private consumption has been surprisingly resilient this year despite high unemployment and weak real income growth, partly reflecting a spending boom triggered by fears of price increases after accession. Consumer demand is likely to strengthen over the forecast period, owing to improving employment prospects, faster real wage growth and growing consumer confidence. Payments to farmers linked to the Common Agricultural Policy will provide a further boost.

Despite the loss in price competitiveness entailed by the appreciation of the zloty, export growth is expected to remain robust, boosted by productivity gains of Polish firms. Poland will continue to gain exports market shares throughout the forecast period. However, given the high import content of Polish

Graph 3.23: Poland - General government finances



Graph 3.24: Poland - Prices and wages



exports and the expected recovery of investment activity, import growth is also projected to pick up strongly and should outpace export growth from 2005 onwards.

The risks to the growth outlook are skewed to the downside. Persistent fiscal and political uncertainties are a major source of concern for the strength of the expected investment recovery. The behaviour of private consumption is also uncertain. In the near term, the more restrictive policy stance could hold back household spending. Nevertheless, once fiscal uncertainties are removed, improved consumer confidence could lead to faster-than-expected private consumption growth.

Labour market, costs and prices

Unemployment peaked in 2002 at some 20% of the labour force and since then, it has started to decrease slowly. It is projected to stay virtually unchanged this year despite stronger growth. The persistence of job losses well into the recovery reflects substantial gains in labour productivity. There is also a large structural component in Poland's unemployment. Labour market difficulties are further exacerbated by unfavourable demographic dynamics and the ongoing restructuring process in heavy industries and agriculture, which will entail sizeable job losses in the coming years. Employment growth is expected to resume in 2005, but in light of the deep-seated problems in the labour market, it is unlikely to be sufficiently strong for unemployment to drop rapidly. Overall, the unemployment rate is projected to fall to 18.1% in 2006 from 19.2% in 2003.

Inflation has been accelerating sharply since April 2004, with HICP inflation overshooting the upper limit of the central bank's target band from June onwards. Core inflation and inflation expectations have also picked up significantly. In order to contain second-round effects, the central bank raised its key reference rate by a cumulative 125 basis points to 6.5% between June and August. The acceleration in headline inflation can be attributed to rising food and oil prices as well as accession-related increases in indirect taxes and, to a lesser extent, to the closing of the output gap. HICP inflation is expected to decelerate somewhat in the coming months and would average 3.5% in 2004, up from the very low level of 0.7% in 2003.

With the output gap expected to turn positive in 2005, higher oil prices and increasing unit labour costs, inflationary pressures are likely to persist. Nevertheless, this should not lead to a renewed rise in headline inflation. Thanks to favourable developments in food prices and a restrictive monetary policy, consumer price inflation is projected to drop progressively to 3.0% on average in 2006.

Unit labour cost growth is projected to fall by 1.3% this year, owing to a cyclical pick-up in productivity to 6% and modest compensation growth. But labour cost growth is likely to increase over the next two years, as nominal compensation growth is expected to accelerate somewhat in 2005 and 2006 to offset this year's very weak real wage growth. Nevertheless, high unemployment should limit wage pressures.

External accounts

Despite the deterioration in the terms of trade, the still robust export performance will result in a slight reduction in the trade deficit to 2.6% of GDP this year. But growing imports in line with strengthening domestic demand will lead to a steady widening of the trade deficit over the next two years. Over the 2004-2006 forecast period, higher transfers from the EU will have a positive impact on both the current and capital accounts. The current account deficit is projected to gradually increase to 3.3% in 2006 from 2.2% in 2003, thus remaining at a level that can be easily covered by foreign direct investment and portfolio inflows.

Public finances

At 5.6% of GDP, the general government deficit in 2004 is estimated to be slightly lower than expected in the previous Commission forecast. The downward revision of the deficit results from a better than expected performance of the Polish economy that translated into higher revenues.

However, despite the favourable cyclical situation, and a downward revision of the deficit for 2003, the deterioration of the general government deficit between 2003 and 2004 still represents 1.7 percentage points and reflects a substantial loosening of fiscal policy.

The projections for the deficit in 2005 and in 2006 have been revised downwards respectively to 4.1% and 3.1% of GDP resulting mainly from better

cyclical conditions. The expected rebound in domestic demand would contribute to increased tax revenues. Additional measures contained in the draft budget for 2005 have been incorporated in the forecast, provided that they have already been adopted or are being in the final stage of discussion in Parliament, and would further retrench expenditures and increase revenues over 2005 and 2006. These measures include in particular a change in pension indexation rules and a reform of defence spending. They would have a deficit-reducing impact of around 1 percentage point of GDP in 2005. A positive role will also be played by the net inflows of funds from the EU budget.

The primary balance is expected to improve after a considerable deterioration in 2004. The forecast still includes the surplus of the open pension funds, which is expected to reach approximately 1.6% of GDP in 2004, within the general government sector.

As the borrowing needs of the government are expected to decrease, the gross debt figures have been revised downwards. The improvement results also from better than previously expected privatization prospects. From 47.7% of GDP in 2004, the debt-to-GDP ratio would increase to 50% in 2005. It would then slightly decrease to 49.3% by the end of 2006.

Table 3.19

Main features of country forecast - POLAND

	2003		Annual percentage change							
	bn PLN	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		814.7	100.0	5.4	1.0	1.4	3.8	5.8	4.9	4.5
Private consumption		538.0	66.0	5.3	2.0	3.4	3.1	4.0	4.2	4.4
Public consumption		144.6	17.8	2.6	0.6	0.4	0.4	1.8	1.4	1.0
Gross fixed capital formation		149.0	18.3	13.4	-8.8	-5.8	-0.9	6.5	10.0	12.0
of which : equipment		-	-	-	-10.4	-9.6	-	-	-	-
Change in stocks as % of GDP		3.4	0.4	1.1	0.1	-0.2	0.5	0.8	0.9	0.8
Exports (goods and services)		280.7	34.5	13.3	3.1	4.8	14.7	13.3	11.9	10.4
Final demand		1115.7	136.9	8.0	-0.7	1.6	5.5	7.3	7.0	6.9
Imports (goods and services)		301.0	36.9	17.8	-5.3	2.6	9.3	11.6	12.6	12.6
GNI at constant prices (GDP deflator)		800.6	98.3	5.4	1.1	1.1	3.0	5.6	4.9	4.6
Contribution to GDP growth :										
		Domestic demand		6.4	-0.8	0.9	1.8	4.1	4.8	5.4
		Stockbuilding		0.3	-1.2	-0.2	0.6	0.9	0.1	-0.1
		Foreign balance		-1.2	2.9	0.7	1.8	0.8	-0.1	-0.7
Employment				0.6	-0.6	-2.2	-1.2	-0.2	0.7	1.2
Unemployment (a)				12.8	18.5	19.8	19.2	19.0	18.7	18.1
Compensation of employees/head				20.5	13.3	2.0	5.0	4.7	5.3	5.4
Unit labour costs				15.0	11.5	-1.6	0.0	-1.3	1.1	2.0
Real unit labour costs				0.9	7.2	-2.9	-0.5	-4.0	-1.7	-1.2
Savings rate of households (b)				-	-	10.6	10.1	9.4	8.7	7.9
GDP deflator				14.0	4.0	1.3	0.5	2.8	2.9	3.3
Private consumption deflator				14.4	4.7	1.6	0.6	3.4	3.3	3.0
Harmonised index of consumer prices				-	5.3	1.9	0.7	3.5	3.3	3.0
Trade balance (c)				-5.1	-4.1	-3.8	-2.7	-2.6	-3.1	-3.5
Balance on current transactions with ROW (c)				-3.0	-2.9	-2.6	-2.2	-2.6	-3.1	-3.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.0	-2.8	-2.6	-2.2	-2.3	-2.5	-2.7
General government balance (c)(d)				-2.4	-3.8	-3.6	-3.9	-5.6	-4.1	-3.1
General government gross debt (c)				-	36.7	41.1	45.4	47.7	49.8	49.3

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

20. Portugal

Coming out of the recession

Overall developments and prospects

After the recession in 2003, when real GDP shrunk by 1.2%, economic activity has been recovering, with solid growth in the first half of 2004. In the current year, internal demand has been leading the recovery, with gains in both private consumption and investment. GDP is expected to grow by 1.2% in real terms for the full year.

For 2005, internal demand is expected to remain buoyant, with a slightly different composition, since private consumption growth is expected to slow down already in the course of the current year, while investment should recover strongly from the retrenchment of 2002 and 2003.

Growth of Portuguese exports has been lively in 2004, but a slightly lower pace is foreseen for 2005 and 2006. This is due to the demand slowdown expected in some of the country's major trading partners and the lack of significant improvement in real unit labour costs in the manufacturing industry relative to other competitors. With respect to imports, the buoyant domestic demand has been leading to a strong rebound of imported goods in 2004.

The combined effect of the projected export and import trends is a deterioration of Portugal's external balance in 2004. As a share of GDP, the net borrowing of the economy is expected to stabilize in 2005 and 2006.

All in all, the main driving force of the economy over the forecast period is likely to be internal demand,

while the external sector will provide only a minor contribution to growth. GDP growth is forecast at 2.2% in 2005 and to slightly accelerate to 2.4% in 2006.

Prices

The economic downturn in 2003 significantly eased pressure on prices and wages. Despite the recovery of internal demand, the persistence of a negative output gap is expected to contain inflation. High oil prices, also in 2006, coupled with increased economic activity, could, however, prevent the projected deceleration.

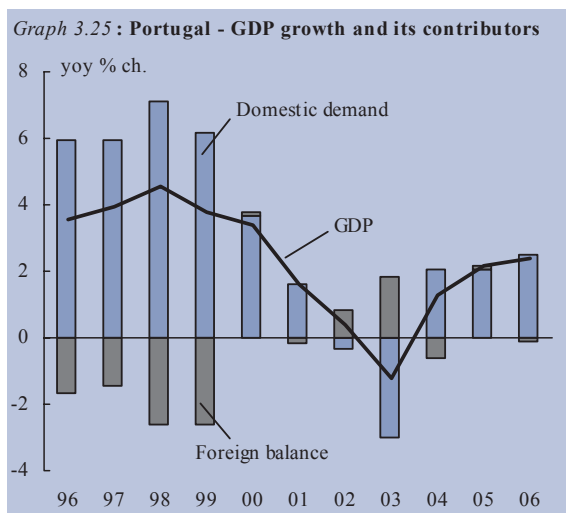
Labour Market

Unemployment has been on an ascending path since 2000. The cyclical developments, which led to a sharp rise in unemployment in 2003, are now expected to prevent a further deterioration on the labour market. In 2004, the unemployment rate is forecast to stay flat. Only marginal reductions are foreseen in 2005 and 2006.

Public Finances

In 2003, the government deficit stood at 2.8% of GDP. Since the economic recession severely hurt current tax revenues, the broadly stable deficit figure was achieved through two one-off operations worth together over 2% of GDP.

In 2004, after taking into account the effects of the sale of tax arrears in the previous year, fiscal revenues have been growing above expectations, which can be partially ascribed to a stronger-than-expected recovery of internal demand. Even though developments on the revenue side will facilitate a reduction of the deficit, the expansion of public expenditures, both in real and nominal terms, will hamper further budgetary consolidation in 2004. Without further measures, a deficit clearly in excess of 3% of GDP would ensue. In order to bring it below that figure, the Portuguese government is planning one-off operations: (i) the sale of real estate assets, currently scrutinized by Eurostat, shall generate revenues worth 0.8% of GDP; (ii) the transfer to the state sector of pension liabilities for four state-owned enterprises (SOE), with expected proceeds of 1.2% of GDP. These operations are taken on board in the current forecast, which leads to an expected general government deficit of 2.9% of GDP.



The cyclical upturn projected for the next two years should facilitate budgetary consolidation. However, under the assumption of no-policy change, there is a high risk that the pace of the economic recovery per se will not be enough to bring the general government deficit below the reference value of 3% of GDP. It shall be noted that as from 2005, the reduction of the corporate tax rate, from 30 to 25%, will have its full effect on the revenue side. All in all, the revenue and expenditure trends will lead to government deficits that, with high likelihood, will be in excess of 3% of GDP over the forecast period. For 2005, the Portuguese authorities are envisaging two revenue-raising measures: (i) receiving a one-off payment of dividends, worth 0.5% of GDP, from a SOE, an operation that is being examined by Eurostat; (ii) a lump-sum payment to the state sector, equal to 0.3%

of GDP, in exchange of the responsibility for taking over pension liabilities of a SOE. After incorporating these two measures in the current forecast, and pending a final Eurostat decision, the government deficit for 2005 would come close to 3.7% of GDP. In 2006, the deficit may go to 3.8%, assuming that all one-off measures are phased-out.

The Portuguese government has stated its commitment to keep the deficit at or below 3% of GDP also in 2005. To this end, the government is envisaging further revenue-raising transitory measures. Since some of these measures have not been announced to a degree of precision that would allow their appropriate assessment, they are not included in the current forecast.

Table 3.20

Main features of country forecast - PORTUGAL

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	130.3	100.0	3.0	1.6	0.4	-1.2	1.3	2.2	2.4	
Private consumption	81.0	62.1	3.0	1.2	1.0	-0.5	2.1	1.8	2.0	
Public consumption	27.7	21.2	4.1	3.3	2.2	-0.4	0.6	0.5	0.4	
Gross fixed capital formation	29.2	22.4	4.1	0.8	-4.9	-9.8	2.4	3.3	4.8	
of which : equipment	8.9	6.8	4.0	-3.2	-10.6	-5.8	5.6	5.4	7.4	
Change in stocks as % of GDP	0.8	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	
Exports (goods and services)	39.5	30.3	6.5	1.0	2.0	4.0	7.9	7.0	7.0	
Final demand	178.1	136.7	4.0	1.4	0.2	-1.1	3.4	3.2	3.6	
Imports (goods and services)	47.8	36.7	7.2	1.1	-0.3	-0.9	7.8	5.5	6.1	
GNI at constant prices (GDP deflator)	128.2	98.4	3.1	1.4	1.5	-1.0	1.3	2.2	2.5	
Contribution to GDP growth :										
Domestic demand			3.6	1.6	-0.3	-3.0	2.0	2.0	2.5	
Stockbuilding			0.0	0.1	0.0	0.0	0.0	0.0	0.0	
Foreign balance			-0.6	-0.2	0.8	1.8	-0.6	0.1	-0.1	
Employment			0.4	1.3	0.3	-0.4	0.4	1.0	1.2	
Unemployment (a)			6.4	4.0	5.0	6.3	6.3	6.2	6.1	
Compensation of employees/head			14.0	5.7	4.4	4.1	3.1	3.6	3.8	
Unit labour costs			11.1	5.4	4.3	4.9	2.2	2.5	2.6	
Real unit labour costs			-0.2	1.0	-0.2	2.5	0.2	0.2	0.1	
Savings rate of households (b)			-	-	12.3	12.0	11.5	11.3	11.4	
GDP deflator			11.3	4.4	4.5	2.3	1.9	2.3	2.4	
Private consumption deflator			11.1	3.8	3.5	3.4	2.3	2.4	2.3	
Harmonised index of consumer prices			-	4.4	3.7	3.3	2.4	2.4	2.3	
Trade balance (c)			-11.7	-11.1	-9.3	-8.0	-10.4	-10.3	-10.2	
Balance on current transactions with ROW (c)			-4.4	-10.1	-7.8	-6.3	-6.8	-6.5	-6.2	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-8.2	-5.9	-3.9	-4.8	-4.7	-4.4	
General government balance (c)(d)			-5.6	-4.4	-2.7	-2.8	-2.9	-3.7	-3.8	
General government gross debt (c)			56.3	55.8	58.4	60.3	60.8	62.0	62.9	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

21. Slovenia

Economy in a rebound

Recent developments and prospects for 2004

In 2003, Slovenia's real GDP growth decelerated to 2.5%, the lowest rate since 1993, against a persistently bleak international environment. Economic performance has faltered as export growth slowed to 3.2% while imports rose by 6.8%. Consequently, the foreign demand contribution to GDP growth turned negative. In 2003, the push was mainly internal. Investment expenditure was booming at 10.5% and private spending rebounded to 2.7%, largely fuelled by high credit growth as real wages increased only moderately and employment fell again. The acceleration in government consumption having risen by 2.6% provided further stimulus to a continuous strengthening of domestic demand. With export activity improving steadily in relation to a gradual recovery in the EU, growth started to pick-up towards the end of 2003.

This year, the economy appears to have caught a strong growth momentum, supported by export expansion, prolonged investment surge, significant stock-building and marked household consumption. The upward trend in the quarterly dynamics of GDP components upholds the anticipation of a robust economic upturn, albeit much of the recent rise seems to have come from a considerable building up of inventories. In the first half of 2004 the economy grew by 4.2% compared to the same period last year, but is expected to slow down somewhat in the last two quarters, to reach 4.0% over the year as a whole.

Outlook for 2005-2006

For 2005, the forecast projects GDP growth to stay

steady at 3.6% as the economy comes under a mild temporary strain of presently high commodity price levels, confirmed by withering investors' confidence. It is especially domestic consumption that is likely to drive the economy next year. Real wage increases are expected to be subdued, however, a gentle pick-up in employment and a new personal income tax regime should spur household spending.

In 2006, when the negative effects of high oil prices are expected to gradually fade, growth should start accelerating again. All components should contribute to GDP growth, forecast at 3.8%, with domestic demand giving the main impetus. Underlying the modest upturn is the anticipation of buoyant consumption and investment against the background of vigorous construction activity, production capacity adjustments to enhance competitiveness and increasing exports. In step with strengthened domestic demand and exports, imports are also set to rise slightly.

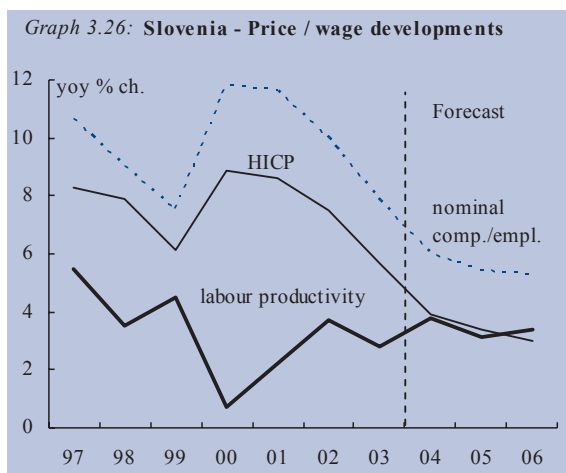
With a slowdown in the EU economy impinging on Slovenia's exports, the current account surplus narrowed, moving closer to balance in 2003. A marginally negative current account is expected to deteriorate moderately in 2005 and 2006.

Labour market, wages and prices

In 2003, employment fell and unemployment increased. This year the unemployment rate is to return to past levels of slightly above 6% and then resume its gradual trend decline as GDP growth stays resilient.

In May 2004, a new wage agreement for the private sector was adopted, stipulating that pay should lag behind productivity growth by at least one percentage point. Furthermore, it introduced forward-looking indexation, which takes into account anticipated rather than actual domestic consumer price movements, inflationary expectations in the EU and the euro/tolar exchange rate. The indexation mechanism is similar to the one agreed for the public sector in July 2003 and is considered benign to the disinflationary process.

Consumer price inflation has decreased impressively, dropping from 8.6% in 2001 to 5.7% in 2003 after the economic slowdown has eased the inflationary pressures. Inflation continued to decline rapidly in 2004; in September, the 12-month moving average



rate of consumer price growth stood at 4.0%. The government exercised prudence in regulating administered price increases and indirect tax changes, as well as applied frequent adjustments of excise duties on oil to temper the impact of world market price fluctuations. Moreover, the Bank of Slovenia has geared its monetary policy towards slowing the depreciation of the currency until entering ERM II on 28 June when the tolar was fixed at 239.64 tolar per 1 euro within a +/- 15% fluctuation band. Ever since, the exchange rate has remained close to the central parity. Assuming anti-inflationary policies continue, while exchange rate stability now credibly anchors expectations, inflation is projected to stay on a steady trend decline.

has raised the general government deficit figures for the period 2000-2003 (by 0.2-0.5% of GDP). Within the new methodological framework, the projection foresees the deficit this year to worsen, arriving at 2.3% of GDP, mostly as a result of subdued VAT revenue following the tax collection change after EU accession. The deficit is projected to remain broadly stable, declining marginally to 2.2% of GDP next year, as the decline in revenues due to the direct tax reform effective from January 2005 is compensated by an inflow of EU funds. Expenditure limits and changes of the indexation system, containing the rise of public sector wages and certain social transfers, are expected to help bring the deficit down to 1.9% of GDP in 2006.

Public finance

A revision of the government accounts, linked to the sectoral re-classification of some public institutions,

Table 3.21

Main features of country forecast - SLOVENIA

	2003			Annual percentage change						
	bn SIT	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	5741.0	100.0	4.3	2.7	3.3	2.5	4.0	3.6	3.8	
Private consumption	3128.0	54.5	3.9	2.3	0.3	2.7	3.5	3.3	3.3	
Public consumption	1166.0	20.3	3.1	3.9	1.7	2.6	1.7	2.5	2.7	
Gross fixed capital formation	1367.1	23.8	12.0	4.1	3.1	6.3	6.9	5.7	5.9	
of which : equipment	597.5	10.4	13.5	6.6	2.7	7.1	8.1	5.5	5.3	
Change in stocks as % of GDP	81.7	1.4	1.2	-0.6	0.5	1.6	2.1	2.6	3.0	
Exports (goods and services)	3245.4	56.5	6.1	6.3	6.7	3.2	8.6	5.6	6.7	
Final demand	8988.2	156.6	5.9	2.7	4.1	4.3	6.2	4.8	5.3	
Imports (goods and services)	3247.3	56.6	8.5	3.0	4.9	6.8	9.7	6.5	7.2	
GNI at constant prices (GDP deflator)	5699.8	99.3	4.1	2.7	2.5	2.5	4.6	3.7	3.9	
Contribution to GDP growth :										
Domestic demand			5.6	3.2	1.4	3.7	4.2	4.0	4.1	
Stockbuilding			0.2	-2.2	1.1	1.1	0.6	0.5	0.5	
Foreign balance			-1.4	1.8	1.0	-2.4	-1.1	-0.9	-0.8	
Employment			-	0.5	-0.4	-0.3	0.2	0.4	0.4	
Unemployment (a)			7.0	5.8	6.1	6.5	6.3	6.1	5.8	
Compensation of employees/head			-	11.6	10.0	7.8	6.0	5.4	5.3	
Unit labour costs			-	9.2	6.0	4.8	2.2	2.2	1.8	
Real unit labour costs			-	0.1	-1.9	-0.6	-1.9	-1.2	-1.2	
Savings rate of households (b)			-	-	11.9	-	-	-	-	
GDP deflator			10.2	9.1	8.0	5.5	4.1	3.4	3.1	
Private consumption deflator			10.7	8.1	7.8	5.0	3.8	3.3	2.9	
Harmonised index of consumer prices			-	8.6	7.5	5.7	3.9	3.4	3.0	
Trade balance (c)			-4.7	-3.1	-1.1	-2.2	-3.0	-3.6	-3.9	
Balance on current transactions with ROW (c)			-1.1	0.2	1.4	-0.4	-0.2	-0.8	-1.0	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.1	0.2	0.7	-1.0	-0.9	-1.4	-1.6	
General government balance (c)(d)			-	-2.8	-2.4	-2.0	-2.3	-2.2	-1.9	
General government gross debt (c)			-	28.1	29.5	29.4	30.9	30.8	30.6	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

22. Slovakia

Domestic demand picks up

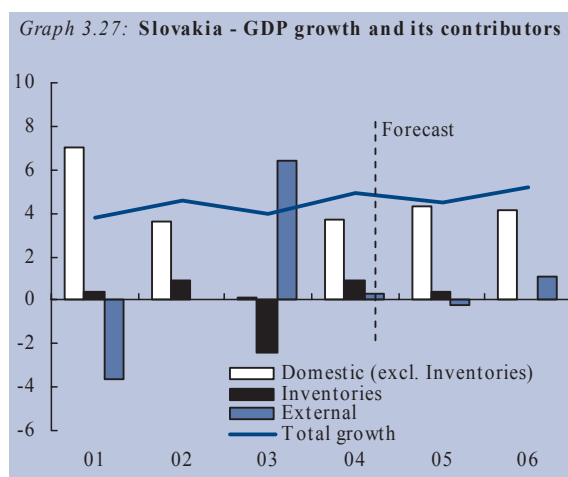
Growth in 2003 and in the first half of 2004

In 2003, real GDP growth slightly decelerated to 4% and its composition turned around. Stellar export growth of almost 23% in real terms propelled the external growth contribution to 6½ percentage points – in spite of the lacklustre performance of Slovakia's main export markets. The domestic growth contribution became negative. Private consumption expenditure was dampened significantly by real wage developments, resumed adjustments in administered prices and indirect taxes, and the implementation and anticipation of reforms in the social and health systems. Gross fixed capital formation contracted as well.

The first half of 2004 witnessed a reversal of these trends, which had already started in the fourth quarter of 2003, and the growth contributions of all domestic demand components entered into positive territory. In particular, private consumption picked up faster than had been commonly expected. This was partly due to a shift of some components of employees' compensation from end-2003 to 2004 as a reaction to the introduction of lower income taxes (flat rate of 19%). Export growth fell but remained robust at 16%, ensuring a continued positive external contribution. Altogether, GDP growth for the first half of 2004 reached almost 5½% (y-o-y).

Growth prospects

The immediate outlook for the Slovak economy is for a continuation of strong growth for the rest of 2004, leading to almost 5% growth for the year as a whole.



Private consumption is expected to stay strong as the increase of disposable income accelerates, with the income tax cuts outweighing restraints on social transfers and with real wage growth increasing. Gross fixed capital formation is likely to expand sharply as business environment and confidence have further strengthened and as the first tranches of pledged greenfield investments, predominantly in the automobile sector, are being implemented. The external growth contribution will weaken considerably but is expected to remain positive.

In 2005, domestic demand growth is set to pick up further as private consumption expands in synchronization with higher real wages, a falling household savings rate and strong household credit growth and as FDI-induced gross capital formation peaks. The associated increase in imports of investment goods will contribute to a slightly negative external influence on GDP growth. The latter is expected to settle at around 4½%.

In 2006, new export capacity will come on stream and the external growth contribution should become positive again. Moreover, domestic demand is expected to remain strong, although gross fixed capital formation is predicted to slow down. Altogether, GDP growth is predicted at a rate of more than 5%.

Inflation

Consumer price headline inflation has been hovering around 8% in 2003 and 2004, while core inflation stayed below or around 3%. This discrepancy has been due to still significant adjustments in administered prices and indirect taxes. As of 2005, such measures exert much less influence and there are reasonable prospects that headline inflation will rapidly fall to levels around 4% in 2005 and 3% in 2006 – assuming that potential second-round effects, including due to any backward-looking wage setting, are kept in check.

Current account

The current account deficit narrowed dramatically from around 8% of GDP in 2002 to roughly 1% of GDP in 2003, mirroring the impressive export performance of that year. Over the forecast horizon the deficit is expected to slightly widen but to stay around 3% of GDP, with the trade balance remaining the main determinant.

Labour market

After a strong performance in 2003, employment expansion seems to have come to a halt in 2004 as economic restructuring continues. Employment is predicted to expand again in 2005 and 2006. Partly reflecting unemployment benefit reforms, the unemployment rate fell strongly in 2003 but is likely to rise again in 2004. A gradual reduction is likely over the rest of the forecast horizon.

Public finances

With a general government deficit of 3.7% of GDP in 2003, the Slovak authorities substantially over-performed on their original target of 5% of GDP.

The implementation of the budget 2004 reflects most of the government's structural reform agenda for the

current legislative period, both on the revenue and expenditure side. This includes notably the introduction of a flat tax rate of 19% not only for the individual but also the corporate income tax, of a uniform 19% VAT rate, and of comprehensive reforms in the social sphere. So far, budget execution seems to be well on track and the government is likely to reach its target of a deficit slightly below 4% of GDP.

For the years 2005 and 2006, the general government deficit is expected to stay basically flat – roughly in line with the government's objectives. The predicted deficit figures include the revenue-decreasing effects of the introduction of a mandatory funded pension pillar at the beginning of 2005, which are estimated at almost ½ of a percentage point of GDP in the first year and nearly 1 percentage point of GDP in 2006.

Table 3.22

Main features of country forecast - SLOVAKIA

	2003			Annual percentage change						
	bn SKK	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	1203.3	100.0	100.0	4.0	3.8	4.6	4.0	4.9	4.5	5.2
Private consumption	678.1	56.4	56.4	4.6	4.7	5.3	-0.4	3.6	4.1	4.3
Public consumption	239.6	19.9	19.9	3.4	4.6	4.7	2.9	0.9	1.5	2.4
Gross fixed capital formation	308.4	25.6	25.6	3.6	13.9	-0.9	-1.2	6.3	7.4	5.2
of which : equipment	183.0	15.2	15.2	8.8	-2.0	1.4	0.9	6.3	7.4	5.2
Change in stocks as % of GDP	-7.9	-0.7	-0.7	0.2	0.7	1.6	-0.8	0.0	0.4	0.4
Exports (goods and services)	923.7	76.8	76.8	8.6	6.3	5.5	22.6	13.1	12.2	14.3
Final demand	2141.9	178.0	178.0	6.6	6.9	4.8	8.5	8.8	8.6	9.5
Imports (goods and services)	938.6	78.0	78.0	10.6	11.0	5.2	13.8	13.1	12.8	13.6
GNI at constant prices (GDP deflator)	1198.9	99.6	99.6	4.0	4.3	2.6	5.6	4.1	4.4	5.1
Contribution to GDP growth :										
Domestic demand				4.3	7.1	3.6	0.1	3.7	4.3	4.1
Stockbuilding				1.0	0.4	0.9	-2.4	0.9	0.4	0.0
Foreign balance				-1.3	-3.7	0.0	6.4	0.3	-0.2	1.1
Employment				-0.6	0.6	-0.5	1.7	-0.1	0.6	0.9
Unemployment (a)				14.3	19.4	18.7	17.5	18.4	17.9	17.2
Compensation of employees/head				12.4	6.3	9.3	9.9	9.9	6.7	6.5
Unit labour costs				7.4	3.0	3.9	7.6	4.7	2.7	2.2
Real unit labour costs				0.5	-1.1	-0.1	2.8	0.7	0.4	0.6
Savings rate of households (b)				-	-	5.1	7.3	6.9	6.6	6.4
GDP deflator				6.8	4.2	4.0	4.7	4.0	2.3	1.6
Private consumption deflator				7.4	6.1	3.1	7.7	6.9	3.3	2.8
Harmonised index of consumer prices				-	7.2	3.5	8.5	7.7	3.9	3.0
Trade balance (c)				-7.3	-10.6	-9.1	-2.3	-3.0	-3.8	-3.5
Balance on current transactions with ROW (c)				-5.0	-7.4	-8.2	-1.1	-2.9	-3.3	-3.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.9	-7.4	-7.7	-0.8	-2.7	-3.0	-2.6
General government balance (c)(d)				-6.3	-6.0	-5.7	-3.7	-3.9	-4.0	-4.1
General government gross debt (c)				-	48.7	43.3	42.6	44.2	45.2	45.9

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

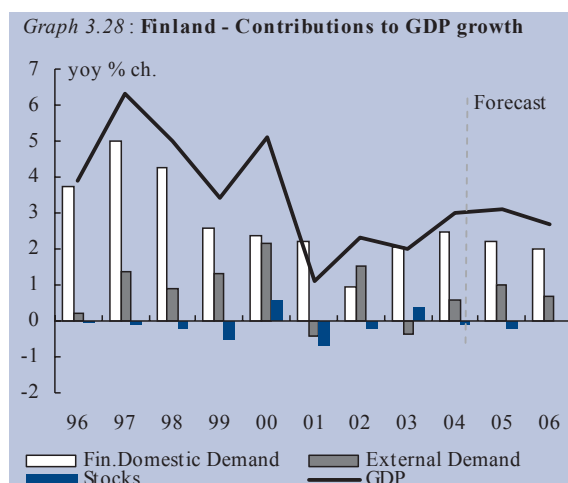
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

23. Finland

Growth set to maintain strong momentum, increasingly supported by exports

Economic developments in 2004

Following real GDP growth of 2.0% in 2003, economic activity expanded more strongly than anticipated, growing by 3.0% year-on-year in the first half of 2004. According to revised data, output grew by 1.1% in the first quarter from the previous period, owing mainly to continued strong household consumption and exports being boosted by cruise ship deliveries. In the second quarter, real GDP growth decelerated to 0.7%, even though investment increased strongly, with equipment investment up by 4.9% on the quarter, as private consumption remained flat and exports plunged by 5.1% from the previous quarter. Overall, it appears that domestic demand has propelled growth in the first part of 2004, while the contribution from the external side has been more subdued than expected. Household consumption was fuelled by earnings, direct and indirect tax cuts, and low interest rates, while public consumption has expanded only modestly, in line with expectations. Total investment has grown since summer 2003, confirming that a cyclical turnaround has taken hold. Residential construction and equipment investment have increased strongly, more than offsetting a further slump in commercial building. In first half of 2004, exports were boosted by cruise ship deliveries and strong demand for metal products, but overall exports have suffered from the difficulties in the electronics industry. Imports contracted in the first part of 2004, as fewer cars were imported to Finland than in 2003. The weakening in the terms of trade has continued as export prices remained broadly flat while import prices increased.



In contrast to the stronger activity, employment has declined further, by 0.4% up to September 2004. Nevertheless, unemployment remained broadly stable as labour supply contracted as well. Inflation (HICP) declined from an average of 1.3% in 2003 to 0.2% in September 2004 on account of the alcohol tax cut taking effect in March.

Prospects for 2005 and 2006

The economy is projected to firmly remain on the growth path throughout the forecast period. Based on survey indicators, exports are expected to pick up during the latter part of 2004, while domestic demand will remain solid. In 2005-06, net exports will increasingly contribute to growth, while support from private consumption will recede, but investment is expected to pick up the slack. Consequently, activity is set to expand at a steady pace, peaking in 2005 at 3.1% and then easing to 2¾% in 2006.

Job creation is expected to pick up slightly as from 2005, allowing some modest inroads into unemployment, which remains largely structural in nature.

GDP components

Private consumption is expected to continue driving activity, although gains in disposable income will be lower as the temporary factors that supported purchasing power in 2004 will fade away. In addition, higher inflation and increases in tax-like charges will dampen growth in real disposable income. Public consumption is expected to increase modestly, given the efforts of the central government at expenditure control. Investment has finally returned to the growth trend and, given the projected stronger stimulus from external demand and improving capacity utilisation, is projected to accelerate in 2005-2006.

Exports are anticipated to strengthen on the back of the stable international economic outlook and to gain further momentum in 2006. In spite of the recent setbacks in the electronics industry, the prospects for exports of telecommunication equipment appear rather promising. Also the outlook for forest and metal industry exports is positive.

Labour market, costs and prices

Alcohol tax cuts of 33% on average are exerting downward pressure of prices, bringing HICP inflation to about ¼% in 2004. For 2005 and 2006, inflation may rise to about 1.5%, as the economy expands and the effect of the tax cut fades away. The centralised two-year wage agreement that provides for general wage rises of 2.2% in 2004 will expire in February 2005. Even though the outlook for new collective wage agreement seems currently rather bleak, the baseline assumption of the forecast is that wage rises will broadly follow the trend observed in recent years.

Public finances

The general government surplus is foreseen to remain unchanged from 2003 at 2.3% of GDP in 2004. Central government finances are expected to be in

surplus, although they have been weakening for four consecutive years, while municipalities continue to stay in deficit. Based on the government's medium-term spending guidelines of Spring 2004 and the budget proposal for 2005, the general government surplus is estimated to stay over 2% of GDP during the forecast period. Central government finances are projected to be in deficit in 2005-06 as expenditures are rising at a faster pace than revenues. Moreover, local governments may stay in deficit, even if the financial position should improve due to higher tax receipts and moderate expenditure growth. Overall, the general government surplus will be largely accounted for by the social security funds.

The government debt ratio is anticipated to fall from 44.8% of GDP in 2004 to about 42% of GDP by the end of the forecast period.

Table 3.23

Main features of country forecast - FINLAND

	2003			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	142.5	100.0	2.5	1.1	2.3	1.9	3.0	3.1	2.7	
Private consumption	74.6	52.3	2.3	1.8	1.5	4.3	3.3	2.7	2.4	
Public consumption	31.8	22.3	2.0	2.4	3.8	0.7	1.5	1.5	1.4	
Gross fixed capital formation	25.9	18.2	1.0	3.9	-3.1	-2.3	2.6	2.8	3.1	
of which : equipment	7.1	5.0	1.0	12.0	-9.1	-10.4	2.6	3.6	3.0	
Change in stocks as % of GDP	1.0	0.7	0.2	0.2	0.4	0.6	0.2	0.0	0.0	
Exports (goods and services)	53.1	37.2	5.9	-0.8	5.1	1.3	3.0	5.1	4.7	
Final demand	186.3	130.7	2.8	0.9	2.5	1.8	2.8	3.2	3.1	
Imports (goods and services)	43.8	30.7	4.6	0.2	1.9	0.9	2.0	3.5	4.0	
GNI at constant prices (GDP deflator)	142.0	99.6	2.5	1.7	2.8	1.6	3.4	3.1	2.7	
Contribution to GDP growth :										
Domestic demand			1.8	2.1	0.9	1.8	2.5	2.2	2.0	
Stockbuilding			-0.1	-0.7	0.2	0.2	-0.1	-0.2	0.0	
Foreign balance			0.7	-0.5	1.8	0.3	0.6	1.0	0.7	
Employment			-0.1	1.5	0.9	0.0	-0.4	0.4	0.7	
Unemployment (a)			8.6	9.1	9.1	9.0	8.8	8.6	8.3	
Compensation of employees/head			6.4	4.7	1.9	3.3	4.1	3.7	3.6	
Unit labour costs			3.7	5.1	0.6	1.3	0.6	1.1	1.5	
Real unit labour costs			-0.8	2.1	-0.3	1.3	0.2	0.0	0.1	
Savings rate of households (b)			-	-	7.5	7.9	8.2	6.6	5.3	
GDP deflator			4.6	3.0	0.9	0.1	0.4	1.1	1.5	
Private consumption deflator			4.4	3.5	3.1	0.5	0.6	1.9	2.0	
Harmonised index of consumer prices			-	2.7	2.0	1.3	0.2	1.5	1.7	
Trade balance (c)			4.7	10.4	9.7	8.0	7.5	7.5	7.4	
Balance on current transactions with ROW (c)			-0.1	6.9	7.4	5.2	4.9	4.9	4.9	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.1	7.0	7.2	5.8	5.0	5.0	4.9	
General government balance (c)(d)			0.7	5.2	4.3	2.3	2.3	2.1	2.2	
General government gross debt (c)			32.0	43.8	42.6	45.6	44.8	43.4	42.2	

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

24. Sweden

The labour market revives in 2005 consolidating robust economic growth

The situation in 2004

Swedish economic growth has been strong in 2004, with GDP growth up by 3.7% on the year in the first half; growth accelerated from 0.9% in the first quarter to 1.0% in the second. Exports have expanded substantially, outpacing imports, resulting in a considerable growth contribution from net exports. On the domestic side, private consumption has advanced steadily and in the second quarter investment expansion was encouraging after a sustained period of sluggishness. Relatively poor developments observed in the labour market have helped to contain wage demands and inflationary pressures have been very low. The subdued outlook for inflation has enabled the Riksbank to extend its cycle of reducing interest rates, with further cuts in the repo-rate of 75 basis points in the first half of 2004.

Recent indicators are positive, with both consumers and business expectations at relatively high levels. The consumer confidence indicator has continued to show a positive picture. Business confidence indicators are similarly encouraging. The industrial confidence indicator has been rising since last autumn and stood clearly above its long-term average in September. The purchasing managers index also signals expansion. These prospects are expected to be confirmed in a steady continuation of the recovery in the remainder of 2004, with GDP growth of 3.7%. In particular the external side is expected to contribute very strongly to growth this year.

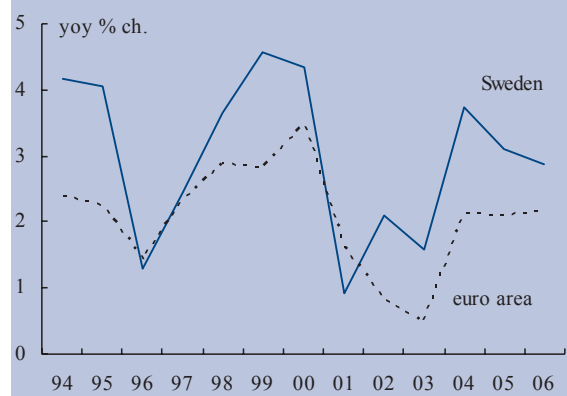
Disposable income growth has strengthened in 2004

compared with 2003, providing for continued steady increase in private consumption. The saving rate of households, though remaining above 10%, is expected to be lower in 2004 compared with 2003. Financial wealth has benefited from rising equity prices. Moreover, while households have taken on more debt, house prices have continued to rise steadily, contributing to the maintenance of a relatively strong net wealth position of households.

Prospects for 2005-06

A resumption of employment growth contributes positively to household disposable income in 2005 and more significantly so in 2006. An additional modest reduction of the saving rate is expected in 2005. All in all, this should result in stable consumption growth in the years to 2006. Public consumption is expected to continue to be relatively steady over the forecast period. Turning to investment, the conditions for a strong recovery are in place: a benign demand outlook, favourable financing conditions, a long period of falling total investments and a high capacity utilisation rate in manufacturing. A strong investment expansion should therefore take place over the forecast period. Exports are expected to continue to grow relatively strongly up to 2006, in line with world markets. Imports should expand more rapidly as final demand strengthens further during the forecast period. In 2005, economic growth is expected to be 3.1%, above the potential rate, driven by domestic demand. In 2006, the economy is expected to grow almost as fast, close to the potential rate. With a relatively strong GDP evolution over this period, interest rates may rise slightly.

Graph 3.29: Sweden - GDP growth in Sweden and the euro area



Labour market, costs and prices

Employment growth has been negative in 2004 and the unemployment rate has risen. The strong rise in economic activity foreseen from 2004 onwards is expected to result in an improvement in the labour market in 2005 and in particular in 2006. Inflation has fallen considerably since electricity and energy price increases in late 2003, notwithstanding the significant recent rises in oil prices. Wages are expected to rise relatively moderately, reflecting past weakness in the labour market. The wage agreements reached in the spring of 2004 resulted in lower negotiated wage rises in industry compared with the 2001 wage negotiation

round. Against this background, inflationary pressures should be subdued this year. As demand and growth revive further in 2005 and 2006, inflation is expected to rise gradually to 2% during the course of 2006. With relatively strong growth over this period, and with an improvement in the labour market from next year, interest rates may start to rise.

Public finances

In 2004, the surplus in public finances is expected to rise to slightly above 0.5% of GDP. Income tax cuts in 2005 proposed in the Budget Bill, one part of the last step of a phased income tax reform, contributes to

keep the surplus ratio in the government finances unchanged in 2005. On current policies, a slight rise in the budget balance is projected in 2006, compared with the previous year, benefiting also from an improvement in the labour market. General government debt, which mainly lies in central government, is projected to rise as central government is expected to remain in deficit over the forecast period. The increase is nevertheless slower than nominal GDP over the forecast period, resulting in a fall in the debt ratio to close to 50% of GDP in 2006.

Table 3.24

Main features of country forecast - SWEDEN

	2003		81-00	Annual percentage change						
	bn SEK	Curr. prices		% GDP	2001	2002	2003	2004	2005	2006
GDP at constant prices	2438.9		100.0	2.1	0.9	2.1	1.6	3.7	3.1	2.9
Private consumption	1194.9		49.0	1.6	0.4	1.4	1.9	2.3	3.0	3.0
Public consumption	690.8		28.3	1.2	0.9	3.2	0.6	0.9	0.9	0.8
Gross fixed capital formation	383.2		15.7	2.1	-1.0	-3.0	-2.0	2.5	6.0	6.4
of which : equipment	157.4		6.5	5.3	-4.4	-5.7	-3.2	1.9	7.5	7.6
Change in stocks as % of GDP	7.7		0.3	0.2	0.3	0.1	0.3	0.0	0.2	0.2
Exports (goods and services)	1066.3		43.7	6.0	0.2	1.2	5.5	10.2	7.3	6.5
Final demand	3342.8		137.1	2.6	-0.1	1.0	2.6	4.3	4.5	4.2
Imports (goods and services)	904.0		37.1	4.6	-2.5	-1.9	5.0	5.8	8.3	7.6
GNI at constant prices (GDP deflator)	2435.0		99.8	2.0	0.8	2.5	1.8	3.7	3.1	2.8
Contribution to GDP growth :		Domestic demand		1.5	0.2	0.9	0.8	1.8	2.6	2.7
		Stockbuilding		0.0	-0.4	-0.2	0.2	-0.3	0.2	0.0
		Foreign balance		0.7	1.1	1.4	0.9	2.3	0.3	0.1
Employment				0.0	1.9	0.2	-0.2	-0.5	0.4	1.0
Unemployment (a)				5.1	4.9	4.9	5.6	6.3	5.8	5.0
Compensation of employees/head				6.6	4.5	2.7	2.4	3.4	3.7	3.9
Unit labour costs				4.4	5.5	0.8	0.5	-0.9	0.9	2.0
Real unit labour costs				-0.6	3.2	-0.7	-1.7	-1.9	-1.0	0.1
Savings rate of households (b)				-	-	12.7	11.5	10.4	9.4	9.5
GDP deflator				5.0	2.3	1.4	2.3	1.1	2.0	1.9
Private consumption deflator				5.5	2.4	1.8	2.5	1.5	1.8	1.9
Harmonised index of consumer prices				-	2.7	2.0	2.3	1.1	1.5	1.9
Trade balance (c)				3.6	6.7	6.5	6.3	7.6	7.6	7.4
Balance on current transactions with ROW (c)				0.8	4.4	5.1	5.7	7.3	7.1	6.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.0	4.3	5.1	5.7	7.3	7.1	6.7
General government balance (c)(d)				-1.9	2.8	0.0	0.3	0.6	0.6	0.8
General government gross debt (c)				60.1	54.4	52.6	52.0	51.6	50.6	49.7

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

25. United Kingdom

Growth moderating, but remaining strong

The situation in 2004

Output growth in the UK in 2004 has been robust. Momentum throughout the second half of 2003 has been sustained, resulting in a 3.6% expansion over the year to the second quarter of 2004, well above estimates of the trend rate of growth.

Domestic demand has been the key driver of this performance. Private consumption expenditure has again been a significant source of growth, along with supportive government consumption – the latter the result of a sustained programme of government spending aimed at improving public services. In addition, the pickup in fixed investment observed during the second half of 2003 has continued apace following improvements in corporate profitability. A sustained appreciation of the sterling effective exchange rate, through the second half of 2003 and into March 2004 appears to have dampened any further stimulus from growth in export volumes, but a more recent, smaller depreciation over the summer may yet help the UK's export performance in the later part of the year, particularly in the face of the expected wider global recovery.

As in 2003, growth has been strongest in the service and construction sectors. After four consecutive quarters of expansion, manufacturing output fell slightly in the first quarter, in apparent contradiction with survey evidence reporting an improving outlook. In the second quarter, however, quarter-on-quarter growth of 1.2% in manufacturing output once again suggested that recovery was still in progress.

Unemployment has remained at record-low levels,

falling to 4.7% in September 2004. Notwithstanding the strength of the labour market, and a pickup in average earnings, inflationary pressures have appeared subdued, with the harmonised index of consumer prices (known in the UK as CPI) remaining well below the Bank of England's symmetric 2% inflation target throughout the year. The Bank's Monetary Policy Committee (MPC) has, in anticipation of emerging price pressures, already raised its policy interest rate by 25bp on 4 occasions during 2004 – resulting in a cumulative rise in the repo rate of 125bp to 4.75% since its trough in November 2003.

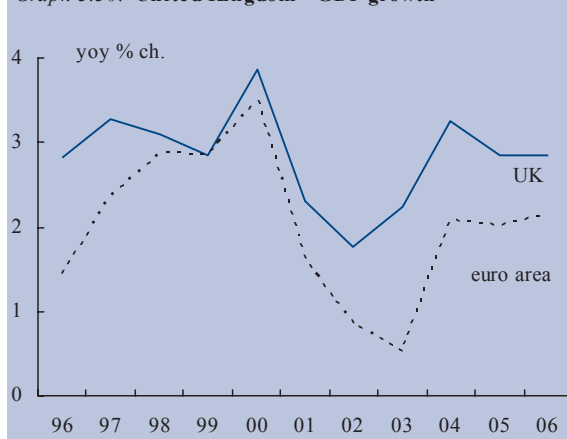
For 2004 as a whole, it is now estimated that growth is likely to be around 3.3%, above the Commission's spring forecast of 3.0%.

Prospects for 2005 and 2006

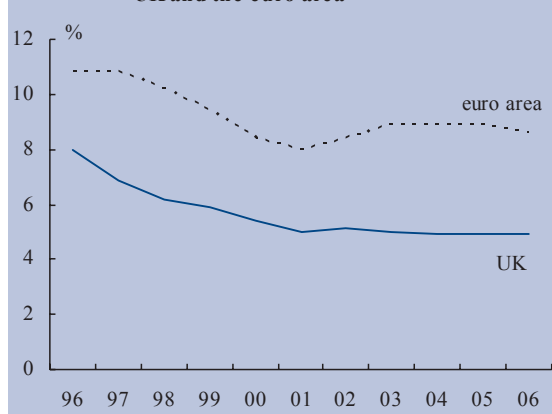
Firm growth is expected to continue throughout the forecast period, moderating slightly to around 2¾% in both 2005 and 2006. Final domestic demand should weaken in 2005 and 2006, as the impact of tighter monetary policy takes effect, while improved world demand is expected to lead to a small positive contribution to growth from net exports in 2005.

Household consumption in real terms is expected to slow to around 2¼% in 2005 and a little less in 2006 – following interest rate rises, this also reflects the impact of an expected slowing in house price inflation. Signs of a cooling housing market are becoming more evident, with recent slowdowns in lending and mortgage approvals. However, the overall impact on consumption from slower house price

Graph 3.30: United Kingdom - GDP growth



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



growth is expected to be relatively mild, especially since household net wealth holdings are still healthy. The build-up in household debt in recent years is not regarded as a major risk: most appears to have been used either to invest in housing improvements (i.e. re-invested in the housing market), or the acquisition of financial assets, rather than to finance consumption. The strength of the labour market should also provide further support to household confidence in the event of a more marked downturn in the housing market. All in all, the saving ratio should rise gently over the forecast period.

Government consumption in line with the government's plans will support growth throughout the forecast period. Fixed investment should moderate slightly from robust growth in 2004, but will remain strong – also reflecting government plans to increase public investment – with slower construction investment offset, particularly in 2005, by continued firm growth in equipment investment.

The strength of recovery in the global economy should contribute to an improvement in UK net exports, despite the strength of equipment investment helping to sustain demand for imports. Net exports should contribute positively to output growth in 2005, with the net trade contribution returning to around balance in 2006 as global demand slows.

Labour market, costs and prices

Unemployment is expected to remain low and stable at around 5%, close to its estimated NAIRU level, throughout the forecast period. Employment growth should be more moderate than in recent years, as employment levels are already relatively high by international standards. Wage growth should increase given the strength of the labour market, particularly as bonus payments are increasingly likely to reflect improvements in corporate profitability. With productivity growth expected to remain firm, unit labour cost increases should be moderate.

Pressure on consumer prices should also increase; although signs of a pickup in inflation are muted despite recent oil price rises, with HICP inflation only 1.1% in the year to September 2004, it is expected to rise towards its 2% target by the end of 2005, not least as signs of emerging pressure in producer prices are evident. Some further tightening of monetary policy by the authorities is commonly expected.

Public finances

The general government finances recorded a deficit of 3.3% of GDP in 2003, significantly higher than had been forecast by the authorities in April 2003. Composition effects in GDP growth resulted in lower-than-expected receipts from taxes on corporate income and wages and salaries. Further, there were additional discretionary expenditure related to the Iraq war and measures to combat terrorism.

So far in 2004, data suggest some improvement in the first half of the year, but considerable uncertainty hangs over future developments. The deficit is expected to narrow over the forecast period, with growth in general government consumption projected to slow relative to 2004, and revenues to recover relative to nominal income.

Revenues, particularly taxes on household income and corporate profits, should increase as a result of still relatively strong GDP growth, albeit at a slower pace than was forecast by the authorities in the March 2004 Budget. However, risks to this forecast remain significant, because of a high degree of uncertainty over the future development of tax revenues. Under the UK's system of corporation tax, in particular, companies pay on the basis of expected profits for the year, but are not penalised for underestimating profit in the early part of the year. Thus, while higher corporate profitability should soon begin to feed through into tax receipts, data so far give little guide to the likely development of receipts in the fourth quarter of this year.

On the expenditure side, growth of government spending is expected to slow, broadly in line with the plans set out by the government in the Budget. Historically, there has been a tendency to underspend relative to target, but in a period of slowing expenditure, government departments may find it more difficult to adjust to tighter budgets. Indeed, expenditure in 2004 has been relatively strong so far; while it is difficult to draw conclusions about the likely path of expenditure from these developments, there remains some risk, therefore, that government spending will be higher than is currently forecast.

In order to strengthen efforts to improve public services as the rate of expenditure increase slows, the authorities announced plans in summer 2004 to significantly enhance efficiency across the public sector (including through some cuts in employment). However there is not expected to be any net impact on the public finances, since the government has stated that any expenditure savings are to be redirected to priority areas.

In total, the projected deficit declines to a little below 3% of GDP in 2004 and to around 2½% in both 2005 and 2006. The ratio of gross debt to GDP, though increasing slightly, is expected to remain close to 40%. However, as noted above, considerable uncertainty remains over the future path of the deficit. Risks remain and a deficit figure higher than 3% in 2004 can not be excluded.

Table 3.25

Main features of country forecast - UNITED KINGDOM

	2003			Annual percentage change						
	bn GBP	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices		1099.9	100.0	2.5	2.3	1.8	2.2	3.3	2.8	2.8
Private consumption		721.1	65.6	3.1	2.9	3.3	2.3	3.3	2.3	2.1
Public consumption		229.9	20.9	1.1	2.6	3.8	3.5	3.8	2.2	2.8
Gross fixed capital formation		178.9	16.3	3.5	2.6	2.7	2.2	6.7	5.1	4.5
of which : equipment		68.5	6.2	4.6	0.8	-6.7	-3.3	5.6	5.7	4.2
Change in stocks as % of GDP		2.5	0.2	0.2	0.7	0.3	0.2	0.1	0.0	0.1
Exports (goods and services)		277.5	25.2	4.8	2.9	0.1	0.1	2.5	6.6	6.1
Final demand		1409.9	128.2	3.2	2.9	2.3	2.0	3.6	3.4	3.4
Imports (goods and services)		310.2	28.2	5.9	4.9	4.1	1.3	4.5	5.2	5.1
GNI at constant prices (GDP deflator)		1118.4	101.7	2.6	3.0	2.8	2.2	3.3	2.7	2.9
Contribution to GDP growth :										
Domestic demand				2.7	2.8	3.4	2.6	4.1	2.9	2.7
Stockbuilding				0.1	0.1	-0.4	0.0	-0.1	-0.1	0.1
Foreign balance				-0.2	-0.7	-1.2	-0.4	-0.7	0.1	0.0
Employment				0.5	0.7	0.2	0.9	0.7	0.5	0.5
Unemployment (a)				8.7	5.0	5.1	5.0	4.9	4.9	4.9
Compensation of employees/head				6.6	5.4	4.5	4.1	5.2	5.3	5.2
Unit labour costs				4.5	3.7	2.9	2.7	2.6	2.8	2.7
Real unit labour costs				-0.2	1.4	-0.3	-0.3	0.2	0.5	0.6
Savings rate of households (b)				-	-	5.0	5.2	5.3	5.9	6.6
GDP deflator				4.7	2.2	3.2	3.0	2.4	2.3	2.1
Private consumption deflator				4.7	2.4	1.6	1.8	1.7	2.0	2.1
Harmonised index of consumer prices				-	1.2	1.3	1.4	1.4	1.9	2.0
Trade balance (c)				-2.1	-4.1	-4.5	-4.3	-4.8	-4.7	-5.0
Balance on current transactions with ROW (c)				-1.4	-2.3	-1.7	-1.9	-2.0	-1.8	-1.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-2.1	-1.7	-1.7	-1.8	-1.6	-1.7
General government balance (c)(d)				-2.4	0.7	-1.7	-3.3	-2.8	-2.6	-2.4
General government gross debt (c)				46.8	38.8	38.3	39.8	40.4	40.9	41.2

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 4

Candidate Countries

1. Bulgaria

Continuing high growth on the basis of strong domestic demand

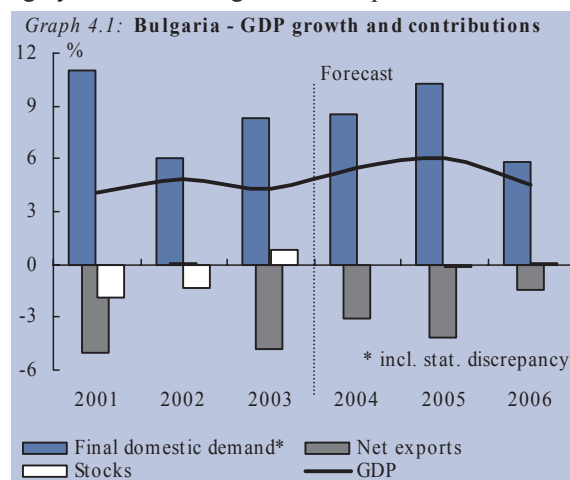
Recent economic developments

The Bulgarian economy continued its expansion at a rate of 5.6% in the first half of 2004. Growth is based on strong domestic demand fuelled by increases in net income, employment and bank credit. While this results in high import growth, exports were also getting stronger over the summer. On the supply side, the good harvest, a strong increase in industrial production and a good tourism season are contributing to the high output growth.

Following a period of low inflation in the first months of 2003, rates have accelerated since mid-2003 due to higher food prices, as a consequence of a drought-related bad harvest in 2003, as well as increases in excise tax rates, administrative prices and import prices. Unemployment decreased to 12.0% in June 2004 since jobs are being created in the private sector and in government schemes for long-term unemployed. The current account deficit, which had deteriorated to 8.6% of GDP in 2003, showed an improvement in the first seven months of 2004 in all its balances except for the trade deficit. Net inflows of foreign direct investment in 2004 were at record highs and fully covering the current account deficit.

Prospects for 2004 to 2006

GDP growth is expected to achieve around 5½% for the full year 2004, to accelerate to a rate of 6% in 2005 and to moderate to 4½% in 2006. The acceleration in 2004 and 2005 will be based on continued strong domestic demand resulting in a highly imbalanced growth composition. In 2005,



growth will be further stimulated by already announced measures of slightly expansionary fiscal and wage policies in view of national elections by mid-2005. This is likely to be followed by some adjustment in 2006 to rebalance the economy and to bring it closer to its medium-term potential growth rate.

The projected growth path, driven by a similar development of domestic demand and, on the supply side, a good performance of all three broad sectors, will continue to trigger substantial imports given the still weak industrial base of the economy. Private consumption will remain very strong because of high credit growth, higher employment and increases in net income, the latter also arising from cuts in income tax rates and a 25% increase in the minimum wage planned for 2005. These effects on consumption are likely to moderate in 2006, but strong investment in view of the opportunities expected from EU accession in 2007 should prevent the economy from a more significant slowdown. Net exports have a strongly negative contribution to GDP growth until becoming less negative in 2006 as a result of a slower expansion of private consumption.

Consumer price inflation is expected to be lower in the second half of 2004 than in the first half of the year, largely because of a better harvest which keeps food prices low. However, it is unlikely to be below 5% at the end of the year and 6% on average also because of the higher oil price. Wage increases beyond what is warranted by productivity growth are likely to bring some upward pressure on prices in 2005. These effects should ease in 2006, but catching-up effects will make it difficult to achieve an average inflation rate of less than 4%.

In view of continuing high GDP growth, net employment gains would make an unemployment rate of 10% or lower possible in 2006. This assumes that the induced increase in the participation rate is likely to be higher than the decline in the working-age population.

Public finance

In view of the strong revenue performance in the first eight months of 2004, the forecast projects that the general government budget balance will achieve a

surplus of ½% of GDP at the end of the current year. The expected deficit in 2005 of -1% of GDP is taking account of plans to further reduce tax rates on corporate profits and personal income. The continuation of a primary surplus and of high GDP growth will further reduce the debt-to-GDP ratio over the forecasting horizon to a more sustainable level.

External balances

The deficit of the trade balance is expected to widen further until 2005 as a result of higher import prices and strong domestic demand. It is projected to decrease in 2006 due to more favourable terms of trade and a gradual improvement in competitiveness arising from high fixed investment for several years.

As a consequence, the current account deficit is forecast to remain high until 2005 and to drop more significantly only in 2006. Favourable developments in tourism, debt service obligations and EU transfers will improve the income, services and current transfers balances, respectively, and partly dissociate the performance of the current account deficit from that of the trade deficit. Net foreign direct investment is likely to fully cover the current account deficit in 2004 since further inflows related to some major privatisations can be expected until the end of the year.

Table 4.1

Main features of country forecast - BULGARIA

	2003			Annual percentage change						
	bn BGN	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	34.4	100.0		-0.2	4.1	4.9	4.3	5.5	6.0	4.5
Private consumption	23.8	69.1		0.1	5.2	3.6	6.4	6.0	7.5	4.0
Public consumption	6.5	19.0		-4.4	1.3	4.0	7.4	7.0	8.0	4.0
Gross fixed capital formation	6.7	19.6		5.3	23.3	8.5	13.8	15.0	16.0	9.0
of which : equipment	-	-		-	-	-	-	-	-	-
Change in stocks as % of GDP	0.7	1.9		0.3	2.0	1.1	2.3	2.2	2.0	1.9
Exports (goods and services)	18.5	53.8		-	10.0	7.0	8.0	11.1	8.7	8.5
Final demand	56.2	163.3		-	8.7	4.9	8.3	8.9	8.9	6.2
Imports (goods and services)	21.8	63.3		-	14.8	4.9	14.8	13.8	12.8	8.4
GNI at constant prices (GDP deflator)	33.5	97.5		-0.3	4.4	5.6	3.5	7.0	6.8	4.5
Contribution to GDP growth :										
Domestic demand				0.5	11.1	6.0	8.3	8.5	10.3	5.8
Stockbuilding				1.2	-1.9	-1.4	0.8	0.0	-0.1	0.1
Foreign balance				-	-5.1	0.1	-4.8	-3.1	-4.2	-1.4
Employment				-1.4	-0.4	0.8	3.5	1.5	2.0	1.0
Unemployment (a)				11.8	19.2	17.8	13.6	12.2	10.7	10.0
Compensation of employees/head				-	12.3	7.1	8.4	8.4	10.5	7.8
Unit labour costs				-	7.5	3.0	7.6	4.2	6.3	4.2
Real unit labour costs				-	0.8	-0.8	5.5	-1.6	1.4	-0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				92.9	6.7	3.8	2.1	5.9	4.9	4.4
Private consumption deflator				90.2	6.0	4.0	0.4	5.0	4.0	3.0
Index of consumer prices				-	-	-	2.3	6.0	5.0	4.0
Trade balance (c)				-3.1	-11.7	-10.2	-12.5	-13.0	-14.5	-13.5
Balance on current transactions with ROW (c)				-1.6	-6.1	-4.7	-8.6	-8.0	-8.5	-7.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	0.2	-0.8	-0.1	0.5	-1.0	0.0
General government gross debt (c)				-	66.2	53.2	46.3	38.1	35.3	32.3

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. Croatia

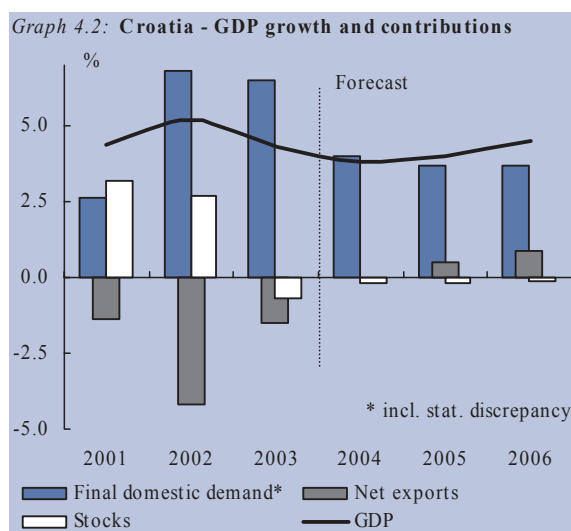
Weaker domestic demand and stronger foreign demand

Recent economic developments

In the first half of 2004, the Croatian economy expanded at a rate of 4%, somewhat lower than the 4.3% increase in 2003 as a whole. As a result of tighter monetary policies, growth of domestic demand decelerated from 6% in 2003 to 4%. The contribution of gross fixed capital formation to growth declined from 4% to 2% in the same period, due to the gradual termination of public investment projects. Net external demand continued to be a drag on economic output, although to a lesser extent as compared to 2003, pointing to a gradually improving performance of exports of goods and services. On the supply side, industrial output growth decelerated from a strong 5.6% year on year in the first quarter to a modest 2.2% in the second quarter.

Average consumer price inflation increased to 2.3% in the second quarter compared to 1.8% in 2003 as a whole, mainly as a result of higher prices for housing, energy and transport. Labour force survey data point to an unemployment rate of 14.5% in 2003.

During the first eight months of 2004, merchandise exports expanded by 14%, while imports grew by 6%. As a result of such improved export performance, the trade and current account deficits narrowed during the first half of 2004. The trade deficit stood at 26.3% of GDP compared to 27.4% in 2003 as a whole. In the twelve months to June, the current account recorded a deficit of 6.5% of that period's GDP, down from 7% of GDP in 2003.



Prospects

In 2004, real GDP growth is expected to decline to 3.8%, as a consequence of the continuation of tight monetary policies curtailing credit growth and domestic demand. The growth rate is forecast to accelerate to 4% in 2005 and to 4.5% in 2006, based on the assumption of ongoing privatisation and restructuring in the industry and tourism sector and a generally positive external environment.

Private consumption growth is expected to decelerate in 2004 to 3.5%, but will gradually increase to 4.2% in 2006. Gross fixed investment will grow by 7.3% this year, down from the exceptional high rate of almost 17% in 2003, reflecting slowing public investments. Investment growth is forecast to further decline to 5.4% and 4% in 2004 and 2005, respectively. Real export growth is expected to accelerate on the back of stronger external demand, market share gains, and a strong performance of the tourism sector. Real imports are expected to grow at lower, but still increasing rates, reflecting moderate domestic demand growth and a relatively high import content of merchandise and services exports.

Accordingly, the contribution to GDP growth is expected to change over the forecast period, reflecting weaker domestic and stronger net foreign demand. The contribution of domestic demand falls from 6.5% to a still strong 3.7% in both 2005 and 2006. The effect on growth of the foreign balance is neutral in 2004. Net exports will contribute positively to growth in 2005 with 0.5%, and with 0.9% in 2006.

Annual average consumer price inflation is expected to remain below 3% over the forecast horizon, as pressures from domestic demand remain moderate. It will increase from 2.4% in 2004 to 2.8% in 2006 as a result of administrative price adjustments, higher indirect taxes and price increases of non-tradables. In view of the accelerating GDP growth, employment is forecast to increase by around 1% per year over the forecast period. This supports a gradual reduction of the unemployment rate to 13.2% in 2006.

Public finances

The general government deficit is expected to be reduced from the unexpected high 6.3% deficit in 2003 to around 4.5% in 2004. The reduction will be

mainly brought about by announced one-off measures on the revenue side.

The forecast assumes a further reduction of the government deficit to 3.9% in 2005 and 3.6% in 2006, in line with the government strategy to reduce the domestic savings-investment gap of the economy through a policy of fiscal consolidation. From 2005 on, the adjustment is expected to take place predominantly on the expenditure side. Cost savings will arise from ongoing health sector reform, a downsizing of personnel in public administration, and enhanced financial discipline of public enterprises. Envisaged tax reforms are expected to be largely revenue-neutral.

As a result of fiscal consolidation, the government debt-to-GDP ratio will decline from 52.7% in 2004 to 51.1% of GDP in 2006.

External balances

The trade balance is expected to slightly improve over the forecast period as a result of accelerating export growth, weaker domestic demand and an improvement in the terms of trade. The trade deficit in 2004 will decline to 26.9% of GDP and further improve in 2005 and 2006. The current account deficit is forecast to be gradually reduced from 7% of GDP in 2003 to a more sustainable level of 5.0% at the end of the forecast period. This is mainly explained by an improved performance of services exports, mainly tourism, which are projected to increase by a real 10% per year in both 2005 and 2006.

Table 4.2

Main features of country forecast - CROATIA

	2003			Annual percentage change						
	mio HRK	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	193067.0	100.0	-	-	4.4	5.2	4.3	3.8	4.0	4.5
Private consumption	113396.0	58.7	-	-	4.4	7.5	4.1	3.5	3.8	4.2
Public consumption	39789.0	20.6	-	-	-6.2	-1.8	-0.3	-0.3	-0.3	-0.1
Gross fixed capital formation	53168.0	27.5	-	-	7.1	12.0	16.8	7.3	5.4	4.0
of which : equipment	-	-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP	5508.0	2.9	-	-	1.4	3.8	3.0	2.7	2.4	2.3
Exports (goods and services)	90927.0	47.1	-	-	8.1	1.3	10.1	6.9	8.8	9.7
Final demand	302788.0	156.8	-	-	6.3	6.5	6.7	4.5	4.9	5.3
Imports (goods and services)	109721.0	56.8	-	-	9.8	8.8	10.9	5.6	6.4	6.7
GNI at constant prices (GDP deflator)	184866.0	95.8	-	-	-	-	2.2	3.7	3.1	3.2
Contribution to GDP growth :										
Domestic demand			-	-	2.6	6.8	6.5	4.0	3.7	3.7
Stockbuilding			-	-	3.2	2.7	-0.7	-0.2	-0.2	-0.1
Foreign balance			-	-	-1.4	-4.2	-1.5	0.0	0.5	0.9
Employment			-	-	0.5	0.8	0.1	0.8	1.0	1.1
Unemployment (a)			-	-	-	-	14.5	14.7	13.9	13.2
Compensation of employees/head			-	-	-	-	7.9	5.5	6.8	7.5
Unit labour costs			-	-	-	-	3.5	2.4	3.7	4.0
Real unit labour costs			-	-	-	-	0.3	0.0	0.8	0.5
Savings rate of households (b)			-	-	-	-	-	-	-	-
GDP deflator			-	-	4.0	2.9	3.2	2.4	3.0	3.5
Private consumption deflator			-	-	4.7	1.9	1.4	2.2	2.6	2.7
Index of consumer prices			-	-	-	-	1.8	2.4	2.7	2.8
Trade balance (c)			-	-	-	-	-27.4	-26.9	-26.7	-25.9
Balance on current transactions with ROW (c)			-	-	-	-	-7.0	-5.7	-5.4	-5.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-	-
General government balance (c)(d)			-	-	-	-	-6.3	-4.5	-3.9	-3.6
General government gross debt (c)			-	-	-	-	51.6	52.7	52.5	51.1

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Romania

In the high gear– buoyant demand and widening trade deficit

Recent economic developments

In 2003, Romania's four-year old economic recovery continued, as real GDP grew by 4.9%. However, growth was increasingly unbalanced and mainly driven by domestic demand. Household consumption rose strongly by 7.1%, driven by surging consumer credit and high wage growth. With a real growth of 4.6%, government consumption also expanded considerably. Gross fixed capital formation increased rapidly at 9.2%, pointing to the ongoing replacement of Romania's capital stock. This strong domestic demand led to a sustained import growth of 16.3%, while export growth decelerated, reaching 11.1% for the year. Consequently, net exports turned strongly negative during 2003, and the current account deficit widened significantly to 5.8% of GDP.

During the first half of 2004, preliminary figures show that GDP grew by 6.6% y-o-y. Growth was driven by a further strengthening of household consumption to 9% y-o-y, on the back of high real wage gains, and by strong gross fixed capital formation of 10.4% y-o-y. Although exports accelerated to a double-digit growth rate, they continue to be outpaced by rapid import growth of both consumer and investment goods. As a result, the trade deficit widened further.

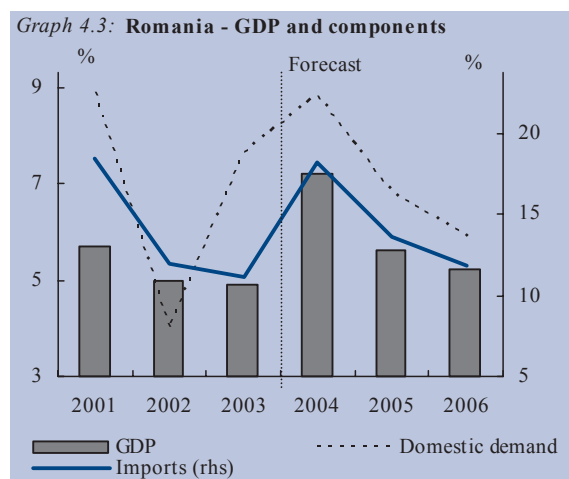
Prospects for 2004-06

The outlook for the Romanian economy points to strong growth, a further decline in inflation and a

considerable, but stable, current account deficit. Relative to the Spring 2004 forecast, a remarkably good harvest as well as the acceleration of both domestic and external demand cause an upward revision of GDP growth for 2004. Growth is expected to gradually moderate over 2005 and 2006 on the back of a less favourable external environment as well as more subdued government and household consumption.

GDP growth and components

For 2004, real GDP growth is expected to accelerate to 7.2% on the back of buoyant domestic demand and high agricultural output. Household consumption is forecasted to expand by 8.0% in 2004 due to high real wage growth, a permanent effect on disposable income from lower social security contributions and a surge in the rural population's own consumption as a result of the good harvest. In 2005 and 2006, private consumption is expected to decelerate due to the impact of energy price hikes on real disposable income, a tighter fiscal stance and slower consumer credit growth. Investment growth is expected to remain strong at around 10% annually over the forecasting period due to the ongoing modernisation of production facilities, a structural change towards less labour-intensive production and ambitious motorway projects. Export growth, increasing inflows of FDI and improved access to financing will also support investments. The negative contribution to GDP growth from net exports is expected to diminish as growth slows.



Inflation

Inflation is expected to remain on a downward path. The continued fall in consumer price inflation is underpinned by a moderation of inflationary expectations in the economy and supported by a coherent policy mix. Productivity gains due to industrial restructuring and investments as well as a lower rate of depreciation of the *lei* are expected to contribute to further mitigating inflationary pressures. Higher global energy prices are expected to increasingly feed through from producer to consumer prices. In combination with the ongoing adjustment of administered energy end-user prices and robust economic activity, this may cause inflation to decline at a slowing pace in 2005-06.

Labour market

The unemployment rate is expected to remain stable at around 6.6% against the background of slowly falling employment and declining labour market participation. Growth in private sector employment will continue to mitigate the effect from lay-offs caused by the restructuring of state-owned enterprises, but the relatively low unemployment rate may come to an end as economic restructuring, including in the agricultural sector, deepens. Labour market trends should be interpreted with caution as data are affected by revisions and changing methodology.

Public finances

Against the background of strong revenue growth, the fiscal policy stance was adjusted by two supplementary budgets in July and August 2004, bringing the 2004 general government deficit target

for 2004 down to 1.6% of GDP from the originally budgeted 3.0% of GDP. This target is expected to be met. In 2005, the fiscal stance is expected to adjust to the need of containing the current account deficit, while still benefiting from significant revenue growth. On balance, however, the introduction of important tax cuts is expected to lead to an increasing general government deficit.

External balances

Buoyant private consumption and investment activity will continue to drive imports up and result in a persistent trade deficit. Increasing transfers will mitigate the impact on the current account deficit, which is expected to remain stable over the forecasting period. Increasing FDI inflows, improved access to international financial markets and large international reserves will facilitate the financing of the deficit.

Table 4.3

Main features of country forecast - ROMANIA

	2003			Annual percentage change						
	bn ROL	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	1890778.3		100.0	0.1	5.7	5.0	4.9	7.2	5.6	5.1
Private consumption	1451166.3		76.7	2.5	7.1	4.7	7.1	8.0	5.5	4.5
Public consumption	123370.0		6.5	0.3	2.8	-8.9	4.6	6.5	4.0	4.0
Gross fixed capital formation	425916.7		22.5	1.4	10.1	7.3	9.2	10.0	10.0	9.0
of which : equipment	-		-	2.6	6.3	-	-	-	-	-
Change in stocks as % of GDP	40062.7		2.1	0.6	1.4	1.6	2.2	2.4	2.3	2.3
Exports (goods and services)	685001.6		36.2	10.1	12.1	17.6	11.1	17.9	13.8	12.5
Final demand	2725517.3		144.1	3.1	9.7	7.3	8.3	11.0	8.4	7.6
Imports (goods and services)	834739.0		44.1	13.3	18.4	12.0	16.3	18.9	13.6	11.8
GNI at constant prices (GDP deflator)	1867118.1		98.7	0.0	5.8	-	-	-	-	-
Contribution to GDP growth :		Domestic demand		2.9	9.9	4.1	7.6	8.8	6.8	5.9
		Stockbuilding		-1.0	1.1	0.2	0.0	0.3	-0.2	0.0
		Foreign balance		-1.7	-5.2	0.6	-2.8	-1.9	-1.1	-0.8
Employment				-2.4	-0.8	-2.7	-0.1	-0.1	-0.2	-0.2
Unemployment (a)				5.5	6.6	7.5	6.6	6.6	6.6	6.7
Compensation of employees/head				73.3	44.8	23.5	25.0	20.5	16.4	12.6
Unit labour costs				68.9	35.8	14.4	-	12.3	10.1	6.8
Real unit labour costs				6.3	-1.1	-7.3	-	-0.2	0.4	-0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				58.8	37.4	23.4	19.2	13.3	10.6	8.4
Private consumption deflator				57.7	35.6	21.6	17.7	12.5	9.7	7.0
Index of consumer prices				-	-	-	15.3	12.0	9.5	7.0
Trade balance (c)				-7.0	-7.5	-5.7	-8.0	-8.6	-8.9	-8.5
Balance on current transactions with ROW (c)				-	-5.7	-3.4	-5.8	-6.0	-6.1	-5.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	-3.5	-2.0	-2.0	-1.6	-1.7	-2.2
General government gross debt (c)				-	23.2	23.3	21.8	21.8	22.2	23.3

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

4. Turkey

Reaping the benefits of improved stability

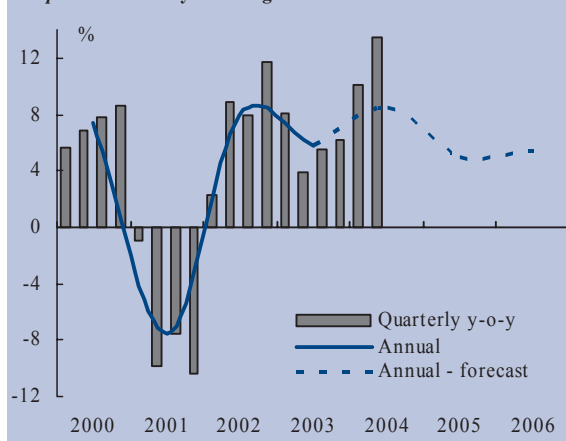
Recent economic developments

In 2003 the Turkish economy grew by 5.8%. During the first half of 2004, economic activity has continued to accelerate. Private consumption and investment showed an impressive boom, leading to an output increase by nearly 12%, compared to some 6% in the same period a year ago. The main underlying factors for this strong expansion have been improved political stability - fostering, consumer and business confidence - and a favourable economic environment with declining inflation and interest rates, rapidly expanding consumer credits, tax incentives to scrap old cars and a strong currency, supporting the import of consumer durables and investment goods. Overall, the surge in investment has recently brought capital formation back to its pre-crisis level of 1998. Even when taking into account a deceleration in the second half of 2004, annual GDP growth will remain strong at about 8½% in 2004.

Disinflation has remained stronger than expected, with a decline in 12-months consumer price inflation from some 25% for the average of 2003 to around 10% in autumn 2004. Wage restraint and the strength of the Turkish lira have helped to reduce inflation.

The acceleration in domestic demand has led to a deterioration in the external accounts. In the first half of 2004, the current account deficit increased to EUR 8 billion, nearly the double of the value in the same period in 2003. Strong tourism receipts, traditionally peaking in the third quarter, are expected to somewhat mitigate the effect of rapidly rising imports.

Graph 4.4: Turkey - GDP growth



Government finances have continued to improve in 2003 and the first half of 2004. The general government balance (in ESA 95 terms) reached 8.7% of GDP in 2003. Revenues benefited from strong growth, while expenditures were largely kept in line with budgetary targets.

So far, labour markets have hardly reacted to the increasing momentum in GDP growth. The number of employed persons has remained unchanged when compared to the first half of last year, while the number of unemployed persons has declined only marginally. As a result, the unemployment ratio was around 10% in the first half of 2004.

Prospects for 2004 to 2006

After the strong growth in the first half of the year, the whole of 2004 will see a very strong average growth of around 8.5%. In 2005 and 2006, the Turkish economy is expected to continue its catching up process, by realising relatively high growth. Thus, output growth at some 5% in 2005 and 2006 appears possible, reaping the benefits of improved political and economic stability. These rates would bring Turkey closer to its long-term potential growth rates.

Like in 2004, private consumption and fixed capital formation will be the main sources of growth over the forecast horizon. After years of postponed investment, substantial efforts are required to modernise and to deepen the capital stock. Increasing FDI inflows are expected to support the modernisation process. However, in view of the investment need, the bulk of investment will have to come from domestic sources. Overall, investment growth is expected to remain above 10% per year over the forecast horizon.

In the remaining part of 2004, increasing administered prices, seasonal factors and higher than expected energy prices are likely to slightly increase inflationary pressures. However, the authorities' end-year target of 12% seems to be within reach. The decline in inflation is likely to continue over the next two years, based on declining inflationary expectations, moderate wage growth and fiscal discipline. In such a scenario, consumer price inflation could decline to well below 8% by 2006.

After years of labour shedding, the Turkish economy will finally start to increase its employment by some 3% annually in 2005 and 2006. However, the unemployment rate is likely to remain high, as the projected job creation might just be enough to compensate Turkey's strong growth in labour supply.

Public finances and current account

With the presently strong revenue growth, reaching the primary surplus target of 6.5% of GDP (according to GFS accounting) for 2004 appears to be feasible. This would translate in a general government deficit (in ESA 95 terms) of 7.2%. This deficit is forecast to fall further during 2005-2006 the forecast horizon, to about 5% in 2006. Continued fiscal discipline and declining financing costs will be key in this respect. Significant primary surpluses and strong nominal GDP growth will help to reduce the general government gross debt ratio to around 70% of GDP in

2006. However, as a result of the declining impact of nominal GDP growth on the debt ratio, achieving primary surpluses will be increasingly important for maintaining the downward trend in the debt ratio.

The external accounts are likely to register significant deficits in 2005 and 2006. As a result of buoyant domestic demand, strong import growth will lead to a widening trade deficit, to some 10% of GDP by 2006. Export growth is expected to remain high, although the liberalisation of textile trade in 2005 will bring additional competition from low wage countries, such as China, for one of Turkey's most prominent export categories.

However, a surge in service exports, mainly tourism, will help to maintain the current account deficit at sustainable levels, falling from around 5% of GDP in 2004 to 4% in 2006.

Table 4.4

Main features of country forecast - TURKEY

	2003			Annual percentage change					
	000 bn TRL	Curr. prices	% GDP	95-00	2001	2002	2003	2004	2005
GDP at constant prices	360973.4	100.0	4.5	-7.5	7.9	5.8	8.5	5.0	5.3
Private consumption	206215.8	57.1	4.1	-9.2	1.9	6.6	11.3	6.0	6.5
Public consumption	82944.0	23.0	6.8	-8.5	5.4	-2.4	-1.8	-0.5	2.0
Gross fixed capital formation	55618.3	15.4	5.2	-31.5	-1.1	10.0	39.4	16.7	16.5
of which : equipment	28799.0	8.0	12.9	-52.9	9.1	34.4	41.0	16.0	15.0
Change in stocks as % of GDP	27392.0	7.6	0.6	-1.3	4.3	7.5	5.1	3.7	2.5
Exports (goods and services)	105663.6	29.3	11.7	7.4	11.1	16.0	12.0	13.0	13.2
Final demand	477833.7	132.4	6.5	-11.7	9.5	11.3	12.9	8.5	9.3
Imports (goods and services)	110973.0	30.7	15.4	-24.8	15.8	27.1	23.3	16.0	16.8
GNI at constant prices (GDP deflator)	352808.3	97.7	4.5	-9.2	8.1	7.8	10.4	5.8	6.2
Contribution to GDP growth :									
Domestic demand			5.1	-14.8	1.9	5.9	15.1	8.0	8.9
Stockbuilding			0.8	-3.3	5.9	3.0	-2.0	-1.2	-1.0
Foreign balance			-1.3	9.6	-0.9	-3.1	-4.6	-1.8	-2.5
Employment			1.3	-1.0	-0.8	-1.0	2.0	3.0	2.9
Unemployment (a)			6.8	8.3	10.3	10.9	10.8	10.9	10.6
Compensation of employees/head			79.0	40.5	45.4	31.7	19.1	12.4	7.6
Unit labour costs			73.5	50.3	33.6	23.3	11.9	10.3	5.1
Real unit labour costs			1.6	-2.9	-7.3	5.7	1.4	1.4	-1.7
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			70.7	54.8	44.1	26.8	11.3	9.3	7.6
Private consumption deflator			72.0	58.9	40.8	17.6	10.5	8.9	6.9
Index of consumer prices			-	-	-	25.3	10.3	9.1	7.3
Trade balance (c)			-10.3	-5.8	-7.8	-5.8	-8.6	-9.7	-10.4
Balance on current transactions with ROW (c)			-3.7	1.3	-2.4	-2.9	-4.9	-4.4	-4.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-
General government balance (c)(d)			-	-29.8	-12.7	-8.7	-7.2	-5.7	-5.0
General government gross debt (c)			-	105.2	94.9	87.1	83.3	79.1	73.7

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

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 5

Other non-EU Countries

1. United States of America

Growth continues at a lower rate

Growth moderating to long-term trend in 2004

Helped by expansionary monetary and fiscal policies, the US economy experienced a growth spurt in the year to the first quarter of 2004, which lifted real output by 5%. In the second quarter, however, private consumption softened in the context of rising energy prices and diminishing effects of the fiscal and monetary stimuli injected in 2001-2003. Investment activity on the other hand continued to expand briskly, much helped by strong business profitability and favourable financial conditions. Although the third quarter has again been somewhat stronger, GDP growth in 2004 seems to be trending down to its estimated long-term potential of 3-3½%.

Headline inflation became somewhat elevated in the first half of 2004 in the wake of surging prices for oil and other commodities. Core inflation too rose above the long-time lows of late 2003. However both measures have fallen back again in the third quarter and inflation expectations have remained well contained. Unemployment has drifted lower over the past year to an average rate of 5.4% in the third quarter, although employment growth has been relatively modest considering the present phase of the business cycle. The manufacturing capacity utilization rate has remained well below its long-term average, indicating that considerable slack remains in the economy. Productivity growth has receded from the extraordinary pace of the previous two years: output per hour in non-farm business fell back to an annual rate of 2.5% in the second quarter. The current account has worsened further this year resulting in net

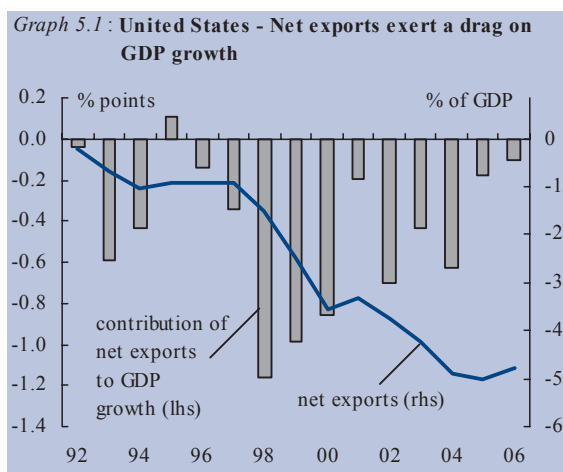
borrowing equal to 5.4% of GDP in the second quarter. The fiscal deficit of general government has fallen slightly to 4.4% of GDP in the second quarter of 2004 thanks to a favourable cyclical effect.

Household and business spending under pressure

Looking forward, continued output growth in the 3-3½% range would, first and foremost, require that households continue to expand their consumption by at least 3% annually in real terms. This seems to be a tall order given the strained state of household balance sheets. Certainly disposable incomes are now benefiting from employment growth and some wage acceleration, but they are unlikely to be boosted any further by tax cuts (although the recent extension of previous tax cuts will at least prevent a negative effect on disposable incomes from the fiscal side). The forecast projects, therefore, that the household sector's disposable income will continue to increase at around 5½% as in the first half of 2004. This implies that a 3% growth rate for real personal consumption expenditure can only be achieved if the household saving rate does not rise from its current historic low of less than 1% of disposable income. However, households will probably only maintain such a low savings rate if their balance sheets continue to benefit from rising house prices (9.4% over the past year) and interest rates stay the same or decrease.

Business investment is unlikely to continue to grow at the very fast rate of the past year because profit margins will suffer from weaker productivity growth and a firmer labour market. The lower rate of productivity growth observed this year seems to be the typical cyclical downturn in a maturing expansion. It is anticipated that this will be sustained throughout the forecast period. It is also assumed that hourly earnings will grow somewhat faster than in the early phase of the expansion. Consequently, unit labour costs will rise more substantially, resulting in lower profits in 2005 and 2006.

External trade has exerted a major drag on economic growth for a long time. Net exports are also expected to make a negative contribution to GDP growth in 2005 and 2006 (see graph). However the trade deficit should stabilize as a share of GDP in this period in view of the lagged effects of the dollar depreciation in 2002-03, moderating domestic demand and strong world growth.



Considering the remaining slack in the economy, underlying inflation should remain relatively benign, although the headline figure will be in the 2-3% range this year and next.

Prospects for 2005 and 2006

Growth in the third quarter of 2004 should still be rather high, but for subsequent quarters a deceleration to the 2½-3% range is projected. The annual growth rates should reach 3% in 2005 and 2.9% in 2006. Apart from the growth-depressing effects of the higher oil price, this projection is based on the assumption that households will increase their savings rate gradually to 2% by 2006, as interest rates stay the same or increase and gains in property values moderate. Investment activity, particularly residential

construction, is also expected to slow. Employment should advance at a relatively modest pace with the unemployment rate staying stable.

Household balance sheets constitute the main downside risk

The major risk associated with this forecast stems from the household balance sheet situation. If capital gains on existing assets, primarily houses, were to fall more sharply or even discontinue completely, households might cut back drastically on consumption to limit an undesired fall in the ratio of their net wealth to disposable income. Such a development could cause a recession. Monetary and fiscal policies have much less room for manoeuvre to counter a consumer retrenchment now than during the slowdown in 2001.

Table 5.1

Main features of country forecast - UNITED STATES

	2003			Annual percentage change						
	bn USD	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	11004.1	100.0	3.2	0.8	1.9	3.1	4.4	3.0	2.9	
Private consumption	7760.9	70.5	3.5	2.5	3.1	3.3	3.5	2.3	2.6	
Public consumption	1717.1	15.6	1.9	3.3	4.4	3.2	1.7	2.3	2.5	
Gross fixed capital formation	2025.5	18.4	4.4	-1.9	-3.5	4.4	9.1	5.5	4.5	
of which : equipment	962.7	8.7	7.1	-4.2	-4.7	6.0	11.6	8.0	6.7	
Change in stocks as % of GDP	-1.2	0.0	0.4	-0.3	0.1	0.0	0.5	0.5	0.5	
Exports (goods and services)	1046.2	9.5	6.3	-5.4	-2.4	1.9	8.7	7.5	7.7	
Final demand	12548.5	114.0	3.7	0.3	2.0	3.2	5.1	3.4	3.3	
Imports (goods and services)	1544.3	14.0	8.1	-2.7	3.4	4.4	10.0	6.1	5.7	
GNI at constant prices (GDP deflator)	11059.3	100.5	3.2	0.8	1.7	3.3	4.2	2.8	2.8	
Contribution to GDP growth :										
Domestic demand			3.4	1.8	2.1	3.6	4.5	3.1	3.1	
Stockbuilding			0.1	-0.9	0.4	-0.1	0.5	0.1	-0.1	
Foreign balance			-0.3	-0.2	-0.7	-0.5	-0.6	-0.2	-0.1	
Employment (*)			1.7	-0.1	-0.9	0.0	1.0	0.9	0.8	
Unemployment (a)			6.3	4.8	5.8	6.0	5.5	5.5	5.4	
Compensation of employees/head			4.6	2.4	3.2	4.0	4.2	4.9	4.7	
Unit labour costs			3.0	1.5	0.4	0.9	0.8	2.8	2.5	
Real unit labour costs			-0.2	-0.9	-1.2	-0.9	-1.4	0.2	0.3	
Savings rate of households (b)			-	-	2.1	1.4	0.8	1.2	2.0	
GDP deflator			3.2	2.4	1.7	1.8	2.3	2.5	2.1	
Private consumption deflator			3.3	2.1	1.4	1.9	2.4	2.7	2.0	
General index of consumer prices			-	2.8	1.6	2.3	2.6	2.8	2.3	
Trade balance (c)			-2.4	-4.3	-4.7	-5.1	-5.7	-5.9	-5.7	
Balance on current transactions with ROW (c)			-1.7	-3.7	-4.4	-4.7	-5.5	-5.8	-5.7	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.7	-3.7	-4.4	-4.7	-5.5	-5.8	-5.7	
General government balance (c)			-3.5	-0.4	-3.8	-4.6	-4.2	-4.0	-4.2	
General government gross debt (c)			-	-	-	-	-	-	-	

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

(*) Employment data from the BLS household survey.

2. Japan

Recovery continues, but at a more subdued pace

Continued strong output expansion in 2004

The economic recovery in Japan has become fairly broad-based, supported not only by external demand but also by structural improvements in the corporate and the financial sectors.

According to national accounts data, output expansion in the Japanese economy slowed down to 1.3% (annualised) in the second quarter of this year, a sharp deceleration from the 6.2% registered in the first quarter. However, there are several reasons why the actual slowdown in growth is likely to be less marked than suggested by the official figures. Firstly, several other indicators are at odds with the national accounts data. In particular, the all-industry indicator, a commonly used and reliable output measure, suggests the opposite development. According to this indicator, growth was nearly flat in the first quarter and accelerated by 7.2% in the second quarter. Secondly, the Japanese authorities do not adjust the quarterly GDP data for the additional leap year day when producing the seasonally adjusted data. Thirdly, the growth composition in the second quarter remained favourable, with private consumption and investment supporting growth whereas public investment and a reduction in inventories exerted a strong drag on growth.

In the first half of 2004, output expansion continued to be driven mainly by private expenditure and net exports. Private consumption growth remained strong. Although real wages continued to decline, consumption was supported by a more favourable employment situation and a prolonged decline in the

savings rate. Private investment kept on expanding, in line with robust profit growth, albeit at a more moderate pace than in 2003. Exports continued to expand briskly, benefiting not only from strong demand in China, but also from accelerating demand in other Asian countries.

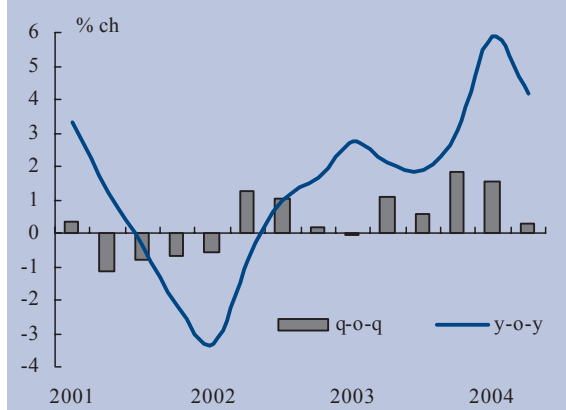
Growth is expected to slow down somewhat in the forecast period

Looking ahead, the peak of the recovery seems to have been passed and growth is likely to continue at a somewhat more subdued pace. Available leading economic indicators suggest that the general picture remains positive, although more mixed than a year ago. Overall, both corporate and consumer confidence remain at high levels. Factors affecting private demand are moderately positive and export growth is expected to decelerate, albeit from a high level, in line with the global economic slowdown. The economy is projected to reduce speed slightly, to a growth path between 2 and 2½% in annualised terms for the remainder of the forecast period, resulting in annual average growth rates of some 4.2% in 2004¹, 2.1% in 2005 and 2.3% in 2006.

Employment has risen but real wages continue to fall

Total employment has been rising, but whereas job creation has been strong in the services sector, the manufacturing sector has continued to reduce its workforce. Moreover, there is a general tendency to replace regular workers with workers on temporary contracts, resulting in an overall fall in real wages per person. Unemployment declined from the beginning of the year up to June. However, since then, due to an increase in labour force participation, the unemployment rate has edged up slightly, reaching 4.8% of the labour force in August.

Graph 5.2: Japan - Real GDP growth rates



¹ Data for real growth continue to be overestimated due to the statistical method used to calculate the national accounts data. The authorities are currently considering changing the method and they may do so in 2005. The figures forecast for 2005 and 2006 show the expected underlying development in real growth, i.e. excluding the accelerating statistical bias.

Deflation might soon come to an end

Deflation is currently very mild and, according to the CPI, was running at -0.2% year-on-year in August. Depending on the evolution of the oil price and the price of rice, which has an important impact on the Japanese CPI, the year-on-year change in the CPI could turn positive in the first half of 2005.

No major changes expected in monetary and fiscal policies

No substantial monetary or fiscal policy measures have been announced. The Bank of Japan has committed itself to continuing with the current quantitative easing framework (implying zero interest rates) until deflation has been brought to a definite end. The government aims at achieving primary balance in the first half of the 2010s, but there is no medium-term consolidation programme which spells out more concrete measures.

Risks to the forecast

Protracted high oil prices constitute a downward risk to the forecast, although the direct impact on Japan should be fairly limited. First, Japan is one of the most energy-efficient countries in the world. Second, the pass-through from high crude oil prices to consumer prices has been very limited, also mitigated by the appreciation of the yen. The risk for Japan is thus related more to a possible fall in external demand from other Asian countries, which have a much stronger oil-dependency. As the rest of Asia represents approximately half of Japanese exports, a marked slowdown in these countries would, of course, have a clear negative impact on Japanese growth.

Table 5.2

Main features of country forecast - JAPAN

	2003			Annual percentage change						
	bn YEN	Curr. prices	% GDP	81-00	2001	2002	2003	2004	2005	2006
GDP at constant prices	497710.5	100.0	2.7	0.4	-0.3	2.4	4.2	2.1	2.3	
Private consumption	283143.2	56.9	2.6	1.7	0.9	0.8	3.1	2.0	2.0	
Public consumption	87191.3	17.5	3.4	3.0	2.4	1.0	1.6	1.4	1.4	
Gross fixed capital formation	119008.3	23.9	2.5	-1.1	-6.2	3.1	3.6	1.1	1.9	
of which : equipment	-	-	5.0	1.0	-	-	-	-	-	
Change in stocks as % of GDP	392.2	0.1	0.3	0.0	-0.2	0.1	0.3	0.1	0.1	
Exports (goods and services)	58882.4	11.8	4.5	-6.1	8.0	10.1	15.7	9.3	8.9	
Final demand	548617.4	110.2	2.9	0.4	-0.2	2.7	4.6	2.5	2.8	
Imports (goods and services)	50906.9	10.2	5.1	0.1	2.0	5.0	8.9	6.9	7.9	
GNI at constant prices (GDP deflator)	506234.6	101.7	2.8	0.8	-0.3	2.5	4.1	2.0	2.1	
Contribution to GDP growth :										
Domestic demand			2.7	1.1	-0.8	1.4	2.9	1.6	1.8	
Stockbuilding			0.0	0.0	-0.3	0.3	0.2	-0.1	0.0	
Foreign balance			0.1	-0.7	0.7	0.7	1.1	0.6	0.5	
Employment			0.6	-0.6	-1.4	-0.2	0.9	0.3	0.2	
Unemployment (a)			2.9	5.0	5.4	5.3	4.8	4.7	4.6	
Compensation of employees/head			2.5	-0.5	-2.1	-0.7	-1.2	-0.6	0.0	
Unit labour costs			0.5	-1.5	-3.1	-3.3	-4.3	-2.4	-2.0	
Real unit labour costs			-0.6	0.0	-2.0	-0.8	-1.7	-0.8	-1.4	
Savings rate of households (b)			-	-	12.9	14.2	14.5	14.4	14.3	
GDP deflator			1.1	-1.5	-1.2	-2.5	-2.6	-1.6	-0.6	
Private consumption deflator			1.3	-1.6	-1.3	-1.4	-1.3	-0.9	-0.8	
General index of consumer prices			-	-0.6	-0.9	-0.3	-0.2	0.2	0.3	
Trade balance (c)			2.8	1.7	2.4	2.7	2.8	2.9	3.5	
Balance on current transactions with ROW (c)			2.4	2.1	2.8	3.2	3.3	3.3	3.6	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.5	2.0	2.8	3.1	3.2	3.2	3.5	
General government balance (c)			-2.3	-6.1	-7.9	-7.5	-7.1	-7.0	-6.8	
General government gross debt (c)			82.3	142.3	149.3	156.9	162.8	169.4	173.6	

(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 : AUTUMN 2004 ECONOMIC FORECASTS

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

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.4	1.6	2.7	3.9	0.7	0.9	1.3	2.0	2.5	2.5	2.5	:	2.6
Germany	3.2	2.0	1.8	2.9	0.8	0.1	-0.1	1.5	1.9	1.8	1.5	:	1.7
Greece	4.5	1.2	3.4	4.5	4.3	3.6	4.5	4.0	3.8	3.3	3.3	:	3.3
Spain	4.6	1.5	3.9	4.4	2.8	2.2	2.5	2.8	2.6	3.3	2.6	:	2.7
France	3.8	1.1	2.7	3.8	2.1	1.2	0.5	1.7	2.4	2.4	2.2	:	2.2
Ireland	4.2	4.7	9.8	9.9	6.0	6.1	3.7	3.7	5.2	4.6	4.8	:	5.0
Italy	3.9	1.3	1.9	3.0	1.8	0.4	0.3	1.2	1.3	2.1	1.8	:	1.8
Luxembourg	3.7	4.0	7.1	9.0	1.5	2.5	2.9	2.4	4.0	3.1	3.5	:	3.6
Netherlands	3.4	2.1	3.7	3.5	1.4	0.6	-0.9	1.0	1.4	1.6	1.7	:	2.4
Austria	3.6	2.2	2.9	3.4	0.7	1.2	0.8	1.8	1.9	2.5	2.4	:	2.4
Portugal	4.8	1.7	3.9	3.4	1.6	0.4	-1.2	0.8	1.3	2.2	2.2	:	2.4
Finland	3.9	-0.9	4.7	5.1	1.1	2.3	1.9	2.6	3.0	2.7	3.1	:	2.7
Euro area	3.6	1.5	2.6	3.5	1.6	0.9	0.6	1.7	2.1	2.3	2.0	:	2.2
Czech Republic	:	-1.0	1.5	3.9	2.6	1.5	3.1	2.9	3.8	3.4	3.8	:	4.0
Denmark	2.7	2.0	2.7	2.8	1.6	1.0	0.5	2.1	2.3	2.2	2.4	:	2.0
Estonia	:	:	5.5	7.8	6.4	7.2	5.1	5.4	5.9	5.9	6.0	:	6.2
Cyprus	:	4.7	3.7	5.0	4.0	2.0	2.0	3.4	3.5	4.1	3.9	:	4.2
Latvia	:	-11.8	5.4	6.9	8.0	6.4	7.5	6.2	7.5	6.2	6.7	:	6.7
Lithuania	:	-10.3	4.2	3.9	6.4	6.8	9.7	6.9	7.1	6.6	6.4	:	5.9
Hungary	:	-2.2	4.0	5.2	3.8	3.5	3.0	3.2	3.9	3.4	3.7	:	3.8
Malta	:	:	4.5	6.4	-2.2	1.8	0.2	1.4	1.0	2.0	1.5	:	1.8
Poland	:	2.2	5.1	4.0	1.0	1.4	3.8	4.6	5.8	4.8	4.9	:	4.5
Slovenia	:	-0.6	4.3	3.9	2.7	3.3	2.5	3.2	4.0	3.6	3.6	:	3.8
Slovakia	:	:	3.7	2.0	3.8	4.6	4.0	4.0	4.9	4.1	4.5	:	5.2
Sweden	2.9	0.7	3.2	4.3	0.9	2.1	1.6	2.3	3.7	2.6	3.1	:	2.9
United Kingdom	2.5	1.7	3.2	3.9	2.3	1.8	2.2	3.0	3.3	2.8	2.8	:	2.8
EU-25	:	:	2.8	3.6	1.8	1.1	1.0	2.1	2.5	2.5	2.3	:	2.4
EU-15	3.4	1.5	2.7	3.6	1.7	1.1	0.9	2.0	2.3	2.4	2.2	:	2.3
USA	3.5	2.5	4.1	3.7	0.8	1.9	3.1	4.2	4.4	3.2	3.0	:	2.9
Japan	6.1	1.5	1.4	2.8	0.4	-0.3	2.4	3.4	4.2	2.3	2.1	:	2.3

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

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

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

18.10.2004

	2004/1	2004/2	2004/3	2004/4	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4
Belgium	2.0	2.7	2.5	2.5	2.3	2.3	2.6	2.6	2.7	2.7	2.6	2.2
Germany	0.8	1.5	1.3	1.6	1.6	1.6	1.8	1.9	2.0	1.9	2.0	2.0
Greece	4.0	3.9	:	:	:	:	:	:	:	:	:	:
Spain	2.7	2.6	2.5	2.5	2.4	2.6	2.6	2.7	2.7	2.7	2.6	2.6
France	1.6	2.8	2.4	2.4	2.1	1.9	2.2	2.3	2.3	2.3	2.2	2.1
Ireland	6.1	4.1	7.3	3.1	3.7	4.8	5.4	5.3	4.9	4.8	5.0	5.2
Italy	0.8	1.2	1.1	1.5	1.4	1.6	1.8	2.0	2.0	1.9	1.7	1.6
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.9	1.4	1.6	1.3	1.0	1.5	1.7	1.9	2.1	2.3	2.4	2.4
Austria	0.7	1.8	2.3	2.7	2.8	2.4	2.4	2.4	2.5	2.6	2.6	2.6
Portugal	0.3	1.5	1.4	1.6	1.6	1.3	2.4	3.1	3.0	2.6	2.0	1.8
Finland	2.8	2.7	3.1	3.9	3.8	3.9	3.8	3.9	3.6	3.6	3.5	3.2
Euro area	1.4	2.0	2.0	2.0	1.9	1.9	2.1	2.3	2.3	2.3	2.2	2.1
Czech Republic	3.5	4.1	4.0	4.1	3.8	3.3	4.0	4.2	4.2	4.2	3.9	3.8
Denmark	1.7	2.6	2.2	2.2	2.0	2.4	2.6	2.5	2.4	2.1	1.8	1.6
Estonia	7.0	5.9	3.1	1.5	1.5	1.6	3.9	6.2	6.5	6.4	6.2	5.9
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	8.8	7.7	:	:	:	:	:	:	:	:	:	:
Lithuania	6.8	7.4	7.4	6.8	6.4	6.3	6.6	6.4	6.0	5.8	6.1	5.9
Hungary	:	:	:	:	:	:	:	:	:	:	:	:
Malta	2.3	:	:	:	:	:	:	:	:	:	:	:
Poland	:	:	:	5.0	4.5	4.6	5.1	5.2	4.7	4.6	4.5	4.4
Slovenia	3.8	4.6	3.7	3.6	3.6	3.4	3.1	4.1	3.8	3.5	3.9	4.1
Slovakia	5.2	5.4	7.7	4.2	4.2	4.3	4.6	4.8	5.2	5.2	5.2	5.2
Sweden	2.8	3.5	3.5	3.6	3.4	3.2	3.0	2.9	2.9	2.9	3.0	2.9
United Kingdom	3.4	3.6	3.1	2.9	2.8	2.7	2.9	3.0	3.0	3.0	2.8	2.7
EU-25	1.7	2.4	:	2.4	2.0	2.2	2.4	2.5	2.6	2.5	2.4	2.4
EU-15	1.7	2.3	2.4	2.4	2.0	2.2	2.4	2.5	2.6	2.5	2.4	2.4
USA	5.0	4.8	4.0	3.7	3.2	3.1	2.8	2.8	2.9	2.9	2.9	2.9
Japan	5.2	4.5	4.4	3.0	1.9	2.0	2.0	2.0	2.1	2.2	2.3	2.4

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

	long-term average							2004		2005		2006	
	1961-90	5-year average 1991-95	1996-00	2000	2001	2002	2003	estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
Belgium	3.1	1.2	2.5	3.6	0.4	0.4	0.8	1.7	2.3	2.2	2.3	:	2.4
Germany	2.7	1.4	1.7	2.7	0.7	-0.1	-0.2	1.4	1.8	1.7	1.5	:	1.7
Greece	3.9	0.3	2.9	4.1	4.1	3.5	3.9	3.8	3.6	3.1	3.1	:	3.1
Spain	3.7	1.3	3.5	3.6	1.9	1.5	1.8	2.1	2.0	2.7	2.0	:	2.1
France	3.0	0.6	2.3	3.3	1.6	0.7	0.0	1.4	2.1	2.1	1.8	:	1.9
Ireland	3.4	4.1	8.6	8.5	4.4	4.3	2.0	2.6	3.5	3.6	3.4	:	3.6
Italy	3.4	1.1	1.8	2.8	1.5	0.0	-0.5	1.0	0.7	1.9	1.6	:	1.6
Luxembourg	3.0	2.5	5.6	7.5	0.9	1.4	1.9	1.3	3.0	2.2	2.6	:	2.7
Netherlands	2.5	1.4	3.1	2.7	0.7	-0.1	-1.5	0.5	1.0	1.3	1.4	:	2.1
Austria	3.3	1.5	2.8	3.1	0.5	0.9	0.4	1.4	1.5	2.1	1.8	:	1.9
Portugal	4.4	1.5	3.5	2.8	1.0	-0.3	-1.8	0.2	0.7	1.5	1.5	:	1.7
Finland	3.5	-1.4	4.4	4.9	0.8	2.0	1.6	2.4	2.8	2.6	2.9	:	2.6
Euro area	3.0	1.1	2.3	3.1	1.2	0.4	0.0	1.4	1.7	2.0	1.8	:	1.9
Czech Republic	:	-0.9	1.6	4.0	3.1	1.7	3.1	3.0	3.8	3.5	3.9	:	4.1
Denmark	2.3	1.6	2.3	2.5	1.2	0.7	0.2	2.1	2.1	2.0	2.2	:	1.8
Estonia	:	:	6.7	8.4	6.8	7.7	5.5	5.6	6.3	6.2	6.4	:	6.7
Cyprus	:	2.3	2.4	3.9	2.9	0.7	0.9	2.7	2.6	3.5	3.0	:	3.3
Latvia	:	-10.6	6.4	7.7	8.8	7.2	8.1	6.4	8.0	6.4	6.9	:	7.0
Lithuania	:	-10.0	4.9	4.6	7.0	7.1	10.2	7.2	7.2	6.9	6.5	:	6.0
Hungary	:	-2.1	4.3	5.5	4.1	3.8	3.3	3.6	4.2	3.7	3.9	:	4.0
Malta	:	:	3.9	5.7	-2.9	1.1	-0.5	0.9	0.5	1.5	1.0	:	1.3
Poland	:	1.9	5.1	4.0	2.1	1.4	3.8	4.6	5.9	4.8	5.0	:	4.7
Slovenia	:	-0.5	4.3	3.6	2.5	3.2	2.5	3.2	3.9	3.5	3.6	:	3.8
Slovakia	:	:	3.5	1.9	3.7	5.1	4.0	4.0	4.9	4.1	4.5	:	5.2
Sweden	2.5	0.1	3.1	4.2	0.7	1.8	1.2	1.9	3.3	2.1	2.7	:	2.4
United Kingdom	2.2	1.4	2.9	3.6	1.6	1.5	1.3	2.7	2.9	2.4	2.4	:	2.5
EU-25	:	:	2.5	3.3	1.4	0.8	0.5	1.8	2.2	2.2	2.1	:	2.2
EU-15	2.9	1.2	2.4	3.2	1.2	0.6	0.2	1.7	2.0	2.1	1.9	:	2.0
USA	2.4	1.2	2.9	2.6	-0.3	0.9	2.0	3.2	3.4	2.2	2.0	:	1.9
Japan	5.2	1.2	1.2	2.7	0.2	-0.5	2.3	3.3	4.2	2.2	2.1	:	2.3

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

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.3	1.4	2.6	3.8	0.4	0.5	1.7	1.6	2.2	2.3	2.7	:	2.9
Germany	3.1	1.9	1.6	1.9	-0.8	-1.9	0.5	1.2	0.1	2.2	1.2	:	1.9
Greece	4.7	1.3	4.1	5.6	2.4	4.2	5.3	3.8	4.2	3.5	3.0	:	2.9
Spain	4.9	1.0	4.3	4.6	2.9	2.8	3.2	3.5	3.5	3.7	3.4	:	3.4
France	3.8	0.7	2.6	4.1	2.0	1.4	1.1	1.9	3.4	2.6	2.4	:	2.4
Ireland	3.6	2.6	9.0	9.1	3.8	3.4	3.3	2.9	4.0	3.4	3.7	:	3.8
Italy	3.8	0.3	2.4	2.3	1.4	1.3	1.2	1.5	1.5	2.2	1.9	:	1.9
Luxembourg	3.5	2.3	6.1	5.2	4.3	-0.1	2.8	2.4	3.2	3.0	3.1	:	3.1
Netherlands	3.3	1.5	3.7	2.6	1.8	0.5	-0.5	0.3	0.8	0.9	1.3	:	2.1
Austria	3.5	2.4	2.3	3.0	-0.3	-0.8	2.3	2.1	1.4	2.5	2.2	:	2.5
Portugal	4.9	2.5	4.7	2.9	1.6	-0.4	-2.8	0.1	1.9	1.8	1.9	:	2.3
Finland	4.1	-2.8	3.5	2.5	1.8	0.6	1.8	2.2	2.7	2.1	2.2	:	2.2
Euro area	3.6	1.1	2.6	3.0	1.0	0.4	1.2	1.7	1.9	2.4	2.1	:	2.3
Czech Republic	:	-0.2	1.9	4.1	4.0	3.3	4.6	3.3	5.9	3.5	4.6	:	3.9
Denmark	2.5	2.3	2.7	2.4	1.0	1.9	0.3	2.4	2.5	2.1	2.5	:	1.8
Estonia	:	:	6.0	9.3	8.0	9.3	9.9	5.3	6.3	5.5	4.9	:	4.8
Cyprus	:	:	4.0	5.2	4.2	5.5	1.0	1.9	2.5	3.6	3.8	:	3.9
Latvia	:	:	6.3	3.7	10.9	5.5	11.9	7.5	9.2	7.2	7.9	:	7.8
Lithuania	:	:	5.2	2.0	5.5	6.5	11.5	7.3	9.5	6.6	7.5	:	6.1
Hungary	:	-1.6	4.5	4.5	1.7	5.5	5.5	2.9	4.1	2.9	3.2	:	3.9
Malta	:	:	3.6	10.8	-5.9	-4.5	8.6	2.6	0.8	2.0	0.8	:	0.9
Poland	:	3.8	6.5	2.6	-1.8	0.7	2.0	3.8	5.1	4.9	5.0	:	5.4
Slovenia	:	2.7	4.8	1.4	0.9	2.3	4.8	4.0	4.7	4.0	4.3	:	4.4
Slovakia	:	:	4.3	0.1	7.4	4.4	-2.3	3.8	4.7	4.7	4.9	:	4.2
Sweden	2.7	-0.7	2.6	3.6	-0.2	0.8	0.8	1.8	1.6	2.5	3.1	:	3.0
United Kingdom	2.6	1.2	3.9	3.9	2.9	2.9	2.5	3.3	3.8	2.7	2.6	:	2.7
EU-25	:	:	2.9	3.2	1.3	1.0	1.5	2.1	2.4	2.6	2.4	:	2.6
EU-15	3.4	1.0	2.8	3.2	1.3	0.9	1.4	2.0	2.2	2.5	2.2	:	2.4
USA	3.4	2.5	4.7	4.4	0.9	2.5	3.3	4.4	4.8	2.9	3.0	:	2.9
Japan	6.1	1.5	1.2	2.4	1.2	-1.0	1.8	2.8	3.2	2.0	1.5	:	1.9

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

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	4.2	2.4	3.9	5.9	0.8	1.0	1.7	2.6	3.1	3.6	3.8	:	4.2
Germany	3.6	2.4	3.1	4.6	0.9	-0.3	0.9	2.7	3.1	3.2	2.9	:	3.1
Greece	5.0	1.7	5.4	7.2	1.7	2.0	4.6	4.4	5.2	3.7	3.5	:	3.4
Spain	5.2	2.4	5.5	5.8	3.1	2.4	3.1	3.9	3.8	4.6	3.8	:	4.0
France	4.2	1.4	3.7	5.9	1.9	1.5	0.3	2.3	3.5	3.3	3.2	:	3.3
Ireland	4.9	6.7	13.2	15.1	6.3	4.7	1.0	4.4	5.2	6.1	5.6	:	5.5
Italy	4.3	1.6	2.8	3.9	1.5	0.2	0.1	1.7	2.1	3.1	2.7	:	2.7
Luxembourg	4.2	4.1	10.3	12.4	2.8	-0.4	2.2	3.6	5.1	5.1	5.0	:	4.9
Netherlands	4.1	3.1	5.1	6.0	1.7	0.7	-0.3	2.0	3.3	3.0	3.4	:	3.8
Austria	4.2	2.4	3.9	5.4	1.9	0.7	1.8	2.9	2.8	4.0	3.4	:	3.6
Portugal	5.5	2.6	5.2	4.1	1.4	0.2	-1.1	1.5	3.4	3.1	3.2	:	3.6
Finland	4.1	-0.5	5.7	8.2	0.9	2.5	1.8	2.8	2.8	3.1	3.2	:	3.1
Euro area	4.1	2.1	3.9	5.4	1.6	0.8	0.9	2.6	3.2	3.4	3.3	:	3.4
Czech Republic	:	1.9	4.6	9.0	7.2	3.1	5.3	5.2	9.8	5.6	7.4	:	5.7
Denmark	3.1	2.4	4.1	5.7	2.1	2.9	0.2	2.7	3.5	2.8	3.4	:	2.8
Estonia	:	:	8.9	18.1	3.8	7.2	5.5	6.4	9.2	7.2	7.9	:	8.4
Cyprus	:	:	4.3	7.6	3.8	1.2	0.8	3.1	3.2	4.4	4.2	:	4.4
Latvia	:	:	6.8	6.2	9.5	5.8	9.4	8.4	10.0	7.6	8.1	:	7.7
Lithuania	:	:	5.5	4.2	10.2	10.7	9.9	7.9	9.6	7.5	8.1	:	7.1
Hungary	:	1.0	9.0	11.2	4.4	4.7	6.4	5.6	7.8	5.7	6.2	:	6.0
Malta	:	:	3.5	7.6	-5.5	-0.2	3.5	2.1	1.3	2.3	1.7	:	1.9
Poland	:	4.8	7.5	7.0	-0.7	1.6	5.5	5.9	7.3	6.3	7.0	:	6.9
Slovenia	:	-1.1	5.6	5.3	2.7	4.1	4.3	4.6	6.2	4.7	4.8	:	5.3
Slovakia	:	:	6.3	5.5	6.9	4.8	8.5	6.6	8.8	6.9	8.6	:	9.5
Sweden	3.1	1.1	4.5	6.2	-0.1	1.0	2.6	3.2	4.3	3.8	4.5	:	4.2
United Kingdom	2.9	2.0	4.5	5.0	2.9	2.3	2.0	3.7	3.6	3.5	3.4	:	3.4
EU-25	:	:	4.1	5.5	1.9	1.2	1.4	2.9	3.9	3.6	3.9	:	4.0
EU-15	3.8	2.0	4.0	5.4	1.8	1.1	1.1	2.8	3.3	3.5	3.3	:	3.4
USA	3.6	2.8	4.9	4.8	0.3	2.0	3.2	4.8	5.1	3.5	3.4	:	3.3
Japan	6.3	1.6	1.6	3.3	0.4	-0.2	2.7	3.8	4.6	2.7	2.5	:	2.8

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

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	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.2	1.7	2.4	3.5	0.6	0.3	2.2	1.5	2.1	2.0	2.3	:	2.5
Germany	3.6	1.9	1.8	2.0	1.7	-0.7	0.0	0.9	0.1	2.2	1.1	:	1.7
Greece	4.8	1.9	2.6	2.0	3.0	3.0	4.4	3.6	3.5	3.4	3.2	:	3.0
Spain	4.5	1.2	3.7	4.1	2.8	2.9	2.9	3.0	3.2	3.3	2.8	:	2.8
France	3.7	0.7	2.1	2.6	2.7	1.5	1.5	1.7	2.4	2.3	1.7	:	2.1
Ireland	3.1	3.1	7.7	9.0	5.2	2.6	2.6	3.2	3.0	3.7	3.8	:	4.8
Italy	4.4	0.9	2.6	2.7	0.8	0.5	1.3	1.5	1.5	2.1	1.6	:	1.7
Luxembourg	3.8	2.5	4.4	4.6	5.1	3.2	1.6	2.1	2.2	2.3	2.6	:	3.0
Netherlands	3.5	1.6	4.0	3.5	1.4	1.3	-0.9	0.4	0.5	1.1	0.9	:	1.2
Austria	3.7	2.1	2.2	3.9	1.0	-0.1	0.6	1.8	1.2	2.4	2.1	:	2.4
Portugal	4.0	2.3	3.9	2.9	1.2	1.0	-0.5	0.7	2.1	1.2	1.8	:	2.0
Finland	3.9	-1.1	3.6	3.1	1.8	1.5	4.3	3.0	3.3	2.4	2.7	:	2.4
Euro area	3.8	1.3	2.5	2.8	1.9	0.7	1.1	1.6	1.5	2.3	1.7	:	2.0
Czech Republic	:	-0.4	2.7	2.9	2.6	2.8	4.9	3.8	3.9	4.1	3.7	:	3.8
Denmark	2.1	2.3	1.5	-0.7	-0.2	0.6	0.8	3.4	3.2	2.7	2.9	:	1.9
Estonia	:	:	6.3	8.6	6.2	10.3	5.7	6.2	6.5	5.8	5.2	:	5.2
Cyprus	:	:	5.4	8.2	4.6	2.5	2.4	3.3	3.2	3.5	3.4	:	3.5
Latvia	:	:	5.3	6.3	7.3	7.4	8.6	7.1	9.0	6.5	8.5	:	8.0
Lithuania	:	:	5.4	6.1	3.6	6.1	12.4	6.7	9.1	5.9	6.5	:	5.9
Hungary	:	:	2.8	5.5	5.7	10.2	8.0	2.9	3.1	3.0	3.4	:	3.7
Malta	:	:	4.9	7.4	-0.7	-0.4	1.5	0.5	-0.3	1.0	0.6	:	1.1
Poland	:	4.4	5.6	2.8	2.0	3.4	3.1	3.7	4.0	4.2	4.2	:	4.4
Slovenia	:	2.1	2.9	0.4	2.3	0.3	2.7	3.5	3.5	3.7	3.3	:	3.3
Slovakia	:	:	4.4	-0.8	4.7	5.3	-0.4	2.6	3.6	3.9	4.1	:	4.3
Sweden	2.4	-0.2	3.2	5.0	0.4	1.4	1.9	2.3	2.3	2.5	3.0	:	3.0
United Kingdom	2.8	1.3	4.0	4.6	2.9	3.3	2.3	2.9	3.3	2.1	2.3	:	2.1
EU-25	:	:	2.8	3.1	2.0	1.4	1.5	1.9	2.0	2.3	2.0	:	2.2
EU-15	3.5	1.3	2.7	3.1	2.0	1.2	1.4	1.9	1.9	2.3	1.9	:	2.1
USA	3.7	2.6	4.4	4.7	2.5	3.1	3.3	3.7	3.5	2.4	2.3	:	2.6
Japan	5.8	2.3	0.9	1.0	1.7	0.9	0.8	2.4	3.1	2.0	2.0	:	2.0

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

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.5	1.5	1.9	2.3	2.8	2.3	2.7	1.7	2.3	1.2	2.1	:	2.0
Germany	3.2	2.2	1.2	1.1	1.0	1.9	0.1	0.2	0.0	-0.1	-0.3	:	0.4
Greece	4.6	0.5	4.4	14.8	-3.1	5.3	-2.5	2.0	5.9	1.1	1.5	:	1.0
Spain	4.9	3.0	3.5	5.6	3.5	4.1	3.9	4.2	4.2	4.0	4.1	:	4.1
France	3.4	2.3	1.7	2.8	2.9	4.6	2.4	1.6	2.5	2.8	1.6	:	2.0
Ireland	3.6	2.7	5.9	8.1	11.3	8.4	2.6	2.3	2.2	2.3	2.3	:	2.3
Italy	3.4	-0.2	0.9	1.7	3.9	1.9	2.2	1.2	1.0	1.2	1.1	:	1.1
Luxembourg	3.6	3.6	4.4	4.8	6.5	3.2	5.0	2.0	3.6	2.7	3.5	:	3.5
Netherlands	3.1	2.1	2.2	2.0	4.8	3.6	1.8	0.5	0.8	-0.5	0.5	:	2.5
Austria	2.7	2.8	2.0	0.2	-1.4	1.1	0.4	0.4	0.3	0.4	0.5	:	0.5
Portugal	7.6	2.7	3.9	4.1	3.3	2.2	-0.4	-0.8	0.6	0.0	0.5	:	0.4
Finland	4.4	-0.4	1.8	0.0	2.4	3.8	0.7	1.3	1.5	1.3	1.5	:	1.4
Euro area	3.5	1.8	1.7	2.4	2.6	3.1	1.6	1.2	1.5	1.3	1.1	:	1.6
Czech Republic	:	-4.1	1.5	0.2	3.8	4.5	2.2	0.0	-0.2	0.0	-0.1	:	0.1
Denmark	3.6	2.1	2.0	0.9	2.7	2.1	1.0	0.9	0.3	0.5	0.5	:	0.5
Estonia	:	:	0.2	1.1	1.8	5.9	5.8	6.5	5.1	4.0	4.8	:	4.6
Cyprus	:	:	3.0	-0.1	10.4	8.5	1.7	-3.5	-3.2	2.2	2.3	:	2.7
Latvia	:	:	1.2	-1.9	0.3	2.4	2.5	2.5	2.7	2.5	3.5	:	3.3
Lithuania	:	:	2.0	3.9	0.3	1.8	4.0	6.9	6.8	6.1	6.7	:	4.1
Hungary	:	-1.8	1.2	1.9	6.2	5.0	5.4	-1.0	0.0	1.5	1.0	:	2.2
Malta	:	:	1.5	5.4	0.0	4.0	2.2	1.1	0.7	0.2	0.2	:	0.2
Poland	:	4.7	2.2	1.3	0.6	0.4	0.4	1.6	1.8	1.2	1.4	:	1.0
Slovenia	:	1.5	3.3	2.3	3.9	1.7	2.6	2.9	1.7	2.7	2.5	:	2.7
Slovakia	:	:	3.3	1.6	4.6	4.7	2.9	1.3	0.9	1.3	1.5	:	2.4
Sweden	3.5	0.8	0.7	-1.2	0.9	3.2	0.6	0.7	0.9	0.5	0.9	:	0.8
United Kingdom	1.8	1.1	1.6	2.3	2.6	3.8	3.5	2.1	3.8	2.6	2.2	:	2.8
EU-25	:	:	1.7	2.2	2.5	3.1	1.9	1.3	1.8	1.5	1.3	:	1.7
EU-15	3.2	1.6	1.7	2.2	2.5	3.2	1.9	1.3	1.9	1.5	1.3	:	1.7
USA	2.5	0.0	1.8	1.9	3.3	4.4	3.2	2.1	1.7	2.9	2.3	:	2.5
Japan	4.4	3.4	3.1	4.9	3.0	2.4	1.0	1.5	1.6	1.4	1.4	:	1.4

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

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	long-term average		5-year average					2004		2005		2006	
	1961-90	1991-95	1996-00	2000	2001	2002	2003	estimate of		forecast of		forecast of	
								III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.4	-0.4	4.0	4.4	0.3	-3.7	-0.9	2.3	1.7	4.7	4.6	:	4.8
Germany	2.3	1.6	1.9	2.7	-4.2	-6.4	-2.2	2.7	-1.0	3.3	2.3	:	3.6
Greece	3.5	-0.2	9.0	8.0	6.5	5.7	13.7	6.0	4.9	5.0	3.6	:	3.5
Spain	6.0	-0.5	6.3	5.7	3.0	1.7	3.2	3.4	3.3	4.7	3.7	:	4.0
France	4.5	-1.2	4.5	7.8	1.9	-2.0	-0.2	2.2	3.6	3.3	3.7	:	3.4
Ireland	5.2	2.6	14.8	7.3	-1.5	3.0	3.4	3.1	8.5	3.5	4.6	:	2.8
Italy	2.9	-1.2	4.3	6.9	1.9	1.2	-2.1	1.8	3.6	3.3	3.2	:	3.0
Luxembourg	3.3	3.2	7.7	-3.5	10.0	-1.1	-6.3	3.1	6.3	4.5	5.2	:	5.0
Netherlands	3.0	0.8	5.2	1.4	0.2	-3.6	-3.1	-0.6	1.6	2.1	2.0	:	3.5
Austria	3.8	2.2	3.2	6.5	-2.1	-3.4	6.2	4.3	2.9	3.9	4.0	:	4.3
Portugal	4.6	2.2	8.2	3.8	0.8	-4.9	-9.8	-0.9	2.4	5.0	3.3	:	4.8
Finland	3.3	-9.1	7.0	4.1	3.9	-3.1	-2.3	1.4	2.6	2.3	2.8	:	3.1
Euro area	3.4	-0.1	4.0	5.0	-0.1	-2.4	-0.5	2.4	2.2	3.6	3.2	:	3.6
Czech Republic	:	2.1	0.8	4.9	5.4	3.4	7.4	3.8	11.7	4.5	8.8	:	6.8
Denmark	2.7	1.8	6.6	7.1	4.9	4.5	0.1	2.0	3.2	3.4	3.5	:	2.6
Estonia	:	:	7.6	14.3	13.0	17.2	5.4	6.8	5.5	7.1	6.0	:	6.2
Cyprus	:	:	2.6	3.8	3.2	8.0	-3.4	7.0	5.3	7.5	6.4	:	6.6
Latvia	:	:	19.6	10.2	11.4	13.0	7.8	10.0	12.0	10.0	11.0	:	10.5
Lithuania	:	:	8.3	-9.0	13.5	11.1	14.0	9.0	14.2	9.3	10.0	:	8.9
Hungary	:	-0.9	8.5	7.7	5.0	8.0	3.4	5.0	10.0	5.5	6.0	:	6.5
Malta	:	:	0.6	17.5	-8.9	-11.7	19.0	4.2	6.9	2.6	2.9	:	1.2
Poland	:	5.1	12.8	2.7	-8.8	-5.8	-0.9	6.0	6.5	9.8	10.0	:	12.0
Slovenia	:	2.6	11.1	0.6	4.1	3.1	6.3	8.2	6.9	7.0	5.7	:	5.9
Slovakia	:	:	4.2	-7.2	13.9	-0.9	-1.2	5.3	6.3	7.0	7.4	:	5.2
Sweden	3.1	-4.1	5.1	5.7	-1.0	-3.0	-2.0	1.5	2.5	5.6	6.0	:	6.4
United Kingdom	3.3	-0.3	6.0	3.6	2.6	2.7	2.2	6.4	6.7	5.6	5.1	:	4.5
EU-25	:	:	4.5	4.8	0.3	-1.4	0.0	3.1	3.2	4.1	3.8	:	4.0
EU-15	3.4	-0.3	4.3	4.9	0.4	-1.5	-0.1	2.9	2.9	3.9	3.6	:	3.7
USA	3.6	4.2	8.2	6.2	-1.9	-3.5	4.4	7.4	9.1	4.3	5.5	:	4.5
Japan	7.9	-0.8	1.0	2.7	-1.1	-6.2	3.1	4.3	3.6	2.4	1.1	:	1.9

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

	long-term average		5-year average					2004		2005		2006	
	1971-90	1991-95	1996-00	2000	2001	2002	2003	estimate of		forecast of		forecast of	
								III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	1.0	1.7	1.4	-0.3	-1.7	-3.7	-0.7	2.1	0.8	3.2	4.4	:	4.7
Germany	0.7	4.0	-1.3	-2.6	-4.8	-5.8	-3.2	0.6	-2.2	-0.9	-1.9	:	-1.2
Greece	0.2	-2.8	5.4	3.6	7.0	3.7	10.9	6.5	4.0	5.0	3.0	:	3.0
Spain	3.1	0.1	4.6	6.2	5.3	5.2	4.3	3.3	4.2	2.9	3.6	:	3.2
France	1.1	-2.1	1.6	7.1	1.4	-1.5	0.3	1.9	3.2	2.9	2.3	:	2.0
Ireland	2.3	3.7	13.0	6.6	4.7	5.3	5.0	1.1	10.5	1.6	2.9	:	0.1
Italy	0.4	-2.4	1.9	5.9	3.0	3.3	1.8	1.0	3.0	0.8	2.0	:	1.7
Luxembourg	2.3	4.4	5.9	7.9	13.4	1.1	4.2	1.9	6.6	3.1	4.8	:	3.9
Netherlands	0.0	0.8	3.9	4.9	1.9	-2.8	-5.2	-0.5	0.8	1.8	2.0	:	3.5
Austria	2.3	3.5	0.7	2.1	-5.0	-0.8	7.0	2.5	1.6	2.4	3.9	:	3.2
Portugal	:	3.5	6.5	4.0	3.2	-2.8	-12.1	-3.0	0.3	2.2	1.9	:	3.0
Finland	2.2	-9.9	8.7	6.2	-0.7	-2.4	0.6	2.0	2.9	2.6	2.8	:	3.4
Euro area ¹	1.2	0.6	1.3	2.5	-0.1	-1.2	0.0	1.5	1.8	1.5	1.5	:	1.6
Czech Republic	:	-0.7	-2.0	-5.3	21.1	0.2	5.8	3.8	13.9	4.5	9.8	:	7.4
Denmark	-1.2	-0.7	3.9	6.9	3.4	1.7	-0.8	2.8	3.1	3.2	2.7	:	2.5
Estonia	:	:	:	:	:	:	:	:	4.6	:	5.6	:	5.8
Cyprus	:	:	-0.7	-1.2	3.8	4.2	5.8	7.0	5.4	7.5	6.4	:	6.7
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	:	2.8	-16.8	8.7	11.3	15.2	:	17.0	:	10.7	:	9.0
Hungary	:	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	5.9	:	2.3	:	:	:
Poland	:	:	10.0	1.0	-8.5	-2.2	:	:	:	:	:	:	:
Slovenia	:	-4.2	9.2	-1.3	1.2	3.1	5.6	9.1	5.3	8.7	6.0	:	6.5
Slovakia	:	:	-5.4	-8.7	40.5	-8.2	-4.2	:	6.3	:	7.4	:	5.2
Sweden	0.3	-8.3	-0.2	4.3	5.9	1.9	-2.2	1.0	3.3	5.2	4.6	:	5.5
United Kingdom	1.9	-1.8	2.9	4.3	-6.7	6.9	6.6	7.3	7.5	5.3	4.8	:	4.8
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15 ¹	1.3	0.0	1.5	2.9	-0.9	-0.1	0.8	2.4	2.7	2.3	2.2	:	2.3
USA	1.7	1.0	4.7	3.2	0.4	-2.3	3.0	2.6	6.5	-0.7	2.8	:	2.0
Japan	3.8	-1.6	-1.1	-1.2	-3.5	:	:	:	:	:	:	:	:

¹ Excluding Portugal up to 1985.

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

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	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1971-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.8	-3.2	6.7	9.6	1.3	-3.0	-2.0	2.0	2.3	4.0	4.6	:	4.6
Germany	2.2	-2.6	6.3	10.1	-4.9	-8.6	-1.4	4.9	-0.1	7.5	6.6	:	8.2
Greece	3.5	4.6	15.9	14.1	4.9	6.9	18.3	5.5	4.2	5.0	4.5	:	4.2
Spain	4.3	-2.5	9.1	4.7	-1.2	-5.4	1.0	3.5	1.7	7.7	4.2	:	5.3
France	5.3	-0.1	7.9	10.4	2.5	-3.5	-0.1	4.0	5.9	4.2	5.9	:	5.4
Ireland	4.5	2.9	16.3	8.7	-10.4	1.0	0.5	7.0	6.0	7.0	7.5	:	6.5
Italy	3.9	-0.1	6.5	8.3	0.8	-1.1	-6.0	1.5	4.6	6.5	4.5	:	4.6
Luxembourg	4.2	2.1	9.4	-13.0	8.6	-2.5	-20.0	5.0	6.0	6.5	6.0	:	6.6
Netherlands	2.9	1.3	5.5	-3.5	-1.3	-3.5	1.3	-0.8	2.7	2.7	2.5	:	3.7
Austria	3.3	0.1	6.3	12.3	0.6	-7.8	5.5	6.3	4.6	5.4	4.3	:	5.9
Portugal	:	0.0	11.2	4.7	-3.2	-10.6	-5.8	1.3	5.6	7.6	5.4	:	7.4
Finland	3.7	-9.8	4.4	-1.0	12.0	-9.1	-10.4	0.6	2.6	2.0	3.6	:	3.0
Euro area ¹	3.8	-0.8	7.2	8.3	-0.9	-4.8	-1.4	3.4	3.0	6.0	5.3	:	5.9
Czech Republic	:	3.6	4.1	11.8	-5.6	1.7	2.6	3.8	9.7	4.5	8.0	:	6.4
Denmark	2.6	2.6	7.9	8.4	7.0	6.5	0.8	1.6	3.5	3.6	4.3	:	2.6
Estonia	:	:	:	:	:	:	:	:	2.0	:	2.0	:	2.0
Cyprus	:	:	9.7	11.6	1.8	14.4	-16.6	7.0	5.0	7.5	6.5	:	6.5
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	:	18.7	-0.2	22.3	10.8	5.4	:	11.0	:	8.9	:	8.8
Hungary	:	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	2.6	:	2.8	:	:	:
Poland	:	:	14.9	4.0	-10.4	-9.6	:	:	:	:	:	:	:
Slovenia	:	8.0	12.3	3.0	6.6	2.7	7.1	7.6	8.1	5.9	5.5	:	5.3
Slovakia	:	:	10.3	-6.6	-2.0	1.4	0.9	:	6.3	:	7.4	:	5.2
Sweden	4.8	0.5	8.2	5.2	-4.4	-5.7	-3.2	2.0	1.9	6.1	7.5	:	7.6
United Kingdom	2.9	1.1	9.3	1.8	0.8	-6.7	-3.3	5.5	5.6	6.1	5.7	:	4.2
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15 ¹	3.7	-0.3	7.5	7.0	-0.6	-4.9	-1.7	3.6	3.4	6.0	5.4	:	5.6
USA	5.3	7.7	11.7	9.0	-4.2	-4.7	6.0	11.6	11.6	8.4	8.0	:	6.7
Japan	6.1	-0.7	3.4	7.4	1.0	:	:	:	:	:	:	:	:

¹ Excluding Portugal up to 1985.

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

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1971-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.6	1.6	1.8	1.9	1.7	1.6	1.6	1.6	1.6	1.7	1.6	:	1.7
Germany	3.1	2.6	1.9	1.8	1.8	1.7	1.5	1.4	1.4	1.3	1.3	:	1.3
Greece	2.8	3.2	3.5	4.1	3.9	3.7	3.9	4.2	4.1	4.2	3.2	:	3.1
Spain	2.9	4.1	3.2	3.1	3.3	3.5	3.5	3.5	3.6	3.6	3.5	:	3.6
France	3.4	3.3	3.1	3.2	3.1	3.1	3.2	3.2	3.3	3.2	3.3	:	3.3
Ireland	3.9	2.2	2.9	3.6	4.3	4.3	3.9	3.9	3.8	3.9	3.9	:	3.8
Italy	3.2	2.7	2.3	2.4	2.5	1.9	2.6	2.5	2.5	2.8	2.4	:	3.0
Luxembourg	:	4.7	4.4	3.8	4.2	4.7	4.8	4.8	4.8	4.8	4.8	:	4.7
Netherlands	2.9	2.2	3.0	3.1	3.3	3.6	3.6	3.4	3.5	3.3	3.4	:	3.4
Austria	4.3	3.1	2.0	1.5	1.1	1.3	1.2	1.2	1.2	1.1	1.2	:	1.1
Portugal	3.1	3.6	4.1	3.8	4.0	3.3	3.4	3.1	2.4	3.7	3.1	:	2.9
Finland	3.8	3.1	2.9	2.6	2.8	2.9	2.9	2.8	2.8	2.7	2.7	:	2.6
Euro area	3.3	2.9	2.5	2.5	2.6	2.5	2.6	2.5	2.5	2.6	2.5	:	2.6
Czech Republic	:	:	3.7	2.9	3.2	3.7	4.2	4.4	4.3	4.4	4.4	:	4.4
Denmark	3.0	1.8	1.8	1.7	1.9	1.8	1.7	1.7	1.7	1.7	1.7	:	1.7
Estonia	:	:	4.3	3.9	4.1	4.7	3.4	4.5	3.7	4.3	4.2	:	4.1
Cyprus	:	:	:	3.1	3.1	3.1	3.4	0.0	3.5	0.0	3.7	:	3.7
Latvia	:	2.3	1.8	1.4	1.1	1.3	1.5	2.3	2.0	2.2	3.2	:	3.5
Lithuania	:	:	2.5	2.4	2.2	2.8	3.0	3.2	3.2	3.2	3.2	:	3.1
Hungary	:	:	:	3.2	3.8	4.9	3.4	4.5	3.0	4.6	2.9	:	3.6
Malta	:	:	:	4.0	3.6	4.5	5.2	5.1	5.7	4.9	5.3	:	4.9
Poland	:	3.2	3.5	2.5	3.5	3.6	3.4	3.5	3.5	3.7	3.7	:	3.9
Slovenia	:	:	:	3.1	3.0	2.8	2.8	0.0	2.8	0.0	2.8	:	2.7
Slovakia	:	:	3.8	2.8	3.1	3.3	2.6	2.7	2.7	2.5	2.7	:	2.7
Sweden	3.9	2.5	3.2	2.9	3.1	3.3	3.1	3.0	3.0	2.9	2.9	:	2.9
United Kingdom	3.0	2.0	1.4	1.3	1.4	1.4	1.7	1.8	1.8	2.0	2.0	:	2.1
EU-25	:	:	:	2.3	2.4	2.3	2.5	2.4	2.4	2.4	2.4	:	2.5
EU-15 ¹	3.2	2.7	2.3	2.3	2.4	2.3	2.4	2.4	2.4	2.5	2.4	:	2.5
USA	2.7	2.5	2.5	2.6	2.7	2.8	2.7	3.2	3.3	3.1	3.3	:	3.3
Japan	5.3	5.9	5.6	5.1	4.9	4.7	4.1	3.5	3.3	3.0	2.8	:	2.5

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

18.10.2004

	long-term		2004										2005		2006	
	average	5-year average					estimate of		forecast of		forecast of					
	1965-90	1991-95	1996-00	2000	2001	2002	2003	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	
Belgium	-0.3	-0.4	-0.1	1.8	0.4	-0.7	-1.2	-0.7	-0.8	-0.4	-0.5	:	-0.2			
Germany	-0.4	1.4	-0.5	1.0	0.5	-0.4	-1.6	-1.5	-1.2	-1.4	-1.0	:	-0.9			
Greece	0.3	-1.9	-1.7	-0.4	0.5	0.2	1.2	1.2	1.6	1.1	1.7	:	1.9			
Spain	-0.6	-1.7	-1.4	0.4	-0.3	-1.0	-1.7	-2.2	-2.2	-2.3	-2.7	:	-2.9			
France	-0.1	-0.5	-0.2	1.9	1.7	0.8	-0.7	-0.8	-0.4	-0.7	-0.5	:	-0.7			
Ireland	-0.1	-2.5	1.8	5.3	3.8	2.9	0.2	-1.6	-0.8	-2.5	-1.9	:	-2.6			
Italy	0.1	-0.4	0.7	1.7	1.5	0.2	-1.2	-1.5	-1.5	-0.9	-0.9	:	-0.5			
Luxembourg	:	1.4	0.6	5.8	2.0	-0.1	-1.5	-4.2	-1.9	-5.5	-3.0	:	-4.3			
Netherlands	-0.4	-0.7	1.2	3.1	1.8	0.2	-2.0	-3.2	-2.2	-3.5	-2.1	:	-1.6			
Austria	-0.2	0.4	0.4	2.2	0.8	0.1	-1.1	-1.0	-1.1	-0.2	-0.6	:	-0.2			
Portugal	0.1	-0.6	0.7	2.8	2.1	0.5	-2.3	-4.1	-2.9	-3.9	-2.8	:	-2.7			
Finland	0.3	-5.3	1.3	3.6	1.1	0.2	-0.8	-0.2	-0.6	-0.1	-0.3	:	-0.1			
Euro area	-0.2	0.0	-0.1	1.6	1.0	0.0	-1.3	-1.5	-1.2	-1.3	-1.1	:	-1.0			
Czech Republic	:	:	:	-1.9	-0.9	-1.5	-1.1	:	-0.6	:	-0.2	:	0.3			
Denmark	-0.3	-2.1	0.9	1.8	1.3	0.2	-1.1	-0.3	-0.7	0.1	-0.3	:	-0.2			
Estonia	:	:	-2.5	-0.8	0.2	1.1	-0.2	:	-0.7	:	-1.3	:	-1.7			
Cyprus	:	:	-0.4	1.4	1.8	-0.2	-1.4	:	-1.1	:	-0.7	:	-0.1			
Latvia	:	:	-1.2	-1.3	0.1	-0.2	0.4	:	0.7	:	-0.2	:	-1.1			
Lithuania	:	:	-3.0	-4.5	-2.8	-1.6	1.7	:	2.1	:	1.7	:	0.7			
Hungary	:	:	-0.6	0.6	0.4	0.0	-0.7	:	-0.6	:	-0.7	:	-0.6			
Malta	:	:	1.1	4.7	-0.6	0.2	-1.0	:	-1.8	:	-2.0	:	-1.9			
Poland	:	:	-0.6	-0.1	-2.2	-3.4	-2.5	:	-0.4	:	0.4	:	0.7			
Slovenia	:	:	:	1.1	0.0	-0.3	-1.4	:	-0.9	:	-0.6	:	-0.1			
Slovakia	:	:	-5.1	-2.1	-0.9	0.0	0.1	:	0.7	:	0.6	:	1.2			
Sweden	-0.4	-3.9	-1.6	1.3	-0.5	-0.9	-1.5	0.0	0.0	0.0	0.3	:	0.2			
United Kingdom	0.2	-1.9	0.5	1.4	0.8	-0.1	-0.7	-0.5	-0.3	-0.5	-0.3	:	-0.5			
EU-25	:	:	:	1.5	0.9	-0.1	-1.2	:	-1.0	:	-0.9	:	-0.8			
EU-15	-0.1	-0.4	-0.1	1.5	1.0	0.0	-1.2	-1.3	-1.0	-1.1	-0.9	:	-0.8			

¹ Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.

TABLE 14 : Output gap relative to trend GDP (deviation of actual output from trend output as % of trend GDP, 1961-2006)

	long-term		2004										2005		2006	
	average	5-year average					estimate of		forecast of		forecast of					
	1961-90	1991-95	1996-00	2000	2001	2002	2003	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	
Belgium	0.0	0.1	0.2	2.3	0.9	-0.3	-1.1	-0.8	-0.8	-0.2	-0.4	:	0.0			
Germany	-0.2	2.0	-0.1	1.5	1.0	-0.2	-1.6	-1.2	-1.0	-0.7	-0.8	:	-0.5			
Greece	0.1	-0.4	-1.0	0.1	0.7	0.6	1.4	1.4	1.5	1.0	1.1	:	0.7			
Spain	0.2	0.0	-0.4	1.9	1.6	0.9	0.4	-0.4	0.2	-0.2	-0.1	:	-0.2			
France	0.1	0.0	-0.6	1.8	1.8	0.9	-0.7	-0.8	-0.3	-0.3	-0.2	:	-0.1			
Ireland	0.1	-3.4	1.4	6.1	5.0	4.3	1.7	0.0	1.0	-0.7	0.2	:	-0.1			
Italy	0.1	-0.4	0.0	1.3	1.6	0.5	-0.7	-0.9	-0.8	-0.3	-0.5	:	-0.1			
Luxembourg	-0.2	1.3	-0.4	5.8	2.8	1.0	0.0	-1.2	0.2	-1.2	0.1	:	0.4			
Netherlands	-0.1	-0.5	1.1	3.6	2.8	1.4	-1.3	-1.5	-1.6	-1.3	-1.6	:	-0.9			
Austria	-0.1	0.7	0.3	2.3	0.9	0.1	-1.0	-0.9	-1.0	-0.3	-0.5	:	0.1			
Portugal	-0.1	0.0	0.9	3.5	3.0	1.3	-1.7	-2.3	-2.3	-1.9	-2.0	:	-1.6			
Finland	0.7	-5.0	0.8	4.0	1.9	1.1	0.0	0.1	0.1	0.1	0.2	:	0.2			
Euro area	0.0	0.5	-0.1	1.9	1.5	0.5	-0.9	-0.9	-0.7	-0.5	-0.5	:	-0.3			
Czech Republic	:	:	-0.2	-1.0	-0.7	-1.7	-1.4	:	-0.6	:	0.2	:	1.0			
Denmark	0.2	-1.6	1.0	1.9	1.4	0.4	-1.0	-0.7	-0.7	-0.3	-0.3	:	-0.2			
Estonia	:	:	-0.2	-1.3	-0.7	0.7	0.1	:	0.3	:	0.6	:	1.2			
Cyprus	:	:	-0.2	1.6	2.0	0.5	-1.0	:	-1.1	:	-0.8	:	-0.3			
Latvia	:	:	-0.7	-2.1	-0.7	-0.7	0.1	:	0.9	:	1.0	:	1.2			
Lithuania	:	:	-0.1	-4.3	-3.6	-2.8	0.6	:	1.6	:	1.9	:	1.8			
Hungary	:	:	-0.4	1.1	1.0	0.6	-0.1	:	0.0	:	0.0	:	0.1			
Malta	:	:	1.1	5.8	1.4	1.2	-0.4	:	-1.0	:	-1.1	:	-0.9			
Poland	:	:	1.4	2.4	-0.3	-2.6	-2.5	:	-0.6	:	0.5	:	1.2			
Slovenia	:	:	0.2	1.4	0.5	0.3	-0.6	:	-0.1	:	0.1	:	0.7			
Slovakia	:	:	0.6	-1.7	-1.7	-1.0	-0.9	:	-0.1	:	0.3	:	1.5			
Sweden	0.3	-1.9	0.0	2.8	1.0	0.3	-0.9	0.0	-0.1	0.2	0.2	:	0.2			
United Kingdom	0.2	-1.7	0.2	1.3	0.9	0.0	-0.4	-0.3	0.2	-0.2	0.4	:	0.7			
EU-25	:	:	0.0	1.8	1.4	0.3	-0.8	:	-0.5	:	-0.3	:	-0.1			
EU-15	0.0	0.1	0.0	1.8	1.4	0.4	-0.8	-0.8	-0.5	-0.4	-0.4	:	-0.1			

¹ Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.

TABLE 15 : Deflator of gross domestic product (percentage change on preceding year, 1961-2006)

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	4.9	2.7	1.4	1.3	1.8	1.8	1.9	1.7	2.0	1.6	2.1	:	2.0
Germany	3.9	3.3	0.6	-0.3	1.3	1.5	1.1	1.1	1.0	0.9	1.0	:	0.9
Greece	12.2	13.9	5.1	3.4	3.5	4.0	3.5	3.9	3.6	3.1	3.1	:	3.2
Spain	10.3	5.4	2.9	3.4	4.2	4.5	4.0	3.7	3.8	3.2	3.6	:	3.4
France	6.7	2.1	1.0	1.0	1.8	2.3	1.5	1.7	1.9	1.6	1.7	:	1.7
Ireland	8.7	2.9	4.3	4.8	5.7	4.5	1.6	1.9	3.0	2.5	2.5	:	2.0
Italy	9.9	4.9	2.8	2.2	2.6	3.1	2.9	2.4	2.9	2.0	2.3	:	2.1
Luxembourg	4.9	3.5	2.7	4.2	1.9	1.1	2.1	2.1	2.3	2.1	2.4	:	2.9
Netherlands	4.9	2.3	2.1	3.9	5.2	3.1	3.0	1.2	0.9	0.3	0.8	:	1.0
Austria	4.6	3.0	0.7	1.8	1.7	1.3	1.6	1.5	1.1	1.2	1.2	:	1.2
Portugal	11.9	7.9	3.4	3.5	4.4	4.5	2.3	2.4	1.9	2.1	2.3	:	2.4
Finland	8.0	2.5	1.6	3.2	3.0	0.9	0.1	0.4	0.4	1.3	1.1	:	1.5
Euro area	6.6	3.7	1.6	1.4	2.4	2.5	2.0	1.8	1.9	1.6	1.8	:	1.7
Czech Republic	:	18.3	6.4	1.4	4.9	2.8	1.7	3.1	4.8	3.0	3.1	:	2.7
Denmark	7.5	2.1	2.1	3.0	2.1	1.6	2.2	2.1	1.9	2.0	1.9	:	2.0
Estonia	:	:	10.5	5.3	5.8	4.4	2.4	3.7	3.8	3.7	3.9	:	3.0
Cyprus	:	4.6	2.7	4.5	2.3	2.8	5.3	2.5	3.0	2.3	2.8	:	2.5
Latvia	:	133.9	6.9	3.8	2.1	3.4	3.4	2.0	6.7	1.8	6.8	:	5.1
Lithuania	:	218.7	7.7	1.0	-0.1	0.0	-0.8	1.4	1.7	2.4	2.9	:	3.3
Hungary	:	24.6	14.0	9.9	8.6	8.9	7.6	6.4	6.2	5.3	4.3	:	3.9
Malta	:	:	1.9	1.5	5.0	0.3	4.2	1.1	3.4	1.5	2.4	:	2.1
Poland	:	37.6	11.3	6.7	4.0	1.3	0.5	2.1	2.8	2.6	2.9	:	3.3
Slovenia	:	65.5	7.8	5.6	9.1	8.0	5.5	3.5	4.1	3.4	3.4	:	3.1
Slovakia	:	:	6.2	8.5	4.2	4.0	4.7	5.5	4.0	2.5	2.3	:	1.6
Sweden	7.2	3.7	1.1	1.3	2.3	1.4	2.3	1.9	1.1	2.1	2.0	:	1.9
United Kingdom	8.1	3.5	2.5	1.3	2.2	3.2	3.0	2.8	2.4	2.6	2.3	:	2.1
EU-25	:	:	2.0	1.6	2.5	2.6	2.2	2.1	2.1	1.9	2.0	:	1.9
EU-15	6.9	3.6	1.7	1.4	2.4	2.6	2.2	2.0	2.0	1.8	1.9	:	1.8
USA	4.7	2.5	1.7	2.2	2.4	1.7	1.8	1.1	2.3	0.9	2.5	:	2.1
Japan	5.2	0.9	-0.8	-2.0	-1.5	-1.2	-2.5	-1.0	-2.6	-0.4	-1.6	:	-0.6

TABLE 16 : Price deflator of private consumption (percentage change on preceding year, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	4.8	2.2	1.7	2.3	2.5	1.7	1.8	1.5	2.0	1.7	1.9	:	1.8
Germany	3.4	3.3	1.3	1.5	1.6	1.1	1.0	1.3	1.7	1.1	1.3	:	1.1
Greece	11.5	13.8	4.8	3.3	3.3	3.6	3.4	3.4	3.1	3.3	2.9	:	2.8
Spain	10.0	5.6	2.8	3.1	3.3	3.4	3.1	2.5	3.1	2.4	2.8	:	2.5
France	6.7	2.5	1.2	1.5	1.6	1.9	2.0	1.7	1.7	1.5	1.9	:	1.7
Ireland	8.7	2.7	3.1	3.8	4.1	5.6	3.8	1.8	2.2	2.3	2.4	:	2.4
Italy	9.4	5.8	2.8	2.9	2.8	3.1	2.5	2.3	2.4	2.1	2.4	:	2.0
Luxembourg	4.6	3.2	1.6	2.6	3.2	2.1	1.9	1.7	2.3	1.6	2.1	:	2.0
Netherlands	4.6	2.6	2.1	3.3	4.6	2.7	2.3	1.0	1.1	0.9	1.2	:	1.4
Austria	4.4	3.1	1.4	2.5	1.9	1.2	1.5	1.4	2.0	1.3	1.8	:	1.5
Portugal	12.2	7.5	3.0	3.3	3.8	3.5	3.4	2.0	2.3	2.2	2.4	:	2.3
Finland	7.4	3.1	2.1	3.6	3.5	3.1	0.5	0.6	0.6	1.7	1.9	:	2.0
Euro area	6.4	4.0	1.9	2.2	2.3	2.2	2.0	1.8	2.0	1.6	1.9	:	1.7
Czech Republic	:	18.3	6.0	3.0	3.5	0.7	-0.7	2.6	2.2	2.2	2.0	:	1.9
Denmark	7.4	2.3	2.1	2.6	2.5	2.1	1.8	1.8	1.4	1.7	1.7	:	1.7
Estonia	:	:	10.0	2.6	6.1	3.4	0.8	2.8	3.3	2.9	3.4	:	2.7
Cyprus	:	:	2.6	4.9	1.8	2.4	3.8	2.2	2.4	2.1	2.4	:	2.1
Latvia	:	:	6.9	3.5	2.6	2.2	2.9	3.0	6.7	2.0	4.8	:	3.5
Lithuania	:	:	6.0	-1.5	2.4	-0.2	-2.6	1.0	1.0	2.2	2.8	:	2.7
Hungary	:	:	14.7	9.1	8.2	3.7	4.6	6.9	7.0	4.7	4.8	:	4.3
Malta	:	:	3.7	8.4	3.1	1.1	1.0	2.7	3.4	2.1	2.4	:	2.2
Poland	:	41.1	12.0	9.0	4.7	1.6	0.6	2.6	3.4	3.3	3.3	:	3.0
Slovenia	:	64.9	8.3	8.3	8.1	7.8	5.0	3.9	3.8	3.1	3.3	:	2.9
Slovakia	:	:	7.1	10.0	6.1	3.1	7.7	7.3	6.9	3.8	3.3	:	2.8
Sweden	7.2	4.8	1.3	1.1	2.4	1.8	2.5	1.0	1.5	1.6	1.8	:	1.9
United Kingdom	7.7	4.3	2.3	1.1	2.4	1.6	1.8	1.8	1.7	1.9	2.0	:	2.1
EU-25	:	:	2.2	2.2	2.5	2.1	1.9	1.8	2.0	1.8	2.0	:	1.8
EU-15	6.6	4.1	1.9	2.0	2.3	2.1	1.9	1.8	1.9	1.7	1.9	:	1.8
USA	4.6	2.6	1.8	2.5	2.1	1.4	1.9	1.2	2.4	0.9	2.7	:	2.0
Japan	5.5	1.1	-0.2	-1.3	-1.6	-1.3	-1.4	-0.4	-1.3	-0.2	-0.9	:	-0.8

TABLE 17 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2006)

18.10.2004

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

TABLE 18 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2004-2006)

	2004/1	2004/2	2004/3	2004/4	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4
Belgium	1.2	2.0	2.4	2.4	2.7	1.6	1.4	1.4	1.5	1.7	1.7	1.6
Germany	1.0	1.9	1.9	2.0	1.5	1.0	1.2	1.5	1.4	1.2	1.0	0.8
Greece	3.5	3.1	3.4	3.1	2.9	3.1	2.9	2.7	3.4	2.6	2.9	3.3
Spain	2.2	3.2	3.3	3.4	3.5	2.8	2.6	2.6	2.6	2.5	2.5	2.4
France	2.0	2.6	2.5	2.2	2.2	1.8	2.0	2.1	1.9	1.8	1.7	1.7
Ireland	2.1	2.1	2.5	2.5	2.6	2.4	2.2	2.3	2.2	2.3	2.4	2.5
Italy	2.3	2.3	2.3	2.3	2.5	2.3	2.2	2.1	2.0	2.0	1.9	1.9
Luxembourg	2.2	3.2	3.2	3.2	2.9	2.0	2.2	1.8	1.7	1.6	1.6	1.5
Netherlands	1.4	1.6	1.2	1.6	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Austria	:	:	1.8	1.7	1.6	1.7	2.5	3.0	2.4	1.9	1.1	0.4
Portugal	2.2	2.8	2.4	2.3	2.5	2.3	2.4	2.4	2.5	2.2	2.3	2.2
Finland	0.2	-0.2	0.2	0.2	0.8	1.4	1.9	2.2	2.0	1.8	1.6	1.4
Euro area	1.7	2.3	2.3	2.3	2.2	1.8	1.8	1.9	1.9	1.8	1.7	1.6
Czech Republic	2.0	2.5	3.3	3.4	3.2	3.1	3.1	3.0	3.1	3.0	2.9	2.7
Denmark	0.7	0.8	1.3	1.6	1.8	1.9	2.0	1.9	1.8	1.7	1.7	1.6
Estonia	0.6	3.2	4.4	5.3	5.8	3.9	2.8	1.7	1.7	2.5	3.0	3.9
Cyprus	5.2	4.7	2.7	3.2	3.8	2.0	3.4	1.6	1.5	2.7	2.9	3.7
Latvia	4.4	5.8	7.8	7.7	6.8	5.0	4.1	4.5	4.1	3.6	3.3	3.1
Lithuania	-1.1	0.5	2.2	3.3	3.2	2.9	2.8	2.7	2.7	2.6	2.9	3.0
Hungary	6.8	7.4	7.3	6.2	6.6	7.1	7.0	6.7	5.3	4.6	4.3	4.3
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Poland	1.8	3.4	4.7	4.2	3.9	3.0	2.7	3.4	3.2	3.1	2.9	2.8
Slovenia	3.7	3.8	3.8	4.3	3.9	3.5	3.1	3.1	3.1	3.1	3.0	2.9
Slovakia	8.3	8.1	7.5	7.0	3.9	4.1	4.2	4.3	3.1	2.9	2.9	2.9
Sweden	0.6	1.2	1.2	1.3	1.2	1.3	1.6	1.8	1.8	1.9	1.9	1.9
United Kingdom	1.3	1.4	1.4	1.6	1.7	1.8	1.9	2.0	2.1	2.0	2.0	2.0
EU-25	1.7	2.1	2.2	2.2	2.1	1.9	1.9	2.0	2.0	1.9	1.8	1.7
EU-15	1.7	2.1	2.2	2.2	2.1	1.9	1.9	2.0	2.0	1.9	1.8	1.7
USA	1.8	2.8	2.7	3.2	3.1	2.6	2.7	2.7	2.5	2.3	2.2	2.1
Japan	-0.1	-0.3	-0.2	0.0	0.0	0.2	0.3	0.3	0.3	0.2	0.3	0.3

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

18.10.2004

	long-term		2004										2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of				
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004			
Belgium	4.1	0.5	3.1	10.0	1.7	-1.7	-1.5	0.8	0.9	0.7	1.3	:	1.6			
Germany	2.7	0.8	0.7	3.2	1.3	-0.6	-1.1	-0.5	0.6	0.6	1.3	:	0.6			
Greece	10.0	8.7	5.0	13.4	0.5	2.0	0.3	-1.0	0.2	0.9	0.4	:	1.0			
Spain	:	3.1	2.3	8.4	2.1	0.0	-0.4	0.4	0.1	0.9	0.4	:	0.6			
France	5.0	-1.5	0.5	2.2	-0.3	-2.7	-0.6	0.0	0.9	0.3	0.7	:	0.5			
Ireland	7.4	1.1	2.3	5.8	3.8	-1.9	-8.5	-1.5	-0.7	1.7	0.6	:	-0.1			
Italy	7.5	5.5	1.6	7.6	3.2	1.4	0.7	-1.2	3.4	1.5	2.2	:	1.1			
Luxembourg	:	-0.4	-0.1	4.7	-0.9	0.2	0.0	0.0	1.5	1.0	1.0	:	1.2			
Netherlands	2.8	-0.8	1.8	9.2	1.1	-1.7	-0.2	-1.1	0.8	0.1	1.4	:	0.2			
Austria	:	-0.1	0.8	2.0	0.3	-0.1	-0.5	-1.3	0.5	0.6	1.1	:	0.5			
Portugal	:	1.4	:	:	:	:	:	-0.5	-0.7	0.2	-0.2	:	-0.1			
Finland	:	3.7	-1.4	2.7	-3.1	-5.2	-3.6	-1.1	0.2	-0.8	0.2	:	-0.3			
Euro area	4.4	1.0	1.3	5.3	1.2	-1.0	-1.0	-0.5	0.9	0.7	1.2	:	0.6			
Czech Republic	:	:	2.4	3.1	-1.0	-6.8	1.4	1.5	2.8	1.4	1.3	:	1.5			
Denmark	:	1.2	1.1	6.1	0.1	-1.2	0.2	0.0	2.4	0.2	1.5	:	0.3			
Estonia	:	:	5.8	8.5	10.2	-4.3	2.8	6.5	3.0	10.2	3.3	:	3.2			
Cyprus	:	:	2.2	6.3	3.1	3.9	3.4	2.0	1.5	2.0	0.5	:	0.5			
Latvia	:	:	0.5	-1.2	2.6	2.8	7.9	5.0	5.0	3.0	4.5	:	4.5			
Lithuania	:	:	3.0	12.0	-3.1	-6.3	-0.9	0.9	2.5	1.9	2.9	:	1.1			
Hungary	:	:	12.1	9.8	2.2	-5.0	-0.2	2.4	-0.1	2.4	-0.3	:	0.8			
Malta	:	:	4.8	20.0	-13.1	0.5	1.1	1.3	3.5	1.3	2.9	:	2.1			
Poland	:	:	7.1	-2.4	1.3	4.8	5.8	3.5	4.5	0.5	0.3	:	3.0			
Slovenia	:	57.1	6.3	10.9	8.0	3.7	1.9	4.2	2.9	3.7	1.2	:	0.4			
Slovakia	:	:	4.7	12.3	5.4	0.5	-4.0	-2.9	-1.9	-1.8	0.0	:	0.2			
Sweden	:	3.2	-1.6	2.0	2.3	-2.5	-2.7	-0.6	0.5	1.0	1.1	:	0.0			
United Kingdom	6.7	2.9	-2.2	0.8	-1.5	-0.2	1.2	0.5	-0.2	0.7	1.6	:	-0.7			
EU-25	:	:	1.2	4.8	1.0	-1.0	-0.6	-0.2	0.9	0.7	1.2	:	0.6			
EU-15	4.7	1.3	0.8	4.7	1.0	-1.0	-0.8	-0.4	0.8	0.7	1.2	:	0.5			
USA	3.9	0.2	-1.8	1.1	-0.7	-0.6	2.0	2.4	3.8	3.8	3.1	:	2.3			
Japan	:	:	:	:	:	:	:	-2.5	-3.3	-0.4	-0.9	:	-0.7			

TABLE 20 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2006)

	long-term		2004										2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of				
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004			
Belgium	4.3	-0.7	3.9	12.6	1.6	-2.8	-1.7	0.5	1.1	1.0	1.4	:	1.6			
Germany	2.2	-0.1	1.3	8.5	0.7	-2.3	-3.1	-1.8	0.3	0.5	1.6	:	0.9			
Greece	10.6	8.5	4.7	10.4	2.0	0.9	1.3	-1.8	1.5	0.7	0.7	:	0.1			
Spain	:	2.3	2.7	10.4	-0.2	-1.9	-0.3	-0.2	1.7	0.8	1.5	:	0.6			
France	5.6	-1.7	1.0	5.9	-1.4	-4.9	-0.6	-1.0	-0.7	0.3	1.6	:	0.1			
Ireland	7.2	2.4	2.5	8.5	3.0	-4.0	-8.7	-1.9	0.2	1.2	0.7	:	-0.5			
Italy	7.8	4.9	2.1	16.4	2.4	-0.2	0.0	-1.6	3.1	0.7	1.4	:	0.1			
Luxembourg	:	0.4	0.9	6.0	0.7	-0.3	-0.7	0.1	2.4	0.6	1.2	:	1.0			
Netherlands	2.8	-1.2	2.2	9.5	-0.2	-1.7	-1.1	-1.8	1.5	0.5	1.6	:	0.1			
Austria	:	0.1	1.2	2.7	-0.4	-2.3	-1.6	-1.9	0.8	0.8	1.7	:	0.7			
Portugal	:	0.3	:	:	:	:	:	-1.1	2.0	0.5	0.2	:	-0.3			
Finland	:	3.7	-0.1	6.4	-3.7	-2.7	1.7	-0.4	3.1	0.1	2.0	:	1.0			
Euro area	4.7	0.6	1.9	9.4	0.4	-2.5	-1.6	-1.2	0.9	0.6	1.5	:	0.5			
Czech Republic	:	:	2.6	6.2	-2.6	-8.6	-0.7	1.4	1.5	1.0	1.1	:	1.6			
Denmark	:	0.5	-0.8	3.9	-1.3	-1.1	-1.8	-1.0	1.9	0.9	1.7	:	0.1			
Estonia	:	:	5.9	6.4	4.0	0.1	-1.5	0.1	2.6	-0.2	3.6	:	3.2			
Cyprus	:	:	2.9	11.3	-0.5	2.1	1.5	2.1	4.8	2.0	0.8	:	-0.4			
Latvia	:	:	4.3	6.8	1.5	6.0	6.9	4.2	5.0	3.0	4.5	:	4.0			
Lithuania	:	:	-0.1	4.3	-3.0	-4.7	-3.4	1.1	2.2	2.3	2.9	:	0.6			
Hungary	:	:	13.3	12.9	2.5	-5.4	0.4	2.5	1.1	2.5	0.9	:	0.8			
Malta	:	:	5.2	16.7	-8.2	1.8	1.3	1.2	5.0	1.2	2.9	:	2.1			
Poland	:	:	8.6	0.0	1.3	5.2	6.9	4.3	5.1	1.5	0.5	:	1.3			
Slovenia	:	55.0	6.2	14.7	5.8	1.7	1.5	3.9	3.3	3.1	1.5	:	0.6			
Slovakia	:	:	5.3	11.6	8.4	-0.1	-3.6	-1.1	-0.6	-0.7	0.2	:	0.5			
Sweden	:	3.5	0.0	4.9	3.5	-0.3	-2.8	-1.0	1.1	0.8	1.2	:	0.1			
United Kingdom	6.8	3.4	-2.6	3.5	-0.9	-2.9	-0.6	-0.7	-1.1	1.0	1.5	:	1.3			
EU-25	:	:	1.6	8.2	0.3	-2.3	-1.2	-0.9	0.8	0.7	1.4	:	0.7			
EU-15	5.0	1.0	1.2	8.3	0.2	-2.4	-1.5	-1.1	0.7	0.7	1.5	:	0.6			
USA	5.3	0.1	-1.6	4.8	-3.0	-1.8	2.9	3.5	5.4	2.9	3.6	:	0.7			
Japan	:	:	:	:	:	:	:	-3.1	4.5	-1.5	2.9	:	-3.8			

TABLE 21 : Terms of trade of goods (percentage change on preceding year, 1961-2006)

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	-0.2	1.2	-0.8	-2.3	0.1	1.2	0.2	0.3	-0.2	-0.3	-0.1	:	0.0
Germany	0.5	1.0	-0.6	-4.9	0.7	1.7	2.1	1.3	0.3	0.2	-0.3	:	-0.3
Greece	-0.5	0.2	0.3	2.7	-1.4	1.1	-1.0	0.8	-1.3	0.2	-0.3	:	0.9
Spain	:	0.8	-0.4	-1.7	2.2	2.0	-0.1	0.6	-1.5	0.1	-1.1	:	0.1
France	-0.5	0.2	-0.5	-3.4	1.1	2.4	-0.1	1.1	1.6	0.1	-0.8	:	0.3
Ireland	0.1	-1.2	-0.2	-2.4	0.8	2.2	0.3	0.4	-0.9	0.5	-0.1	:	0.4
Italy	-0.3	0.5	-0.5	-7.5	0.8	1.5	0.7	0.4	0.2	0.8	0.8	:	1.0
Luxembourg	:	-0.8	-1.1	-1.2	-1.6	0.5	0.7	0.0	-0.8	0.5	-0.2	:	0.2
Netherlands	-0.1	0.5	-0.4	-0.3	1.2	0.0	0.9	0.7	-0.7	-0.4	-0.2	:	0.1
Austria	:	-0.1	-0.4	-0.7	0.7	2.3	1.1	0.6	-0.3	-0.2	-0.6	:	-0.2
Portugal	:	1.2	:	:	:	:	:	0.6	-2.7	-0.3	-0.5	:	0.2
Finland	:	-0.1	-1.3	-3.5	0.5	-2.5	-5.2	-0.7	-2.8	-0.9	-1.7	:	-1.2
Euro area	-0.2	0.5	-0.6	-3.7	0.9	1.5	0.6	0.8	0.0	0.1	-0.3	:	0.1
Czech Republic	:	:	-0.2	-2.8	1.6	2.0	2.1	0.1	1.3	0.3	0.2	:	-0.1
Denmark	:	0.7	1.9	2.2	1.4	-0.1	2.0	1.0	0.6	-0.7	-0.2	:	0.1
Estonia	:	:	0.0	1.9	6.0	-4.4	4.4	6.4	0.3	10.4	-0.3	:	0.0
Cyprus	:	:	-0.6	-4.4	3.6	1.7	1.8	-0.1	-3.1	0.0	-0.3	:	0.9
Latvia	:	:	-3.7	-7.5	1.1	-3.0	1.0	0.7	0.0	0.0	0.0	:	0.5
Lithuania	:	:	3.1	7.4	0.0	-1.6	2.7	-0.2	0.3	-0.4	0.0	:	0.5
Hungary	:	:	-1.1	-2.7	-0.3	0.4	-0.6	-0.1	-1.1	-0.1	-1.1	:	0.0
Malta	:	:	-0.4	2.8	-5.3	-1.3	-0.2	0.1	-1.4	0.1	0.0	:	0.0
Poland	:	:	-1.3	-2.5	0.0	-0.4	-1.1	-0.8	-0.6	-1.0	-0.2	:	1.7
Slovenia	:	1.4	0.1	-3.3	2.1	2.0	0.5	0.3	-0.4	0.6	-0.3	:	-0.2
Slovakia	:	:	-0.6	0.6	-2.7	0.6	-0.4	-1.8	-1.3	-1.1	-0.2	:	-0.2
Sweden	:	-0.2	-1.6	-2.7	-1.2	-2.2	0.1	0.3	-0.6	0.1	-0.1	:	-0.1
United Kingdom	-0.1	-0.4	0.5	-2.6	-0.5	2.8	1.8	1.2	0.8	-0.3	0.1	:	-2.0
EU-25	:	:	-0.4	-3.2	0.7	1.3	0.6	0.7	0.1	0.0	-0.2	:	-0.1
EU-15	-0.3	0.3	-0.4	-3.3	0.7	1.4	0.7	0.8	0.1	0.0	-0.2	:	-0.2
USA	-1.3	0.2	-0.1	-3.4	2.4	1.1	-0.9	-1.1	-1.5	0.9	-0.5	:	1.5
Japan	:	:	:	:	:	:	:	0.7	-7.5	1.1	-3.7	:	3.2

TABLE 22 : Compensation of employees per head (percentage change on preceding year, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	8.5	4.1	2.2	2.1	3.6	3.7	2.5	2.8	2.7	3.0	2.5	:	2.8
Germany	6.7	5.4	1.3	2.1	1.7	1.5	1.6	1.6	0.0	1.9	0.9	:	1.4
Greece	15.7	12.1	7.7	5.8	5.2	9.2	4.0	7.0	6.5	6.2	5.5	:	5.3
Spain	14.9	7.2	3.1	3.5	3.8	4.2	4.2	3.5	3.7	3.2	4.0	:	3.6
France	10.2	3.0	2.1	1.8	2.7	2.4	2.3	2.3	3.3	2.4	2.9	:	2.9
Ireland	12.4	4.6	5.4	8.6	7.7	5.0	4.7	5.0	5.4	4.2	4.9	:	4.7
Italy	13.6	5.3	2.8	3.1	3.2	2.5	3.8	3.2	3.4	2.9	3.3	:	2.8
Luxembourg	7.7	4.6	2.9	4.7	3.9	3.7	2.1	2.0	3.3	2.8	3.2	:	3.2
Netherlands	7.9	3.5	3.0	4.7	5.5	6.2	3.9	2.7	2.4	0.0	0.7	:	1.0
Austria	8.0	4.9	1.6	1.8	1.4	1.7	2.1	2.6	2.5	2.7	2.5	:	2.6
Portugal	17.0	12.3	5.9	6.7	5.7	4.4	4.1	2.3	3.1	2.7	3.6	:	3.8
Finland	11.5	3.2	2.9	3.7	4.7	1.9	3.3	3.3	4.1	3.4	3.7	:	3.6
Euro area	9.8	4.9	2.1	2.7	2.9	2.7	2.6	2.4	2.2	2.3	2.4	:	2.5
Czech Republic	:	:	10.2	5.7	7.6	6.2	6.7	4.0	6.4	4.0	7.9	:	6.6
Denmark	9.8	3.0	3.7	4.2	4.6	3.2	3.6	3.5	3.3	3.5	3.3	:	3.5
Estonia	:	:	16.8	10.0	7.7	10.2	8.9	9.5	8.6	8.0	8.5	:	7.9
Cyprus	:	:	6.0	7.2	4.7	4.4	4.9	4.3	4.0	4.2	4.5	:	4.5
Latvia	:	:	11.9	6.9	3.4	4.4	10.8	7.0	14.0	7.0	10.0	:	7.0
Lithuania	:	:	15.3	0.0	3.4	1.4	8.2	5.8	7.8	6.0	8.1	:	7.5
Hungary	:	:	15.1	15.6	15.7	12.1	12.8	8.0	8.8	6.7	7.0	:	6.2
Malta	:	8.3	7.0	13.8	5.9	1.5	1.5	1.3	0.6	1.4	2.4	:	2.4
Poland	:	:	18.0	11.9	13.3	2.0	5.0	3.0	4.7	4.5	5.3	:	5.4
Slovenia	:	:	10.3	11.8	11.6	10.0	7.8	6.5	6.0	6.3	5.4	:	5.3
Slovakia	:	:	10.9	11.9	6.3	9.3	9.9	6.5	9.9	6.0	6.7	:	6.5
Sweden	9.5	4.7	4.7	7.5	4.5	2.7	2.4	3.4	3.4	3.5	3.7	:	3.9
United Kingdom	10.4	5.1	4.6	5.6	5.4	4.5	4.1	5.0	5.2	5.0	5.3	:	5.2
EU-25	:	:	3.2	4.1	4.0	3.2	3.1	3.0	3.0	3.0	3.1	:	3.2
EU-15	9.8	4.9	2.6	3.4	3.4	3.0	2.9	2.9	2.8	2.9	3.0	:	3.0
USA	6.2	3.5	4.2	5.7	2.4	3.2	4.0	3.3	4.2	4.2	4.9	:	4.7
Japan	10.1	2.0	0.2	0.2	-0.5	-2.1	-0.7	1.1	-1.2	0.8	-0.6	:	0.0

TABLE 23 : Real compensation of employees per head ¹ (percentage change on preceding year, 1961-2006)

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	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.5	1.8	0.5	-0.3	1.1	2.0	0.8	1.3	0.7	1.3	0.6	:	1.0
Germany	3.2	2.0	0.0	0.6	0.0	0.3	0.5	0.3	-1.7	0.8	-0.4	:	0.3
Greece	3.7	-1.5	2.8	2.4	1.8	5.4	0.6	3.5	3.3	2.8	2.5	:	2.4
Spain	4.5	1.5	0.4	0.3	0.5	0.8	1.1	1.0	0.6	0.7	1.2	:	1.0
France	3.2	0.4	0.9	0.3	1.0	0.5	0.3	0.5	1.6	0.8	0.9	:	1.2
Ireland	3.5	1.9	2.2	4.7	3.4	-0.6	0.9	3.1	3.1	1.9	2.4	:	2.2
Italy	3.8	-0.5	0.1	0.2	0.4	-0.5	1.3	0.9	1.0	0.8	0.9	:	0.8
Luxembourg	3.0	1.3	1.3	2.1	0.7	1.5	0.2	0.3	1.0	1.1	1.1	:	1.2
Netherlands	3.2	0.9	0.9	1.4	0.8	3.4	1.5	1.7	1.3	-0.9	-0.5	:	-0.3
Austria	3.4	1.8	0.2	-0.7	-0.4	0.6	0.6	1.2	0.5	1.4	0.7	:	1.1
Portugal	4.2	4.5	2.9	3.4	1.8	0.9	0.6	0.2	0.8	0.5	1.3	:	1.5
Finland	3.8	0.1	0.8	0.1	1.1	-1.2	2.8	2.7	3.5	1.7	1.8	:	1.6
Euro area	3.2	0.9	0.3	0.4	0.5	0.5	0.6	0.6	0.2	0.7	0.4	:	0.7
Czech Republic	:	:	:	:	:	:	:	1.4	4.1	1.8	5.8	:	4.6
Denmark	2.3	0.6	1.5	1.6	2.1	1.0	1.8	1.7	1.8	1.7	1.5	:	1.7
Estonia	:	:	:	:	:	:	:	6.5	5.1	5.0	4.9	:	5.0
Cyprus	:	:	:	:	:	:	:	2.1	1.5	2.1	2.0	:	2.4
Latvia	:	:	:	:	:	:	:	3.9	6.8	4.9	5.0	:	3.4
Lithuania	:	:	:	:	:	:	:	4.8	6.7	3.7	5.2	:	4.7
Hungary	:	:	:	:	:	:	:	1.1	1.7	1.9	2.1	:	1.8
Malta	:	:	:	:	:	:	:	-1.4	-2.7	-0.7	0.0	:	0.2
Poland	:	:	5.3	2.6	8.3	0.4	4.4	0.4	1.3	1.2	2.0	:	2.3
Slovenia	:	:	:	:	:	:	:	2.6	2.1	3.1	2.0	:	2.3
Slovakia	:	:	:	:	:	:	:	-0.7	2.8	2.1	3.3	:	3.6
Sweden	2.1	-0.1	3.4	6.3	2.1	0.9	-0.1	2.3	1.9	1.9	1.9	:	2.0
United Kingdom	2.5	0.8	2.3	4.4	2.9	2.9	2.2	3.1	3.5	3.0	3.2	:	3.0
EU-25	:	:	:	:	:	:	:	1.1	1.0	1.2	1.1	:	1.3
EU-15	3.0	0.8	0.7	1.4	1.1	1.0	0.9	1.2	0.9	1.2	1.0	:	1.2
USA	1.5	0.8	2.4	3.1	0.3	1.7	2.1	2.1	1.7	3.2	2.2	:	2.6
Japan	4.4	0.9	0.4	1.5	1.1	-0.8	0.7	1.5	0.1	1.0	0.3	:	0.8

¹ Deflated by the price deflator of private consumption.

TABLE 24 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	3.2	1.8	1.5	1.9	-0.7	1.2	1.2	1.6	2.1	1.5	1.7	:	1.7
Germany	2.7	2.1	1.1	1.1	0.4	0.7	0.9	1.6	1.8	1.1	0.7	:	0.9
Greece	4.2	0.7	2.5	4.2	4.6	3.6	3.1	2.3	2.0	2.2	2.3	:	2.2
Spain	4.2	1.9	0.7	0.7	0.3	0.5	0.7	0.6	0.6	0.9	0.7	:	0.8
France	3.3	1.5	1.5	1.0	0.2	0.2	0.4	1.7	2.7	1.8	1.6	:	1.5
Ireland	3.9	2.9	3.8	5.0	2.9	4.3	1.6	2.9	2.7	3.2	3.0	:	3.4
Italy	3.5	2.1	1.1	1.3	0.1	-0.9	-0.2	0.9	0.5	1.4	1.1	:	1.2
Luxembourg	2.5	1.1	2.8	3.2	-3.9	-0.5	1.1	1.4	1.9	2.0	1.1	:	0.9
Netherlands	2.7	1.3	1.2	1.6	0.1	0.7	0.1	2.3	3.2	1.1	1.1	:	1.2
Austria	3.5	2.0	2.0	2.0	0.3	1.1	0.7	1.4	1.4	1.8	1.7	:	1.6
Portugal	4.7	2.3	1.8	1.2	0.3	0.1	-0.8	0.6	0.9	1.4	1.1	:	1.2
Finland	3.5	2.9	2.4	2.8	-0.4	1.3	1.9	2.5	3.5	2.3	2.6	:	2.0
Euro area	3.2	1.7	1.1	1.3	0.3	0.3	0.3	1.4	1.6	1.4	1.1	:	1.2
Czech Republic	:	:	2.9	4.4	2.2	0.0	3.3	3.3	4.7	3.6	3.9	:	3.9
Denmark	2.1	2.0	1.6	2.5	1.3	1.4	1.4	2.0	1.9	1.6	1.8	:	1.6
Estonia	:	:	8.2	11.0	5.6	5.6	4.3	4.7	5.6	5.5	5.6	:	5.8
Cyprus	:	:	6.6	2.1	2.1	0.6	1.1	2.7	2.4	3.2	2.5	:	2.8
Latvia	:	-5.0	5.9	10.1	5.7	4.8	5.6	5.7	6.7	5.6	6.1	:	6.1
Lithuania	:	-8.2	5.4	8.3	10.0	2.7	7.2	5.5	5.5	5.3	5.3	:	5.0
Hungary	:	:	2.9	4.2	3.4	2.8	0.5	2.6	3.4	2.7	3.1	:	3.2
Malta	:	:	3.8	4.0	-4.1	2.5	1.2	1.7	0.4	0.8	1.2	:	1.0
Poland	:	:	4.7	6.4	1.7	3.7	5.0	4.2	6.0	3.6	4.1	:	3.3
Slovenia	:	:	3.9	0.7	2.2	3.7	2.8	3.1	3.8	3.1	3.1	:	3.4
Slovakia	:	:	4.5	3.9	3.2	5.2	2.2	3.4	5.0	3.3	3.9	:	4.2
Sweden	2.2	2.9	2.5	1.9	-1.0	1.9	1.8	2.8	4.3	2.2	2.8	:	1.9
United Kingdom	2.1	2.7	1.7	2.5	1.6	1.6	1.3	2.6	2.6	2.4	2.4	:	2.4
EU-25	:	:	1.5	2.1	0.7	0.8	0.7	1.7	2.1	1.7	1.6	:	1.6
EU-15	2.9	1.9	1.3	1.5	0.5	0.6	0.6	1.6	1.9	1.6	1.4	:	1.5
USA	1.5	1.4	2.1	1.7	0.9	2.8	3.1	3.3	3.3	2.5	2.1	:	2.1
Japan	5.1	0.8	1.4	3.0	1.0	1.1	2.6	3.0	3.2	2.0	1.8	:	2.1

TABLE 25 : Unit labour costs, whole economy ¹ (percentage change on preceding year, 1961-2006)

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	5.1	2.3	0.7	0.1	4.4	2.5	1.3	1.1	0.6	1.5	0.7	:	1.0
Germany	3.9	3.3	0.2	1.0	1.3	0.8	0.7	0.0	-1.7	0.8	0.2	:	0.4
Greece	11.0	11.3	5.1	1.6	0.6	5.5	0.9	4.6	4.4	3.9	3.2	:	3.0
Spain	10.2	5.2	2.4	2.8	3.5	3.7	3.5	2.9	3.1	2.2	3.4	:	2.7
France	6.6	1.4	0.6	0.9	2.5	2.2	1.9	0.6	0.6	0.6	1.3	:	1.4
Ireland	8.2	1.6	1.5	3.4	4.6	0.6	3.0	2.1	2.6	0.9	1.8	:	1.3
Italy	9.8	3.1	1.7	1.8	3.1	3.5	4.0	2.3	2.9	1.5	2.2	:	1.6
Luxembourg	5.1	3.4	0.1	1.5	8.1	4.2	1.0	0.6	1.3	0.8	2.1	:	2.3
Netherlands	5.1	2.2	1.9	3.1	5.4	5.4	3.8	0.4	-0.8	-1.1	-0.4	:	-0.1
Austria	4.3	2.8	-0.4	-0.1	1.2	0.7	1.4	1.2	1.1	0.9	0.8	:	1.0
Portugal	11.8	9.8	4.0	5.5	5.4	4.3	4.9	1.6	2.2	1.2	2.5	:	2.6
Finland	7.8	0.3	0.5	0.9	5.1	0.6	1.3	0.8	0.6	1.1	1.1	:	1.5
Euro area	6.4	3.2	1.0	1.3	2.6	2.3	2.3	1.0	0.6	1.0	1.2	:	1.2
Czech Republic	:	:	7.1	1.3	5.2	6.3	3.4	0.6	1.7	0.4	3.9	:	2.6
Denmark	7.6	0.9	2.0	1.6	3.3	1.8	2.2	1.5	1.4	1.9	1.5	:	1.8
Estonia	:	:	7.9	-0.9	2.0	4.3	4.4	4.6	2.9	2.4	2.7	:	2.0
Cyprus	:	:	-0.6	4.9	2.5	3.8	3.7	1.6	1.6	1.0	2.0	:	1.7
Latvia	:	:	5.6	-2.9	-2.2	-0.4	4.9	1.2	6.9	1.3	3.7	:	0.8
Lithuania	:	:	9.5	-7.6	-6.0	-1.2	0.9	0.3	2.2	0.7	2.6	:	2.4
Hungary	:	:	11.9	10.9	11.9	9.0	12.3	5.3	5.2	3.8	3.7	:	2.9
Malta	:	:	3.1	9.4	10.4	-0.9	0.3	-0.4	0.2	0.6	1.2	:	1.4
Poland	:	:	12.7	5.2	11.5	-1.6	0.0	-1.1	-1.3	0.9	1.1	:	2.0
Slovenia	:	:	6.2	11.1	9.2	6.0	4.8	3.3	2.2	3.1	2.2	:	1.8
Slovakia	:	:	6.1	7.7	3.0	3.9	7.6	3.0	4.7	2.6	2.7	:	2.2
Sweden	7.1	1.8	2.2	5.5	5.5	0.8	0.5	0.6	-0.9	1.3	0.9	:	2.0
United Kingdom	8.2	2.3	2.9	3.0	3.7	2.9	2.7	2.3	2.6	2.5	2.8	:	2.7
EU-25	:	:	1.7	1.9	3.2	2.3	2.3	1.3	0.9	1.3	1.6	:	1.6
EU-15	6.7	3.0	1.4	1.8	2.9	2.4	2.3	1.3	1.0	1.3	1.5	:	1.6
USA	4.6	2.1	2.1	3.9	1.5	0.4	0.9	0.0	0.8	1.6	2.8	:	2.5
Japan	4.8	1.2	-1.2	-2.7	-1.5	-3.1	-3.3	-1.8	-4.3	-1.1	-2.4	:	-2.0

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.TABLE 26 : Real unit labour costs ¹ (percentage change on preceding year, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	0.2	-0.4	-0.7	-1.1	2.6	0.7	-0.6	-0.5	-1.4	-0.1	-1.3	:	-0.9
Germany	0.0	-0.1	-0.4	1.2	0.0	-0.7	-0.4	-1.1	-2.7	-0.1	-0.8	:	-0.5
Greece	-1.1	-2.3	0.0	-1.8	-2.8	1.4	-2.5	0.7	0.8	0.7	0.0	:	-0.2
Spain	-0.1	-0.2	-0.4	-0.6	-0.6	-0.8	-0.5	-0.8	-0.7	-1.0	-0.2	:	-0.7
France	-0.1	-0.7	-0.4	-0.1	0.7	-0.1	0.4	-1.0	-1.2	-1.0	-0.5	:	-0.3
Ireland	-0.4	-1.2	-2.6	-1.4	-1.0	-3.7	1.4	0.1	-0.4	-1.5	-0.7	:	-0.7
Italy	-0.1	-1.7	-1.1	-0.4	0.4	0.4	1.0	-0.1	0.1	-0.5	-0.1	:	-0.5
Luxembourg	0.2	-0.1	-2.5	-2.5	6.1	3.1	-1.0	-1.5	-0.9	-1.3	-0.3	:	-0.6
Netherlands	0.2	0.0	-0.2	-0.8	0.1	2.3	0.8	-0.8	-1.6	-1.4	-1.2	:	-1.1
Austria	-0.3	-0.1	-1.1	-1.9	-0.6	-0.7	-0.2	-0.3	0.0	-0.3	-0.4	:	-0.2
Portugal	-0.1	1.8	0.5	1.9	1.0	-0.2	2.5	-0.7	0.2	-0.9	0.2	:	0.1
Finland	-0.2	-2.1	-1.1	-2.2	2.1	-0.3	1.3	0.4	0.2	-0.2	0.0	:	0.1
Euro area	-0.2	-0.5	-0.6	-0.1	0.2	-0.1	0.2	-0.8	-1.3	-0.6	-0.6	:	-0.5
Czech Republic	:	:	0.7	-0.1	0.3	3.4	1.6	-2.4	-3.0	-2.5	0.8	:	-0.1
Denmark	0.0	-1.2	0.0	-1.3	1.2	0.2	-0.1	-0.6	-0.4	-0.1	-0.5	:	-0.2
Estonia	:	:	-2.3	-5.9	-3.5	-0.1	2.0	0.9	-0.9	-1.2	-1.2	:	-1.0
Cyprus	:	:	-3.2	0.4	0.3	1.0	-1.5	-0.9	-1.4	-1.3	-0.8	:	-0.8
Latvia	:	:	-1.2	-6.5	-4.2	-3.7	1.5	-0.8	0.1	-0.5	-2.8	:	-4.0
Lithuania	:	:	1.6	-8.6	-5.9	-1.2	1.7	-1.1	0.5	-1.7	-0.3	:	-0.8
Hungary	:	:	-1.9	0.9	3.1	0.1	4.3	-1.1	-0.9	-1.4	-0.5	:	-1.0
Malta	:	:	1.1	7.8	5.2	-1.2	-3.8	-1.5	-3.1	-0.9	-1.1	:	-0.7
Poland	:	:	1.2	-1.5	7.2	-2.9	-0.5	-3.1	-4.0	-1.7	-1.7	:	-1.2
Slovenia	:	:	-1.4	5.1	0.1	-1.9	-0.6	-0.2	-1.9	-0.4	-1.2	:	-1.2
Slovakia	:	:	-0.1	-0.7	-1.1	-0.1	2.8	-2.3	0.7	0.1	0.4	:	0.6
Sweden	0.0	-1.9	1.0	4.1	3.2	-0.7	-1.7	-1.2	-1.9	-0.8	-1.0	:	0.1
United Kingdom	0.1	-1.1	0.4	1.7	1.4	-0.3	-0.3	-0.5	0.2	-0.1	0.5	:	0.6
EU-25	:	:	-0.3	0.3	0.7	-0.3	0.1	-0.8	-1.1	-0.5	-0.4	:	-0.3
EU-15	-0.2	-0.6	-0.4	0.3	0.6	-0.2	0.1	-0.7	-1.0	-0.5	-0.4	:	-0.3
USA	0.0	-0.4	0.4	1.7	-0.9	-1.2	-0.9	-1.0	-1.4	0.7	0.2	:	0.3
Japan	-0.4	0.3	-0.4	-0.7	0.0	-2.0	-0.8	-0.8	-1.7	-0.7	-0.8	:	-1.4

¹ Nominal unit labour costs divided by GDP price deflator.

TABLE 27 : Total population (percentage change on preceding year, 1961-2006)

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	0.3	0.3	0.2	0.2	0.3	0.5	0.4	0.2	0.2	0.2	0.2	:	0.2
Germany	0.4	0.7	0.1	0.1	0.2	0.2	0.0	0.1	0.0	0.1	0.1	:	0.0
Greece	0.7	0.9	0.5	0.3	0.2	0.1	0.6	0.2	0.2	0.2	0.2	:	0.2
Spain	0.8	0.2	0.4	0.8	0.8	0.7	0.6	0.6	0.6	0.5	0.5	:	0.5
France	0.7	0.4	0.4	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	:	0.3
Ireland	0.7	0.5	1.1	1.3	1.5	1.7	1.6	1.1	1.6	0.9	1.4	:	1.3
Italy	0.4	0.2	0.2	0.2	0.2	0.4	0.8	0.2	0.6	0.2	0.2	:	0.1
Luxembourg	0.7	1.4	1.4	1.4	0.7	1.1	1.0	1.0	0.9	0.9	0.9	:	0.9
Netherlands	0.9	0.7	0.6	0.7	0.8	0.6	0.7	0.5	0.4	0.3	0.3	:	0.3
Austria	0.3	0.7	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.5	:	0.5
Portugal	0.4	0.2	0.4	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	:	0.6
Finland	0.4	0.5	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	:	0.2
Euro area	0.6	0.4	0.3	0.4	0.4	0.4	0.5	0.3	0.4	0.3	0.3	:	0.3
Czech Republic	0.2	-0.1	-0.1	-0.1	-0.5	-0.2	0.0	0.0	-0.1	-0.1	-0.1	:	-0.1
Denmark	0.4	0.3	0.4	0.3	0.4	0.4	0.3	0.0	0.1	0.1	0.2	:	0.1
Estonia	0.8	-1.6	-1.1	-0.5	-0.4	-0.4	-0.4	-0.2	-0.4	-0.2	-0.4	:	-0.4
Cyprus	:	2.3	1.3	1.1	1.1	1.3	1.1	0.6	0.8	0.6	0.8	:	0.8
Latvia	0.8	-1.4	-0.9	-0.7	-0.8	-0.7	-0.6	-0.2	-0.5	-0.2	-0.2	:	-0.2
Lithuania	1.0	-0.4	-0.7	-0.7	-0.5	-0.3	-0.4	-0.3	-0.1	-0.3	-0.1	:	0.0
Hungary	0.1	-0.1	-0.2	-0.3	-0.2	-0.3	-0.3	-0.4	-0.3	-0.3	-0.2	:	-0.2
Malta	0.3	1.0	0.6	0.6	0.8	0.7	0.6	0.5	0.5	0.5	0.5	:	0.5
Poland	0.9	0.2	0.0	0.0	-1.0	0.0	-0.1	0.0	-0.1	0.0	-0.1	:	-0.1
Slovenia	0.8	-0.1	0.0	0.3	0.1	0.2	0.1	0.0	0.0	0.0	0.0	:	0.0
Slovakia	0.9	0.3	0.1	0.1	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	:	0.0
Sweden	0.5	0.6	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.5	:	0.5
United Kingdom	0.3	0.2	0.2	0.3	0.7	0.3	0.9	0.3	0.4	0.3	0.4	:	0.4
EU-25	:	:	0.2	0.3	0.3	0.3	0.4	0.2	0.3	0.2	0.2	:	0.2
EU-15	0.5	0.4	0.3	0.4	0.5	0.4	0.5	0.3	0.4	0.3	0.3	:	0.3
USA	1.1	1.3	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	:	1.0
Japan	0.9	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.1	0.0	:	0.0

TABLE 28 : Total employment (percentage change on preceding year, 1961-2006)

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

TABLE 29 : Number of unemployed (as a percentage of civilian labour force, 1964-2006) ¹

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1964-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	5.7	8.3	8.7	6.9	6.7	7.3	8.0	8.3	8.2	7.9	8.1	:	7.9
Germany	3.2	7.1	8.7	7.8	7.8	8.7	9.6	9.1	9.7	8.8	10.0	:	9.6
Greece	4.5	8.3	10.6	11.0	10.4	10.0	9.3	8.4	8.5	8.0	9.0	:	9.0
Spain	6.8	17.1	14.9	11.3	10.6	11.3	11.3	10.9	11.1	10.5	10.8	:	10.6
France	5.3	10.6	10.8	9.1	8.4	8.9	9.4	9.6	9.6	9.4	9.5	:	9.3
Ireland	9.7	14.5	7.8	4.3	3.9	4.3	4.6	5.0	4.4	4.9	4.4	:	4.3
Italy	6.7	10.0	11.3	10.4	9.4	9.0	8.6	8.6	8.3	8.5	8.1	:	8.0
Luxembourg	1.1	2.5	2.6	2.3	2.1	2.8	3.7	4.7	4.3	5.0	4.6	:	4.4
Netherlands	4.9	6.1	4.2	2.9	2.5	2.7	3.8	5.3	4.6	6.0	5.0	:	4.4
Austria	2.1	3.7	4.2	3.7	3.6	4.2	4.3	4.5	4.2	4.3	3.9	:	3.4
Portugal	5.2	5.7	5.6	4.1	4.0	5.0	6.3	6.8	6.3	6.7	6.2	:	6.1
Finland	3.9	13.3	11.7	9.8	9.1	9.1	9.0	8.9	8.8	8.6	8.6	:	8.3
Euro area	5.1	9.6	9.9	8.4	8.0	8.4	8.9	8.8	8.9	8.6	8.9	:	8.6
Czech Republic	:	:	6.4	8.7	8.0	7.3	7.8	8.2	8.3	8.2	8.2	:	8.0
Denmark	4.1	8.1	5.1	4.4	4.3	4.6	5.6	5.8	5.8	5.3	5.3	:	4.9
Estonia	:	5.8	10.5	12.5	11.8	9.5	10.1	9.7	9.7	9.6	9.4	:	9.1
Cyprus	:	:	5.0	5.2	4.4	3.9	4.4	4.1	4.2	4.0	4.0	:	3.7
Latvia	:	9.8	15.6	13.7	12.9	12.6	10.5	10.3	9.9	10.1	9.7	:	9.4
Lithuania	:	9.1	13.9	16.4	16.4	13.5	12.7	11.5	11.4	10.7	10.6	:	9.9
Hungary	:	:	8.0	6.3	5.6	5.6	5.8	5.7	5.8	5.6	5.9	:	6.0
Malta	:	5.3	6.7	7.0	6.7	7.5	8.2	8.6	8.6	8.1	8.5	:	8.4
Poland	:	:	12.6	16.4	18.5	19.8	19.2	19.6	19.0	19.3	18.7	:	18.1
Slovenia	:	:	7.0	6.6	5.8	6.1	6.5	6.4	6.3	6.2	6.1	:	5.8
Slovakia	:	:	14.5	18.7	19.4	18.7	17.5	16.5	18.4	15.9	17.9	:	17.2
Sweden	2.2	7.2	8.0	5.6	4.9	4.9	5.6	6.1	6.3	5.8	5.8	:	5.0
United Kingdom	5.4	9.2	6.5	5.4	5.0	5.1	5.0	5.0	4.9	5.0	4.9	:	4.9
EU-25	:	:	9.6	8.7	8.5	8.9	9.1	9.0	9.1	8.8	9.1	:	8.8
EU-15	5.1	9.5	9.2	7.8	7.4	7.7	8.1	8.1	8.1	7.9	8.1	:	7.9
USA	6.1	6.5	4.6	4.0	4.8	5.8	6.0	5.6	5.5	5.6	5.5	:	5.4
Japan	1.9	2.6	4.1	4.7	5.0	5.4	5.3	4.8	4.8	4.7	4.7	:	4.6

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

TABLE 30 : Nominal bilateral exchange rates against Ecu/euro (1970-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	44.45	40.50	40.23	40.34	40.34	:	:	:	:	:	:	:	:
Germany	2.64	1.96	1.95	1.96	1.96	:	:	:	:	:	:	:	:
Greece	80.44	266.37	321.61	336.63	340.75	:	:	:	:	:	:	:	:
Spain	102.29	146.41	165.32	166.39	166.39	:	:	:	:	:	:	:	:
France	6.17	6.71	6.57	6.56	6.56	:	:	:	:	:	:	:	:
Ireland	0.64	0.79	0.78	0.79	0.79	:	:	:	:	:	:	:	:
Italy	1137.90	1803.04	1940.89	1936.27	1936.27	:	:	:	:	:	:	:	:
Luxembourg	44.45	40.50	40.23	40.34	40.34	:	:	:	:	:	:	:	:
Netherlands	2.83	2.20	2.20	2.20	2.20	:	:	:	:	:	:	:	:
Austria	18.83	13.80	13.73	13.76	13.76	:	:	:	:	:	:	:	:
Portugal	84.58	186.94	199.40	200.48	200.48	:	:	:	:	:	:	:	:
Finland	4.77	5.88	5.92	5.95	5.95	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	:	34.89	35.78	35.60	34.07	30.80	31.85	32.91	31.99	33.32	31.82	:	32.19
Denmark	7.65	7.64	7.45	7.45	7.45	7.43	7.43	7.46	7.44	7.46	7.46	:	7.46
Estonia	:	:	15.61	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	:	15.65
Cyprus	0.48	0.58	0.58	0.57	0.58	0.58	0.58	0.59	0.58	0.59	0.58	:	0.58
Latvia	:	:	0.64	0.56	0.56	0.58	0.64	0.67	0.66	0.67	0.67	:	0.67
Lithuania	:	:	4.41	3.70	3.58	3.46	3.45	3.45	3.45	3.45	3.45	:	3.45
Hungary	:	142.43	231.76	260.04	256.59	242.96	253.62	261.49	251.80	261.49	246.40	:	246.40
Malta	0.43	0.43	0.43	0.40	0.40	0.41	0.43	0.43	0.43	0.43	0.43	:	0.43
Poland	:	2.60	3.86	4.01	3.67	3.86	4.40	4.81	4.55	4.82	4.38	:	4.44
Slovenia	:	116.46	187.96	206.61	217.98	225.98	233.85	240.32	239.10	248.44	239.60	:	239.60
Slovakia	:	:	40.66	42.60	43.30	42.69	41.49	41.08	40.17	41.50	40.22	:	40.22
Sweden	6.05	8.53	8.67	8.45	9.26	9.16	9.12	9.18	9.13	9.21	9.05	:	9.05
United Kingdom	0.59	0.76	0.69	0.61	0.62	0.63	0.69	0.68	0.68	0.69	0.69	:	0.69
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.11	1.24	1.10	0.92	0.90	0.95	1.13	1.25	1.23	1.24	1.24	:	1.24
Japan	262.44	141.04	128.47	99.47	108.68	118.06	130.97	133.42	134.30	130.31	133.90	:	130.10

TABLE 31 : Nominal effective exchange rates to rest of a group ¹ of industrialised countries (percentage change on preceding year, 1970-2006) 18.10.2004

	long-term		2004										2005		2006	
	average 1970-90	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of				
		1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004			
Belgium	:	:	-1.6	-3.3	1.2	1.2	4.2	1.2	1.0	0.0	0.3	:	:			
Germany	:	:	-1.5	-4.4	1.3	1.8	6.1	2.1	1.8	-0.1	0.3	:	:			
Greece	:	:	0.3	-5.1	3.0	2.5	5.2	1.3	1.4	0.0	0.6	:	:			
Spain	:	:	-1.1	-3.1	1.4	1.4	4.5	1.4	1.2	0.0	0.3	:	:			
France	:	:	-1.1	-4.1	1.3	1.7	5.5	1.8	1.5	-0.1	0.3	:	:			
Ireland	:	:	-1.5	-5.6	1.0	2.0	7.4	2.3	1.7	0.0	0.5	:	:			
Italy	:	:	1.9	-3.8	1.7	2.1	5.8	2.0	1.8	-0.1	0.4	:	:			
Luxembourg	:	:	-1.6	-3.3	1.2	1.2	4.2	1.2	1.0	0.0	0.3	:	:			
Netherlands	:	:	-1.5	-2.9	1.1	1.1	3.9	1.1	0.8	0.0	0.3	:	:			
Austria	:	:	-0.4	-2.3	0.8	1.0	3.8	1.2	1.1	-0.1	0.2	:	:			
Portugal	:	:	-1.1	-2.7	0.7	0.9	3.6	1.1	0.8	0.0	0.3	:	:			
Finland	:	:	-1.8	-4.3	2.0	1.6	5.7	2.0	1.6	-0.1	0.2	:	:			
Euro area	:	:	-1.3	-7.8	3.0	3.2	10.9	4.2	2.8	-0.2	0.6	:	:			
Czech Republic	:	:	0.4	1.7	5.2	11.6	-0.2	-1.9	0.3	-1.0	0.6	:	:			
Denmark	:	:	-1.3	-4.4	1.7	1.4	4.8	1.4	1.2	-0.1	-0.2	:	:			
Estonia	:	:	-0.8	-3.4	1.7	0.6	3.1	1.5	0.9	0.1	0.0	:	:			
Cyprus	:	:	6.8	-2.7	2.2	1.9	4.1	1.2	1.4	0.4	1.6	:	:			
Latvia	:	:	4.2	7.5	1.0	-3.0	-5.9	-3.5	-2.6	0.4	-1.2	:	:			
Lithuania	:	:	8.7	12.3	4.6	5.1	5.3	1.9	1.1	0.4	0.3	:	:			
Hungary	:	:	-7.8	-4.7	2.4	6.9	-0.9	-1.7	1.6	0.3	2.5	:	:			
Malta	:	:	-0.1	-1.8	0.7	1.1	3.0	2.7	2.0	-0.4	-0.1	:	:			
Poland	:	:	-4.2	3.3	10.3	-4.2	-10.1	-7.6	-2.9	0.0	4.2	:	:			
Slovenia	:	:	-4.9	-7.2	-4.3	-2.7	-0.6	-1.5	-1.5	-3.1	-0.1	:	:			
Slovakia	:	:	-0.7	2.0	-1.6	1.6	5.8	2.5	4.0	-0.8	-0.2	:	:			
Sweden	:	:	1.1	-0.1	-7.7	2.4	6.4	1.8	1.8	-0.5	1.1	:	:			
United Kingdom	:	:	5.4	3.1	-1.0	1.0	-3.7	4.1	4.7	-1.9	-1.7	:	:			
EU-25	:	:	1.7	-8.0	4.2	6.0	12.5	6.6	5.9	-0.2	0.8	:	:			
EU-15	:	:	1.1	-7.5	2.2	4.2	11.0	6.9	4.9	-1.1	0.1	:	:			
USA	:	:	5.2	4.8	5.5	-0.9	-9.1	-7.0	-5.6	0.6	-1.0	:	:			
Japan	:	:	0.7	12.0	-9.1	-5.1	-0.1	3.2	1.6	2.2	0.8	:	:			

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

TABLE 32 : Relative unit labour costs, to rest of a group ¹ of industrialised countries (nat. curr.) (percentage change on preceding year, 1963-2006)

	long-term		2004										2005		2006	
	average 1963-90	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of				
		1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004			
Belgium	:	:	-1.4	-2.1	1.1	0.3	-0.8	0.3	0.0	0.4	-0.8	:	:			
Germany	:	:	-3.0	-1.9	-2.5	-1.6	-1.9	-1.1	-2.9	-0.7	-1.8	:	:			
Greece	:	:	-0.8	-2.6	-5.0	2.0	-2.3	3.6	2.8	2.5	0.8	:	:			
Spain	:	:	0.0	0.2	-0.1	1.2	1.0	1.9	2.1	1.0	1.7	:	:			
France	:	:	-1.8	-1.8	-1.0	0.0	-0.4	-0.4	-0.3	-0.9	-0.6	:	:			
Ireland	:	:	-0.6	1.0	1.7	-1.1	1.1	1.2	1.9	-0.5	0.0	:	:			
Italy	:	:	-1.4	-1.1	-0.6	1.2	1.6	1.4	2.1	0.1	0.3	:	:			
Luxembourg	:	:	-1.4	-2.1	1.1	0.3	-0.8	0.3	0.0	0.4	-0.8	:	:			
Netherlands	:	:	-0.2	0.9	2.2	3.4	1.8	-0.5	-1.4	-2.4	-2.0	:	:			
Austria	:	:	-3.1	-2.8	-2.2	-1.6	-1.1	0.3	0.5	-0.5	-0.9	:	:			
Portugal	:	:	2.1	3.2	2.2	2.0	2.6	0.5	1.2	-0.2	0.7	:	:			
Finland	:	:	-2.2	-1.8	1.6	-1.2	-0.6	-0.1	0.0	-0.2	-0.5	:	:			
Euro area	:	:	-4.4	-2.9	-2.0	-0.2	-0.9	0.0	-1.2	-1.2	-1.7	:	:			
Czech Republic	:	:	4.2	-1.4	1.9	4.3	1.2	:	1.3	:	2.5	:	:			
Denmark	:	:	-0.1	-0.7	0.1	0.1	0.4	0.7	1.1	0.6	0.1	:	:			
Estonia	:	:	4.2	-3.0	-1.5	2.8	2.4	:	2.1	:	1.2	:	:			
Cyprus	:	:	-6.6	1.0	-1.2	0.8	1.2	:	0.1	:	-0.1	:	:			
Latvia	:	:	1.6	-5.0	-5.2	-2.2	2.9	:	6.2	:	2.1	:	:			
Lithuania	:	:	4.5	-10.0	-9.5	-3.3	-1.6	:	1.0	:	0.8	:	:			
Hungary	:	:	8.2	8.2	8.4	6.6	8.0	:	4.7	:	2.2	:	:			
Malta	:	:	1.1	7.3	8.1	-2.3	-1.2	:	-0.2	:	-0.3	:	:			
Poland	:	:	9.8	2.8	8.2	-3.8	-2.2	:	-1.7	:	-0.3	:	:			
Slovenia	:	:	3.1	8.2	5.3	3.6	2.4	:	1.4	:	0.6	:	:			
Slovakia	:	:	2.0	5.1	-0.7	1.5	5.1	:	4.1	:	1.2	:	:			
Sweden	:	:	-0.4	2.9	2.1	-1.1	-1.4	-0.2	-1.5	0.0	-0.6	:	:			
United Kingdom	:	:	0.6	0.5	0.6	1.1	0.8	1.7	2.2	1.3	1.3	:	:			
EU-25	:	:	-5.5	-3.3	-1.7	-0.1	-0.8	:	-0.5	:	-1.6	:	:			
EU-15	:	:	-5.0	-2.9	-2.0	-0.1	-1.0	0.8	-0.7	-0.7	-1.5	:	:			
USA	:	:	-0.3	2.6	-0.9	-1.6	-1.0	-1.2	0.6	0.4	1.9	:	:			
Japan	:	:	-3.5	-5.7	-4.1	-4.5	-5.0	-2.5	-5.2	-2.7	-4.5	:	:			

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

TABLE 33 : Real effective exchange rate : ulc relative to rest of a group ¹ of industrialised countries (usd) (% change on preceding year, 1963-2006) 18.10.2004

	long-term		2004										2005		2006	
	average	5-year average	2004					estimate of					forecast of		forecast of	
	1963-90	1991-95	1996-00	2000	2001	2002	2003	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	
Belgium	:	:	-2.9	-5.4	2.4	1.5	3.3	1.5	0.9	0.4	-0.5	:	:			
Germany	:	:	-4.4	-6.2	-1.3	0.2	4.0	1.0	-1.2	-0.8	-1.5	:	:			
Greece	:	:	-0.5	-7.6	-2.1	4.6	2.8	5.0	4.2	2.5	1.4	:	:			
Spain	:	:	-1.1	-2.9	1.3	2.7	5.5	3.3	3.3	1.0	2.0	:	:			
France	:	:	-2.9	-5.9	0.3	1.7	5.1	1.4	1.2	-1.0	-0.2	:	:			
Ireland	:	:	-2.1	-4.7	2.7	0.9	8.5	3.5	3.6	-0.5	0.6	:	:			
Italy	:	:	0.4	-4.9	1.1	3.3	7.5	3.4	3.9	0.0	0.7	:	:			
Luxembourg	:	:	-2.9	-5.4	2.4	1.5	3.3	1.5	0.9	0.4	-0.5	:	:			
Netherlands	:	:	-1.7	-2.1	3.4	4.5	5.8	0.6	-0.6	-2.4	-1.7	:	:			
Austria	:	:	-3.5	-5.1	-1.4	-0.6	2.7	1.6	1.6	-0.6	-0.7	:	:			
Portugal	:	:	1.0	0.4	2.9	2.9	6.4	1.6	2.1	-0.1	1.0	:	:			
Finland	:	:	-4.0	-6.0	3.6	0.3	5.1	1.9	1.7	-0.3	-0.3	:	:			
Euro area	:	:	-5.6	-10.4	0.9	3.0	9.9	4.2	1.6	-1.3	-1.1	:	:			
Czech Republic	:	:	4.6	0.2	7.1	16.4	1.0	:	1.6	:	3.1	:	:			
Denmark	:	:	-1.4	-5.1	1.8	1.4	5.3	2.1	2.3	0.5	-0.1	:	:			
Estonia	:	:	3.3	-6.3	0.1	3.4	5.6	:	3.0	:	1.3	:	:			
Cyprus	:	:	-0.3	-1.7	0.9	2.7	5.4	:	1.5	:	1.5	:	:			
Latvia	:	:	5.9	2.1	-4.2	-5.1	-3.2	:	3.4	:	0.9	:	:			
Lithuania	:	:	13.6	1.1	-5.4	1.6	3.5	:	2.0	:	1.0	:	:			
Hungary	:	:	-0.3	3.1	11.1	14.0	7.1	:	6.4	:	4.7	:	:			
Malta	:	:	1.0	5.3	8.9	-1.2	1.7	:	1.7	:	-0.4	:	:			
Poland	:	:	5.2	6.2	19.4	-7.9	-12.0	:	-4.6	:	3.9	:	:			
Slovenia	:	:	-1.9	0.4	0.8	0.8	1.7	:	-0.1	:	0.5	:	:			
Slovakia	:	:	1.3	7.1	-2.3	3.2	11.2	:	8.3	:	0.9	:	:			
Sweden	:	:	0.6	2.8	-5.8	1.3	4.9	1.6	0.3	-0.6	0.5	:	:			
United Kingdom	:	:	6.0	3.7	-0.4	2.0	-2.9	5.9	7.0	-0.6	-0.5	:	:			
EU-25	:	:	-3.9	-11.0	2.4	5.9	11.6	:	5.3	:	-0.8	:	:			
EU-15	:	:	-4.0	-10.2	0.1	4.1	10.0	7.8	4.1	-1.8	-1.4	:	:			
USA	:	:	4.9	7.5	4.5	-2.5	-9.9	-8.1	-5.0	0.9	0.9	:	:			
Japan	:	:	-2.8	5.6	-12.8	-9.4	-5.1	0.5	-3.7	-0.6	-3.7	:	:			

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

TABLE 34 : Short term interest rates (1961-2004)

	long-term												
	average	5-year average											
	1961-90	1991-95	1996-00	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Belgium	7.9	7.4	3.5	4.7	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1
Germany	6.2	7.1	3.5	4.5	3.3	3.3	3.5	3.0	4.4	4.3	3.3	2.3	2.1
Greece	:	22.1	11.7	16.4	13.8	12.8	14.0	10.1	7.7	4.3	3.3	2.3	2.1
Spain	:	11.1	4.9	9.4	7.5	5.4	4.3	3.0	4.4	4.3	3.3	2.3	2.1
France	8.3	8.2	3.7	6.6	3.9	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1
Ireland	:	8.8	4.9	6.3	5.4	6.1	5.5	3.0	4.4	4.3	3.3	2.3	2.1
Italy	10.0	11.0	5.5	10.3	8.7	6.8	4.9	3.0	4.4	4.3	3.3	2.3	2.1
Luxembourg	7.9	7.4	3.5	4.7	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1
Netherlands	5.9	7.0	3.4	4.4	3.0	3.3	3.4	3.0	4.4	4.3	3.3	2.3	2.1
Austria	:	7.0	3.6	4.5	3.3	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1
Portugal	:	13.6	5.0	9.8	7.4	5.7	4.3	3.0	4.4	4.3	3.3	2.3	2.1
Finland	:	9.0	3.6	5.8	3.6	3.2	3.6	3.0	4.4	4.3	3.3	2.3	2.1
Euro area	8.0	9.1	4.3	7.0	5.2	4.5	4.2	3.1	4.5	4.3	3.3	2.3	2.1
Czech Republic	:	:	10.9	11.0	12.0	16.0	14.3	6.9	5.4	5.2	3.5	2.3	2.4
Denmark	9.7	8.7	4.0	6.1	3.9	3.7	4.1	3.4	5.0	4.7	3.5	2.4	2.2
Estonia	:	:	8.8	:	8.1	8.6	13.9	7.8	5.7	5.3	3.9	2.9	2.5
Cyprus	:	:	:	:	:	:	:	6.3	6.4	5.9	4.4	3.9	4.7
Latvia	:	:	:	:	:	6.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2
Lithuania	:	:	:	:	:	:	:	13.9	8.6	5.9	3.7	2.8	2.7
Hungary	:	:	17.8	31.3	24.3	20.4	17.9	15.1	11.4	10.9	9.2	8.5	11.4
Malta	:	:	5.1	4.8	5.0	5.1	5.4	5.2	4.9	4.9	4.0	3.3	3.0
Poland	:	:	19.8	27.6	21.4	23.7	20.4	14.7	18.8	16.1	9.0	5.7	6.0
Slovenia	:	:	:	:	:	:	10.3	8.6	10.9	10.9	8.0	6.8	4.7
Slovakia	:	:	15.8	8.4	11.9	21.8	21.1	15.7	8.6	7.8	7.8	6.2	4.8
Sweden	:	10.1	4.4	8.9	5.9	4.5	4.3	3.3	4.1	4.1	4.2	3.2	2.3
United Kingdom	9.7	7.9	6.4	6.7	6.0	6.8	7.3	5.5	6.2	5.0	4.1	3.7	4.6
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	8.4	8.9	4.6	7.0	5.4	4.9	4.7	3.5	4.7	4.4	3.5	2.6	2.0
USA	6.6	4.6	5.7	6.0	5.5	5.7	5.5	5.4	6.5	3.8	1.8	1.2	1.6
Japan	:	3.6	0.5	1.2	0.6	0.6	0.8	0.2	0.3	0.2	0.1	0.1	0.1

TABLE 35 : Long term interest rates (1961-2004)

18.10.2004

	long-term		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
	average 1961-90	5-year average 1991-95 1996-00											
Belgium	8.5	8.1	5.5	7.5	6.5	5.8	4.8	4.8	5.6	5.1	5.0	4.2	4.3
Germany	7.5	7.3	5.2	6.9	6.2	5.6	4.6	4.5	5.3	4.8	4.8	4.1	4.2
Greece	:	:	9.1	17.0	14.5	9.9	8.5	6.3	6.1	5.3	5.1	4.3	4.4
Spain	:	11.1	6.0	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.3
France	9.4	7.8	5.3	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.3
Ireland	:	8.4	5.7	8.3	7.3	6.3	4.8	4.7	5.5	5.0	5.0	4.1	4.3
Italy	11.0	12.1	6.3	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.4
Luxembourg	:	7.5	5.4	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.9	4.1	3.0
Netherlands	7.5	7.4	5.3	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.3
Austria	:	7.5	5.4	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.4
Portugal	:	12.3	6.0	11.5	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.3
Finland	9.9	10.1	5.6	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.3
Euro area	9.1	9.1	5.7	8.9	7.4	6.1	4.8	4.7	5.4	5.0	4.9	4.1	4.2
Czech Republic	:	:	:	:	:	:	:	:	6.9	6.3	4.9	4.1	5.0
Denmark	12.0	8.3	5.8	8.3	7.2	6.3	4.9	4.9	5.6	5.1	5.1	4.3	4.5
Estonia	:	:	:	:	:	:	13.2	11.4	10.5	10.2	8.4	5.3	4.5
Cyprus	:	:	:	:	6.9	6.7	7.4	7.6	7.7	7.7	5.4	4.7	5.8
Latvia	:	:	:	:	:	:	:	:	7.6	5.4	4.9	5.0	
Lithuania	:	:	:	:	:	:	:	:	8.2	6.1	5.3	4.6	
Hungary	:	:	:	:	:	:	9.9	8.6	7.9	7.1	6.8	8.4	
Malta	:	:	:	:	:	:	:	5.8	6.1	5.7	5.0	4.7	
Poland	:	:	:	:	:	:	9.5	11.8	10.7	7.3	5.8	7.2	
Slovenia	:	:	:	:	:	:	:	:	:	:	6.4	4.8	
Slovakia	:	:	:	:	:	:	:	8.3	8.1	6.9	5.0	5.1	
Sweden	9.1	9.8	6.0	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.6
United Kingdom	10.2	8.6	6.2	8.4	7.9	7.1	5.6	5.0	5.3	5.0	4.9	4.6	5.1
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	9.3	9.1	5.8	8.8	7.5	6.3	4.9	4.7	5.4	5.0	4.9	4.2	3.6
USA	7.4	7.0	6.0	6.7	6.5	6.5	5.3	5.6	6.0	5.0	4.6	4.0	4.3
Japan	:	4.7	2.0	3.3	3.0	2.2	1.3	1.8	1.8	1.3	1.3	1.0	1.6

TABLE 36 : Total expenditure, general government (as a percentage of GDP, 1970-2006) ¹

	long-term		2000	2001	2002	2003	2004		2005		2006		
	average 1970-90	5-year average 1991-95 1996-00					estimate of III-2004 X-2004	forecast of III-2004 X-2004	forecast of III-2004 X-2004				
Belgium	53.0	54.2	50.9	49.2	49.3	50.2	50.9	49.9	50.8	49.4	50.7	:	50.8
Germany	44.8	48.2	48.6	45.7	48.3	48.7	48.8	48.0	47.5	47.1	46.6	:	45.9
Greece	33.2	47.6	48.9	52.0	50.2	49.0	48.2	47.2	49.8	46.9	48.5	:	48.2
Spain	31.6	45.4	41.4	39.9	39.5	39.9	39.6	39.6	40.5	39.5	40.1	:	40.2
France	45.3	53.0	54.0	52.5	52.5	53.5	54.5	54.4	54.2	54.1	53.9	:	53.8
Ireland	42.6	39.6	35.7	32.0	33.5	33.9	34.3	35.1	34.3	34.7	34.0	:	33.6
Italy	44.1	54.6	49.9	46.9	48.7	47.9	48.9	48.7	48.4	48.7	48.1	:	48.7
Luxembourg	:	:	42.1	38.7	38.8	43.1	44.9	48.8	45.5	49.1	46.1	:	46.2
Netherlands	51.4	53.0	47.5	45.3	46.6	47.8	48.9	48.6	48.6	48.1	48.4	:	47.7
Austria	46.0	52.1	53.2	51.3	50.7	50.4	50.6	50.7	50.5	49.7	49.5	:	48.5
Portugal	32.8	42.4	45.0	45.1	46.3	45.9	47.7	46.6	46.7	46.9	47.0	:	47.0
Finland	39.2	58.7	54.0	49.1	49.2	50.1	51.0	50.7	50.9	50.1	50.6	:	50.0
Euro area	44.2	50.8	49.4	47.1	48.2	48.5	49.0	48.6	48.5	48.1	48.0	:	47.7
Czech Republic	:	:	42.8	42.1	45.0	46.9	54.5	50.9	46.7	49.2	46.3	:	45.8
Denmark	50.3	59.3	56.6	54.1	54.4	55.0	55.3	55.8	54.7	54.7	53.7	:	52.8
Estonia	:	:	40.3	38.2	36.9	36.6	35.8	42.8	38.8	42.2	39.4	:	38.9
Cyprus	:	:	:	38.7	40.4	41.9	46.1	42.1	45.6	41.7	44.4	:	43.9
Latvia	:	:	39.2	37.9	36.5	35.8	36.0	41.8	36.0	40.4	38.1	:	37.7
Lithuania	:	:	39.5	38.4	35.0	34.3	34.1	37.4	35.7	37.3	36.2	:	35.1
Hungary	:	:	:	47.6	48.7	52.6	49.8	:	48.7	:	47.6	:	46.7
Malta	:	:	:	41.9	43.8	45.5	49.4	45.3	52.4	44.0	50.7	:	49.2
Poland	:	:	47.8	44.2	47.7	48.1	47.6	46.8	51.3	45.7	49.9	:	48.3
Slovenia	:	:	:	48.2	47.9	48.1	48.2	44.0	47.5	44.0	46.8	:	46.3
Slovakia	:	:	60.8	59.9	51.5	50.9	39.2	46.1	38.3	47.0	38.3	:	37.9
Sweden	54.9	64.9	61.3	57.3	57.2	58.1	58.1	58.9	57.3	58.3	56.6	:	56.3
United Kingdom	41.5	42.4	40.3	37.4	40.9	41.7	43.6	41.8	43.4	41.8	43.3	:	43.4
EU-25	:	:	:	45.7	47.2	47.6	48.4	:	48.0	:	47.5	:	47.2
EU-15	44.3	50.2	48.4	45.8	47.2	47.6	48.5	47.8	48.0	47.4	47.5	:	47.3
USA	34.1	36.2	33.4	32.5	33.5	34.3	34.4	34.0	33.8	34.1	33.6	:	33.4
Japan	28.6	33.3	38.9	39.6	39.2	39.8	39.1	38.4	38.2	38.0	38.1	:	37.8

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

TABLE 37 : Total revenue, general government (as a percentage of GDP, 1970-2006) ¹

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	46.2	48.3	49.6	49.4	49.9	50.3	51.3	49.4	50.7	48.6	50.4	:	50.2
Germany	43.0	45.1	46.9	47.1	45.5	45.1	45.0	44.5	43.5	44.3	43.2	:	43.0
Greece	27.5	36.1	44.9	47.9	46.5	45.3	43.6	44.0	44.3	44.1	44.9	:	45.2
Spain	29.4	39.8	38.8	39.1	39.2	39.8	40.0	40.0	39.9	40.1	40.0	:	40.2
France	44.1	48.5	51.4	51.2	50.9	50.2	50.4	50.7	50.5	50.5	50.9	:	50.4
Ireland	34.9	37.5	37.7	36.3	34.5	33.6	34.4	34.3	34.1	33.7	33.4	:	33.1
Italy	34.8	45.5	46.9	46.2	46.0	45.6	46.5	45.4	45.4	44.7	45.1	:	45.0
Luxembourg	:	:	45.7	44.7	45.2	45.9	45.6	46.8	44.7	46.8	44.5	:	44.2
Netherlands	48.5	49.5	47.3	47.5	46.6	45.9	45.8	45.1	45.7	44.8	46.0	:	45.7
Austria	44.2	48.3	50.8	49.8	51.0	50.2	49.5	49.5	49.1	47.7	47.4	:	46.7
Portugal	28.2	37.2	41.6	42.3	41.9	43.2	44.9	43.2	43.8	43.0	43.2	:	43.3
Finland	43.1	53.7	55.4	56.1	54.4	54.4	53.2	52.6	53.2	52.2	52.7	:	52.2
Euro area	40.8	45.8	47.3	47.2	46.5	46.1	46.3	45.8	45.6	45.5	45.5	:	45.2
Czech Republic	:	:	39.2	38.5	39.1	40.2	41.9	45.0	41.9	44.1	41.6	:	41.5
Denmark	50.5	56.7	57.0	55.8	56.4	55.7	55.6	56.9	55.7	56.2	55.3	:	54.6
Estonia	:	:	39.3	37.7	37.2	38.0	38.9	43.4	39.3	42.2	39.6	:	39.0
Cyprus	:	:	:	36.3	38.0	37.3	39.7	37.5	40.4	37.6	41.4	:	41.4
Latvia	:	33.7	37.7	35.1	34.4	33.1	34.5	39.6	34.0	38.4	35.3	:	34.8
Lithuania	:	:	36.4	35.8	33.0	32.8	32.3	34.7	33.2	34.7	33.7	:	33.2
Hungary	:	:	:	44.6	44.3	43.4	43.6	47.1	43.3	46.8	42.5	:	42.0
Malta	:	:	:	35.6	37.4	39.7	39.8	40.2	47.3	40.4	46.7	:	45.9
Poland	:	:	44.8	42.5	43.8	43.9	43.7	40.8	45.6	41.2	45.7	:	45.2
Slovenia	:	:	:	44.7	45.1	45.7	46.2	42.3	45.3	42.3	44.6	:	44.3
Slovakia	:	:	53.5	47.6	45.5	45.2	35.4	42.0	34.4	43.1	34.3	:	33.7
Sweden	55.4	57.6	62.4	62.4	60.0	58.1	58.4	59.1	57.9	58.9	57.2	:	57.1
United Kingdom	39.3	36.7	40.0	41.2	41.5	40.0	40.3	39.1	40.5	39.2	40.7	:	41.0
EU-25	:	:	:	46.5	46.0	45.4	45.6	45.1	45.1	44.9	45.1	:	44.9
EU-15	41.4	45.1	46.8	46.7	46.2	45.5	45.8	45.2	45.3	45.0	45.2	:	45.0
USA	30.7	31.4	33.4	34.2	33.1	30.5	29.8	29.6	29.6	30.0	29.6	:	29.2
Japan	27.7	32.5	32.0	32.2	33.1	31.9	31.6	31.0	31.1	30.8	31.1	:	31.0

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 38 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2006) ¹

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	-6.8	-5.9	-1.3	0.2	0.6	0.1	0.4	-0.5	-0.1	-0.7	-0.3	:	-0.5
Germany	-1.9	-3.1	-1.7	1.3	-2.8	-3.7	-3.8	-3.6	-3.9	-2.8	-3.4	:	-2.9
Greece	-5.7	-11.5	-4.0	-4.1	-3.7	-3.7	-4.6	-3.2	-5.5	-2.8	-3.6	:	-3.0
Spain	-2.4	-5.6	-2.6	-0.9	-0.4	-0.1	0.4	0.4	-0.6	0.6	-0.1	:	0.0
France	-1.2	-4.5	-2.6	-1.4	-1.5	-3.2	-4.1	-3.7	-3.7	-3.6	-3.0	:	-3.3
Ireland	-7.7	-2.1	2.1	4.4	0.9	-0.2	0.1	-0.8	-0.2	-1.0	-0.6	:	-0.5
Italy	-9.1	-9.1	-3.0	-0.6	-2.6	-2.3	-2.4	-3.2	-3.0	-4.0	-3.0	:	-3.6
Luxembourg	:	1.7	3.6	6.0	6.4	2.8	0.8	-2.0	-0.8	-2.3	-1.6	:	-2.0
Netherlands	-3.2	-3.5	-0.2	2.2	-0.1	-1.9	-3.2	-3.5	-2.9	-3.3	-2.4	:	-2.1
Austria	-1.8	-3.9	-2.3	-1.5	0.3	-0.2	-1.1	-1.1	-1.3	-1.9	-2.0	:	-1.7
Portugal	-4.6	-5.2	-3.4	-2.8	-4.4	-2.7	-2.8	-3.4	-2.9	-3.8	-3.7	:	-3.8
Finland	3.9	-5.0	1.3	7.1	5.2	4.3	2.3	2.0	2.3	2.1	2.1	:	2.2
Euro area	-3.3	-5.0	-2.1	0.1	-1.7	-2.4	-2.7	-2.7	-2.9	-2.6	-2.5	:	-2.5
Czech Republic	:	:	-3.6	-3.7	-5.9	-6.8	-12.6	-5.9	-4.8	-5.1	-4.7	:	-4.3
Denmark	-0.5	-2.6	0.4	1.7	2.1	0.7	0.3	1.1	1.0	1.5	1.5	:	1.7
Estonia	:	:	-0.9	-0.6	0.3	1.4	3.1	0.7	0.5	0.0	0.2	:	0.1
Cyprus	:	:	:	-2.4	-2.4	-4.6	-6.4	-4.6	-5.2	-4.1	-3.0	:	-2.4
Latvia	:	0.8	-1.5	-2.8	-2.1	-2.7	-1.5	-2.2	-2.0	-2.0	-2.8	:	-2.9
Lithuania	:	:	-3.2	-2.5	-2.0	-1.5	-1.9	-2.8	-2.6	-2.6	-2.5	:	-1.9
Hungary	:	:	:	-3.0	-4.4	-9.2	-6.2	-4.9	-5.5	-4.3	-5.2	:	-4.7
Malta	:	:	:	-6.2	-6.4	-5.8	-9.6	-5.9	-5.1	-4.5	-4.0	:	-3.3
Poland	:	-3.2	-2.4	-0.7	-3.8	-3.6	-3.9	-6.0	-5.6	-4.5	-4.1	:	-3.1
Slovenia	:	:	:	-3.5	-2.8	-2.4	-2.0	-1.7	-2.3	-1.8	-2.2	:	-1.9
Slovakia	:	:	-7.4	-12.3	-6.0	-5.7	-3.7	-4.1	-3.9	-3.9	-4.0	:	-4.1
Sweden	0.6	-7.3	1.2	5.1	2.8	0.0	0.3	0.2	0.6	0.7	0.6	:	0.8
United Kingdom	-2.2	-5.7	-0.3	3.8	0.7	-1.7	-3.3	-2.8	-2.8	-2.6	-2.6	:	-2.4
EU-25	:	:	:	0.8	-1.2	-2.3	-2.8	-2.7	-2.8	-2.5	-2.4	:	-2.3
EU-15	-2.9	-5.1	-1.6	1.0	-1.1	-2.1	-2.7	-2.6	-2.7	-2.4	-2.4	:	-2.3
USA	-3.4	-4.8	0.0	1.6	-0.4	-3.8	-4.6	-4.5	-4.2	-4.2	-4.0	:	-4.2
Japan	-1.4	-0.9	-6.9	-7.5	-6.1	-7.9	-7.5	-7.4	-7.1	-7.2	-7.0	:	-6.8

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

TABLE 39 : Interest expenditure, general government (as a percentage of GDP, 1970-2006) ¹

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	6.6	10.1	7.6	6.7	6.5	6.0	5.4	5.1	4.9	4.8	4.5	:	4.1
Germany	2.0	3.2	3.6	3.4	3.3	3.1	3.1	3.1	3.1	3.1	3.1	:	3.1
Greece	3.2	12.0	9.4	8.2	7.3	6.3	5.8	5.6	5.5	5.5	5.3	:	5.1
Spain	1.3	4.6	4.2	3.3	3.1	2.8	2.5	2.4	2.4	2.3	2.2	:	2.1
France	1.8	3.3	3.4	3.1	3.1	3.0	2.9	3.0	3.0	3.0	3.0	:	3.0
Ireland	6.2	6.2	3.3	2.0	1.5	1.4	1.3	1.4	1.4	1.4	1.3	:	1.3
Italy	5.6	11.2	8.4	6.5	6.5	5.8	5.3	5.0	5.0	5.2	5.0	:	5.2
Luxembourg	:	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.2	:	0.2
Netherlands	4.3	5.9	4.8	3.8	3.4	3.1	2.9	2.9	2.9	3.0	2.9	:	3.0
Austria	2.4	4.0	3.5	3.5	3.5	3.2	3.0	3.1	3.1	3.1	3.0	:	2.9
Portugal	3.7	6.6	3.9	3.2	3.2	3.0	2.9	2.9	2.7	3.1	2.7	:	2.8
Finland	1.2	3.6	3.6	2.9	2.7	2.2	1.9	1.9	1.8	1.7	1.7	:	1.6
Euro area	3.0	5.4	4.8	4.1	4.0	3.6	3.5	3.4	3.4	3.4	3.3	:	3.3
Czech Republic	:	:	1.1	0.9	1.1	1.5	1.3	1.3	1.2	1.3	1.4	:	1.5
Denmark	4.5	6.8	4.5	3.5	3.3	2.9	2.6	2.5	2.3	2.3	2.2	:	2.1
Estonia	:	:	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	:	0.2
Cyprus	:	:	:	3.5	3.6	3.3	3.5	:	3.5	:	3.5	:	3.5
Latvia	:	:	1.0	1.0	1.0	0.8	0.8	0.8	0.8	0.7	0.8	:	0.9
Lithuania	:	:	1.2	1.7	1.6	1.4	1.3	1.4	1.2	1.3	1.1	:	1.0
Hungary	:	:	:	5.6	4.8	4.1	4.2	4.0	4.4	3.9	4.0	:	3.6
Malta	:	:	:	3.8	3.6	3.9	3.7	2.6	3.8	2.5	3.8	:	3.7
Poland	:	6.0	3.0	2.1	3.0	2.9	3.1	3.2	3.1	3.3	3.1	:	3.1
Slovenia	:	:	:	2.4	2.4	2.3	2.1	1.7	2.0	1.6	1.9	:	1.8
Slovakia	:	:	2.9	4.1	4.0	3.6	2.5	2.7	2.3	2.9	2.4	:	2.3
Sweden	4.2	5.8	5.4	4.1	3.2	2.9	1.9	2.3	2.1	2.4	2.2	:	2.3
United Kingdom	4.2	3.0	3.3	2.7	2.4	2.0	2.0	2.0	2.0	2.1	2.0	:	2.0
EU-25	:	:	:	3.8	3.6	3.3	3.1	:	3.0	:	3.0	:	3.0
EU-15	3.2	5.1	4.5	3.8	3.6	3.3	3.2	3.1	3.1	3.1	3.0	:	3.0
USA	3.6	4.9	4.2	3.7	3.4	3.0	2.8	2.8	2.7	2.9	2.7	:	2.7
Japan	2.7	3.6	3.4	3.3	3.2	3.0	2.9	3.0	3.0	3.0	3.1	:	3.3

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 40 : Primary balance, general government (as a percentage of GDP, 1970-2006) ^{1,2}

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	-0.2	4.2	6.3	6.9	7.2	6.1	5.7	4.7	4.8	4.1	4.2	:	3.6
Germany	0.2	0.1	1.9	4.7	0.4	-0.5	-0.7	-0.4	-0.8	0.3	-0.3	:	0.2
Greece	-2.4	0.5	5.4	4.0	3.6	2.6	1.2	2.4	0.0	2.7	1.6	:	2.1
Spain	-1.1	-1.0	1.6	2.4	2.8	2.7	2.9	2.8	1.7	2.9	2.1	:	2.0
France	0.5	-1.2	0.9	1.7	1.6	-0.2	-1.2	-0.6	-0.7	-0.5	-0.1	:	-0.4
Ireland	-1.5	4.1	5.4	6.4	2.4	1.1	1.4	0.6	1.2	0.3	0.7	:	0.8
Italy	-3.5	2.1	5.4	5.8	3.9	3.5	2.9	1.8	2.0	1.2	2.1	:	1.5
Luxembourg	:	2.1	3.9	6.2	6.7	3.0	1.0	-1.9	-0.6	-2.2	-1.4	:	-1.8
Netherlands	1.1	2.4	4.6	6.0	3.3	1.1	-0.3	-0.7	0.0	-0.3	0.5	:	0.9
Austria	0.6	0.1	1.2	2.0	3.7	3.0	1.9	2.0	1.7	1.2	0.9	:	1.2
Portugal	-0.9	1.4	0.5	0.4	-1.2	0.3	0.1	-0.5	-0.2	-0.8	-1.0	:	-0.9
Finland	5.0	-1.4	5.0	10.0	7.9	6.5	4.1	3.8	4.1	3.8	3.9	:	3.8
Euro area	-0.4	0.4	2.7	4.2	2.3	1.3	0.7	0.7	0.5	0.8	0.8	:	0.8
Czech Republic	:	:	-2.5	-2.8	-4.8	-5.2	-11.3	-4.6	-3.6	-3.8	-3.3	:	-2.9
Denmark	4.0	4.1	4.9	5.3	5.4	3.6	2.9	3.6	3.3	3.8	3.8	:	3.8
Estonia	:	:	-0.5	-0.2	0.5	1.7	3.3	0.9	0.8	0.3	0.4	:	0.3
Cyprus	:	:	:	1.1	1.2	-1.3	-2.9	:	-1.8	:	0.5	:	1.1
Latvia	:	:	-0.4	-1.8	-1.1	-1.9	-0.7	-1.4	-1.2	-1.2	-2.0	:	-2.0
Lithuania	:	:	-1.9	-0.8	-0.4	-0.1	-0.6	-1.4	-1.4	-1.3	-1.4	:	-0.9
Hungary	:	:	:	2.6	0.4	-5.1	-2.1	-0.9	-1.1	-0.5	-1.2	:	-1.1
Malta	:	:	:	-2.5	-2.8	-1.9	-5.9	-3.3	-1.3	-2.0	-0.2	:	0.4
Poland	:	2.8	0.6	1.4	-0.8	-0.7	-0.8	-2.8	-2.5	-1.2	-1.0	:	0.0
Slovenia	:	:	:	-1.0	-0.4	0.0	0.1	-0.1	-0.3	-0.1	-0.2	:	-0.1
Slovakia	:	:	-4.5	-8.2	-2.0	-2.1	-1.2	-1.4	-1.6	-1.0	-1.6	:	-1.8
Sweden	4.8	-1.5	6.6	9.2	6.0	2.9	2.3	2.5	2.7	3.1	2.8	:	3.0
United Kingdom	2.0	-2.7	3.0	6.6	3.0	0.3	-1.3	-0.7	-0.9	-0.5	-0.6	:	-0.4
EU-25	:	:	:	4.6	2.4	1.0	0.3	:	0.2	:	0.6	:	0.7
EU-15	0.3	0.0	2.9	4.8	2.6	1.2	0.5	0.5	0.3	0.7	0.7	:	0.7
USA	0.1	0.0	4.2	5.3	3.0	-0.8	-1.9	-1.6	-1.5	-1.3	-1.3	:	-1.5
Japan	1.3	2.7	-3.5	-4.2	-3.0	-4.8	-4.6	-4.4	-4.1	-4.2	-3.8	:	-3.6

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards. The primary balance includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).² Net lending/borrowing excluding interest expenditure.

TABLE 41 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2006)¹

18.10.2004

	long-term			2004							2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of		
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	
Belgium	-9.8	-8.3	-1.2	-0.9	0.2	0.6	1.1	0.0	0.4	-0.5	0.0	:	-0.4	
Germany	-1.7	-3.7	-1.9	-1.7	-3.1	-3.5	-3.0	-3.0	-3.4	-2.5	-2.9	:	-2.4	
Greece	-5.8	-10.8	-3.3	-3.9	-4.3	-3.8	-5.1	-3.7	-6.1	-3.3	-4.4	:	-3.8	
Spain	-2.2	-5.0	-2.5	-1.7	-1.0	-0.5	0.2	0.6	-0.7	0.7	-0.1	:	0.0	
France	-1.2	-4.3	-2.5	-2.2	-2.3	-3.6	-3.8	-3.3	-3.5	-3.3	-2.8	:	-3.1	
Ireland	-7.6	-1.3	1.5	2.7	-0.3	-1.3	0.1	-0.3	0.1	-0.2	0.0	:	0.3	
Italy	-9.2	-8.9	-3.5	-2.6	-3.3	-2.3	-1.9	-2.6	-2.4	-3.6	-2.6	:	-3.4	
Luxembourg	:	:	3.3	2.7	5.2	2.9	1.7	-1.3	0.4	-1.6	0.3	:	0.7	
Netherlands	-3.0	-3.0	-1.1	-0.5	-1.3	-2.0	-1.8	-1.4	-1.4	-0.9	-1.0	:	-1.0	
Austria	-1.8	-4.0	-2.5	-2.5	0.0	-0.2	-0.8	-0.9	-1.0	-1.8	-1.9	:	-1.7	
Portugal	-4.6	-4.9	-3.7	-4.1	-5.1	-2.9	-1.9	-2.0	-1.9	-2.4	-2.7	:	-2.8	
Finland	3.5	-1.1	0.5	4.6	4.5	4.1	2.8	2.1	2.8	2.2	2.3	:	2.3	
Euro area	-3.4	-5.1	-2.3	-1.7	-2.3	-2.4	-2.2	-2.2	-2.5	-2.2	-2.1	:	-2.2	
Czech Republic	:	:	:	:	:	:	:	:	:	:	:	:	:	
Denmark	-0.3	-1.0	-0.3	0.3	0.9	0.5	1.2	1.3	1.5	1.4	1.8	:	1.9	
Estonia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:	:	
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Lithuania	:	:	:	:	:	:	:	:	:	:	:	:	:	
Hungary	:	:	:	:	:	:	:	:	:	:	:	:	:	
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:	
Poland	:	:	:	:	:	:	:	:	:	:	:	:	:	
Slovenia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Slovakia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Sweden	0.7	-4.6	2.3	4.2	3.1	0.6	1.4	0.2	0.7	0.7	0.4	:	0.6	
United Kingdom	-7.2	-8.8	-1.0	0.8	0.3	-1.7	-2.9	-2.5	-2.7	-2.3	-2.4	:	-2.1	
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:	
EU-15	-3.8	-5.5	-1.9	-1.1	-1.6	-2.2	-2.2	-2.1	-2.3	-2.1	-2.0	:	-2.0	

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards. The proceeds from UMTS licences are not included in the calculation of the cyclically adjusted balances.

The cyclical adjustment is based on the Production Function approach for calculating output gaps, except for ES for which the Hodrick-Prescott filter is used.

TABLE 42 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2006)¹

	long-term			2004							2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of		
	1970-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004	
Belgium	-3.2	1.8	6.4	5.9	6.7	6.5	6.5	5.1	5.3	4.3	4.5	:	3.7	
Germany	0.3	-0.5	1.6	1.7	0.2	-0.3	0.1	0.1	-0.3	0.7	0.1	:	0.6	
Greece	-2.6	1.2	6.1	4.2	2.9	2.5	0.7	1.9	-0.7	2.2	0.9	:	1.3	
Spain	-0.7	-0.4	1.7	1.6	2.1	2.4	2.7	2.9	1.7	3.0	2.1	:	2.1	
France	0.6	-1.0	1.0	0.9	0.8	-0.6	-0.9	-0.3	-0.6	-0.2	0.2	:	-0.1	
Ireland	-1.5	5.0	4.8	4.7	1.3	0.1	1.4	1.1	1.4	1.2	1.3	:	1.6	
Italy	-3.6	2.3	4.9	3.9	3.2	3.4	3.4	2.4	2.6	1.6	2.5	:	1.8	
Luxembourg	:	:	3.7	3.0	5.5	3.1	1.9	-1.1	0.6	-1.5	0.4	:	0.9	
Netherlands	1.3	2.9	3.7	3.3	2.1	1.0	1.1	1.5	1.4	2.0	1.9	:	2.0	
Austria	0.6	0.1	1.0	1.0	3.5	2.9	2.2	2.3	2.0	1.2	1.1	:	1.3	
Portugal	-0.9	1.6	0.1	-0.9	-1.9	0.1	1.0	0.9	0.9	0.6	0.0	:	0.1	
Finland	4.7	2.5	4.1	7.5	7.2	6.3	4.7	3.9	4.5	3.9	4.0	:	3.9	
Euro area	-0.5	0.3	2.5	2.3	1.7	1.2	1.3	1.2	0.9	1.2	1.2	:	1.1	
Czech Republic	:	:	:	:	:	:	:	:	:	:	:	:	:	
Denmark	4.3	5.8	4.3	3.9	4.1	3.4	3.8	3.8	3.9	3.7	4.0	:	4.0	
Estonia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:	:	
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Lithuania	:	:	:	:	:	:	:	:	:	:	:	:	:	
Hungary	:	:	:	:	:	:	:	:	:	:	:	:	:	
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:	
Poland	:	:	:	:	:	:	:	:	:	:	:	:	:	
Slovenia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Slovakia	:	:	:	:	:	:	:	:	:	:	:	:	:	
Sweden	4.9	1.2	7.7	8.3	6.4	3.5	3.3	2.6	2.8	3.1	2.6	:	2.9	
United Kingdom	-3.0	-5.8	2.2	3.5	2.7	0.3	-0.9	-0.5	-0.7	-0.2	-0.4	:	-0.2	
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:	
EU-15	-0.6	-0.4	2.7	2.7	2.1	1.2	1.0	1.0	0.7	1.1	1.0	:	1.0	

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards. The proceeds from UMTS licences are not included in the calculation of the cyclically adjusted balances.

The cyclical adjustment is based on the Production Function approach for calculating output gaps, except for ES for which the Hodrick-Prescott filter is used.

TABLE 43 : Gross debt, general government (as a percentage of GDP, 1980-2006) ¹

18.10.2004

	1980	1985	1990	2000	2001	2002	2003	2004		2005		2006	
								estimate of		forecast of		forecast of	
								III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	78.7	122.3	129.2	109.1	108.0	105.4	100.0	97.4	95.8	94.3	94.4	:	90.9
Germany	31.2	40.7	42.3	60.2	59.4	60.9	64.2	65.6	65.9	66.1	67.2	:	67.9
Greece	25.0	53.6	79.6	114.0	114.7	112.5	109.9	102.8	112.2	101.7	111.9	:	110.2
Spain	16.8	42.3	43.6	61.1	57.5	54.4	50.7	48.0	48.2	45.1	45.5	:	42.9
France	19.8	30.8	35.1	56.8	56.5	58.8	63.7	64.6	64.9	65.6	65.5	:	66.3
Ireland	69.8	101.7	94.2	38.3	35.9	32.7	32.1	32.4	30.7	32.6	30.7	:	30.6
Italy	58.2	82.3	97.2	111.2	110.6	107.9	106.2	106.0	106.0	106.0	104.6	:	104.4
Luxembourg	11.3	11.7	5.4	5.5	5.5	5.7	5.3	4.5	4.9	3.8	4.8	:	4.7
Netherlands	45.9	70.3	76.9	55.9	52.9	52.6	54.1	56.3	55.7	58.6	58.0	:	58.4
Austria	36.2	49.2	56.1	65.8	66.1	65.7	64.5	65.5	64.0	65.3	63.9	:	63.4
Portugal	32.3	61.5	58.3	53.3	55.8	58.4	60.3	60.7	60.8	62.0	62.0	:	62.9
Finland	11.5	16.2	14.2	44.6	43.8	42.6	45.6	44.5	44.8	44.3	43.4	:	42.2
Euro area	34.0	51.6	57.7	70.4	69.4	69.4	70.7	70.9	71.1	70.9	71.1	:	70.9
Czech Republic	:	:	:	18.2	25.3	28.8	37.8	40.6	37.8	42.4	39.4	:	40.6
Denmark	39.8	76.4	63.1	52.3	49.2	48.8	45.9	42.3	43.4	40.0	40.3	:	38.0
Estonia	:	:	:	4.7	4.4	5.3	5.3	5.4	4.8	5.3	4.4	:	4.2
Cyprus	:	:	:	61.6	64.3	67.4	70.9	74.6	72.6	76.9	72.4	:	69.4
Latvia	:	:	:	12.9	14.9	14.1	14.4	16.0	14.6	16.1	15.4	:	16.6
Lithuania	:	:	:	23.8	22.9	22.4	21.4	22.8	21.1	23.2	21.7	:	21.3
Hungary	:	:	:	55.4	53.5	57.2	59.1	58.7	59.7	58.0	59.5	:	58.9
Malta	:	:	:	56.4	62.0	62.3	70.4	73.9	72.4	75.9	73.7	:	74.2
Poland	:	:	:	36.8	36.7	41.1	45.4	49.1	47.7	50.3	49.8	:	49.3
Slovenia	:	:	:	27.4	28.1	29.5	29.4	28.3	30.9	28.2	30.8	:	30.6
Slovakia	:	:	:	49.9	48.7	43.3	42.6	45.1	44.2	46.1	45.2	:	45.9
Sweden	40.0	61.9	42.0	52.8	54.4	52.6	52.0	51.8	51.6	50.5	50.6	:	49.7
United Kingdom	53.2	52.7	34.0	42.0	38.8	38.3	39.8	40.1	40.4	40.6	40.9	:	41.2
EU-25	:	:	:	62.9	62.1	61.6	63.2	63.4	63.5	63.4	63.5	:	63.3
EU-15	38.1	52.3	53.8	64.1	63.2	62.7	64.2	64.2	64.4	64.2	64.5	:	64.3

¹ Government gross debt as defined in Council Regulation (EC) N° 3605/93. ESA 95 from 1996 onwards.

TABLE 44 : Gross national saving (as a percentage of GDP, 1970-2006)

	long-term average			2000	2001	2002	2003	2004		2005		2006	
	1970-90	5-year average						estimate of		forecast of		forecast of	
		1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	21.3	24.6	25.6	25.7	24.9	25.0	23.4	23.9	23.5	24.4	23.6	:	23.7
Germany	24.3	22.4	21.1	20.6	19.8	19.7	19.9	20.8	21.3	20.7	21.7	:	21.8
Greece	27.5	20.1	17.1	15.7	16.7	16.3	17.4	18.7	18.1	18.5	18.6	:	19.4
Spain	23.5	20.9	22.4	22.3	22.5	22.8	22.6	23.3	22.8	23.7	23.1	:	23.8
France	22.6	19.8	21.1	22.4	22.0	21.0	19.3	19.8	19.6	19.9	20.0	:	20.4
Ireland	18.6	17.9	24.6	25.8	23.8	22.2	22.2	20.7	23.8	20.7	24.4	:	24.3
Italy	24.2	19.7	21.1	20.0	20.0	19.7	18.4	18.1	18.7	18.3	19.0	:	19.4
Luxembourg	:	:	:	:	:	:	:	28.6	26.9	30.0	26.1	:	24.9
Netherlands	25.3	25.6	26.7	27.1	25.4	23.3	22.8	23.7	24.1	24.3	25.0	:	25.5
Austria	25.8	21.9	21.7	22.4	22.1	23.4	23.4	22.6	23.6	22.8	23.8	:	24.0
Portugal	23.3	21.4	19.7	18.0	17.8	17.9	16.7	18.4	16.5	19.4	16.9	:	17.6
Finland	26.4	17.6	25.0	27.8	27.5	26.4	24.0	23.5	23.7	23.5	23.4	:	23.3
Euro area	23.8	21.3	21.8	21.8	21.3	20.9	20.2	20.7	20.9	20.8	21.3	:	21.6
Czech Republic	:	:	25.2	23.9	23.5	22.3	21.4	21.4	22.3	21.5	23.5	:	24.3
Denmark	19.6	19.8	21.3	22.5	23.6	22.9	22.6	22.3	22.8	22.8	23.3	:	23.9
Estonia	:	:	20.6	22.4	22.6	20.9	19.3	25.8	16.8	25.3	18.0	:	19.0
Cyprus	:	:	16.8	16.9	14.7	:	15.1	15.7	16.2	16.8	17.2	:	18.3
Latvia	:	38.6	13.9	17.0	18.0	19.8	20.3	20.8	18.7	20.7	18.7	:	19.0
Lithuania	:	:	13.1	13.6	15.8	16.6	15.5	15.8	14.2	16.7	15.2	:	16.2
Hungary	:	:	:	:	:	18.2	16.8	17.5	17.8	18.1	18.2	:	18.0
Malta	:	:	:	:	:	:	:	18.8	21.1	19.7	21.8	:	22.5
Poland	:	16.2	19.6	18.7	17.9	16.2	16.5	17.0	17.3	17.5	17.9	:	18.7
Slovenia	:	23.8	23.7	23.9	24.1	25.2	25.0	21.3	26.6	21.7	27.1	:	27.7
Slovakia	:	:	24.9	24.0	22.9	21.4	23.6	23.9	22.8	23.5	23.3	:	23.6
Sweden	21.1	17.3	21.3	22.6	22.1	21.8	21.7	21.8	22.7	22.2	23.0	:	23.1
United Kingdom	18.5	14.9	16.1	15.0	15.1	14.9	14.7	15.0	15.1	15.8	15.4	:	15.7
EU-25	:	:	:	:	:	:	:	19.6	19.9	19.9	20.2	:	20.5
EU-15	22.8	20.0	20.8	20.7	20.3	20.0	19.4	19.7	20.0	20.0	20.3	:	20.6
USA	18.9	16.3	17.3	16.3	15.1	13.6	13.3	14.1	14.3	14.6	14.6	:	14.9
Japan	33.6	32.4	29.7	28.8	27.9	26.7	27.2	27.4	27.2	27.4	26.8	:	26.9

TABLE 45 : Gross saving, private sector (as a percentage of GDP, 1970-2006) ¹

	18.10.2004												
	long-term							2004		2005		2006	
	average 1970-90	5-year average 1991-95 1996-00		2000	2001	2002	2003	estimate of III-2004 X-2004		forecast of III-2004 X-2004		forecast of III-2004 X-2004	
Belgium	24.0	28.5	24.4	22.9	22.5	22.9	22.7	22.5	22.1	22.9	22.3	:	22.5
Germany	21.5	21.6	20.6	18.9	19.6	20.5	21.1	21.7	22.8	21.1	22.7	:	22.3
Greece	29.5	27.2	18.2	15.9	16.5	15.9	18.0	17.8	20.1	17.5	19.8	:	20.0
Spain	21.8	21.5	21.1	19.2	18.7	18.7	18.3	18.7	18.7	18.8	19.0	:	19.4
France	20.2	20.7	20.1	20.0	19.8	20.7	20.0	19.9	20.0	19.9	20.1	:	20.4
Ireland	21.6	18.5	19.9	18.0	18.6	18.7	18.5	17.8	20.4	18.0	21.3	:	21.2
Italy	29.4	25.1	21.3	18.6	19.0	19.1	18.7	18.3	18.8	18.5	18.6	:	19.1
Luxembourg	:	:	:	:	:	:	:	24.1	21.6	25.8	21.8	:	21.0
Netherlands	23.9	26.2	24.3	22.5	21.9	21.6	22.3	23.9	23.5	24.4	23.9	:	24.1
Austria	21.6	21.1	20.3	20.8	18.6	20.6	21.6	21.0	22.1	22.0	23.1	:	23.0
Portugal	24.1	23.2	19.2	17.3	18.5	18.2	17.7	20.1	18.6	20.9	18.4	:	19.1
Finland	18.5	19.2	20.7	18.2	19.5	19.4	19.1	19.0	19.0	18.9	19.0	:	18.9
Euro area	22.9	22.5	20.9	19.5	19.6	20.1	20.1	20.3	20.8	20.3	20.8	:	20.9
Czech Republic	:	:	21.4	21.7	21.0	20.3	19.2	26.7	19.5	26.4	20.1	:	20.4
Denmark	16.5	20.7	19.2	19.2	20.1	20.9	20.9	19.6	20.5	19.7	20.3	:	20.7
Estonia	:	:	15.3	17.8	16.7	13.7	12.1	21.0	10.5	22.0	11.4	:	12.8
Cyprus	:	:	:	15.8	13.6	:	17.4	20.4	17.3	21.0	16.2	:	16.6
Latvia	:	34.9	12.8	16.8	16.9	19.1	18.5	20.7	18.1	20.9	19.5	:	20.1
Lithuania	:	:	12.0	12.6	15.0	15.0	13.6	16.0	13.2	17.0	14.5	:	15.0
Hungary	:	:	:	:	:	18.6	18.0	16.6	18.9	16.6	18.9	:	17.1
Malta	:	:	:	:	:	:	:	19.3	20.3	18.9	20.6	:	20.9
Poland	:	16.8	18.2	17.3	17.0	17.0	16.3	19.5	19.6	19.0	19.0	:	18.6
Slovenia	:	:	:	23.1	23.4	23.8	23.1	23.0	25.2	23.5	25.8	:	26.3
Slovakia	:	:	22.3	23.4	23.0	22.1	24.3	21.3	23.6	21.1	23.8	:	24.1
Sweden	16.4	20.8	17.1	14.8	16.3	18.9	18.5	18.7	19.1	18.8	19.5	:	19.4
United Kingdom	17.4	17.8	15.1	12.1	12.6	14.9	15.7	15.6	15.8	16.2	15.6	:	15.6
EU-25	:	:	:	:	:	:	:	19.4	19.8	19.4	19.8	:	19.8
EU-15	21.6	21.7	19.8	18.1	18.3	19.2	19.4	19.4	19.9	19.5	19.9	:	19.9
USA	19.9	18.8	15.1	12.4	13.0	14.7	15.2	15.6	15.3	15.8	15.3	:	15.8
Japan	28.6	26.1	28.4	29.0	27.8	28.9	29.6	30.4	30.1	30.8	30.1	:	30.6

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 46 : Gross saving, general government (as a percentage of GDP, 1970-2006) ¹

	18.10.2004												
	long-term							2004		2005		2006	
	average 1970-90	5-year average 1991-95 1996-00		2000	2001	2002	2003	estimate of III-2004 X-2004		forecast of III-2004 X-2004		forecast of III-2004 X-2004	
Belgium	-2.7	-3.9	1.2	2.8	2.5	2.2	0.8	1.4	1.5	1.6	1.4	:	1.2
Germany	2.8	0.8	0.5	1.6	0.2	-0.8	-1.1	-1.0	-1.5	-0.4	-1.0	:	-0.6
Greece	-2.1	-7.1	-1.0	-0.2	0.2	0.4	-0.4	0.9	-2.0	1.0	-1.1	:	-0.6
Spain	1.7	-0.6	1.3	3.1	3.7	4.1	4.4	4.5	4.0	4.8	4.1	:	4.3
France	2.5	-0.9	1.0	2.3	2.2	0.3	-0.7	-0.1	-0.4	0.0	-0.1	:	0.0
Ireland	-3.0	-0.6	4.8	7.7	5.1	3.5	3.7	2.9	3.5	2.7	3.1	:	3.2
Italy	-5.1	-5.5	-0.2	1.5	1.0	0.7	-0.2	-0.2	-0.2	-0.2	0.4	:	0.3
Luxembourg	:	:	8.9	10.7	10.0	8.7	6.7	4.6	5.2	4.2	4.4	:	4.0
Netherlands	1.4	-0.6	2.3	4.6	3.5	1.8	0.5	-0.2	0.7	0.0	1.1	:	1.4
Austria	4.2	0.8	1.5	1.8	3.7	3.0	1.9	1.7	1.6	0.9	0.8	:	1.1
Portugal	-0.8	-1.7	0.6	0.7	-0.7	-0.3	-1.0	-1.6	-2.1	-1.4	-1.5	:	-1.5
Finland	7.9	-1.6	4.3	9.7	8.0	7.0	5.0	4.7	5.0	4.7	4.7	:	4.6
Euro area	0.9	-1.3	0.9	2.3	1.8	0.9	0.2	0.4	0.1	0.6	0.5	:	0.6
Czech Republic	:	:	3.8	2.2	2.5	2.0	2.2	-5.1	2.8	-4.7	3.4	:	3.9
Denmark	3.1	-0.9	2.1	3.4	3.5	2.0	1.9	2.6	2.5	3.2	3.1	:	3.3
Estonia	:	:	5.3	4.6	5.8	7.2	7.2	4.8	6.3	3.3	6.6	:	6.2
Cyprus	:	:	:	1.1	1.2	-0.9	-2.3	:	-1.1	:	1.0	:	1.6
Latvia	:	3.8	1.2	0.3	1.1	0.8	1.7	0.1	0.7	-0.1	-0.8	:	-1.1
Lithuania	:	:	1.1	1.0	0.7	1.5	2.0	-0.2	1.0	-0.3	0.8	:	1.3
Hungary	:	:	:	2.5	2.0	-0.5	-1.2	0.8	-1.1	1.5	-0.7	:	1.0
Malta	:	:	:	-2.4	-2.1	-1.3	-1.5	:	0.8	:	1.2	:	1.5
Poland	:	-0.7	1.8	2.1	0.8	0.0	0.2	-2.5	-2.2	-1.5	-1.1	:	0.1
Slovenia	:	:	:	0.8	0.7	1.4	1.9	:	1.4	:	1.3	:	1.4
Slovakia	:	:	2.6	0.6	-0.1	-0.7	-0.6	2.6	-0.8	2.4	-0.5	:	-0.5
Sweden	4.8	-3.5	4.2	7.8	5.7	3.1	3.4	3.1	3.6	3.5	3.5	:	3.7
United Kingdom	1.2	-2.9	1.0	2.9	2.4	0.1	-1.0	-0.7	-0.7	-0.4	-0.2	:	0.1
EU-25	:	:	:	2.6	2.0	0.8	0.1	:	0.1	:	0.5	:	0.7
EU-15	1.2	-1.6	1.0	2.6	2.0	0.8	0.1	0.3	0.1	0.5	0.5	:	0.7
USA	-1.1	-2.5	2.2	4.0	2.1	-1.2	-1.9	-1.5	-1.0	-1.2	-0.7	:	-1.0
Japan	5.0	6.3	1.3	-0.2	0.0	-2.2	-2.4	-3.0	-2.9	-3.4	-3.3	:	-3.7

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

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

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	6.2	4.8	4.9	7.4	0.4	1.8	2.4	4.0	5.0	5.0	5.5	:	5.8
Germany	6.2	3.7	8.5	13.5	5.4	3.2	2.6	6.9	11.9	5.2	6.7	:	5.5
Greece	8.0	4.1	4.0	8.7	-1.6	-7.1	4.2	3.6	-2.4	6.3	6.1	:	6.1
Spain	:	11.9	10.1	10.0	2.4	3.0	3.9	6.1	6.4	7.7	6.7	:	7.0
France	7.0	5.9	8.1	12.2	2.1	2.3	-1.5	4.7	4.5	5.5	6.1	:	6.6
Ireland	8.5	13.2	15.3	18.4	4.5	4.6	-3.3	5.1	6.4	7.5	6.9	:	6.6
Italy	8.1	7.3	4.1	9.4	1.5	-2.9	-4.3	2.8	4.5	6.5	5.8	:	5.4
Luxembourg	3.8	4.0	8.5	13.1	9.8	-0.3	-4.3	4.8	5.0	6.5	6.4	:	6.7
Netherlands	6.6	6.0	7.3	11.9	1.3	0.2	0.3	4.8	8.1	6.4	7.1	:	6.5
Austria	:	4.6	9.7	13.1	6.8	4.5	1.5	4.9	7.2	7.1	6.5	:	6.2
Portugal	:	6.1	:	:	:	:	:	5.6	7.9	7.4	7.4	:	7.1
Finland	:	7.7	12.4	22.6	-0.2	4.2	1.9	4.3	3.1	5.5	5.3	:	5.0
Euro area ¹	6.9	6.0	7.9	12.2	3.1	1.9	0.6	5.2	7.6	5.9	6.4	:	6.0
Czech Republic	:	:	11.8	19.6	14.4	6.0	7.9	8.4	15.8	8.4	11.3	:	8.1
Denmark	5.8	3.4	6.2	9.9	3.5	5.1	-1.9	3.1	5.8	4.3	5.4	:	4.8
Estonia	:	:	16.9	40.4	-5.5	3.9	5.9	4.0	14.7	1.0	12.6	:	13.5
Cyprus	:	:	-1.7	-2.4	5.9	-8.8	-3.5	5.5	5.5	5.9	5.9	:	5.9
Latvia	:	:	11.1	14.0	8.6	11.0	5.5	9.8	11.2	7.7	8.6	:	7.6
Lithuania	:	:	5.2	15.0	24.6	20.1	6.9	9.2	10.0	9.4	9.5	:	9.3
Hungary	:	:	20.0	21.8	6.9	5.7	9.0	8.6	14.9	9.1	11.2	:	9.4
Malta	:	:	4.0	10.9	-5.8	7.0	-3.5	0.2	2.0	2.2	3.1	:	3.5
Poland	:	:	10.6	25.9	7.8	6.6	17.7	12.8	14.8	10.5	13.0	:	11.2
Slovenia	:	-7.8	8.0	12.9	7.0	6.5	4.4	5.5	9.3	5.9	5.7	:	6.9
Slovakia	:	:	11.2	15.1	5.6	6.2	28.1	10.1	13.6	9.0	12.5	:	14.9
Sweden	:	7.5	8.6	12.1	-2.4	2.0	5.5	6.0	10.4	6.7	7.6	:	6.9
United Kingdom	4.6	5.4	6.4	12.2	2.7	-1.7	-0.5	5.4	1.0	6.8	6.8	:	6.2
EU-25 ²	:	:	8.1	12.8	3.3	2.0	1.5	5.5	7.4	6.2	6.8	:	6.3
EU-15 ²	6.6	5.9	7.8	12.2	2.9	1.6	0.6	5.2	7.0	6.0	6.5	:	6.0
USA	6.2	7.8	8.0	11.2	-6.1	-4.1	2.2	8.9	8.8	9.5	7.8	:	7.9
Japan	:	1.9	3.8	12.4	-6.2	8.1	10.1	12.1	15.7	7.8	9.3	:	8.9

¹ Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.² Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

TABLE 48 : Imports of goods, volume (percentage change on preceding year, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	5.8	3.8	5.1	8.3	-0.2	1.4	3.2	4.0	4.3	5.0	6.0	:	6.8
Germany	6.7	3.8	8.1	11.1	-0.2	-1.5	5.8	7.6	8.1	7.1	7.2	:	6.7
Greece	8.0	3.9	9.4	15.2	-6.3	3.2	6.6	6.1	8.8	5.2	4.6	:	3.9
Spain	:	7.5	11.5	10.5	3.3	3.4	5.2	8.1	7.4	9.0	7.6	:	7.7
France	7.2	3.8	8.3	15.0	1.0	3.2	-0.1	5.1	8.2	6.2	7.0	:	7.0
Ireland	6.7	9.0	13.7	16.9	3.5	0.0	-7.3	4.8	5.9	7.1	6.3	:	5.9
Italy	7.2	3.6	6.7	8.0	0.0	-1.1	-1.3	4.1	6.3	6.3	6.3	:	6.1
Luxembourg	4.6	3.4	8.3	6.8	8.7	-2.6	-1.8	5.0	5.5	6.3	6.5	:	7.0
Netherlands	6.0	5.8	7.8	10.6	1.6	-0.2	1.0	4.1	7.2	5.6	6.5	:	6.2
Austria	:	3.7	7.9	11.6	4.5	-0.1	5.6	6.1	5.7	7.6	6.4	:	6.8
Portugal	:	6.7	:	:	:	:	:	2.9	8.2	5.2	5.8	:	6.3
Finland	:	0.6	11.3	16.8	1.0	3.0	2.0	3.8	2.2	4.7	3.8	:	4.5
Euro area ¹	6.9	4.4	8.2	11.4	0.8	0.6	2.6	5.7	7.1	6.6	6.7	:	6.6
Czech Republic	:	:	10.4	20.0	14.7	4.6	9.4	8.2	16.1	8.6	11.4	:	7.6
Denmark	4.8	3.6	8.1	12.3	3.3	6.2	-1.9	4.3	6.8	4.4	6.2	:	4.8
Estonia	:	:	14.1	33.0	0.3	5.2	13.6	9.8	9.7	9.6	10.2	:	10.8
Cyprus	:	:	4.5	9.4	6.6	-1.6	-4.3	2.4	2.4	4.7	5.0	:	5.0
Latvia	:	:	8.3	3.8	16.6	4.3	11.3	11.8	14.1	9.7	10.4	:	9.1
Lithuania	:	:	8.8	8.6	20.0	17.6	8.8	9.0	13.6	8.7	10.9	:	8.9
Hungary	:	:	18.9	20.4	3.8	4.9	9.8	7.5	13.4	7.0	9.7	:	9.4
Malta	:	:	3.1	17.6	-11.6	-1.8	2.5	2.5	1.9	1.7	2.3	:	2.6
Poland	:	:	17.6	22.0	-5.0	3.6	10.3	10.6	12.8	11.4	13.9	:	13.7
Slovenia	:	-1.1	8.4	7.7	3.2	4.4	7.3	6.7	10.3	6.3	6.6	:	7.3
Slovakia	:	:	11.7	12.7	11.6	4.8	14.5	9.5	13.7	10.0	13.1	:	13.8
Sweden	:	3.7	7.8	11.7	-4.9	-0.7	6.2	5.1	6.3	7.3	8.6	:	7.9
United Kingdom	4.7	3.0	8.8	9.3	5.4	4.1	1.5	6.0	5.5	5.9	5.7	:	5.2
EU-25 ²	:	:	8.7	11.7	1.6	1.4	3.0	5.9	7.4	6.6	7.0	:	6.8
EU-15 ²	6.5	4.2	8.3	11.1	1.3	1.1	2.4	5.7	6.9	6.4	6.6	:	6.4
USA	6.8	8.2	12.3	13.5	-3.2	3.7	4.7	9.3	10.5	5.4	6.1	:	5.8
Japan	:	5.1	3.5	11.9	0.1	1.1	5.0	9.0	8.9	8.0	6.9	:	7.9

¹ Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.² Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

TABLE 49 : Trade balance (fob-fob, as a percentage of GDP, 1974-2006)

18.10.2004

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1974-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	-2.9	2.9	3.5	2.1	2.6	3.6	3.1	2.6	3.5	2.4	3.2	:	2.6
Germany	4.1	1.9	3.3	3.1	4.9	6.5	6.3	6.6	7.9	6.4	8.1	:	8.0
Greece	-9.9	-12.6	-15.2	-18.7	-16.2	-16.5	-16.8	-15.8	-18.2	-15.6	-17.9	:	-17.3
Spain	-5.2	-3.8	-4.0	-6.2	-5.7	-5.1	-5.2	-5.7	-5.9	-6.1	-6.4	:	-6.6
France	-1.8	-0.1	0.9	-0.3	0.2	0.5	0.2	0.0	-0.6	-0.1	-1.0	:	-1.0
Ireland	-4.8	14.7	21.9	24.2	24.3	25.6	23.1	24.5	22.3	25.3	22.5	:	22.8
Italy	-1.1	2.2	3.1	1.3	1.8	1.6	1.1	0.9	0.8	1.1	0.9	:	1.0
Luxembourg	-8.5	-11.2	-12.0	-11.6	-12.5	-10.5	-10.6	-11.2	-11.3	-11.1	-11.6	:	-11.8
Netherlands	1.2	5.2	5.0	4.9	5.1	5.1	5.1	5.9	5.5	6.3	6.0	:	6.4
Austria	-5.0	-3.7	-1.9	-1.5	-0.5	1.8	0.8	0.9	1.3	0.7	1.1	:	0.9
Portugal	:	-9.5	-9.4	-11.7	-11.1	-9.3	-8.0	-7.7	-10.4	-7.3	-10.3	:	-10.2
Finland	0.2	6.1	9.9	11.4	10.4	9.7	8.0	8.2	7.5	8.3	7.5	:	7.4
Euro area	-0.4	0.7	1.8	0.9	1.8	2.5	2.0	2.1	2.2	2.0	2.1	:	2.0
Euro area, adjusted ¹	:	:	:	0.1	1.1	1.9	1.5	1.6	1.7	1.6	1.7	:	1.6
Czech Republic	:	-2.4	-6.2	-5.6	-5.0	-3.0	-2.7	-2.8	-2.4	-2.8	-2.4	:	-2.2
Denmark	-2.5	3.9	3.5	4.1	4.6	4.3	4.7	3.5	3.8	3.3	3.7	:	3.8
Estonia	:	:	-18.8	-14.2	-13.2	-15.4	-17.4	-18.4	-15.2	-17.4	-14.8	:	-14.0
Cyprus	:	:	-26.5	-29.4	-29.0	-28.3	-25.4	-25.4	-25.3	-25.4	-25.0	:	-24.4
Latvia	:	:	-14.6	-13.7	-16.4	-15.6	-18.0	-20.7	-19.4	-22.3	-20.1	:	-20.6
Lithuania	:	:	-11.8	-9.7	-9.2	-9.4	-8.7	-9.1	-10.7	-9.2	-11.7	:	-11.3
Hungary	:	-5.6	-4.3	-6.3	-4.3	-3.2	-3.9	-4.1	-4.1	-3.1	-4.1	:	-4.2
Malta	:	-23.0	-20.1	-22.0	-16.9	-12.9	-16.0	-18.3	-17.0	-17.9	-16.8	:	-16.5
Poland	:	0.0	-6.5	-7.4	-4.1	-3.8	-2.7	-2.8	-2.6	-3.5	-3.1	:	-3.5
Slovenia	:	1.7	-4.7	-5.9	-3.1	-1.1	-2.2	-2.7	-3.0	-2.7	-3.6	:	-3.9
Slovakia	:	:	-8.5	-4.8	-10.6	-9.1	-2.3	-2.8	-3.0	-4.2	-3.8	:	-3.5
Sweden	:	3.9	7.0	6.5	6.7	6.5	6.3	6.7	7.6	6.8	7.6	:	7.4
United Kingdom	-2.1	-1.8	-2.5	-3.5	-4.1	-4.5	-4.3	-4.1	-4.8	-4.0	-4.7	:	-5.0
EU-25	:	:	1.0	0.0	0.6	1.1	0.9	0.8	0.8	0.7	0.7	:	0.6
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	-0.7	0.6	1.3	0.3	0.9	1.4	1.1	1.1	1.0	1.0	1.0	:	0.9
USA	-1.6	-1.9	-3.2	-4.7	-4.3	-4.7	-5.1	-5.6	-5.7	-5.4	-5.9	:	-5.7
Japan	2.2	2.9	2.5	2.5	1.7	2.4	2.7	2.9	2.8	3.2	2.9	:	3.5

¹ See note 8 on concepts and sources.

TABLE 50 : Balance on current transactions with the rest of the world (as a percentage of GDP, 1961-2006)

	long-term							2004		2005		2006	
	average	5-year average		2000	2001	2002	2003	estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00					III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
Belgium	0.4	4.1	5.0	4.0	4.5	5.8	4.4	4.1	4.5	4.2	4.3	:	4.1
Germany	1.3	-0.9	-0.5	-1.1	0.4	2.4	2.4	2.9	4.2	2.4	4.4	:	4.1
Greece	-0.9	-0.5	-4.4	-8.2	-7.1	-7.7	-8.3	-6.4	-7.5	-6.6	-6.8	:	-5.9
Spain	-1.1	-2.0	-1.2	-3.3	-3.1	-2.7	-3.3	-3.2	-4.2	-3.4	-4.8	:	-5.0
France	-0.7	-0.1	1.9	1.3	1.5	1.5	0.4	0.9	-0.2	0.7	-0.5	:	-0.3
Ireland	-4.4	1.9	1.4	-0.4	-0.7	-1.3	-1.4	-1.0	-1.6	-0.7	-1.5	:	-1.3
Italy	0.2	-0.1	1.7	-0.2	0.3	-0.3	-1.2	-1.4	-1.0	-1.3	-0.9	:	-0.7
Luxembourg	:	:	:	:	:	:	:	7.7	5.9	8.8	5.3	:	4.4
Netherlands	1.8	4.4	4.7	4.9	3.8	2.8	2.7	3.8	3.7	4.3	4.2	:	4.5
Austria	-0.6	-1.3	-1.4	-1.0	-0.4	2.5	1.5	-0.4	1.9	-0.4	1.9	:	1.9
Portugal	-2.5	-2.6	-7.3	-10.8	-10.1	-7.8	-6.3	-3.9	-6.8	-3.6	-6.5	:	-6.2
Finland	-2.1	-1.3	5.7	7.2	6.9	7.4	5.2	5.5	4.9	5.6	4.9	:	4.9
Euro area	0.1	-0.2	0.8	-0.1	0.5	1.2	0.6	0.7	0.8	0.6	0.8	:	0.8
Euro area, adjusted ¹	:	:	:	-1.2	-0.2	0.8	0.3	0.6	0.7	0.5	0.7	:	0.7
Czech Republic	:	:	-4.5	-4.9	-5.4	-5.6	-6.2	-6.8	-6.1	-6.6	-6.0	:	-5.7
Denmark	-2.6	1.6	0.8	1.5	3.1	2.0	2.9	2.9	3.2	3.2	3.5	:	3.9
Estonia	:	:	-7.7	-5.5	-5.6	-10.2	-13.2	-11.5	-13.0	-9.1	-11.6	:	-10.2
Cyprus	:	:	-4.4	-3.5	-4.0	:	-3.5	-3.7	-4.5	-3.5	-4.4	:	-3.7
Latvia	:	9.1	-7.2	-6.4	-8.9	-7.0	-8.6	-10.1	-9.9	-10.9	-9.8	:	-9.6
Lithuania	:	:	-9.5	-5.9	-4.7	-5.2	-6.9	-6.2	-8.7	-5.9	-8.5	:	-7.9
Hungary	:	:	:	:	:	-7.1	-9.0	-5.4	-8.7	-5.1	-8.5	:	-8.5
Malta	:	:	:	:	:	:	:	-4.3	-4.0	-3.9	-3.6	:	-2.8
Poland	:	0.1	-3.9	-6.0	-2.9	-2.6	-2.2	-2.3	-2.6	-2.8	-3.1	:	-3.3
Slovenia	:	4.3	-1.2	-2.8	0.2	1.4	-0.4	-0.5	-0.2	-0.6	-0.8	:	-1.0
Slovakia	:	:	-6.5	-2.5	-7.4	-8.2	-1.1	-2.5	-2.9	-4.0	-3.3	:	-3.0
Sweden	-0.4	-0.1	4.1	4.2	4.4	5.1	5.7	6.0	7.3	6.1	7.1	:	6.7
United Kingdom	-0.5	-1.6	-1.3	-2.5	-2.3	-1.7	-1.9	-2.1	-2.0	-1.8	-1.8	:	-1.9
EU-25	:	:	:	:	:	:	:	0.2	0.3	0.1	0.2	:	0.2
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	0.0	-0.4	0.6	-0.3	0.2	0.8	0.4	0.4	0.5	0.3	0.5	:	0.5
USA	-0.3	-0.8	-2.4	-4.1	-3.7	-4.4	-4.7	-5.2	-5.5	-5.0	-5.8	:	-5.7
Japan	1.0	2.6	2.4	2.5	2.1	2.8	3.2	3.6	3.3	3.8	3.3	:	3.6

¹ See note 8 on concepts and sources.

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

	18.10.2004											
							2004		2005		2006	
	1998	1999	2000	2001	2002	2003	estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
Belgium	8.5	8.9	5.3	6.7	9.3	8.4	7.2	9.8	7.1	9.4	:	8.1
Germany	69.4	66.6	62.9	100.7	136.9	133.7	144.1	173.3	143.1	183.0	:	184.4
Greece	-16.1	-18.4	-23.0	-21.3	-23.4	-25.6	-26.0	-29.9	-27.3	-31.4	:	-32.2
Spain	-18.7	-28.6	-37.7	-37.1	-35.5	-39.0	-45.4	-46.5	-51.7	-53.8	:	-59.3
France	18.3	12.5	-4.7	2.7	1.9	-2.7	0.4	-9.8	-1.9	-16.9	:	-18.2
Ireland	17.7	20.4	24.9	28.1	32.7	31.1	34.6	32.7	38.3	35.4	:	38.3
Italy	36.8	26.1	15.1	21.7	20.5	14.1	12.0	11.3	15.6	13.1	:	15.0
Luxembourg	-2.0	-2.6	-2.5	-2.8	-2.4	-2.5	-2.7	-2.9	-2.9	-3.1	:	-3.4
Netherlands	18.2	14.7	19.7	22.1	22.7	23.1	27.5	25.5	29.9	28.7	:	31.5
Austria	-3.0	-3.1	-3.1	-1.1	4.0	1.9	2.2	3.0	1.8	2.7	:	2.3
Portugal	-9.4	-11.7	-13.6	-13.6	-13.3	-11.8	-10.3	-14.0	-10.3	-14.4	:	-15.0
Finland	11.4	11.5	14.9	14.1	13.5	11.4	12.2	11.1	12.7	11.6	:	11.8
Euro area	131.1	96.2	58.2	120.3	167.0	142.0	155.8	163.4	154.4	164.2	:	163.2
Euro area, adjusted ¹	92.3	56.3	7.8	73.6	133.5	108.6	123.0	130.1	121.6	130.8	:	129.8
Czech Republic	-2.3	-1.8	-3.4	-3.4	-2.3	-2.2	-2.2	-2.0	-2.3	-2.2	:	-2.2
Denmark	3.2	6.1	7.1	8.1	6.2	7.1	6.9	7.5	6.8	7.5	:	8.0
Estonia	-1.0	-0.8	-0.8	-0.9	-1.2	-1.4	-1.5	-1.3	-1.5	-1.4	:	-1.5
Cyprus	-2.2	-2.2	-2.8	-3.0	-3.0	-2.9	-3.0	-3.1	-3.2	-3.3	:	-3.4
Latvia	-1.0	-1.0	-1.2	-1.5	-1.5	-1.8	-1.9	-2.1	-2.2	-2.5	:	-2.9
Lithuania	-1.4	-1.3	-1.2	-1.2	-1.4	-1.4	-1.6	-1.9	-1.7	-2.2	:	-2.4
Hungary	-1.7	-2.0	-3.2	-2.5	-2.2	-3.0	-3.1	-3.4	-2.6	-3.7	:	-4.1
Malta	-0.6	-0.6	-0.9	-0.7	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	:	-0.8
Poland	-11.9	-10.6	-13.3	-8.5	-7.7	-5.1	-5.0	-5.1	-6.8	-6.8	:	-8.2
Slovenia	-0.7	-1.2	-1.2	-0.7	-0.3	-0.5	-0.7	-0.8	-0.7	-1.0	:	-1.1
Slovakia	-2.2	-1.1	-1.0	-2.5	-2.3	-0.6	-0.9	-1.0	-1.4	-1.3	:	-1.3
Sweden	15.3	15.7	16.9	16.4	16.8	16.9	18.6	21.3	19.6	22.5	:	23.1
United Kingdom	-32.3	-44.1	-54.1	-65.4	-74.2	-68.4	-69.5	-83.0	-71.3	-84.0	:	-92.7
EU-25	92.5	51.6	-1.0	54.5	93.3	70.0	82.1	80.7	75.1	75.5	:	63.0
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	92.5	51.6	-1.0	54.5	115.7	97.6	104.8	109.2	100.8	110.1	:	101.5
USA	-221.6	-326.7	-497.7	-487.8	-522.2	-491.9	-514.2	-547.9	-527.5	-589.5	:	-597.5
Japan	109.0	115.8	126.4	78.4	99.4	101.6	111.5	105.3	125.7	108.8	:	137.3

¹ See note 8 on concepts and sources.

TABLE 52 : Balance on current transactions with the rest of the world (in billions of Ecu/euro, 1998-2006)

	18.10.2004											
							2004		2005		2006	
	1998	1999	2000	2001	2002	2003	estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
Belgium	11.9	12.6	9.9	11.3	15.1	12.0	11.4	12.7	12.1	12.8	:	12.5
Germany	-5.2	-16.6	-21.8	8.8	50.6	52.1	63.0	92.6	54.5	99.6	:	95.6
Greece	-3.8	-6.8	-10.1	-9.3	-11.0	-12.7	-10.6	-12.4	-11.6	-12.0	:	-11.0
Spain	-4.6	-11.7	-20.3	-20.3	-18.8	-24.6	-25.5	-33.2	-28.3	-40.8	:	-44.7
France	30.8	35.5	18.0	22.7	22.3	6.4	14.6	-3.4	11.5	-7.6	:	-5.5
Ireland	0.6	0.2	-0.4	-0.8	-1.6	-1.9	-1.4	-2.3	-1.0	-2.3	:	-2.2
Italy	20.5	11.1	-2.0	3.4	-4.0	-15.6	-18.4	-13.1	-18.1	-12.8	:	-9.8
Luxembourg	:	:	:	:	1.6	1.3	1.9	1.5	2.3	1.4	:	1.3
Netherlands	10.6	15.0	19.6	16.1	12.1	11.9	17.7	17.2	20.3	19.9	:	22.1
Austria	-1.5	-2.0	-2.2	-0.9	5.6	3.3	-0.9	4.3	-1.1	4.6	:	4.7
Portugal	-7.1	-9.4	-12.5	-12.4	-9.4	-7.5	-5.3	-9.1	-5.1	-9.2	:	-9.2
Finland	6.6	7.4	9.4	9.4	10.3	7.4	8.1	7.3	8.6	7.6	:	7.8
Euro area	58.8	35.3	-12.4	28.1	72.8	32.1	54.4	62.0	44.2	61.2	:	61.6
Euro area, adjusted ¹	19.6	-29.1	-77.6	-16.7	54.5	24.8	46.0	54.7	35.8	53.9	:	54.3
Czech Republic	-1.1	-1.4	-2.9	-3.7	-4.4	-4.9	-5.2	-5.2	-5.4	-5.5	:	-5.6
Denmark	-1.4	2.8	2.5	5.4	3.7	5.4	5.7	6.3	6.5	7.1	:	8.3
Estonia	-0.4	-0.2	-0.3	-0.4	-0.7	-1.1	-0.9	-1.1	-0.8	-1.1	:	-1.1
Cyprus	-0.6	-0.1	-0.3	-0.4	:	-0.4	-0.4	-0.5	-0.4	-0.6	:	-0.5
Latvia	-0.6	-0.6	-0.5	-0.8	-0.7	-0.8	-0.9	-1.1	-1.1	-1.2	:	-1.3
Lithuania	-1.2	-1.1	-0.7	-0.6	-0.8	-1.1	-1.1	-1.5	-1.1	-1.6	:	-1.7
Hungary	:	:	:	:	-4.7	-6.2	-4.1	-7.1	-4.3	-7.7	:	-8.2
Malta	:	:	:	:	:	-0.2	-0.2	-0.2	-0.2	-0.2	:	-0.1
Poland	-5.9	-8.0	-10.8	-6.0	-5.3	-4.1	-4.1	-5.0	-5.4	-6.7	:	-7.8
Slovenia	-0.1	-0.7	-0.6	0.0	0.3	-0.1	-0.1	-0.1	-0.2	-0.2	:	-0.3
Slovakia	-1.8	-0.7	-0.6	-1.7	-2.1	-0.2	-0.8	-0.9	-1.3	-1.2	:	-1.1
Sweden	8.9	10.0	10.8	10.7	13.0	15.2	16.5	20.5	17.6	21.1	:	21.0
United Kingdom	-5.9	-37.1	-39.5	-36.0	-29.0	-29.5	-35.5	-34.2	-32.2	-31.9	:	-34.6
EU-25	:	:	:	:	41.4	-1.8	16.8	26.8	8.1	25.0	:	21.1
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	48.9	-1.7	-55.5	-5.3	60.6	23.2	36.4	54.7	30.2	57.6	:	56.3
USA	-167.4	-256.9	-429.9	-413.8	-484.5	-452.3	-484.7	-525.0	-488.3	-578.8	:	-593.3
Japan	105.9	107.8	129.5	98.0	119.8	122.5	137.4	123.7	151.1	124.7	:	142.5

¹ See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 1998-2006)

18.10.2004

	1998	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
Belgium	8.2	6.9	11.9	1.1	2.4	4.0	7.2	8.3	7.4	7.3	:	6.9
Germany	7.3	5.9	12.3	0.6	3.8	4.0	7.2	9.0	7.4	7.9	:	7.5
Greece	6.0	5.6	9.7	1.6	3.2	4.5	7.4	9.6	7.6	8.5	:	7.6
Spain	8.5	6.0	10.8	0.6	1.9	3.1	6.7	8.4	7.1	7.3	:	7.0
France	7.3	7.2	10.7	0.6	2.9	4.6	7.3	8.1	7.4	7.4	:	7.1
Ireland	7.8	6.9	11.5	0.1	3.2	3.6	7.1	7.8	6.7	6.7	:	6.5
Italy	7.1	6.4	12.3	0.5	3.6	5.1	7.9	9.2	7.7	7.9	:	7.5
Luxembourg (b)	:	:	:	:	:	:	:	7.6	:	7.1	:	6.9
Netherlands	7.2	4.8	9.6	0.3	2.3	4.2	6.3	7.7	6.6	7.2	:	6.9
Austria	8.6	6.6	12.5	1.2	2.0	4.6	7.4	9.0	7.4	7.9	:	7.3
Portugal	9.3	8.2	12.5	0.7	1.4	3.9	7.0	7.7	7.2	7.1	:	7.0
Finland	6.0	3.8	11.6	0.6	4.0	5.3	8.1	9.7	7.9	8.8	:	7.6
Euro area (c)	7.5	6.2	11.5	0.6	3.1	4.3	7.2	8.6	7.3	7.6	:	7.2
Czech Republic	:	:	:	:	:	:	:	9.0	:	8.3	:	7.9
Denmark	6.9	5.0	9.5	0.1	2.6	4.5	6.7	8.1	6.9	7.6	:	7.2
Estonia	:	:	:	:	:	:	:	7.9	:	7.6	:	6.8
Cyprus	:	:	:	:	:	:	:	8.1	:	7.4	:	6.7
Latvia	:	:	:	:	:	:	:	8.7	:	8.0	:	6.9
Lithuania	:	:	:	:	:	:	:	10.0	:	8.9	:	7.7
Hungary	:	:	:	:	:	:	:	8.6	:	7.8	:	7.3
Malta	:	:	:	:	:	:	:	9.9	:	8.3	:	8.0
Poland	:	:	:	:	:	:	:	9.1	:	8.1	:	7.2
Slovenia	:	:	:	:	:	:	:	8.4	:	7.8	:	7.3
Slovakia	:	:	:	:	:	:	:	9.7	:	8.4	:	7.5
Sweden	7.3	6.0	11.3	-0.4	3.5	3.9	7.1	8.5	6.9	7.4	:	7.0
United Kingdom	7.5	6.5	11.4	0.0	3.0	4.1	7.1	8.7	7.1	7.4	:	7.0
EU-25 (c)	:	:	:	:	:	:	:	8.6	:	7.6	:	7.2
EU-15 (c)	7.4	6.2	11.5	0.5	3.1	4.2	7.2	:	7.3	:	:	:
USA	1.6	6.7	10.8	-2.2	6.5	5.2	8.1	9.6	8.5	7.9	:	7.6
Japan	3.2	9.1	12.5	-2.3	7.9	6.6	9.8	11.7	8.4	9.1	:	8.8

(a) Imports to the various markets (incl. EU-markets) weighted according to their share in country's exports.

(b) Included in the figures for Belgium up to 2003.

(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 1998-2006)

	1998	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
Belgium	-3.8	-1.6	-2.5	-0.8	-0.9	-1.4	-3.0	-3.0	-2.2	-1.7	:	-1.0
Germany	0.2	-0.6	1.1	4.5	-1.1	-1.4	-0.3	2.7	-2.0	-1.1	:	-1.9
Greece	-4.1	-3.1	1.9	-6.8	-10.0	2.1	-3.5	-10.9	-1.2	-2.2	:	-1.4
Spain	-3.1	-0.9	-1.4	1.7	-0.7	2.5	-0.6	-1.8	0.6	-0.6	:	0.0
France	-0.5	-3.3	2.2	0.7	-1.0	-5.9	-2.4	-3.3	-1.8	-1.2	:	-0.5
Ireland	12.6	4.5	5.5	4.9	2.1	-8.7	-1.9	-1.3	0.7	0.2	:	0.1
Italy	-3.4	-5.0	-0.5	0.4	-6.3	-8.9	-4.7	-4.3	-1.1	-1.9	:	-2.0
Luxembourg (b)	:	:	:	:	:	:	:	-2.4	:	-0.7	:	-0.2
Netherlands	-0.7	0.8	0.4	1.6	-2.7	-3.8	-1.4	0.4	-0.2	-0.1	:	-0.4
Austria	-0.4	1.2	0.9	6.1	3.3	-2.5	-2.3	-1.7	-0.3	-1.3	:	-1.0
Portugal	-1.5	:	:	:	:	1.0	-1.3	0.2	0.2	0.3	:	0.1
Finland	3.8	3.7	8.1	-2.4	0.2	-3.2	-3.5	-6.0	-2.2	-3.2	:	-2.4
Euro area (c)	-0.6	-1.5	0.9	2.2	-1.6	-3.5	-1.9	-0.9	-1.3	-1.1	:	-1.1
Czech Republic	:	:	:	:	:	:	:	6.2	:	2.8	:	0.2
Denmark	-5.2	2.3	0.6	-0.1	2.4	-5.8	-3.4	-2.1	-2.4	-2.0	:	-2.2
Estonia	:	:	:	:	:	:	:	6.3	:	4.6	:	6.3
Cyprus	:	:	:	:	:	:	:	-2.4	:	-1.4	:	-0.7
Latvia	:	:	:	:	:	:	:	2.3	:	0.6	:	0.7
Lithuania	:	:	:	:	:	:	:	0.0	:	0.6	:	1.5
Hungary	:	:	:	:	:	:	:	5.8	:	3.2	:	2.0
Malta	:	:	:	:	:	:	:	-7.2	:	-4.8	:	-4.2
Poland	:	:	:	:	:	:	:	5.2	:	4.5	:	3.7
Slovenia	:	:	:	:	:	:	:	0.8	:	-1.9	:	-0.4
Slovakia	:	:	:	:	:	:	:	3.6	:	3.8	:	6.9
Sweden	-0.5	-1.0	-0.1	-3.1	-1.4	1.2	-1.0	1.8	-0.2	0.2	:	-0.1
United Kingdom	-5.8	-2.8	0.2	1.3	-4.6	-4.7	-1.6	-7.1	-0.3	-0.6	:	-0.7
EU-25 (c)	:	:	:	:	:	:	:	-1.1	:	-0.7	:	-0.8
EU-15 (c)	-1.4	-1.6	0.7	1.8	-1.7	-3.6	-1.9	:	-1.2	:	:	:
USA	0.5	-2.5	0.5	-3.8	-9.9	-3.1	0.7	-0.7	0.9	-0.1	:	0.3
Japan	-4.5	-13.4	-0.1	-4.0	2.0	3.0	2.1	3.6	-0.6	0.2	:	0.1

(a) Index for exports divided by an index for growth of markets.

(b) Included in the figures for Belgium up to 2003.

(c) Intra- and extra-EU trade.

TABLE 55 : World GDP, volume (percentage change on preceding year, 1999-2006)

18.10.2004

	(a)	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	III-2004	X-2004	III-2004	X-2004
EU-25	21.7	2.9	3.6	1.8	1.1	1.0	2.0	2.5	2.4	2.3	:	2.4
Euro area	16.2	2.8	3.5	1.6	0.9	0.6	1.7	2.1	2.3	2.0	:	2.2
Belgium	0.6	3.2	3.9	0.7	0.9	1.3	2.0	2.5	2.5	2.5	:	2.6
Czech Republic	0.2	1.2	3.9	2.6	1.5	3.1	3.4	3.8	4.1	3.8	:	4.0
Denmark	0.4	2.6	2.8	1.6	1.0	0.5	2.1	2.3	2.2	2.4	:	2.0
Germany	4.7	2.0	2.9	0.8	0.1	-0.1	1.5	1.9	1.8	1.5	:	1.7
Estonia	0.0	-0.1	7.8	6.4	7.2	5.1	2.9	5.9	3.4	6.0	:	6.2
Greece	0.3	3.4	4.5	4.3	3.6	4.5	4.0	3.8	3.3	3.3	:	3.3
Spain	1.7	4.2	4.4	2.8	2.2	2.5	2.8	2.6	3.3	2.6	:	2.7
France	3.5	3.2	3.8	2.1	1.2	0.5	1.7	2.4	2.4	2.2	:	2.2
Ireland	0.3	11.1	9.9	6.0	6.1	3.7	3.7	5.2	4.6	4.8	:	5.0
Italy	2.9	1.7	3.0	1.8	0.4	0.3	1.2	1.3	2.1	1.8	:	1.8
Cyprus	0.0	4.7	5.0	4.0	2.0	2.0	4.0	3.5	4.2	3.9	:	4.2
Latvia	0.0	3.3	6.9	8.0	6.4	7.5	3.2	7.5	3.4	6.7	:	6.7
Lithuania	0.0	-1.7	3.9	6.4	6.8	9.7	6.2	7.1	6.2	6.4	:	5.9
Luxembourg	0.1	7.8	9.0	1.5	2.5	2.9	2.4	4.0	3.1	3.5	:	3.6
Hungary	0.2	4.2	5.2	3.8	3.5	3.0	5.4	3.9	5.9	3.7	:	3.8
Malta	0.0	4.1	6.4	-2.2	1.8	0.2	6.9	1.0	6.6	1.5	:	1.8
Netherlands	1.0	4.0	3.5	1.4	0.6	-0.9	1.0	1.4	1.6	1.7	:	2.4
Austria	0.5	3.3	3.4	0.7	1.2	0.8	1.8	1.9	2.5	2.4	:	2.4
Poland	0.4	4.1	4.0	1.0	1.4	3.8	1.4	5.8	2.0	4.9	:	4.5
Portugal	0.3	3.8	3.4	1.6	0.4	-1.2	0.8	1.3	2.2	2.2	:	2.4
Slovenia	0.1	5.6	3.9	2.7	3.3	2.5	4.0	4.0	4.1	3.6	:	3.8
Slovakia	0.1	1.5	2.0	3.8	4.6	4.0	4.6	4.9	4.8	4.5	:	5.2
Finland	0.3	3.4	5.1	1.1	2.3	1.9	2.6	3.0	2.7	3.1	:	2.7
Sweden	0.6	4.6	4.3	0.9	2.1	1.6	2.3	3.7	2.6	3.1	:	2.9
United Kingdom	3.5	2.9	3.9	2.3	1.8	2.2	3.0	3.3	2.8	2.8	:	2.8
Candidate Countries	0.7	-3.5	6.2	-4.3	7.0	5.4	4.7	7.8	5.1	5.0	:	5.2
- Bulgaria	0.0	2.3	5.4	4.1	4.9	4.3	5.0	5.5	5.5	6.0	:	4.5
- Croatia	0.1	-0.9	2.9	4.4	5.2	4.3	:	3.8	:	4.0	:	4.5
- Romania	0.1	-1.2	2.1	5.7	5.0	4.9	5.1	7.2	5.3	5.6	:	5.1
- Turkey	0.5	-4.7	7.4	-7.5	7.9	5.8	4.6	8.5	5.0	5.0	:	5.3
USA	21.6	4.5	3.7	0.8	1.9	3.1	4.2	4.4	3.2	3.0	:	2.9
Japan	7.1	0.1	2.8	0.4	-0.3	2.4	3.4	4.2	2.3	2.1	:	2.3
Canada	2.0	5.6	5.3	1.9	3.3	2.0	2.2	3.0	3.0	3.5	:	3.4
Norway	0.4	2.1	2.8	2.7	1.4	0.4	3.0	2.8	2.7	3.3	:	3.1
Switzerland	0.4	1.3	3.7	1.0	0.2	-1.0	2.4	1.6	1.8	2.3	:	2.0
Iceland	0.0	4.2	5.6	2.7	-0.5	4.0	4.5	4.5	4.8	4.8	:	4.5
Australia	1.1	3.8	2.0	3.9	2.8	3.3	3.6	3.6	3.6	3.3	:	2.9
New Zealand	0.2	4.9	2.7	3.3	4.4	3.0	3.1	4.0	3.9	2.2	:	2.5
Industrialised countries	55.2	3.2	3.6	1.2	1.4	2.1	3.2	3.5	2.8	2.6	:	2.7
Others	44.8	4.7	6.0	3.9	4.2	5.2	6.0	6.8	5.9	6.2	:	6.0
CIS	3.7	5.0	9.1	6.3	5.2	7.7	6.4	8.3	5.1	7.0	:	5.8
Russia	2.6	6.4	10.0	5.1	4.7	7.3	6.5	7.4	5.4	6.6	:	5.1
Ukraine	0.5	-0.2	5.9	9.2	4.1	9.3	6.0	12.0	6.0	7.5	:	6.0
Other	0.6	3.9	7.7	9.3	8.4	8.0	6.4	9.3	3.6	8.4	:	8.3
OPEC	4.4	0.6	4.4	2.5	2.1	3.4	5.0	6.9	4.9	6.4	:	5.5
Indonesia	1.5	0.8	4.9	3.4	3.7	3.5	4.8	5.0	5.3	5.2	:	5.9
Other emerging markets	36.7	5.1	5.9	3.8	4.3	5.2	6.1	6.6	6.1	6.1	:	6.1
Asia	26.2	6.6	6.6	5.2	6.1	6.4	7.3	7.5	7.0	6.9	:	6.9
- China	12.9	7.1	8.0	7.5	8.3	9.1	8.7	9.2	8.1	8.2	:	8.2
- India	5.9	7.1	4.0	5.5	4.9	5.1	6.8	6.4	6.7	6.5	:	6.6
- Hong Kong	0.4	3.4	10.2	0.5	2.3	3.3	6.2	7.1	5.5	4.7	:	4.2
- Korea	1.7	9.5	8.5	3.8	7.0	3.1	5.9	4.6	5.6	4.0	:	4.0
Latin America	7.6	0.5	3.9	0.3	-0.2	3.1	3.5	4.7	4.3	3.7	:	3.7
- Argentina	0.9	-3.4	-0.8	-4.4	-10.9	8.7	6.1	7.4	5.1	4.2	:	4.0
- Brazil	2.8	0.8	4.4	1.4	1.5	2.5	3.4	4.4	4.7	3.5	:	3.7
- Mexico	1.9	3.6	6.6	0.0	0.7	1.3	3.0	4.1	3.9	3.6	:	3.5
Africa	2.9	3.1	4.3	0.1	0.7	-0.6	3.6	3.3	4.1	4.4	:	4.5
- South Africa	0.9	2.0	3.5	2.7	3.6	1.9	3.0	1.9	3.4	3.0	:	3.2
World	100.0	3.8	4.7	2.4	2.7	3.5	4.5	5.0	4.3	4.2	:	4.2
World excluding EU-25	78.3	4.1	5.0	2.6	3.1	4.2	5.1	5.7	4.7	4.8	:	4.6
World excluding euro area	83.8	4.0	4.9	2.5	3.0	4.1	5.0	5.5	4.6	4.6	:	4.5

(a) Relative weights, based on GDP (at constant prices and pps) in 2003.

TABLE 56 : World exports of goods, volume (percentage change on preceding year, 1999-2006)

18.10.2004

(a)	1999	2000	2001	2002	2003	2004		2005		2006		
						estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004	
EU-25 (b)	41.3	5.1	12.8	3.3	2.0	1.5	5.2	7.4	6.0	6.8	:	6.3
Euro area (b)	31.5	5.2	12.2	3.1	1.9	0.6	5.2	7.6	5.9	6.4	:	6.0
Candidate Countries	1.3	4.9	15.6	18.9	16.7	18.5	14.1	14.7	13.7	12.7	:	12.5
- Bulgaria	0.1	:	:	:	:	:	12.0	13.0	13.5	10.0	:	10.0
- Croatia	0.1	:	:	:	:	:	:	9.0	:	8.5	:	8.2
- Romania	0.3	10.2	24.7	10.9	20.4	11.0	12.5	19.5	12.1	14.5	:	13.0
- Turkey	0.8	3.1	12.4	21.6	15.5	21.0	15.0	14.0	14.3	13.0	:	13.2
USA	9.9	3.8	11.2	-6.1	-4.1	2.2	8.9	8.8	9.5	7.8	:	7.9
Japan	6.1	-5.5	12.4	-6.2	8.1	10.1	12.1	15.7	7.8	9.3	:	8.9
Canada	3.9	11.7	9.3	-3.5	0.2	-2.2	3.9	7.8	4.6	5.6	:	5.5
Norway	0.9	3.2	2.1	7.7	1.2	0.3	3.5	3.1	3.6	6.0	:	6.6
Switzerland	1.6	6.5	11.6	1.4	1.1	-0.1	4.1	3.9	2.9	5.3	:	5.3
Iceland	0.0	-2.0	-8.0	-12.2	2.6	-2.4	2.5	3.9	3.3	4.6	:	6.0
Australia	1.0	5.2	9.5	1.1	4.5	12.1	7.0	12.5	7.5	12.0	:	10.0
New Zealand	0.2	3.4	5.3	2.0	6.7	2.6	5.2	7.0	6.2	5.5	:	5.0
Industrialised countries	66.3	4.3	12.1	0.9	1.9	2.6	6.8	8.5	6.9	7.3	:	6.9
Others	33.7	7.4	15.6	0.1	9.6	13.2	9.5	11.9	9.7	8.8	:	8.6
CIS	2.6	5.0	14.1	2.8	9.4	13.5	7.1	7.1	5.6	4.5	:	5.4
Russia	1.8	11.2	9.5	4.2	9.9	11.7	8.0	4.4	6.3	3.0	:	4.7
Ukraine	0.3	-10.2	16.5	6.1	7.2	24.0	6.5	7.5	5.5	6.5	:	5.5
Other	0.5	-7.8	33.5	-4.5	8.7	14.2	3.8	18.0	3.1	8.6	:	8.0
OPEC	4.7	7.8	2.9	-0.7	-7.7	9.0	5.5	8.4	7.0	6.6	:	6.1
Indonesia	0.9	24.1	-17.2	1.1	-3.1	4.6	7.0	4.5	8.0	5.5	:	5.5
Other emerging markets	26.4	7.6	18.1	0.0	12.7	13.9	10.3	13.1	10.5	9.6	:	9.4
Asia	20.2	8.3	19.8	-0.5	15.8	15.6	11.9	13.8	11.9	10.6	:	10.3
- China	6.0	7.2	26.1	16.2	25.6	30.5	18.5	20.0	19.1	16.5	:	16.0
- India	0.8	12.8	20.1	8.4	16.8	10.2	5.5	15.0	6.0	14.0	:	14.0
- Hong Kong	3.1	2.9	16.8	-3.7	8.3	13.2	10.0	14.5	10.0	11.5	:	9.3
- Korea	2.6	11.2	19.4	-13.0	30.5	16.5	8.5	15.0	8.0	8.0	:	7.5
Latin America	4.9	5.3	13.1	1.2	1.8	5.2	7.1	12.5	7.5	6.4	:	6.9
- Argentina	0.4	-0.6	2.6	4.3	0.8	4.9	9.0	10.5	6.0	8.5	:	5.5
- Brazil	1.0	-0.1	7.6	11.3	4.2	12.6	7.0	12.0	6.0	6.2	:	7.8
- Mexico	2.2	14.0	16.6	-3.3	1.5	2.0	7.0	14.5	8.0	6.3	:	7.0
Africa	1.3	5.1	9.6	3.4	5.7	18.6	6.5	3.5	8.1	4.9	:	5.0
- South Africa	0.5	1.3	12.3	-2.4	1.6	22.7	3.4	3.5	3.7	2.5	:	2.7
World	100.0	5.4	13.3	0.6	4.5	6.1	7.7	9.7	7.9	7.8	:	7.5
World excluding EU-25	58.7	5.5	13.7	-1.3	6.2	9.5	9.2	11.2	9.0	8.4	:	8.3
World excluding euro area	68.5	5.4	13.8	-0.5	5.6	8.7	8.8	10.6	8.8	8.4	:	8.2

(a) Relative weights, based on exports (at current prices and current exchange rates) in 2003.

(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2003)

	EU-25	Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	Other Emerging Markets	OPEC	Rest Asia	Latin America	Africa	World
Belgium	77.7	1.2	6.5	1.0	0.7	2.2	0.9	1.5	8.4	6.1	1.0	1.3	100
Czech Republic	84.8	2.6	3.0	0.4	0.2	2.3	2.3	1.0	3.2	2.4	0.4	0.4	100
Denmark	67.2	1.0	6.4	3.8	1.1	9.6	1.5	2.0	7.5	5.4	1.1	0.9	100
Germany	64.8	2.3	9.3	1.9	0.7	5.5	2.4	2.3	10.7	7.3	1.9	1.6	100
Estonia	78.8	0.2	3.4	0.6	0.5	5.2	7.8	0.3	3.2	1.8	0.8	0.6	100
Greece	60.1	14.4	7.1	0.7	0.7	2.1	3.9	3.0	8.0	5.1	0.7	2.2	100
Spain	76.3	1.9	4.4	0.8	0.5	2.0	0.8	2.6	10.8	3.2	4.4	3.2	100
France	67.5	1.8	7.0	1.6	0.8	4.5	1.2	4.3	11.4	5.4	1.7	4.2	100
Ireland	63.0	0.5	20.8	2.6	0.6	4.8	0.4	0.8	6.6	4.8	1.0	0.8	100
Italy	60.8	4.6	8.7	1.7	1.0	5.5	2.2	4.0	11.6	6.7	2.3	2.6	100
Cyprus	71.1	1.2	1.7	0.3	0.1	1.4	2.1	6.5	15.6	11.9	0.2	3.5	100
Latvia	74.6	0.2	10.5	0.7	0.3	2.4	7.6	1.8	2.1	0.9	0.4	0.8	100
Lithuania	69.3	2.0	5.5	0.3	0.5	4.6	14.7	0.1	2.9	2.5	0.3	0.1	100
Luxembourg	89.6	0.4	2.0	0.4	0.3	2.5	0.6	0.9	3.5	2.5	0.4	0.5	100
Hungary	79.9	4.3	6.4	0.8	0.3	1.6	2.4	0.9	3.4	2.5	0.5	0.4	100
Malta	41.2	1.6	13.1	1.0	0.5	0.6	0.2	2.9	39.0	36.4	1.0	1.7	100
Netherlands	81.4	1.3	4.5	0.9	0.4	2.8	1.5	1.7	5.6	3.5	0.8	1.3	100
Austria	74.8	3.7	5.0	1.1	0.7	6.2	2.2	1.4	4.9	3.4	0.7	0.8	100
Poland	80.8	2.0	2.7	0.2	0.5	2.9	7.0	0.8	3.1	1.7	0.7	0.7	100
Portugal	81.2	0.8	5.8	0.3	0.6	2.4	0.2	0.7	7.9	2.4	1.1	4.4	100
Slovenia	75.8	10.0	4.0	0.2	0.3	2.4	3.8	1.3	2.2	1.3	0.3	0.6	100
Slovakia	86.0	2.4	4.9	0.7	0.3	1.5	2.4	0.2	1.5	1.2	0.1	0.2	100
Finland	60.5	1.0	8.2	2.2	1.1	4.5	8.3	4.1	10.0	6.9	1.7	1.4	100
Sweden	58.1	1.0	11.5	2.1	1.4	11.8	1.5	2.8	9.7	7.0	1.6	1.1	100
United Kingdom	58.0	1.4	16.2	2.1	1.8	4.2	1.1	3.6	11.7	8.2	1.3	2.3	100

TABLE 58 : World imports of goods, volume (percentage change on preceding year, 1999-2006)

18.10.2004

	(a)	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
EU-25 (b)	40.1	6.6	11.7	1.6	1.4	3.0	5.7	7.4	6.4	7.0	:	6.8
Euro area (b)	29.2	7.3	11.4	0.8	0.6	2.6	5.7	7.1	6.6	6.7	:	6.6
Candidate Countries	1.7	-2.3	31.6	-12.3	16.2	25.0	14.5	19.5	13.3	14.4	:	14.2
- Bulgaria	0.2	:	:	:	:	:	14.0	15.0	12.5	14.0	:	9.0
- Croatia	0.2	:	:	:	:	:	:	6.1	:	7.0	:	7.3
- Romania	0.3	-1.5	29.5	22.1	13.0	17.3	11.7	19.9	10.7	14.0	:	12.0
- Turkey	1.0	-2.6	32.3	-23.9	17.3	27.6	15.5	23.0	14.2	16.0	:	16.8
USA	17.4	12.4	13.5	-3.2	3.7	4.7	9.3	10.5	5.4	6.1	:	5.8
Japan	4.5	-1.0	11.9	0.1	1.1	5.0	9.0	8.9	8.0	6.9	:	7.9
Canada	3.3	8.5	8.6	-5.6	1.4	3.4	5.4	7.8	5.9	6.3	:	5.6
Norway	0.6	-3.4	3.0	-0.3	2.8	2.4	3.2	5.8	3.3	5.7	:	5.7
Switzerland	1.5	4.0	10.2	1.8	-3.6	-1.1	1.4	4.8	2.2	4.9	:	5.4
Iceland	0.0	1.1	-2.4	-27.3	2.2	-5.8	8.9	11.0	11.4	10.3	:	7.0
Australia	1.1	6.6	5.5	-5.3	20.6	29.9	5.0	27.0	6.0	11.5	:	10.0
New Zealand	0.2	13.3	-2.7	-4.3	16.6	11.2	4.8	9.5	5.8	10.0	:	10.2
Industrialised countries	70.5	7.3	12.3	-0.5	2.6	4.5	7.2	8.8	6.4	7.0	:	6.8
Others	29.5	5.1	16.3	-0.9	9.1	14.3	10.8	12.5	10.7	10.7	:	9.8
CIS	1.8	-18.8	20.7	12.4	9.6	18.2	16.3	17.6	12.6	15.0	:	8.4
Russia	1.0	-17.0	32.4	19.8	14.5	16.6	22.9	20.8	17.9	17.4	:	8.1
Ukraine	0.3	-14.3	6.6	11.6	6.1	30.5	8.0	7.0	9.0	8.0	:	8.0
Other	0.4	24.4	7.5	-7.8	6.5	7.6	5.3	-3.9	0.0	-9.7	:	1.0
OPEC	3.2	-6.6	15.1	5.8	-3.4	22.8	9.5	10.0	6.6	10.7	:	7.1
Indonesia	0.8	-11.0	33.1	-2.9	-16.0	58.3	6.0	7.5	6.0	7.2	:	7.1
Other emerging markets	24.5	8.3	16.1	-2.7	10.7	12.9	10.6	12.5	11.0	10.4	:	10.3
Asia	18.5	10.8	17.6	-3.9	14.0	14.4	11.9	13.2	12.0	11.1	:	11.1
- China	5.3	19.8	29.4	13.6	24.3	34.9	22.3	26.0	21.7	19.0	:	17.5
- India	1.1	3.4	5.8	1.4	4.3	20.6	6.5	9.0	7.4	9.0	:	9.0
- Hong Kong	3.1	-0.5	18.1	-2.4	7.5	11.9	8.0	10.0	8.0	9.6	:	9.7
- Korea	2.4	28.5	17.0	-23.2	41.1	7.6	10.0	4.2	10.5	4.5	:	6.3
Latin America	4.5	2.2	14.6	-0.8	-0.3	2.9	8.3	12.0	9.8	9.3	:	8.5
- Argentina	0.2	-13.8	-1.4	-16.7	-54.3	53.2	28.0	22.0	17.0	20.0	:	12.0
- Brazil	0.7	-6.4	8.8	-0.2	-2.5	3.3	10.0	16.0	12.5	12.5	:	10.0
- Mexico	2.3	14.9	21.4	-1.9	1.5	-0.7	7.0	11.0	9.0	8.0	:	8.0
Africa	1.5	-4.5	2.0	5.9	3.9	25.1	5.7	5.9	5.8	6.0	:	6.3
- South Africa	0.5	-8.2	9.2	1.9	3.8	42.8	3.9	4.4	3.4	4.0	:	4.8
World	100.0	6.6	13.5	-0.6	4.5	7.4	8.3	9.9	7.8	8.1	:	7.7
World excluding EU-25	59.9	6.7	14.6	-2.1	6.6	10.3	9.7	11.6	8.5	8.8	:	8.3
World excluding euro area	70.8	6.4	14.3	-1.2	6.2	9.4	9.3	11.1	8.2	8.6	:	8.1

(a) Relative weights, based on imports (at current prices and current exchange rates) in 2003.

(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2003)

	Candidate		USA	Japan	Canada	Other Industr. Countries	CIS	Other Emerging Markets	Rest Asia	Latin America	Africa	World
	EU-25	Countries										
EU-25	69.3	1.6	5.3	2.5	0.5	4.2	2.8	2.5	11.3	7.9	1.6	100
Belgium	74.8	0.8	7.1	2.8	0.4	1.8	0.7	1.6	9.9	6.4	1.6	100
Czech Republic	83.1	0.7	1.5	1.0	0.1	2.1	5.3	0.2	6.0	5.0	0.8	100
Denmark	77.4	1.0	3.1	1.4	0.3	6.9	0.8	0.4	8.8	7.3	1.1	100
Germany	68.7	2.0	5.0	3.1	0.4	5.8	2.4	1.2	11.4	8.7	1.5	100
Estonia	63.1	0.3	1.7	1.4	0.1	1.4	25.8	0.4	5.8	4.0	0.3	100
Greece	64.0	4.0	2.9	3.5	0.3	1.8	4.2	6.4	12.9	10.8	1.0	100
Spain	73.1	1.1	2.9	1.8	0.3	2.4	1.1	5.7	11.5	5.8	3.1	100
France	73.7	1.2	4.6	1.8	0.4	4.2	1.5	3.1	9.5	5.5	1.2	100
Ireland	67.3	0.4	14.2	3.3	0.8	2.2	1.1	0.3	10.3	8.7	1.0	100
Italy	64.6	3.6	3.8	1.9	0.4	4.6	4.0	6.2	11.1	6.6	2.0	100
Cyprus	36.0	0.5	3.3	2.7	0.1	0.9	39.2	0.5	16.7	15.9	0.5	100
Latvia	68.3	0.5	2.0	0.2	0.2	2.2	23.0	0.1	3.3	3.1	0.2	100
Lithuania	65.8	0.8	1.7	0.3	0.1	1.4	25.5	0.1	4.2	3.0	0.7	100
Luxembourg	90.6	0.1	1.8	1.0	1.0	1.0	0.2	0.3	4.0	3.7	0.1	100
Hungary	73.7	2.0	2.1	2.3	0.2	1.2	8.2	0.2	9.9	9.4	0.3	100
Malta	55.6	5.6	3.9	4.7	0.1	1.6	3.3	1.5	23.8	22.7	0.3	100
Netherlands	57.1	0.8	8.1	4.1	0.5	3.7	3.2	3.4	19.1	14.5	3.1	100
Austria	83.0	2.4	2.0	1.2	0.2	5.0	1.9	1.0	3.3	2.5	0.3	100
Poland	78.2	1.0	1.3	0.7	0.2	1.9	9.9	0.3	6.5	5.1	0.6	100
Portugal	82.7	0.7	1.8	1.3	0.3	2.2	0.6	3.7	6.7	2.8	2.6	100
Slovenia	85.4	5.5	1.1	0.6	0.2	1.6	1.6	0.3	3.9	2.7	0.8	100
Slovakia	81.2	0.7	0.6	0.3	0.1	1.0	14.4	0.0	1.7	1.4	0.1	100
Finland	67.9	0.5	4.0	2.8	0.5	3.9	10.7	0.4	9.4	7.8	1.3	100
Sweden	77.0	0.7	4.0	2.1	0.3	7.8	1.3	1.0	5.8	4.8	0.8	100
United Kingdom	61.6	1.4	9.0	3.4	1.3	5.7	1.3	1.5	15.0	11.0	1.5	100

TABLE 60 : World trade balances (fob-fob, bn. US dollars, 1998-2006)

18.10.2004

	1998	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
EU-25	103.6	55.0	-0.9	48.8	88.0	79.1	131.1	99.0	125.2	93.4	:	78.2
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	146.8	102.6	53.7	107.7	157.6	160.4	194.9	200.5	191.8	203.1	:	202.7
Euro area, adjusted ¹	103.5	60.0	7.2	65.9	126.2	122.8	153.8	159.6	151.0	161.8	:	161.2
Candidate Countries	:	:	:	:	-18.1	-32.6	-41.1	-51.6	-48.4	-63.7	:	-73.9
USA	-248.1	-348.3	-459.2	-436.7	-492.6	-555.7	-643.2	-672.3	-655.1	-729.3	:	-742.0
Japan	122.1	123.4	116.6	70.2	93.8	114.8	139.4	129.1	156.1	134.6	:	170.5
Canada	16.0	28.3	45.7	45.8	36.4	41.5	48.7	62.0	49.1	78.3	:	76.5
Norway	1.7	10.7	26.0	25.8	23.2	27.2	23.3	33.0	21.8	34.2	:	33.4
Switzerland	-1.6	-0.2	-2.5	-2.8	3.3	3.5	-1.4	6.3	4.3	10.9	:	17.3
Iceland	-0.4	-0.3	-0.5	-0.1	-0.1	-0.1	-0.7	-0.4	-0.9	-0.6	:	-0.7
Australia	-5.3	-9.8	-4.2	2.6	-4.2	-13.3	1.4	-15.3	0.6	-17.0	:	-23.9
New Zealand	0.9	-0.4	0.7	1.5	0.5	-0.6	0.6	-1.8	1.2	-3.1	:	-4.2
Industrialised countries	:	:	:	:	-269.8	-336.1	-370.4	-412.0	-378.3	-462.4	:	-468.7
Others	104.8	210.0	305.9	233.8	278.1	302.0	345.2	453.0	310.8	505.7	:	443.6
CIS	8.4	33.9	63.3	49.3	49.8	63.4	64.8	79.0	49.3	80.7	:	71.5
OPEC	35.1	91.6	176.0	121.5	122.4	109.9	150.5	213.6	139.1	276.6	:	232.9
Other emerging markets	61.3	84.5	66.6	63.0	105.9	128.7	129.9	160.3	122.3	148.4	:	139.2
Asia	119.2	114.9	92.5	87.1	106.9	117.5	96.1	141.4	118.9	153.6	:	161.9
Latin America	-39.7	-16.1	-15.3	-13.6	7.9	26.2	34.2	43.8	4.7	26.5	:	14.7
Africa	-18.2	-14.3	-10.7	-10.6	-8.9	-15.0	-0.5	-24.9	-1.2	-31.6	:	-37.3
World	:	:	:	:	8.4	-34.1	-25.2	41.0	-67.5	43.4	:	-25.1

¹ See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 1998-2006)

	1998	1999	2000	2001	2002	2003	2004		2005		2006	
							estimate of III-2004	X-2004	forecast of III-2004	X-2004	forecast of III-2004	X-2004
EU-25	54.7	-1.8	-51.2	-4.7	39.1	-2.0	45.5	32.9	37.5	31.0	:	26.2
EU-25, adjusted ¹	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	65.9	37.7	-11.4	25.2	68.7	36.3	68.1	76.1	54.9	75.7	:	76.6
Euro area, adjusted ¹	22.0	-31.0	-71.7	-15.0	51.5	28.1	57.6	67.1	44.4	66.7	:	67.5
Candidate Countries	:	:	:	:	-5.4	-15.6	-24.9	-27.1	-30.1	-30.0	:	-31.9
USA	-187.4	-273.9	-396.6	-370.4	-457.0	-510.9	-606.3	-644.1	-606.4	-716.0	:	-736.8
Japan	118.6	114.9	119.5	87.7	113.0	138.4	171.9	151.8	187.7	154.2	:	177.0
Canada	-7.6	2.4	24.1	22.8	9.9	15.6	23.1	35.5	22.0	48.6	:	46.2
Norway	0.1	8.5	26.0	26.2	24.6	28.4	22.3	33.8	21.0	35.4	:	35.4
Switzerland	24.0	28.4	29.2	20.5	23.4	28.4	26.9	33.7	31.5	37.9	:	45.8
Iceland	-0.6	-0.6	-0.8	-0.3	-0.1	0.9	-0.5	-0.2	-0.7	-0.4	:	0.5
Australia	-18.0	-22.3	-15.5	-8.7	-17.4	-30.7	-10.6	-37.3	-11.4	-30.0	:	-36.9
New Zealand	-2.2	-3.5	-2.5	-1.3	-1.9	-0.9	-1.8	-4.5	-1.3	-11.1	:	-12.2
Industrialised countries	:	:	:	:	-271.7	-348.4	-379.2	-425.4	-377.8	-480.5	:	-486.6
Others	-20.8	90.9	169.5	123.4	189.4	247.1	246.8	368.2	226.4	426.2	:	356.5
CIS	-6.0	23.0	48.6	33.4	34.4	47.7	50.0	52.5	37.1	50.4	:	40.4
OPEC	-21.7	32.2	102.0	63.8	61.6	66.9	126.3	151.2	117.9	211.1	:	167.8
Other emerging markets	6.9	35.7	18.9	26.2	93.4	132.5	70.5	164.5	71.5	164.6	:	148.3
Asia	107.6	105.4	86.3	88.7	121.1	143.7	99.4	168.9	120.8	171.0	:	175.7
Latin America	-86.4	-58.8	-59.0	-55.9	-23.1	-2.4	-38.1	13.3	-58.1	18.2	:	2.8
Africa	-14.3	-10.8	-8.4	-6.6	-4.5	-8.9	9.2	-17.8	8.9	-24.5	:	-30.1
World	:	:	:	:	-82.3	-101.3	-132.4	-57.2	-151.3	-54.3	:	-130.1

¹ See note 8 on concepts and sources.

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